

**AFFILIATION AGREEMENT FOR  
SHERMAN HEALTH SYSTEMS  
AND  
ADVOCATE HEALTH CARE NETWORK**

This Affiliation Agreement, including the Exhibits and Schedules hereto (the “**Agreement**”), is entered into as of April 15, 2013 (notwithstanding its actual date of execution), by and among Sherman Health Systems (“**Sherman**”) and Sherman Hospital (“**Sherman Hospital**”), each an Illinois not-for-profit corporation, and Advocate Health Care Network, an Illinois not-for-profit corporation (“**Advocate**”) (each a “**Party**” and collectively, the “**Parties**” and, solely for the limited purposes set forth in Section 12.3 and ARTICLES X and XI, below, Sherman Health Foundation, and Illinois not-for-profit corporation (“**Sherman Foundation**”).

**W I T N E S S E T H:**

**WHEREAS**, the healthcare community has experienced significant change in government regulation, payment for services, technological developments, patient demographics and demand, and an increased need for capital, all of which have encouraged healthcare systems to combine their resources to provide a greater range of services at lower costs in a more efficient manner;

**WHEREAS**, Sherman sponsors a not-for-profit health system whose mission is “to make a positive difference through outstanding healthcare and service - every life, every moment, every day” and to serve the residents of the northwest suburbs of Chicago;

**WHEREAS**, Sherman’s flagship hospital, Sherman Hospital, first opened its doors in 1888 and has grown over the decades to become a state-of-the art, 255-bed, regional medical center with numerous centers of excellence in furtherance of its vision to become one of the best community hospitals in the nation;

**WHEREAS**, Advocate is a nationally-recognized, not-for-profit, faith-based health system which sponsors the largest integrated health system in Illinois, and which, like Sherman, supports and operates a pluralistic physician engagement platform;

**WHEREAS**, the Parties and their respective affiliates and subsidiaries share a common and unifying non-profit health care mission to improve the quality and expand the scope and accessibility of affordable health care and health care-related services for the residents of the areas which they serve in a culture of compassion, respect, integrity and excellence, and to advance medical education, training and research;

**WHEREAS**, the Parties consider it in the best interests of their respective communities and constituencies to affiliate their organizations so as to better serve their communities and constituencies in a manner that exemplifies their not-for-profit and charitable missions and to enable Advocate to make a substantial, long term, financial and mission and quality enhancing commitment to Sherman and to its internal and external stakeholders (the “**Affiliation**”);

**WHEREAS**, an affiliation between Advocate and Sherman will achieve significant benefits that could not be achieved independently by either organization, including improved

coordination of patient care services, reduction in the duplication of resources, enhanced access to capital markets at lower cost, and other efficiencies and cost reductions, increased access to specialized health care services, and other clinical and educational benefits; and

**NOW, THEREFORE**, in consideration of the promises, terms, and conditions contained herein, the Parties hereto hereby agree as follows:

**ARTICLE I  
DEFINITIONS AND INTERPRETATION**

1.1 **Defined Terms**. The following terms shall have the meanings specified below:

(a) “**Accounts Receivable**” means any amounts owing to any Sherman Corporation as of the Closing for services provided or billed prior to the Closing Date (including, without limitation, all amounts that have been “written off” or charged against any bad debt, charity, or any other reserve).

(b) **[Reserved]**

(c) “**Advocate**” has the meaning set forth in the preamble hereto.

(d) “**Advocate Corporations**” means Advocate, AHHC, and Advocate Charitable Foundation.

(e) “**Advocate Fiscal Year**” means a period beginning on January 1 and ending on December 31 of the same year.

(f) “**Advocate System**” means Advocate and its Affiliates.

(g) “**Affiliate**” means, with respect to Sherman: (i) any not-for-profit corporation for which Sherman (or any of its respective Affiliates) is the sole member, or (ii) any Person organized for-profit 20% or more of the equity interest in which is owned, directly or indirectly, by Sherman; and, with respect to Advocate: (i) any not-for-profit corporation for which Advocate (or any of its Affiliates) is the sole member, (ii) any Person organized for-profit 20% or more of the equity interest in which is owned, directly or indirectly, by Advocate; and (iii) any other Person directly or indirectly controlled by, or under common control with, Advocate.

(h) “**AHHC**” means Advocate Health and Hospitals Corporation, an Illinois not-for-profit tax-exempt corporation, of which Advocate is the sole member.

(i) “**Applicable Laws**” means all federal, state, foreign or local laws (including common laws), statutes, regulations, ordinances, codes, rules, interpretations, guidance, or any Governmental Orders, or any resolutions, orders, determinations, writs, injunctions, awards (including awards of any arbitrator), judgments and decrees applicable to the relevant entity and to the businesses and assets thereof.

(j) “**Balance Sheet**” means the consolidated balance sheets of Sherman at the date indicated thereon, together with the notes thereon.

(k) “**Cash Contribution**” means an outright gift in cash or readily marketable securities, or any pledge payment in cash or readily marketable securities.

(l) “**Catholic Health Organization**” means any Person listed in the Official Catholic Directory (with or without an asterisk indicating inclusion in the Catholic IRS group exemption ruling) or any Person that is majority-owned by Catholic Health Organizations. For purposes hereof, “majority-owned” means that Catholic Health Organizations, in the aggregate, hold the ability to appoint, directly or indirectly, a majority of the members of the Board of Directors of such Person.

(m) “**Change in Control**” means, with respect to Advocate, a transaction resulting in a change in the ability to appoint a majority of the members of the Board of Directors of Advocate.

(n) “**Collaborative Authority**” shall have the meaning set forth in Article II of Sherman Hospital’s Amended and Restated Bylaws as of the Closing Date.

(o) “**Direct Expenses**” means those variable costs of direct cost centers that are revenue producing departments and indirect cost centers whereby expenses are variable and based on patient or census related.

(p) “**Code**” means the Internal Revenue Code of 1986, as amended and the regulations thereunder.

(q) “**Employee Benefit Plan**” means any of the following covering any current or former employee, officer, director, consultant or agent of Sherman or any ERISA Affiliate: (i) any “employee pension benefit plan” as defined in Section 3(2) of ERISA (including any “multiemployer” plans as defined in Section 3(37) of ERISA), (ii) any “employee welfare benefit plan” as defined in Section 3(1) of ERISA including, without limitation, severance, sick leave, medical, dental, hospitalization, vision, disability, life insurance, long term care insurance and pet insurance plans, policies, or arrangements, and (iii) any retirement, deferred compensation, retention, change in control, severance, bonus, thrift, equity compensation or incentive plan, agreement or arrangement and any “fringe benefits” or perquisites (including, without limitation, benefits related to automobiles, clubs, vacation or holiday pay, paid time off, child care, parenting, or sabbatical), for any current or former employee, officer, director, consultant or agent of Sherman or any ERISA Affiliate which does not constitute an employee benefit plan (as defined in Section 3(3) of ERISA), regardless of whether any of the foregoing items (i) through (iii) are funded, unfunded, insured, self-insured, written or oral.

(r) “**Encumbrance**” means any claim, charge, easement, encumbrance, encroachment, security interest, option, pledge, mortgage, lien, pledge, or restriction (whether on sale, transfer, disposition or otherwise), whether imposed by agreement, understanding, Applicable Law, equity, or otherwise.

(s) “**Environmental Claims**” means all written notices of violation, liens, claims, demands, or suits for any damage, including, without limitation, personal injury or property damage, arising out of or related to Environmental Conditions or pursuant to Environmental Laws.

(t) “**Environmental Conditions**” means the presence of Hazardous Substances in the environment (including natural resources, soil, surface water, ground water, subsurface strata or ambient air) relating to or arising out of the Sherman Corporation’s operation of the Purchased Assets.

(u) “**Environmental Laws**” means all applicable federal, state, and local laws, and all rules or regulations promulgated thereunder, relating to pollution, protection of the environment (including without limitation ambient air, surface water, ground water, land surface, subsurface strata, wildlife, plants, or other natural resources), and/or protection of the health and safety of persons from exposures to Hazardous Substances in the environment, including without limitation (i) the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“**CERCLA**”), (ii) the Toxic Substances Control Act, (iii) the Hazardous Materials Transportation Act, (iv) the Resource Conservation and Recovery Act, (v) the Clean Water Act, (vi) the Safe Drinking Water Act, (vii) the Clean Air Act, (viii) the Occupational Safety and Health Act, (ix) the Federal Insecticide, Fungicide, Rodenticide Act, (x) the Atomic Energy Act, and (xi) the Emergency Planning and Community Right-to-Know Act.

(v) “**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

(w) “**ERISA Affiliate**” mean each Person that is treated as a single employer with any one or more of the Sherman Corporations pursuant to Section 414 of the Internal Revenue Code of the United States (the “Code”).

(x) “**Federal Health Care Program**” has the meaning ascribed thereto in 42 U.S.C. § 1320a-7b(f), and includes, without limitation, the Medicare and Medicaid programs, Indian health service programs, TRICARE and CHAMPVA, and similar or successor programs with or for the benefit of Governmental Entities, whether directly or through contracted entities, intermediaries, carriers, health maintenance organizations, health care service or other health insurance plans or programs.

(y) **[Reserved]**

(z) “**GAAP**” means accounting principles and practices as generally accepted in the United States as in effect from time to time and applied consistently throughout the periods involved.

(aa) “**Governmental Entity**” means any government or any agency, bureau, board, directorate, commission, court, department, official, political subdivision, tribunal, body or other instrumentality of any government, whether federal, state, or local, domestic, or foreign.

(bb) “**Governmental Order**” means any decree, stipulation, determination or award entered by any Governmental Entity.

(cc) “**Hazardous Substance**” means any pollutants, contaminants, chemicals, waste and any toxic, infectious, carcinogenic, reactive, corrosive, ignitable or flammable chemical or chemical compound or hazardous substance, material or waste, whether solid, liquid or gas, including any quantity of asbestos in any form, urea formaldehyde, PCB’s, radon gas, crude oil or any fraction thereof, all forms of natural gas, petroleum products or by-products or derivatives, radioactive substances or material, waste-waters, mold, sludges, slag and any other substance, material or waste , in each case that are subject to regulation, control or remediation under Environmental Laws.

(dd) “**Health Visions**” means Health Visions, Inc., an Illinois for-profit corporation that provides management and related administrative services to physicians.

(ee) “**HFSRB**” means the Illinois Health Facilities and Services Review Board and, as applicable, its predecessor organization, the Illinois Health Facilities Planning Board.

(ff) [**Reserved**]

(gg) “**Independent Restructuring Expert**” means an independent consultant or firm of consultants of nationally-recognized standing who or which has substantial experience in the restructuring of not-for-profit health care systems and who or which has not historically provided significant consulting services to Advocate or Sherman or their Affiliates.

(hh) “**Indirect Expenses**” means those expenses of cost centers that are overhead (non-revenue producing or support departments) and fixed expenses that are facility related.

(ii) “**Insurance**” means binders, policies of insurance, insurance, and self insurance programs or fidelity bonds.

(jj) “**Liability**” or “**Liabilities**” shall mean any direct or indirect liability, indebtedness, obligation, commitment, expense (including legal fees and costs), claim, deficiency, guarantee or endorsement of or by any Person of any type, whether accrued, absolute, contingent, matured, unmatured or other.

(kk) “**Losses**” means any action, cost, disbursement, expense, liability, judgment, claim, demand, loss, deficiency, obligation, penalty, fine, assessment or settlement of any kind or nature, whether foreseeable or unforeseeable including, without limitation, interest penalties, reasonable legal, accounting and other professional fees and expenses incurred in the investigation, collection, prosecution and defense of claims, actual or threatened, inquiries, hearings or other legal or administrative proceedings, and amounts paid in settlement that may be imposed on or otherwise incurred or suffered, as well any the amounts advanced to the Sherman Foundation and costs associated with arbitration as provided in Section 12.2 hereof.

(ll) “**Material Adverse Effect**” or “**Material Adverse Change**” means, with respect to the Sherman System, any change, effect, event, circumstance, or occurrence that has, or is reasonably expected to have with the passage of time, individually or in the aggregate, a material adverse effect on the business, assets, liabilities, properties, operations, results of operations or condition (financial or otherwise) of the Sherman System, taken as a whole, or, with respect to the Advocate System, the ability of Advocate to operate the Sherman System’s businesses, taken as a whole, on or after the Closing Date substantially as such businesses are being conducted prior to the Closing Date; provided; however, that none of the following (or the results thereof) shall be a Material Adverse Effect or Material Adverse Change: (A) any change in any Applicable Law or accounting standard or interpretation thereof; (B) any change in economic or business conditions or financial market conditions generally, or in the industry in which the Sherman System operates; (C) any change in any government or private payor program generally applicable to operators of similarly situated businesses in the State of Illinois; (D) any change arising in connection with hostilities, acts of war, sabotage or terrorism or military actions or any escalation or material worsening thereof; (E) any change resulting from the public announcement of this Agreement, compliance with terms of this Agreement or the consummation of the transactions contemplated by this Agreement; or (F) any effects (either individually or in the aggregate) in an amount less than Fifteen Million Dollars (\$15,000,000).

(mm) **Reserved**

(nn) **Reserved**

(oo) “**Operating Loss**” means with respect to any Program Capital Expenditure or Program Investment made pursuant to Section 10.1 hereof, the amount by which the actual Direct Expenses (less depreciation) plus incremental Indirect Expenses attributable to such Program Investment exceed the actual operating revenues associated with such Program Investment or Program Capital Expenditure for a period of no more than two (2) years following initiation, provided that the Direct Expenses and/or incremental Indirect Expenses shall not be double counted through system overhead.

(pp) “**Owned Real Estate**” means all parcels of real estate owned by any Sherman Corporation.

(qq) “**Permits**” means any license, permit, franchise, certificate of authority, authorization or order, or any waiver of the foregoing, required to be issued by any Governmental Entity, including, but not limited to Medicare and Medicaid certifications and provider numbers.

(rr) “**Permitted Encumbrance(s)**” means (i) any liens for Taxes or assessments and other similar charges not yet due and payable or which are being contested in good faith and by appropriate proceedings; (ii) easements, quasi-easements, licenses, covenants, rights-of-way, rights of re-entry or other similar restrictions, including any other agreements, conditions or restrictions that would be shown by a current title report or other similar report or listing none of which materially interfere with the operations or intended operations of Sherman’s assets; (iii) mechanics, materialmen and similar liens arising in the ordinary course of

business; (iv) any conditions that may be shown by a current survey or physical inspection (v) any Encumbrances that do not materially interfere with the operations of the Sherman Corporation's assets in a manner consistent with the current use of such assets by the Sherman Corporations; and (vi) all matters listed on Schedule 4.11 (a).

(ss) “**Person**” means an individual, corporation, partnership, limited liability company, joint venture, association, trust or other entity or organization, including a Governmental Entity.

(tt) “**Program Capital Expenditures**” means capital expenditures requested by the Sherman Hospital Board and, if necessary, approved by Advocate in its capacity as Corporate Member of Sherman Hospital, that are not Routine Capital Expenditures.

(uu) “**Program Investment**” means a financial investment that is not considered a capital expenditure in a program designed to enhance Sherman Hospital's status as a regional medical center, as requested by the Sherman Hospital Board of Directors and, if necessary, approved by Advocate in its capacity as Corporate Member of Sherman Hospital pursuant to the exercise of Collaborative Authority. The term “Program Investment” may include, but is not limited to, non-capital expenditures made following the exercise of Collaborative Authority support (a) Sherman Hospital's physician integration platform (including, but not limited to, physician-driven practice support and acquisitions, physician recruitment, PHO development, deployment of population health management capabilities, clinical integration, accountable care product development, and ambulatory IT platform deployment or integration), (b) development, enhancement and growth of existing and new service and product lines, (c) ambulatory care growth and development, (d) other strategic services growth to meet continual, and anticipated enhanced, competitive marketplace developments, and (e) investments in any Person conducting operations in the Sherman Service Area. In contrast, financial investments in programs requested by Advocate (rather than by Sherman Hospital), which includes those determined by Advocate to be needed for consistency with Advocate standards or operations, rather than for functionality, are not Program Investments.

(vv) “**Qualified Plan**” means an Employee Benefit Plan that is intended to be qualified within the meaning of Section 401(a) of the Code.

(ww) “**Routine Capital Expenditures**” means capital expenditures requested by the Sherman Hospital Board, and if necessary, approved by Advocate in its capacity as Corporate Member of Sherman Hospital, that repair or replace property, plant or equipment to maintain then existing functionality. Routine Capital Expenditures do not include capital expenditures made in connection with a Program Investment.

(xx) “**Sherman Audited Financial Statements**” means the audited Balance Sheets dated April 30, 2012 and the related audited consolidated statements of operations, changes in net assets and cash flow for the Sherman fiscal year ended April 30, 2012.

(yy) “**Sherman Corporation**” means any of Sherman, any Sherman NFP, any Sherman FP, or SHIC.

53114 v10

(zz) “**Sherman Financial Statements**” means the Sherman Audited Financial Statements and/or the Sherman Unaudited Financial Statements.

(aaa) “**Sherman FP**” means any of Health Visions, Sherman Physician Group and Sherman Group Practice.

(bbb) “**Sherman Home Health**” means Sherman Home Health Care Corporation, an Illinois not-for-profit corporation that is a Medicare-certified provider of home health care services.

(ccc) “**Sherman Group Practice**” means Sherman Group Practice, Inc., an Illinois for-profit corporation that manages physician offices and provides billing services to physicians and other health care providers in the Sherman Service Area.

(ddd) “**Sherman NFP**” means Sherman Hospital, Sherman West Court, Sherman Home Health, and Sherman Foundation.

(eee) “**Sherman Physician Group**” means Sherman Physician Group, Inc., an Illinois for-profit corporation that manages physician offices and provides billing services to physicians and other health care providers in the Sherman Service Area.

(fff) “**Sherman Primary Service Area**” means the area that encompasses the following zip codes: 60120 (Elgin), 60123 (Elgin), 60124 (Elgin), 60110 (Carpentersville), 60142 (Huntley), 60102 (Algonquin), 60118 (Dundee), 60140 (Hampshire), 60177 (South Elgin), 60156 (Lake in the Hills), and 60014 (Crystal Lake).

(ggg) “**Sherman’s knowledge**” means (i) all matters where a Sherman Corporation has received written notice or entered into a written agreement with respect thereto, or (ii) to the knowledge of the President/Chief Executive Officer and Chief Financial Officer of Sherman Hospital, after reasonable inquiry of responsible subordinates and persons responsible for the operations of the Sherman Corporations (and if such inquiry is not made, the knowledge that would have been held by the foregoing if such inquiry had been made).

(hhh) “**Sherman System**” means, collectively, Sherman, the Sherman NFPs, the Sherman FPs and SHIC.

(iii) “**Sherman Unaudited Financial Statements**” means the interim balance sheets of Sherman dated as of January 31, 2013, and the unaudited consolidated statements of operations, changes in net assets and cash flow for the period ended on January 31, 2013.

(jjj) “**Sherman West Court**” is an Illinois not-for-profit corporation that is the owner and operator of a skilled nursing facility licensed for 112 skilled nursing care beds and 8 sheltered beds.

(kkk) “**SHIC**” means Sherman Health Insurance Company, a Caymans corporation exempt from taxation in that jurisdiction.

(III) “**Tax**” means any federal, state, local, foreign or other tax, levy, impost, fee, assessment or other government charge, including income, business, occupation, franchise, property, payroll, personal property, sales, transfer, use, employment, commercial rent, occupancy, or withholding taxes, and any premium, including penalties and additions in connection therewith.

1.2 **Other Terms.** Each of the following terms is defined in the Section set forth opposite such term:

<u>Term</u>	<u>Section</u>
Affiliation	Preamble
Closing	3.1
Closing Date	3.1
Commercially Reasonable Efforts	13.17
Dispute Notice	12.2
Financial Commitment	10.1
Improvements	4.11(h)
Joint Venture	4.4
Restricted Funds	4.26
Sherman Employee(s)	10.2
Sherman Representatives	2.3
Transition Personnel	6.9

1.3 **Interpretation.** The words “**hereof**,” “**herein**” and “**hereunder**” and words of like import used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

(a) The captions or headings are included for convenience of reference only and shall be ignored in the construction or interpretation hereof.

(b) References to Articles, Sections, Exhibits and Schedules are to Articles, Sections, Exhibits and Schedules of this Agreement unless otherwise specified.

(c) All Exhibits and Schedules attached hereto or referred to herein are incorporated in and made a part of this Agreement as if set forth in full herein.

(d) Any capitalized terms used in any Exhibit or Schedule but not otherwise defined therein shall have the meaning as defined in this Agreement.

(e) Any singular term in this Agreement shall be deemed to include the plural, and any plural term the singular.

(f) Whenever the words “**include**,” “**includes**” or “**including**” are used in this Agreement, they shall be deemed to be followed by the words “**without limitation**,” whether or not they are in fact followed by those words or words of like import.

(g) References to any agreement or contract are to that agreement or contract as amended, modified or supplemented from time to time in accordance with the terms hereof and thereof.

(h) References to any Person include the successors and permitted assigns of that Person.

(i) References from or through any date mean, unless otherwise specified, from and including or through and including, respectively.

(j) References in this Agreement to a statute shall be to such statute, as amended from time to time, and to the rules and regulations promulgated thereunder.

(k) References to “**days**” shall mean calendar days unless specified otherwise.

(l) References to “**Dollars**” and “**\$**” means United States Dollars.

(m) All references to the “**Advocate Corporations**” (as defined above) shall be construed to mean “each of the Advocate Corporations” or “any of the Advocate Corporations” where appropriate.

(n) All references to the “**Sherman Corporations**” (as defined above) shall be construed to mean “each of the Sherman Corporations” or “any of the Sherman Corporations” where appropriate.

## **ARTICLE II STRUCTURE OF THE TRANSACTION**

2.1 **Reorganization of Sherman.** Effective as of the Closing Date, Sherman and Sherman Hospital will statutorily merge, such that Sherman will be the merged corporation and Sherman Hospital will be the surviving corporation holding all of the merged assets and liabilities of Sherman and Sherman Hospital, collectively. The Articles of Merger shall be in substantially the form of Exhibit A attached hereto. Those individuals who are serving as Sherman Hospital officers as of the Closing Date shall continue in such positions from and after the Closing Date for the duration of their respective terms. Effective as of the Closing Date, Advocate will serve as the sole member of Sherman Hospital. Each Sherman Corporation shall be subject to Advocate’s system-wide policies and procedures as set forth in Section 2.4(m) of the Sherman Amended and Restated Bylaws.

2.2 **Sherman Foundation.** On the Closing Date, all Restricted Funds held by Sherman Foundation shall be transferred to, held and utilized by Advocate Charitable Foundation in accordance with all Applicable Laws and subject to donor-imposed restrictions and conditions, as disclosed on Schedule 4.26. If such restrictions or conditions cannot be

complied with or by Advocate Charitable Foundation, such restrictions or conditions may be redirected with the permission of the donor(s) or modified as permitted by Applicable Law to permit Advocate Charitable Foundation's use of the Restricted Funds. In the event that Advocate Charitable Foundation cannot use such Restricted Funds as provided above, then consistent with Applicable Law, Advocate Charitable Foundation may return the Restricted Funds to donors or otherwise dispose of the Restricted Funds consistent with the terms of such gifts. Notwithstanding anything herein to the contrary, it is expressly understood and agreed among the Parties that all unrestricted cash and investments held by Sherman Foundation as of the Closing Date, as well as future bequests, gifts and donations raised for Sherman Hospital shall be designated for use by Sherman Hospital in the Sherman Service Area, consistent with any donor-imposed restrictions or conditions. In addition, effective as of the Closing Date, Sherman Foundation shall amend and restate its Articles of Incorporation and Bylaws in substantially the form set forth on Exhibits B-1 and B-2, respectively, attached hereto.

2.3 **Advocate Board.** Effective from and after the Closing Date, Advocate shall appoint to its Board of Directors ("Advocate Board") two (2) individuals, nominated by Sherman, one of whom shall serve one (1) three-year term and one of whom shall serve two (2) three-year terms as voting directors thereof ("**Sherman Representatives**"). Each of the Sherman Representatives shall be eligible to serve on the Advocate Board for three (3), three-year terms.

### **ARTICLE III THE CLOSING; TERMINATION**

3.1 **The Closing.** The delivery of instruments and documents affecting the Affiliation between the Sherman System and Advocate System (the "**Closing**") as set forth in Article II shall occur at the Corporate Offices of Advocate in Oak Brook, Illinois on the later of May 31, 2013, or such date as all of the conditions precedent set forth in Articles VIII and IX are satisfied (the "**Closing Date**"). Upon consummation, the affiliation of the Sherman System with the Advocate System shall be deemed to take place as of 12:01 A.M. on day immediately after the Closing Date.

3.2 **Deliverables of Advocate.** At or before the Closing, Advocate shall deliver the following:

(a) an Officer's Certificate certifying that (i) as of the Closing Date, each of the representations and warranties of Advocate contained herein are true and correct and that each of the covenants and conditions required of Advocate have been satisfied, (ii) the signatures of the officers executing the documents contemplated herein are in fact said officers' signatures, and (iii) the Advocate resolutions approving the transactions contemplated hereby are the actual resolutions of the Board of Advocate and are all of the resolutions of the Advocate System necessary to accomplish the transactions contemplated herein;

(b) Articles of Incorporation and a Certificate of Good Standing for Advocate certified by the Secretary of State of the State of Illinois;

(c) evidence that Advocate has appointed two (2) Sherman Representatives to its Board of Directors for three (3) year terms, at least one of whom shall serve a subsequent three (3) year term, as set forth in Section 10.7;

(d) evidence that Advocate has appointed one (1) Sherman Representative to Board of Directors of EHS Home Health Care Services, Inc., for a term of one (1) year, as set forth in Section 10.7;

(e) such other instruments or documents as may be necessary or appropriate to effect the Affiliation and other actions contemplated herein.

3.3 **Deliverables of Sherman**. At or before the Closing, Sherman shall deliver the following:

(a) an Officer's Certificate certifying that (i) as of the Closing Date, each of the representations and warranties of Sherman contained herein are true and correct and that each of the covenants and conditions required of Sherman have been satisfied; (ii) the signatures of the officers executing the documents contemplated herein are in fact said officers' signatures, and (iii) the attached resolutions of the Sherman System approving the affiliation are the actual resolutions of the Boards of such entities and are all of the resolutions of the Sherman System necessary to accomplish the transactions contemplated herein;

(b) Articles of Incorporation/Organization of each Sherman Corporation, together with a Certificate of Good Standing for each such corporation dated no more than five (5) days prior to the Closing Date and certified by the Secretary of State of the State of Illinois;

(c) Stock certificates of SHIC endorsed over to Advocate or one of its Affiliates, as designated by Advocate prior to Closing;

(d) resignations by each member of the SHIC board of directors (or equivalent governing body) and all other documentation requested by Advocate to affect the transfer of the SHIC stock;

(e) amended and restated articles of incorporation and bylaws for Sherman Foundation as set forth in Exhibits B-1 and B-2;

(f) UCC-1, judgment lien, and tax lien searches on Sherman, Sherman Hospital, and each of the Sherman Corporations dated no more than ten (10) days prior to the Closing Date.

(g) Articles of Merger for Sherman and Sherman Hospital attached hereto as Exhibit A;

(h) All Charitable Gifts (as defined in Exhibit D), cash and other assets held by the Sherman Foundation, and a listing of all Cash Contributions and non-cash contributions

and pledges received by Sherman Foundation and any designations by donors, which listing shall be full and accurate as of no less than three (3) days prior to the Closing Date.

(i) such other instruments or documents as may be necessary or appropriate to effect the Affiliation and other actions contemplated herein.

3.4 **Joint Deliverables.** As of the Closing Date, Sherman Hospital, Sherman Foundation, Advocate and Advocate Charitable Foundation shall jointly or independently, as appropriate, deliver the following:

(a) the Commitments and Obligations Agreement attached hereto as Exhibit C; and

(b) one or more agreements by and between Sherman Foundation and Advocate Charitable Foundation in the form attached hereto as Exhibit D, pursuant to which (i) Sherman Foundation will transfer to Advocate Charitable Foundation its interests in trusts, pledges receivable, estates receivable, or other assets which are from bequests, trust distributions, gifts, and other contributions, and Advocate Charitable Foundation shall agree to hold and administer such assets for the benefit of the programs and projects of Sherman Hospital.

3.5 **Termination Prior to Closing.** Notwithstanding anything herein to the contrary, this Agreement and the transactions contemplated by this Agreement may be terminated at any time before the Closing as follows and in no other manner: (i) by mutual consent in writing of Sherman and Advocate; (ii) by Sherman or Advocate at any time after December 31, 2013 if the Closing shall not have occurred by such date; provided, that the right to terminate this Agreement under this Section 3.5 shall not be available to any Party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Closing to occur by such date; (iii) by Advocate by written notice to Sherman if any event occurs or condition exists which causes Sherman to be unable to satisfy one or more conditions to the obligations of Advocate to consummate the transactions contemplated by this Agreement as set forth in Article VIII; and (iv) by Sherman by written notice to Advocate if any event occurs or condition exists which causes Advocate to be unable to satisfy one or more conditions to the obligation of Sherman to consummate the transactions contemplated by this Agreement as set forth in Article IX.

In the event that this Agreement shall be terminated pursuant to Section 3.5 all further obligations of the Parties under this Agreement shall terminate without further liability of any Party to another; provided that the obligations of the parties contained in this Section 3.5 and in Articles VI and VII shall survive any such termination. A termination under this Section 3.5 shall not relieve any Party of any liability for a breach of, or for any misrepresentation under this Agreement, or be deemed to constitute a waiver of any available remedy (including specific performance if available) for any such breach or misrepresentation.

**ARTICLE IV**  
**REPRESENTATIONS AND WARRANTIES OF SHERMAN AND SHERMAN**  
**HOSPITAL**

As of the date hereof and as of the Closing Date, Sherman, on its own behalf and on behalf of each of the Sherman Corporations, and Sherman Hospital hereby represent and warrant as follows:

4.1 **Disclosure**. The covenants, representations, and warranties of Sherman and Sherman Hospital contained in this Agreement and each Exhibit, Schedule, or other written statement delivered pursuant hereto or thereto or in connection with the transactions contemplated herein or therein are accurate, correct, and complete in all material respects and do not contain any untrue statement of a material fact or, considered in the context in which presented, omit to state a material fact necessary in order to make the statements and information contained herein or therein not misleading.

4.2 **Authority**. Each Sherman Corporation has the corporate power and authority to own and hold its properties and to carry on its business as presently conducted and contemplated to be conducted. Each Sherman Corporation has the full capacity, right, power, and authority, without the need for any additional corporate authorization, to execute and deliver, to the extent applicable, this Agreement and each Exhibit hereto and to carry out the transactions contemplated hereby. All corporate and other acts or proceedings required to be taken by each Sherman Corporation to authorize the execution, delivery, and performance of this Agreement and each Exhibit hereto and all transactions contemplated hereby have been duly and properly taken or shall be duly and properly taken by the Closing Date.

4.3 **Validity**. This Agreement has been, and the documents to be delivered at Closing shall be, duly executed and delivered and constitute lawful, valid, and legally binding obligations of Sherman Hospital and each Sherman Corporation (as applicable), enforceable in accordance with their respective terms, except as such enforcement may be limited by bankruptcy, moratorium, insolvency or other similar laws affecting the enforcement of creditors' rights generally and except that the availability of equitable remedies is subject to the discretion of the court before which any proceeding therefor may be brought. The execution and delivery of this Agreement, and the consummation of the transactions contemplated hereby, shall not result in the creation of any lien, charge, or encumbrance of any kind or the termination or acceleration of any indebtedness of Sherman, Sherman Hospital, or any Sherman Corporation and are not prohibited by, do not violate or conflict with any provision of, and do not constitute a default under or a breach of (i) Sherman's, Sherman Hospital's, or any Sherman Corporation's Articles of Incorporation or Bylaws, as amended; (ii) any note, bond, indenture, contract, agreement, permit, license, or other instrument by which Sherman, Sherman Hospital, or any Sherman Corporation or any of their respective assets are bound; or (iii) any order, writ, injunction, decree, or judgment of any court or governmental agency. To Sherman's knowledge, except as set forth on Schedule 4.3, no approval, authorization, registration, consent, order, or other action of or filing with any person that is material to the business of Sherman, including any court, administrative agency, or other governmental authority, is required for the execution and delivery by Sherman, Sherman Hospital, or any Sherman Corporation of this Agreement or any

Exhibit hereto or the consummation by Sherman, Sherman Hospital, and each Sherman Corporation of the transactions contemplated hereby, except for filings or consents previously obtained or to be obtained unless otherwise agreed to in writing by Advocate.

4.4 **Affiliates, Subsidiaries and Third Party Rights.** Schedule 4.4 sets forth a true and correct list of all general or limited partnerships, limited liability companies or other joint ventures of which any Sherman Corporation or any Affiliate of the foregoing is a partner, member, or shareholder (each of the foregoing, individually, a “**Joint Venture**” and collectively, the “**Joint Ventures**”), identifying the Person within the Sherman System holding such interest and the amount of interest. Except as set forth on Schedule 4.4, Sherman holds no interest or contract or right to acquire any interest in any Person that conducts a healthcare business other than the Sherman Corporations, and there are no contracts with or rights of any Person to acquire, directly or indirectly, any material assets of Sherman, any Sherman Corporation or any Joint Venture, or any interest therein, other than contracts entered into in the ordinary course of businesses. To Sherman’s knowledge, each Joint Venture is validly formed under its state of organization and has all necessary power to own its properties and assets and to carry on its business as presently conducted.

4.5 **Existence and Good Standing.**

(a) Each of the Sherman NFPs is an Illinois not-for-profit corporation duly organized and existing under the laws of the State of Illinois, having full power and all requisite rights, licenses, permits, and franchises to own, lease and operate its assets, and to carry on its business as presently conducted. Sherman is the sole member of Sherman Hospital, Sherman West Court, Sherman Home Health and Sherman Foundation.

(b) The Sherman FPs are Illinois for-profit corporations duly organized and existing under the laws of the State of Illinois, having full power and all requisite rights, licenses, permits, and franchises to own, lease and operate their assets, and to carry on their businesses as presently conducted. Sherman is the sole shareholder of Health Visions, which in turn is the sole shareholder in Sherman Physician Group and Sherman Group Practice, each having good and marketable title to such shares and owns beneficially and of record, free and clear of any Encumbrances, and has full power and authority to sell, assign, transfer, vote and convey such shares free and clear of any Encumbrances. There are no outstanding options, convertible securities, warrants, agreements, rights, contracts, calls, commitments or demands of any character that either (i) obligates Sherman to issue, redeem, sell, convert or purchase any securities in the Sherman FPs, or restricts or relates in any way to the voting of any such securities, or (ii) restricts the transfer of, or otherwise relates to transactions in, any ownership interests of the Sherman FPs.

(c) SHIC is a corporation duly licensed, organized and existing under the laws of the Cayman Islands, having full power and all requisite rights, licenses, permits, and franchises to own, lease and operate its assets, and to carry on its business as presently conducted. Sherman is the sole shareholder of SHIC.

4.6 **Non-Exclusion.** None of the Sherman Corporations, nor any of their respective officers, members, managers or Affiliates, is excluded from participation in any Federal Health Care Program.

4.7 **Tax Exempt Status.** Each of the Sherman NFPs is exempt from federal income taxation under Section 501(c)(3) of the Code. The Sherman NFPs are public charities and not private foundations as defined in Section 509(a) of the Code. No Sherman NFP has taken or omitted to take any action which could reasonably jeopardize its tax exempt status. To Sherman's knowledge, except as disclosed on Schedule 4.7, no present officer, director, or employee of any Sherman Corporation: (i) owns, directly or indirectly, in whole or in part, any of the real estate used in the business of any Sherman Corporation; (ii) has received any loan or advance from any Sherman Corporation that is currently outstanding, (iii) has any obligation to make any loan to any Sherman Corporation; or has any other business relationship with any Sherman Corporation other than in his or her capacity as an officer, director, or employee.

4.8 **Brokers.** Neither Sherman nor any Sherman Corporation has retained any broker, finder, or agent or incurred any liability or obligation for any brokerage fees, commissions, or finders' fees with respect to this Agreement or the transactions contemplated hereby.

4.9 **[Reserved].**

4.10 **Insurance.** Schedule 4.10 sets forth an accurate, correct, and complete list and summary description (including the name of the insurer, coverage, and expiration date) all Insurance maintained by the Sherman Corporations. To Sherman's knowledge, all Insurance has been issued by financially sound insurance companies under valid and enforceable policies or binders, and all such policies or binders are in full force and effect. Except as set forth on Schedule 4.10, there are no pending or asserted claims against any Insurance as to which any insurer has denied liability, and there are no claims under any Insurance that have been disallowed or improperly filed. No notice of cancellation or nonrenewal with respect to, or material increase of premium for, any Insurance has been received by any Sherman Corporation. Except as set forth on Schedule 4.10, to Sherman's knowledge, there are no facts or the occurrence of any event which (i) reasonably might form the basis of any claim against any Sherman Corporation, or (ii) otherwise shall materially increase the insurance premiums payable under any Insurance.

4.11 **Real Estate**

(a) Schedule 4.11(a) sets forth an accurate correct and complete list of (i) all Owned Real Estate, including a street address, record title holder and permanent index number. Schedule 4.11(a) also sets forth a brief description of each option held by any Sherman Corporation to acquire any real property and an accurate rent roll for all written leases or other agreements, if any, encumbering the Owned Real Estate. Sherman has made available to Advocate accurate, correct and complete copies of all such leases and agreements. The record title holder listed on Schedule 4.11(a) is the sole legal and equitable owner of all right, title, and interest in and has good, marketable, and insurable title in fee simple absolute to, and, except as

disclosed by the leases, is in possession of, all Owned Real Estate including the buildings, structures, sidetracks, and improvements situated thereon and appurtenances thereto, in each case free and clear of all Encumbrances except for Permitted Encumbrances. To Sherman's knowledge, except as set forth on Schedule 4.11(a), all leases and agreements set forth on Schedule 4.11(a) are legally valid and binding and in full force and effect; there are no defaults, offsets, counterclaims, or defenses thereunder; and no Sherman Corporation has received written notice of default, offset, counterclaim, or defense under any such leases or agreements.

(b) Schedule 4.11(b) contains a brief description of each parcel of real estate that has been used for the last three (3) years in the conduct of the business of the Sherman Corporations and is not described, listed, or set forth in Schedule 4.11(a) hereto.

(c) Except as set forth on Schedule 4.11(c), to Sherman's knowledge, no Owned Real Estate is located within a flood hazard area, and neither the whole nor any portion of any Owned Real Estate has been condemned, requisitioned, or otherwise taken by any public or governmental authority, and no notice of any such condemnation, requisition, or taking has been received. To Sherman's knowledge, no such condemnation, requisition, or taking is threatened or contemplated. There are no public improvements that may result in special assessments against or otherwise affect the Owned Real Estate.

(d) The Sherman Corporations have not been notified of any contemplated improvements to the Owned Real Estate by public or governmental authority, the cost of which is to be assessed as special taxes against the Owned Real Estate in the future except as set forth on Schedule 4.11(d).

(e) To Sherman's knowledge, except as set forth on Schedule 4.11(e), the Owned Real Estate is in material compliance with all applicable zoning, building, health, fire, water, use, and similar statutes, codes, ordinances, laws, rules and regulations. To Sherman's knowledge, the zoning of each parcel of Owned Real Estate permits the existing improvements. To Sherman's knowledge, the Sherman Corporations have all licenses, certificates of occupancy, permits, and authorizations required to utilize the Owned Real Estate. To Sherman's knowledge, the Sherman Corporations have all necessary easements and rights including easements for all utilities, services, roadway, railway, and other means of ingress and egress. To Sherman's knowledge, the Owned Real Estate includes all rights to any off-site facilities necessary to ensure compliance in all material respects with all zoning, building, health, fire, water, use, and similar statutes, codes, ordinances, laws, rules, and regulations. To Sherman's knowledge, no fact or condition exists which would result in the termination or impairment of access to the Real Estate or discontinuation of sewer, water, electric, gas, telephone, waste disposal, or other utilities or services.

(f) Sherman has delivered accurate, correct and complete copies of all existing title insurance policies, title reports, surveys, environmental audits, and similar reports, if any, with respect to each parcel of the Owned Real Estate.

(g) To Sherman's knowledge, there are no unrecorded liens or encumbrances against any portion of the Owned Real Estate.

(h) All buildings, structures, improvements, fixtures, facilities, equipment, and all components of all buildings, structures, and other improvements included within the Real Estate, including but not limited to the roofs and structural elements thereof and the heating, ventilation, air conditioning, plumbing, electrical, mechanical, sewer, waste water, storm water, paving and parking equipment, systems and facilities included therein (collectively, the “**Improvements**”), are in good operating condition and repair, subject to normal wear and maintenance and are usable in the regular and ordinary course of business, and no material maintenance, repair, or replacement thereof has been deferred except as set forth on Schedule 4.11(h). Only Sherman and the Sherman Corporations owned any Improvements.

(i) To Sherman’s knowledge, there are no rights of possession, use, or otherwise, outstanding to any Person by reason of unrecorded leases, land contracts, sales contracts, options, or other comparable instruments which have not been previously disclosed to Advocate except as set forth on Schedule 4.11(i).

(j) To Sherman’s knowledge, there are no material off record or undisclosed legal or equitable interests in any part of the Owned Real Estate owned by any other Person.

4.12 **Permits.** Schedule 4.12 contains an accurate, correct and complete list and summary description of each material Permit held by a Sherman Corporation with respect to the operation of its business. Prior to the Closing Date, Sherman shall have made available to Advocate copies of each of such Permit. To Sherman’s knowledge, the Permits listed on Schedule 4.12 are valid and in full force and effect and there are no pending or threatened proceedings that are reasonably likely to result in the termination, revocation, limitation, or impairment of any such Permit. To Sherman’s knowledge, the Sherman Corporations have all Permits as are necessary or appropriate to run their operations as currently operated and each Sherman Corporation is in compliance in all material respects with each such Permit.

4.13 **Material Contracts.** Except as set forth on Schedule 4.13, all material contracts, leases, agreements and arrangements (such contracts, indentures, leases, agreements and arrangements valued at Five Hundred Thousand Dollars (\$500,000) or more per year are deemed “**Material Contracts**”) to which Sherman, Sherman Hospital, or any Sherman Corporation is party are legally valid and binding in accordance with their terms and in full force and effect, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws and equitable principles relating to or limiting creditor’s rights generally, Sherman has duly performed all material obligations under each Material Contract to the extent that such obligations to perform have accrued and no breach or default, or alleged breach or default, or event which would (with notice, the passage of time, or both) constitute a material breach or default of any Material Contract by Sherman, or, to the knowledge of Sherman, any other party or obligor with respect thereto, has occurred. No Sherman Corporation has received or given written notice of an intention to cancel or terminate, or to exercise or not exercise options or rights, under a contract, lease, agreement or arrangement except in connection with the transactions contemplated herein. Sherman West Court has no life care agreement with any of its patients.

4.14 **Taxes.** The Sherman Corporations have filed with the appropriate taxing authorities all returns (including information returns and other material information) in respect of Taxes required to be filed through the date of this Agreement and will timely file any such returns required to be filed on or prior to the Closing Date. All Taxes have been timely paid, or will be timely paid. To Sherman's knowledge, Sherman, Sherman Hospital, and the Sherman Corporations do not have any material liability for Taxes in excess of the amounts so paid, or to be so paid. There are no liens for Taxes (other than for current Taxes not yet due and payable) on the assets for Sherman, Sherman Hospital, and the Sherman Corporations. Sherman, Sherman Hospital, and the Sherman Corporations have complied in all material respects with, and shall continue to remain in compliance in all material respects with through the Closing, all tax covenants set forth in any agreement related to the tax-exempt debt set forth on Schedule 4.14.

4.15 **Litigation.** Except as set forth on Schedule 4.15, there is no material claim, tax audit, proceeding or investigation pending or, to Sherman's knowledge, threatened against any of the Sherman Corporations by or before any court or private arbitration tribunal. None of the Sherman Corporations is in material default with respect to or subject to any judgment, order, writ, injunction, or decree of any court or Governmental Entity, and there are no unsatisfied judgments against any Sherman Corporation.

4.16 **Accounts Receivable.** Except as provided in Schedule 4.16, to Sherman's knowledge, all outstanding Accounts Receivable reflected on the Sherman Financial Statements (i) are due and valid claims against account debtors for goods or services delivered or rendered in bona fide commercial transactions (ii) are collectible net of any reserves shown on such Sherman Financial Statements, (iii) have been appropriately adjusted to reflect current reimbursement policies of Federal Health Care Programs and third party payors (including, without limitation, Blue Cross/Blue Shield) and are subject to no defenses, offsets, or counterclaims and other than such offsets and counterclaims as have been agreed to by the Sherman Corporations in the ordinary course of business, as reflected in such Sherman Financial Statements; and (iv) arose in the ordinary course of business. The Accounts Receivable are not subject to any Encumbrances, other than Permitted Encumbrances.

4.17 **Environmental Matters.** Except as set forth on Schedule 4.17 the assets and operations of the Sherman Corporations are in compliance in all material respects with all Environmental Laws. Except as set forth on Schedule 4.17, there are no pending or unresolved material Environmental Claims against any of the Sherman Corporations, nor has any of the Sherman Corporations received written notification of any pending or unresolved allegation of any actual or potential responsibility for the disposal, release or threatened release at any location of any Hazardous Substance that could reasonably be expected to result in a material loss to any of the Sherman Corporation. Except as set forth on Schedule 4.17 there have been no releases of Hazardous Substances in quantities that would reasonably be expected to trigger the need for investigation and/or remediation pursuant to Environmental Laws and to result in a material loss to any of the Sherman Corporations. Copies of all written material reports, audits and assessments, in the possession or control of any Sherman Corporation relating to Environmental Conditions in, on or about the assets and operations of the Sherman Corporations or relating to compliance with Environmental Laws of the assets or operations of the Sherman Corporations

have been made available to Advocate. Notwithstanding the generality of any of the representations and warranties in this Agreement, this Section 4.17 contains the sole and exclusive representations and warranties related to environmental matters.

4.18 **Accounting Records; Internal Controls.** Each Sherman Corporation maintains accurate books and records reflecting its assets and liabilities and maintains proper and adequate internal accounting controls which provide assurances that (i) transactions are executed with management's authorization, (ii) transactions are recorded as necessary to permit preparation of the Sherman Financial Statements and to maintain accountability for Sherman's consolidated assets and liabilities, (iii) access to Sherman's assets is permitted and liabilities incurred only in accordance with management's authorization, (iv) the reporting of Sherman's assets is compared with existing assets at regular intervals, and (v) Accounts Receivable and inventory are recorded accurately, and proper and accurate procedures are implemented to effect the collection thereof on a current and timely basis. To Sherman's knowledge, the data processing equipment, data transmission equipment, related peripheral equipment and software used by Sherman and the Sherman Corporations (including any disaster recovery facility) to generate and receive accounting and patient records are adequate to operate the Sherman Corporations after the Closing as historically operated.

4.19 **Financial Statements.** The Sherman Financial Statements attached hereto as Schedule 4.19 have been prepared in accordance with GAAP applied on a consistent basis, were prepared from the books and records of Sherman, which books and records are complete and correct in all material respects and, to Sherman's knowledge, accurately reflect Sherman's business as of such date and for the periods then ended. The Sherman Financial Statements present fairly in all material respects the financial condition of Sherman as of the dates stated and the results of operations and statements of cash flows of Sherman for the periods indicated, subject, in the case of any unaudited financial statements, to normal year-end adjustments. The Sherman Financial Statements reflect reserves for all known material liabilities and reasonably anticipated losses as of the date thereof based upon information known to Sherman as of such date. Sherman has disclosed to Advocate all material facts related to the preparation of the Sherman Financial Statements, including the basis of accounting for affiliated transactions, and Sherman has delivered to Advocate complete and correct copies of all letters of representation from Sherman delivered to the independent auditors in connection with the preparation of the Sherman Audited Financial Statements for the Sherman fiscal years ended April 30, 2012 and April 30, 2011, and such periods' management letters from the independent auditors to Sherman. Sherman represents that all such representations contained in such letters provided to the independent auditor are true and accurate as of the Execution Date.

4.20 **Interim Changes.** Except as set forth on Schedule 4.20 or as contemplated by this Agreement, since the date of the Sherman Unaudited Financial Statements, there has not been, occurred or arisen, other than in the ordinary course of business and consistent with past practice:

(a) Any loan, advance, agreement, arrangement or transaction between Sherman or any Sherman Corporation and any employees thereof, or any Person in which Sherman, its Affiliates, or an employee of either has any direct or indirect interest;

- (b) Any grant, incurrence, discharge or satisfaction of any lien or encumbrance affecting or relating to any asset of Sherman or the Sherman Corporations;
- (c) Any incurrence of payment of any obligation or liability (absolute, accrued or contingent) other than current liabilities;
- (d) Any mortgage or pledge of, any lien placed on, any assets of Sherman or any Sherman Corporation, tangible or intangible, other than liens for current real property taxes not yet due and payable;
- (e) Any Material Contract;
- (f) Any change by Sherman in accounting methods, principles, or practices or any change in depreciation or amortization policies or rates therefore adopted by it;
- (g) Any Material Adverse Change in, relating to, or affecting the condition, assets, personnel, properties, liabilities or business of the Sherman System;
- (h) Any change in the Articles of Incorporation or By-Laws of Sherman or any Sherman Corporation except as may be contemplated by this Agreement or any agreement related hereto;
- (i) Any payment or commitment by Sherman to pay any bonus, severance, pension, termination or special compensation of any kind to any of its officers, directors, consultants, agents, or employees in excess of five percent (5%) per annum for any individual;
- (j) Any purchase, sale, transfer, abandonment or other disposition of assets by Sherman or any Sherman Corporation, other than sales, transfers or abandonment of obsolete property;
- (k) Any merger or consolidation of or by Sherman or any Sherman Corporation with any other corporation, or any acquisition by it of all or any part of the stock, membership or partnership interests or the business or assets, of any other person, firm, association, corporation or business organization;
- (l) Any non-business expense incurred or agreed to be incurred by Sherman or any Sherman Corporation;
- (m) Any charge-off of any bad debt by Sherman or any Sherman Corporation except in the ordinary course of business consistent with past practice and which was covered by reserves;
- (n) Any increase in any bad debt reserve of Sherman;

(o) Any other material event or condition adversely affecting the properties, assets or business of Sherman or any Sherman Corporation;

(p) Any material change in the annual reports or actuarial reports of any Sherman Employee Benefit Plan; or

(q) Any understanding with respect to any commitment (contingent or otherwise) to do any of the foregoing.

4.21 **Compliance with Law**. Each Sherman Corporation is in material compliance with all Applicable Laws, including, without limitation, energy, public utility, zoning, building and health codes, regulations and ordinances, the federal Anti-kickback Statute (42 U.S.C. § 1320a-7b(b)), the Stark Law (42 U.S.C. §§ 1395nn), the Anti-Inducement Law (42 U.S.C. § 1320a-7a(a)(5)), the Civil False Claims Act (31 U.S.C. §§ 3729 et seq.), the administrative False Claims Law (42 U.S.C. § 1320a-7b(a)), the Health Insurance Portability and Accountability Act of 1996 (42 U.S.C. § 1320d et seq.), the exclusion laws (42 U.S.C. 1320a-7), the regulations promulgated pursuant to such laws, and any other state or federal law, regulation, guidance document, manual provision, program memorandum, opinion letter, or other issuance applicable to such Sherman Corporations which regulates kickbacks, patient or program charges, recordkeeping, claims process, documentation requirements, medical necessity, referrals, the hiring of employees or acquisition of services or supplies from those who have been excluded from government health care programs, quality, safety, privacy, security, licensure, accreditation or any other aspect of providing health care services, except as set forth on Schedule 4.21. Except as set forth on Schedule 4.21, no Sherman Corporation has received any written notice that it is not in material compliance with any Applicable Laws, and Sherman has no reason to anticipate that any existing circumstances are likely to result in violations of any of the foregoing.

#### 4.22 **Federal Health Care Program Participation/Accreditation**

(a) Each of Sherman Hospital, Sherman Home Health, and Sherman West Court (i) is qualified for participation in the Medicare and Medicaid programs, (ii) has a current and valid provider agreement with the Medicare and Medicaid programs, (iii) is in compliance with the conditions of participation in such programs in all material respects, and (iv) has received all approvals or qualifications necessary for it to participate in such programs. There is no pending or, to Sherman's knowledge, threatened proceeding or investigation under any Federal Health Care Program involving any Sherman Corporation. Except as set forth on Schedule 4.22, no Sherman Corporation has received any written notice of any dispute with any Governmental Entity, any fiscal intermediary, carrier or DMERC, or any other party regarding any payments from or services provided to beneficiaries of Federal Health Care Programs that involve amounts in excess of One Million Dollars (\$1,000,000) in the aggregate, other than with respect to adjustments thereto made in the ordinary course of business. Except as set forth on Schedule 4.22, to Sherman's knowledge, no Sherman Corporation is currently subject to any outstanding reimbursement or billing audit by any Governmental Entity, intermediary, carrier or DMERC.

(b) All (i) billing practices of any Sherman Corporation with respect to all third party payors, including Federal Health Care Programs and private insurance companies, have been in compliance with all Applicable Laws and publicly available policies of such third party payors and Federal Health Care Programs in all material respects, and (ii) no Sherman Corporation has billed or received any payment or reimbursement in excess of amounts allowed by Applicable Law. Each Sherman Corporation providing health care services has used its commercially reasonable efforts to collect all copayments, deductibles, and coinsurance amounts as required to be paid by and collected from beneficiaries of any third party payor, Federal Health Care program, and private insurance company, except where Applicable Law or policies permit the waiver of such collection, or where explicit permission to waive such collection has been obtained in writing from the applicable third party payor or private insurance company.

(c) All (i) claims for reimbursement for services rendered or products sold or supplied by any Sherman Corporation to any Government Entity or third party payor have been prepared and filed in accordance, in all material respects, with all Applicable Laws, rules, regulations policies and procedures pertaining to the applicable Government Entity or third party payor, and (ii) all such claims have been prepared in an accurate and complete manner and have been timely submitted to the appropriate Government Entity or third party payor. Sherman has paid or made provision to pay through proper recordation of any net liability any identified overpayments received from any third party payor and any similar obligations with respect to other reimbursement programs in which the Sherman Corporations participate, and, except as may be the case for the pending claims identified in Schedule 4.22, no Sherman Corporation has received reimbursement in excess of amounts provided or permitted by Applicable Law. To Sherman's knowledge, there are no material irregularities nor are there any reasonable grounds to anticipate the commencement of any investigation or inquiry, or the assertion of any claim or demand by any Governmental Entity or third party payor related to any activity, practice or policy of any Sherman Corporation, any claim for payment or reimbursement made by any Sherman Corporation, or any practice or reimbursement received by any Sherman Corporation.

(d) Sherman Hospital is duly accredited by The Joint Commission for the three-year period ending February 25, 2015. Sherman has provided or made available to Advocate complete copies of the most recent accreditation survey reports, deficiency lists, statements of deficiency, plans of correction and similar materials for Sherman Hospital, Sherman West Court, and Sherman Home Health. Sherman has taken or is taking all reasonable steps to correct all material deficiencies noted therein.

4.23 **Consents and Approvals.** Except as set forth on Schedule 4.23, no registration or filing with, or consent or approval of, or other action by, any federal state or other governmental agency or instrumentality or any non-governmental third party is or will be necessary for the valid execution, delivery and performance of this Agreement.

4.24 **Employee Benefit Plans.**

(a) Schedule 4.24 sets forth a complete and accurate list of all Employee Benefit Plans that Sherman or any ERISA Affiliate maintains, sponsors, is a party to, participates in, has a commitment to create or to which Sherman or any ERISA Affiliate contributes or has or

has had any obligation to contribute (collectively, the “**Sherman Employee Benefit Plans**”). Sherman has made available to Advocate correct and complete copies of each of the plans, arrangements and policies listed on Schedule 4.24 and the contracts related thereto, including, without limitation, the plan documents, summary plan descriptions, the most recent determination letter or opinion letter issued by the Internal Revenue Service, the most recent Form 5500 Annual Report, the most recent actuarial report, the most recent audited or reviewed financial statements for such Sherman Employee Benefit Plan (if applicable), and related trust agreements, insurance contracts and other funding agreements which implement each such Sherman Employee Benefit Plan, as applicable. In the case of any Sherman Employee Benefit Plan not in written form, Sherman has supplied Advocate with an accurate written description of such plan as in effect on the date hereof.

(b) None of the Sherman Employee Benefit Plans is a “multiemployer plan,” as defined in Section 4001(a)(3) of ERISA, and none of the Sherman Corporations or any ERISA Affiliate presently contributes to, has contributed to, or has any liability with respect to a multiemployer plan.

(c) Each Sherman Employee Benefit Plan that is intended to be qualified under Section 401(a) of the Code is the subject of a favorable letter of determination or opinion letter from the Internal Revenue Service regarding the qualified status of such plan under Section 401(a) of the Code and the tax-exempt status of any trust which forms a part of such plan under Section 501(a) of the Code, and no event has occurred which will or could result in the revocation of such determination letter or the tax qualified status of such plan. All required reports (including Form 5500 Annual Reports) have been timely filed and summary plan descriptions, summaries of material modifications and summary annual reports have been distributed to participants with respect to each applicable Sherman Employee Benefit Plan in accordance with applicable law. All contributions or other payments (including all employer contributions and employee salary reduction contributions) have been timely paid to each such Sherman Employee Benefit Plan and all contributions for any period ending on or before the Closing Date which are not yet due have been paid to each such Sherman Employee Benefit Plan or accrued in accordance with the terms of such plan and applicable law.

(d) All Sherman Employee Benefit Plans comply with and have been administered in form and in operation in all material respects in accordance with their terms and all applicable requirements of law, including ERISA and the Code, and to Sherman’s knowledge, no event has occurred which will or could cause any such Sherman Employee Benefit Plan to fail to comply with such requirements and no notice has been issued by any Governmental Entity questioning or challenging such compliance.

(e) There have been no “prohibited transactions” as that term is defined in Section 4975 of the Code or Section 406 of ERISA with respect to any Sherman Employee Benefit Plan. Sherman has received no notice that any Sherman Employee Benefit Plan is currently under governmental investigation or audit, and, to Sherman’s knowledge, no such investigation or audit is threatened. To Sherman’s knowledge, no fiduciary of any Sherman Employee Benefit Plan has any Liability for breach of fiduciary duty or any other failure to act

or comply in connection with the administration or investment of the assets of any such Sherman Employee Benefit Plan.

(f) No Sherman Employee Benefit Plan is subject to Title IV of ERISA and no Sherman Corporation contributes to a plan that is subject to Title IV of ERISA or has been obligated to contribute to such a plan within the last six years..

(g) No Sherman Corporation or any of their ERISA Affiliates has any liability or contingent liability for providing, under any Sherman Employee Benefit Plan or otherwise, any post-retirement continuing medical or life insurance benefits, other than statutory liability for providing group health plan continuation coverage under Part 6 of Subtitle B of Title I of ERISA and Section 4980B of the Code or applicable state law.

(h) There are no actions, suits or claims (other than routine claims for benefits) pending or, to Sherman's knowledge, threatened involving any Sherman Employee Benefit Plan or the assets thereof and no facts exist that could give rise to any such actions, suits or claims (other than routine claims for benefits).

(i) There have been no acts or, to Sherman's knowledge omissions that would impair the ability of any Sherman Corporation (or any successor thereto) to unilaterally amend or terminate any Sherman Employee Benefit Plan.

#### 4.25 **Employees and Employee Relations.**

(a) No changes in the basis for remuneration of employees of the Sherman Corporations have been made, promised, or authorized by any Sherman Corporation since the date of the Sherman Financial Statements, except in the ordinary and usual course consistent with Sherman's and the applicable Sherman Corporations' written personnel policies, which policies have been provided to Advocate. Except as set forth on Schedule 4.25(a) and in the plans set forth in Schedule 4.24, neither Sherman nor any Sherman Corporation has any written employment contracts, and no agreement of any nature that provides for employment for any particular period of time or that provides any restrictions upon Sherman's and the Sherman Corporations' right to terminate employment without any post-termination payment obligation, with any person whomsoever relating to any Sherman Corporation. Other than in the ordinary course of business, no binding agreements have been made or entered into between any of the Sherman Corporations and any Sherman Corporation employee regarding changes in compensation, promotion, or any other change in status.

(b) Except as set forth on Schedule 4.25(b), as of the date hereof: (i) there is no pending or threatened employee strike, work stoppage, or labor dispute (ii) to Sherman's knowledge, no union representation question exists respecting any employees of any Sherman Corporation, no demand has been made for recognition by a labor organization by or with respect to any employees of the Sherman Corporations, to Sherman's knowledge no union organizing activities by or with respect to any employees of the Sherman Corporations is taking place, and none of the employees of the Sherman Corporations is represented by any labor union or organization; (iii) no collective bargaining agreement exists or is currently being negotiated by the Sherman Corporations; (iv) there is no unfair practice claim against the Sherman

53114 v10

Corporations before the National Labor Relations Board, or any strike, dispute, slowdown, or stoppage pending or, to Sherman's knowledge, threatened against or involving the Sherman Corporations and none has occurred; (v) to Sherman's knowledge, the Sherman Corporations are in compliance in all material respects with all laws and contracts respecting employment and employment practices, labor relations, terms and conditions of employment, and wages and hours; (vi) to Sherman's knowledge, the Sherman Corporation are not engaged in any unfair labor practice; (vii) there are no pending or, to Sherman's knowledge, threatened complaints or charges before any Governmental Entity regarding employment discrimination, safety, or other employment related charges or complaints, wage and hour claims, or the like; and (viii) except as required by the agreements disclosed on Schedule 4.25(a) and plans disclosed in Schedule 4.24 , to Sherman's knowledge, neither Advocate nor any of its Affiliates will be subject to any claim or liability for severance pay as a result of the consummation of the transactions contemplated by this Agreement through the Closing.

4.26 **Restricted Funds.** Attached hereto as Schedule 4.26 is a list of all funds received and held by or on behalf of each Sherman Corporation in the nature of grants, donations, contributions, bequests or trusts, which funds are restricted or conditioned as to their use ("**Restricted Funds**"). For each Restricted Fund, Schedule 4.26 further indicates (i) the name of the fund, (ii) the balance as of the date hereof, (iii) the nature of the donor-imposed restrictions or conditions and (iv) whether such restrictions are permanent or temporary for purposes of financial statement reporting, including the duration of any temporary restrictions.

4.27 **Acknowledgment Regarding Representations and Warranties by Sherman and Sherman Hospital.** Notwithstanding anything contained in this Agreement to the contrary, each of Sherman and Sherman Hospital acknowledges and agrees that, except as set forth in Article V hereof, neither Advocate Charitable Foundation, Advocate nor their respective Affiliates are making any representations or warranties whatsoever.

4.28 **No Other Representations or Warranties.** Except for the representations and warranties contained in this Article IV, none of the Sherman Corporations, Sherman Hospital or any other Person makes any other express or implied representation or warranty on behalf of the Sherman Corporations or Sherman Hospital.

## **ARTICLE V REPRESENTATIONS AND WARRANTIES OF ADVOCATE**

As of the date hereof and as of the Closing Date, on its own behalf and on behalf of Advocate Charitable Foundation, Advocate hereby represents and warrants to Sherman as follows:

5.1 **Disclosure.** The covenants, representations, and warranties of Advocate contained in this Agreement and each Exhibit, Schedule, or other written statement delivered pursuant hereto or thereto or in connection with the transactions contemplated herein or therein are accurate, correct, and complete in all material respects and do not contain any untrue statement of a material fact or, considered in the context in which presented, omit to state a

material fact necessary in order to make the statements and information contained herein or therein not misleading.

5.2 **Authority.** Each Advocate Corporation has the corporate power and authority to own and hold its properties and to carry on its business as presently conducted and contemplated to be conducted. Each Advocate Corporation has full capacity, right, power, and authority, without the consent of any other person, to execute and deliver, to the extent applicable, this Agreement and each Exhibit hereto and to carry out the transactions contemplated hereby. All corporate and other acts or proceedings required to be taken by each Advocate Corporation to authorize the execution, delivery, and performance of this Agreement and each Exhibit hereto and all transactions contemplated hereby have been duly and properly taken or shall be duly and properly taken by the Closing Date.

5.3 **Validity.** This Agreement has been, and the documents to be delivered at closing shall be, duly executed and delivered and constitute lawful, valid, and legally binding obligations of each Advocate Corporation, enforceable in accordance with their respective terms. The execution and delivery of this Agreement, and the consummation of the transactions contemplated hereby, shall not result in the creation of any lien, charge, or encumbrance of any kind or the termination or acceleration of any indebtedness or other obligation of any Advocate Corporation and are not prohibited by, do not violate or conflict with any provision of, and do not constitute a default under or a breach of (i) any Advocate Corporation's Articles of Incorporation, Bylaws, or Operating Agreements, as applicable, (ii) any note, bond, indenture, contract, agreement, permit, license, or other instrument by which any Advocate Corporation or any of their respective assets are bound, or (iii) any order, writ, injunction, decree, or judgment of any court or governmental agency. No approval, authorization, registration, consent, order, or other action of or filing with any person, including any court, administrative agency, or other governmental authority, is required for the execution and delivery by any Advocate Corporation of this Agreement or any Exhibit hereto or the consummation by each Advocate Corporation of the transactions contemplated hereby, except for filings or consents previously obtained or to be obtained, unless otherwise agreed to in writing by Sherman.

5.4 **Due Organization.** Each Advocate Corporation is a corporation duly organized, validly existing, and in good standing under the laws of the State of Illinois, and has full power and authority and all requisite rights, licenses, permits, and franchises to own, lease, and operate their assets and to carry on its business as presently conducted.

5.5 **Tax Exempt Status.** Each Advocate Corporation is exempt from federal income taxation under Section 501(c)(3) of the Code. The Advocate Corporations are public charities and not private foundations as defined in Section 509(a) of the Code. To Advocate's knowledge, no Advocate Corporation has taken or omitted to take any action which could jeopardize its tax exempt status.

5.6 **Brokers.** No Advocate Corporation has retained any broker, finder, or agent or incurred any liability or obligation for any brokerage fees, commissions, or finders' fees with respect to this Agreement or the transactions contemplated hereby.

5.7 **Permits.** Each Advocate Corporation has all Permits necessary or appropriate to carry on its affairs and operations and operate its properties. All such Permits are valid and in full force and effect and there are not pending, nor, to the knowledge of the Advocate Corporations, threatened, any proceedings which could result in the termination, revocation, limitation, or impairment of any of such Permits.

5.8 **Legal Proceedings.** There is no claim, action, suit, proceeding or investigation pending or, to the knowledge of the Advocate Corporations, threatened against or affecting any Advocate Corporation that would reasonably be expected to have a Material Adverse Effect on Advocate, the ability of Advocate to perform this Agreement, or any aspect of the transactions contemplated by this Agreement.

5.9 **Financial Statements.** The audited financial statements of Advocate for the most recent two (2) full fiscal years have been provided to Sherman and present fairly in all material respects the financial condition of Advocate as of the dates stated and the results of operations and statements of cash flows of Advocate for the periods indicated. Such financial statements are true, complete, and accurate, and reflect all adjustments necessary for a fair presentation of financial position and, to the extent presented, changes in financial position and results of operations for the periods presented.

5.10 **Interim Change.** Since the date of the most recent financial statements, there has not been (i) any material change in the financial condition, assets, liabilities, personnel, or business of the Advocate Corporations, except changes in the ordinary course of business, (ii) any material damage, destruction, or loss, whether or not covered by insurance, adversely affecting the Advocate Corporations, (iii) other than in the ordinary course of business, any forgiveness or cancellation of debts or claims, waiver of any rights or any discharge or satisfaction of any lien, charge, or encumbrance, or payment of any liability or obligation, (iv) any event or condition of any character materially adversely affecting the Advocate Corporations, or (v) any change in the credit practices of the Advocate Corporations or in the methods or accounting principles used in maintaining their books, accounts, and business records. Since the date of the most recent unaudited financial statements, the Advocate Corporations have not incurred or become subject to, or agreed to incur or become subject to, any liability or obligation, contingent or otherwise, except current liabilities and contractual obligations in the ordinary course of business in amounts consistent with past practices.

5.11 **Compliance with Law.** Each Advocate Corporation is in material compliance with all Applicable Laws, including, without limitation, energy, public utility, zoning, building and health codes, regulations and ordinances, the federal Anti-kickback Statute (42 U.S.C. § 1320a-7b(b)), the Stark Law (42 U.S.C. §§ 1395nn), the Anti-Inducement Law (42 U.S.C. § 1320a-7a(a)(5)), the Civil False Claims Act (31 U.S.C. §§ 3729 et seq.), the administrative False Claims Law (42 U.S.C. § 1320a-7b(a)), the Health Insurance Portability and Accountability Act of 1996 (42 U.S.C. § 1320d et seq.), the exclusion laws (42 U.S.C. 1320a-7), the regulations promulgated pursuant to such laws, and any other state or federal law, regulation, guidance document, manual provision, program memorandum, opinion letter, or other issuance applicable to such Advocate Corporations which regulates kickbacks, patient or program charges, recordkeeping, claims process, documentation requirements, medical necessity, referrals, the

hiring of employees or acquisition of services or supplies from those who have been excluded from government health care programs, quality, safety, privacy, security, licensure, accreditation or any other aspect of providing health care services.

#### 5.12 **Federal Health Care Program Participation/Accreditation**

(a) Each hospital or home health agency operated by any Advocate Corporation (i) is qualified for participation in the Medicare and Medicaid programs, (ii) has a current and valid provider agreement with the Medicare and Medicaid programs, (iii) is in compliance with the conditions of participation in such programs in all material respects, and (iv) has received all approvals or qualifications necessary for it to participate in such programs. Except as set forth on Schedule 5.12, there is no pending or, to Advocate's knowledge, threatened proceeding or investigation under any Federal Health Care Program involving any Advocate Corporation. No Advocate Corporation has received any written notice of any dispute with any Governmental Entity, any fiscal intermediary, carrier or DMERC, or any other party regarding any payments from or services provided to beneficiaries of Federal Health Care Programs that involve amounts in excess of Ten Million Dollars (\$10,000,000) in the aggregate, other than with respect to adjustments thereto made in the ordinary course of business. Except as set forth on Schedule 5.12, to Advocate's knowledge, no Advocate Corporation is currently subject to any outstanding reimbursement or billing audit by any Governmental Entity, intermediary, carrier or DMERC.

(b) All (i) billing practices of any Advocate Corporation with respect to all third party payors, including Federal Health Care Programs and private insurance companies, have been in compliance with all Applicable Laws and publicly available policies of such third party payors and Federal Health Care Programs in all material respects, and (ii) no Advocate Corporation has billed or received any payment or reimbursement in excess of amounts allowed by Applicable Law, except, in each case to the extent that such non-compliance would not have a Material Adverse Effect. Each Advocate Corporation providing health care services has used its commercially reasonable efforts to collect all copayments, deductibles, and coinsurance amounts as required to be paid by and collected from beneficiaries of any third party payor, Federal Health Care program, and private insurance company, except where Applicable Law or policies permit the waiver of such collection, or where explicit permission to waive such collection has been obtained in writing from the applicable third party payor or private insurance company.

(c) All (i) claims for reimbursement for services rendered or products sold or supplied by any Advocate Corporation to any Government Entity or third party payor have been prepared and filed in accordance, in all material respects, with all Applicable Laws, rules, regulations policies and procedures pertaining to the applicable Government Entity or third party payor, and (ii) all such claims have been prepared in an accurate and complete manner and have been timely submitted to the appropriate Government Entity or third party payor, except, in each instance, where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect. Advocate has paid or made provision to pay through proper recordation of any net liability any identified overpayments received from any third party payor and any similar obligations with respect to other reimbursement programs in which the Advocate Corporations participate, and, except as may be the case for the pending claims identified in Schedule 5.12, no

Advocate Corporation has received reimbursement in excess of amounts provided or permitted by Applicable Law. To Advocate's knowledge, there are no material irregularities nor are there any reasonable grounds to anticipate the commencement of any investigation or inquiry, or the assertion of any claim or demand by any Governmental Entity or third party payor related to any activity, practice or policy of any Advocate Corporation, any claim for payment or reimbursement made by any Advocate Corporation, or any practice or reimbursement received by any Advocate Corporation which, if proven correct, would have a Material Adverse Effect.

5.13 **Consents and Approvals.** Except as set forth on Schedule 5.12, no registration or filing with, or consent or approval of, or other action by, any federal state or other governmental agency or instrumentality or any non-governmental third party is or will be necessary for the valid execution, delivery and performance of this Agreement.

5.14 **Non-Exclusion.** None of the Advocate Corporations, nor any of their respective officers, members, managers or Affiliates, is excluded from participation in any Federal Health Care Program.

5.15 **Acknowledgment Regarding Representations and Warranties by the Advocate Charitable Foundation and Advocate.** Notwithstanding anything contained in this Agreement to the contrary, each of the Advocate Charitable Foundation and Advocate acknowledges and agrees that, except as set forth in Article IV hereof, none of the Sherman Corporations, Sherman Hospital, or their respective Affiliates are making any representations or warranties whatsoever.

5.16 **No Other Representations or Warranties.** Except for the representations and warranties contained in this Article V, neither the Advocate Charitable Foundation, Advocate nor any other Person makes any other express or implied representation or warranty on behalf of the Advocate Charitable Foundation or Advocate.

## ARTICLE VI COVENANTS OF SHERMAN AND SHERMAN HOSPITAL

Sherman and Sherman Hospital hereby agree to keep, perform, and fully discharge the following covenants and agreements until the earlier of the Closing Date or the termination of this Agreement pursuant to Section 3.5.

6.1 **Interim Conduct.** From the date hereof until the Closing Date, Sherman and Sherman Hospital shall use commercially reasonable efforts to cause Sherman System conduct business consistent with prior practices and in the ordinary course, and in furtherance thereof use their commercially reasonable efforts to preserve, protect and maintain the Sherman System assets and operations. Without limiting the generality of the foregoing, from the date hereof until the Closing Date, except for transactions expressly approved in writing by Advocate or expressly contemplated by this Agreement, Sherman shall, with respect to the Sherman System business and operations:

(a) carry on its business in substantially the same manner as it has heretofore and not make any material change in personnel, operations, finance, accounting policies, or assets other than in the ordinary course of business;

(b) maintain assets in the state of repair, order, and condition, as such assets were in as of the date hereof, reasonable wear and tear excepted, and make the capital expenditures for the time period from April 15, 2013 through the Closing in an amount not to exceed One Million Five Hundred Thousand Dollars (\$1,500,000) per month;

(c) maintain and keep in full force and effect all insurance presently carried;

(d) not sell, lease, or otherwise dispose of, or agree to sell, lease, or otherwise dispose of, any assets except in the ordinary course of business;

(e) not incur or become subject to, nor agree to incur or become subject to, any debt, obligation, lease or liability, contingent or otherwise, except current liabilities and contractual obligations in the ordinary course of business;

(f) not provide any guarantee or encumber any assets except in the ordinary course of business;

(g) not amend any organizational document of the Sherman Corporations except in preparation for the transactions contemplated herein;

(h) not increase the compensation or benefits payable or to become payable to any of its employees, officers, directors, members, or representatives out of the ordinary course;

(i) not enter into any agreements or commitments (including capital leases) with a purchase price (or fair market value of lease equipment or other assets) in excess of One Hundred Thousand Dollars (\$100,000) or Two Hundred Thousand Dollars (\$200,000) in the aggregate or a term longer than one (1) year other than in the ordinary course of business; *provided, however* that without the prior written consent of Advocate, neither Sherman nor any Sherman Corporation shall enter into any contract with a term longer than two (2) years;

(j) not merge or consolidate with any other Person except as set forth in this Agreement;

(k) immediately provide written notice to Advocate of any actual or potential Material Adverse Change in the financial position, business, or operations of the Sherman System or any event or occurrence which may result in such a material change or that may cause or constitute a breach of Sherman's representations and warranties contained in this Agreement.;

(l) comply with the Fair Patient Billing Act (§210 ILCS 88/1 et. seq.);

(m) comply in all material respects with all Applicable Laws applicable to Sherman and the Sherman Corporations; and

(n) not adopt any new Employee Benefit Plan or, except as provided in Section 8.9 hereof, amend any Sherman Employee Benefit Plan or enter into any employment or other agreements with any employee of a Sherman Corporation not in the ordinary course of business.

6.2 **Access.** From the date hereof through the Closing Date, to the extent permitted by Law and subject to coordination with facility personnel, Sherman and Sherman Hospital shall give Advocate and its representatives access at all reasonable times during normal business hours to all properties, facilities, personnel, books, contracts, leases, commitments, and records of the Sherman System; provided, however, that such access shall not include intrusive or invasive investigation or sampling activities at the facilities), and furnish Advocate with all financial and operating data and other information as Advocate may from time to time reasonably request, in order that Advocate may have full opportunity to make such environmental, legal, financial, accounting, and other reviews or investigations of the Sherman System as Advocate shall reasonably desire to make. Sherman will direct its independent public auditors to permit Advocate's management and/or independent public auditors to inspect their work papers and other records relating to the Sherman System.

6.3 **[Reserved].**

6.4 **Confidentiality.** Sherman and Sherman Hospital shall cause all information regarding the Advocate System obtained in connection with the negotiation and performance of this Agreement to be treated as confidential and shall not use, and shall not knowingly permit others (other than Sherman's counsel, appraisers, accountants, and agents) to use, any such information in a manner detrimental to the Advocate System; *provided, however,* that the foregoing shall not apply to information that (a) was known by Sherman when received, (b) is or thereafter becomes lawfully obtainable from other sources, or (c) is necessary or appropriate to disclose to any regulatory authority having jurisdiction over Sherman or as otherwise required by law. If the transactions contemplated by this Agreement are not consummated, Sherman shall continue to hold all such information in confidence and shall return to Advocate or destroy all documents (and all copies thereof) containing such information. Sherman acknowledges that there is not an adequate remedy at law for the breach of this Section and that, in addition to any other remedies available, injunctive relief may be granted for any such breach. The provisions of this Section shall survive any termination of this Agreement.

6.5 **[Reserved].**

6.6 **Permits.** Sherman and Sherman Hospital shall cooperate with Advocate, and shall use commercially reasonable efforts to transfer, assign, and pass to Advocate all of its rights under each of the Permits (to the extent legally transferrable or assignable) and/or assist Advocate in obtaining new licenses and permits or providing notices as required including, without limitation:

(a) executing all appropriate assignments and other documents that are necessary to affect transfer or assignment of the Permits and executing all necessary authorizations to obtain new licenses and permits;

(b) providing the Governmental Entities responsible for the Permits and Advocate with whatever information and documentation may be required in connection with transferring the Permits, obtaining new licenses and permits, or updating any of the foregoing as required by the Affiliation;

(c) complying with its obligations under the Permits, and under Applicable Laws relating thereto, prior to the Closing Date;

(d) on, prior to, or subsequent to the Closing Date, remedying any material non compliance with any of the Permits, or with Applicable Laws relating thereto, that has occurred before the Closing Date; and

(e) taking such further actions relating to the Permits as the Governmental Entities or Advocate may reasonably require.

6.7 **Additional Financial Information.** Within twenty (20) days following the end of each calendar month prior to the Closing Date, Sherman will deliver to Advocate copies of the Sherman Interim Financial Statements for each month then ended, as well as any other financial statements, patient statistical reports or other reports prepared prior to Closing by or for management relating to the Sherman System, together with any notes thereto. Such Sherman Interim Financial Statements shall have been prepared in accordance with GAAP and the books and records of Sherman and the Sherman Corporations, the balance sheets contained therein shall fairly present in all material respects the financial position of the Sherman Corporations at the date of such balance sheet and the income statements contained therein shall present fairly in all material respects the results of operations of the Sherman Corporations for the period indicated.

6.8 **Exclusive Dealing.** Until the Closing or termination of this Agreement, the Sherman Corporations and their members, directors, officers, employees and agents (including any investment banker, attorney or accountant) shall (a) not initiate, solicit or encourage, directly or indirectly, any inquiries or the making or implementation of any offer (including any offer or proposal to Sherman's board of directors) with respect to a merger, acquisition, consolidation or similar transaction involving, or any purchase of all or any significant portion of the assets or equity or membership interests of any Sherman Corporation or any of the businesses directly or indirectly operated by them, or engage in any negotiations concerning, or provide any confidential information or data to, or have any discussions with, any Person relating to any of the foregoing, or otherwise facilitate any effort or attempt to implement any of the foregoing, (b) immediately cease and cause to be terminated any activities discussions or negotiations with any Person conducted heretofore with respect to any of the foregoing activities, and it will take the necessary steps to inform such Persons of the obligations enumerated in this Section 6.8, and (c) notify Advocate immediately if any such inquiries or proposals are received by, any such information is requested from, or any such negotiations or discussions are sought to be initiated or continued with it.

6.9 **Pre-Closing Transition Activities.** In an effort to ensure an orderly transition of the transactions provided under this Agreement, from April 1, 2013 until the Closing Date, Sherman and Sherman Hospital agree to permit personnel from the Advocate and its Affiliates

(the “**Transition Personnel**”), at reasonable times and upon reasonable advance notice to Sherman to the extent practicable, and only after consulting with the parties’ outside counsel and in accordance with any instructions or limitations they may require, to provide training and perform integration planning related tasks involving certain departments of the Sherman Corporations, including but not limited to, the following activities:

(a) Human Resources. Transition Personnel shall be granted access to staffing data, employee discipline files, United States Department of Health & Human Services related files and shall be permitted to perform criminal background checks, each such activity consistent with the normal human resources practices and policies of the Advocate System.

(b) Finance. Transition Personnel shall be granted access to the records and applicable personnel in order to (i) assess Sherman’s financial reporting system and internal controls, (ii) perform finance related training, and (iii) plan for the implementation of controls, financial reporting processes and systems and an accounting and budgeting process to become effective as of the Closing Date; provided, however, that Transition Personnel shall be responsible for performing the activities set forth in this clause in conjunction with Sherman personnel.

(c) Information Technology. Transition Personnel shall be granted access to the information technology hardware and software in order to plan Closing and post-Closing information technology conversion and integration, including, but not limited to activities related to conversion to the Lawson system.

(d) Compliance. Transition Personnel shall be granted access to the Sherman personnel to perform compliance related training and monitor the preparation of Cost Reports and tax returns for the year ended April 30, 2013.

## **ARTICLE VII COVENANTS OF ADVOCATE**

Advocate hereby agrees to keep, perform, and fully discharge the following covenants and agreements until the earlier of the Closing Date or the termination of this Agreement pursuant to Section 3.5.

7.1 Confidentiality. Advocate shall cause all information regarding the Sherman System obtained in connection with the negotiation and performance of this Agreement to be treated as confidential and shall not use, and shall not knowingly permit others (other than Advocate’s counsel, appraisers, accountants, and agents) to use, any such information in a manner detrimental to the Sherman System; provided, however, that the foregoing shall not apply to information that (a) was known by Advocate when received, (b) is or thereafter becomes lawfully obtainable from other sources, or (c) is necessary or appropriate to disclose to any regulatory authority having jurisdiction over Advocate or as otherwise required by law. If the transactions contemplated by this Agreement are not consummated, Advocate shall continue to hold all such information in confidence and shall return to Sherman or destroy all documents (and all copies thereof) containing such information. Advocate acknowledge that there is not an adequate remedy at law for the breach of this Section and that, in addition to any other remedies

53114 v10

available, injunctive relief may be granted for any such breach. The provisions of this Section shall survive any termination of this Agreement.

7.2 **[Reserved]**.

7.3 **Interim Conduct**. From the date hereof until the Closing Date, Advocate shall preserve and protect the Advocate System assets and operations and shall conduct business consistent with prior practices and in the ordinary course (which may include, subject only to restrictions explicitly set forth herein, the sale and/or acquisition of certain businesses and operations). Without limiting the generality of the foregoing, from the date hereof until the Closing Date, except for transactions expressly approved in writing by Sherman, Advocate shall, with respect to the Advocate System business and operations:

(a) not take or omit to take any action which would cause any of the Advocate representations and warranties to be untrue or incorrect and to notify Sherman of any event or action which causes such representations and warranties to be untrue or incorrect; and,

(b) notify Sherman of any material change in the financial position, business, or operations of the Advocate System or any event or occurrence which may result in such a material change or that may cause or constitute a breach of Advocate's representations and warranties contained in this Agreement.

7.4 **Exclusive Dealing**. For a period commencing with the date first written above and continuing until the earlier of the Closing Date or the termination of this Agreement pursuant to Section 3.5 (the "**Exclusive Dealing Period**"), Advocate will not, and will cause its directors, officers, employees, agents, consultants, advisors, or other representatives, including, without limitation, legal counsel, accountants and financial advisors not to, without the written approval of Sherman, directly or indirectly, solicit, initiate or encourage any inquiries or proposals from, discuss or negotiate with, provide any non-public information to, or consider the merits of any unsolicited inquiries or proposals from, any person relating to any affiliation with any hospital in the Sherman Primary Service Area other than as contemplated by this Agreement, and will promptly inform Sherman of the nature and terms of any inquiry, solicitation or proposal it may receive.

**ARTICLE VIII  
CONDITIONS PRECEDENT TO OBLIGATIONS  
OF ADVOCATE**

Each and all of the obligations of Advocate to consummate the transactions contemplated by this Agreement are subject to fulfillment prior to or at Closing of the following conditions:

8.1 **Accuracy of Warranties and Performance of Covenants**. Except as otherwise agreed to in writing by the Parties, the representations and warranties of Sherman contained herein shall be accurate in all material respects as if made on and as of the Closing Date (except for such representations and warranties that are made as of a specific date which shall speak only

as of such date). Except as otherwise agreed to in writing by the Parties, the Sherman Corporations shall have performed all of the obligations, and complied with each and all of the covenants, agreements, and conditions, required to be performed or complied with by them on or prior to closing.

8.2 **Adverse Action.** No Action before any court, administrative agency, or other Governmental Entity shall be pending or threatened wherein an unfavorable judgment, decree, or order would prevent or materially affect the carrying out of this Agreement or any of the transactions contemplated hereby, declare unlawful the transactions contemplated hereby, or cause such transactions to be rescinded. No Governmental Entity shall have taken any action or made any request of Advocate as a result of which Advocate reasonably and in good faith believes it inadvisable to proceed with the transactions hereunder.

8.3 **Consents.** Except as otherwise agreed to in writing by the Parties, all consents of third Parties set forth in Schedule 8.3 shall have been provided for or obtained.

8.4 **Regulatory Approvals.** Advocate shall have obtained documentation or other evidence reasonably satisfactory to it that Sherman and Advocate have received all consents, Permits, approvals, authorizations and clearances of Governmental Entities required to consummate the transactions herein contemplated, including the approval of the HFSRB.

8.5 **[Reserved].**

8.6 **[Reserved]**

8.7 **Material Adverse Change in Financial or Operating Condition of Sherman System.** There shall have been no Material Adverse Change in the financial or operating condition of the Sherman System.

8.8 **[Reserved].**

8.9 **Nonqualified Plans.** Prior to the Closing Date, Sherman shall terminate each nonqualified deferred compensation plan (as defined in Section 409A of the Code) listed on Schedule 4.24 effective as of a termination date that is no later than the day immediately preceding the Closing Date, and shall take all actions as may be necessary or desirable to timely liquidate such plans in accordance with Section 409A of the Code and the regulations thereunder.

8.10 **Extraordinary Events.** Neither Sherman nor any Sherman Corporation (a) shall be in receivership or dissolution; (b) have made any assignment for the benefit of creditors; (c) shall have been adjudicated bankrupt; (d) have filed a petition in voluntary bankruptcy, a petition or answer seeking reorganization, or an arrangement with creditors under Federal bankruptcy law or any other similar Law of the United States or any state, nor shall any such petition have been filed against it, or (e) have entered into any Contract to do or permit any of the foregoing on or immediately after the Closing Date.

8.11 **[Reserved].**

8.12 **Exhibits and Schedules.** All of the Exhibits and Schedules shall be completed and attached hereto in final form.

8.13 **Delivery of Closing Documents.** Sherman shall have delivered at Closing the Closing Documents required by, or otherwise have fully complied with, the provisions of Section 3.3 and Section 3.4.

## ARTICLE IX CONDITIONS PRECEDENT TO OBLIGATIONS OF SHERMAN

Each and all of the obligations of Sherman and Sherman Hospital to consummate the transactions contemplated by this Agreement are subject to fulfillment prior to or at Closing of the following conditions:

9.1 **Accuracy of Warranties and Performance of Covenants.** Except as otherwise agreed to in writing by the Parties, the representations and warranties of Advocate contained herein shall be accurate in all material respects as if made on and as of the Closing Date (except for such representations and warranties that are made as of a specific date which shall speak only as of such date). Except as otherwise agreed to in writing by the Parties, the Advocate Corporations shall have performed all of the obligations, and complied with each and all of the covenants, agreements, and conditions, required to be performed or complied with by them on or prior to the Closing.

9.2 **No Pending Action.** No action, suit, proceeding, or investigation before any court, administrative agency, or other governmental authority shall be pending or threatened wherein an unfavorable judgment, decree, or order would prevent or materially affect the carrying out of this Agreement or any of the transactions contemplated hereby, declare unlawful the transactions contemplated hereby, or cause such transactions to be rescinded.

9.3 **Regulatory Approvals.** Sherman shall have obtained documentation or other evidence reasonably satisfactory to it that Sherman and Advocate have received all consents, Permits, approvals, authorizations and clearances of Governmental Entities required to consummate the transactions herein contemplated, including the approval of the HFSRB.

9.4 **Consents.** Except as otherwise agreed to in writing by the Parties, all consents of third parties set forth in Schedule 9.4 shall have been provided for or obtained.

9.5 **Material Adverse Change in the Advocate System.** There shall have been no material adverse change in the business, assets, liabilities, properties, operations, results of operations or condition (financial or otherwise) of the Advocate System, taken as a whole.

9.6 **[Reserved].**

9.7 **Exhibits and Schedules.** All of the Exhibits and Schedules shall be completed and attached hereto in final form.

9.8 **Sherman Representatives.** Advocate shall have appointed (i) two (2) Sherman Representatives to its Board of Directors for three (3) year terms, at least one of whom shall serve a subsequent three (3) year term, and (ii) one Sherman Representative to Board of Directors of Advocate Home Health Care Services, Inc., for a term of \_\_\_\_ ( ) years.

9.9 **Delivery of Closing Documents.** Advocate shall have delivered at Closing the Closing Documents required by, or otherwise have fully complied with, the provisions of Section 3.2 and Section 3.4.

## ARTICLE X POST CLOSING COMMITMENTS OF ADVOCATE

10.1 **Commitment to Sustained and Enhanced Regional Medical Center Status.** In furtherance of sustaining and enlarging Sherman Hospital's status as a regional medical center and acute care hub, and as consideration for Sherman's agreement to enter into the Affiliation, Advocate will fund capital, programmatic, clinical and market development needs recommended by the Sherman Hospital Board of Directors consisting of Program Investments, Routine and Program Capital Expenditures, and Operating Losses of the Sherman System, in the aggregate amount of Two Hundred Million Dollars (\$200,000,000) within five (5) years from and after the Closing Date (the "**Financial Commitment**"); provided, however, that the Financial Commitment shall not include the health care information technology system ("IT") conversion and connectivity costs associated with standardizing and connecting Sherman's IT with that of Advocate's IT system, all of which conversion and connectivity costs shall be borne by Advocate in addition to its Financial Commitment hereunder.

In the event that the Sherman Hospital Board of Directors does not recommend to Advocate (acting in its capacity as Sherman Hospital's sole member), the expenditure of the entire \$200 Million Financial Commitment during the five-year post-Closing period, then Advocate commits to expend such funds as soon as practicable thereafter, upon the recommendation of the Sherman Board of Directors. The Parties acknowledge that all expenditures in support of Advocate's Financial Commitment shall follow and be consistent with the Collaborative Authority approval process set forth in Article II of the Sherman Hospital Amended and Restated Bylaws.

10.2 **Sherman Employees.** For a period of six (6) months from and after the Closing Date, all individuals employed by any Sherman Corporation ("**Sherman Employees**") shall continue to be employed by either a Sherman Corporation or an Advocate Corporation, as agreed upon by the Parties pursuant to the Integration Plan in comparable positions and at comparable compensation and benefits as similarly situated employees of the Advocate Corporations, subject to the employment policies and procedures of the employing Advocate Corporation or Sherman Corporation, as applicable. Advocate shall recognize a Sherman Employee's periods of service with the Sherman Corporations for purposes of eligibility and vesting under the Advocate Employee Benefit Plans. Advocate shall also recognize a Sherman Employee's periods of service with the Sherman Corporations for purposes of calculating paid time off or service recognition awards. Notwithstanding the foregoing, (i) effective as of the Closing Date, the employees of Health Visions shall transfer to employment with Advocate Medical Group, and

(ii) effective as of the 60th day following the Closing Date, the employees of Sherman Home Health shall transfer to employment with Advocate Home Health Services. On or prior to the Closing Date, Sherman, Sherman Hospital and Advocate shall take such actions as are necessary or appropriate to transfer sponsorship of the Sherman Employee Benefit Plans (excluding the Sherman Employee Benefit Plans terminated pursuant to Section 8.9 of this Agreement) to Advocate effective as of the Closing Date.

10.3 **Management.** Advocate will honor the contractual obligations Sherman has in place with members of its management team. From and after the Closing Date, the Sherman Hospital President will be directly responsible for the operations of Sherman Hospital and will appoint a management team as direct reports, although certain direct reports will have a matrix reporting responsibility to other executives within the Advocate System. The Sherman Hospital President will report to Advocate's Executive Vice President and Chief Operating Officer, who will conduct any performance review with input from the Sherman Hospital Board of Directors.

10.4 **Medical Staff.** Advocate will continue to honor the hospital-specific credentials and privileges of all members of the Sherman Hospital medical staff as of the Closing Date. The President of the Sherman Hospital medical staff will serve on Advocate's Physician Leadership Council. From and after the Closing Date, Advocate shall continue to honor the hospital-specific, locally-based credentialing, privileging and corrective action procedures which are set forth in Sherman Hospital's medical staff bylaws, rules, and regulations.

10.5 **Identification of Sherman.** All signage and logos used by Sherman Hospital and any of the other Sherman System entities will continue to use the name "Sherman." Following the Closing Date, Sherman Hospital will be renamed "Advocate Sherman Hospital" and will adopt Advocate's logos and other graphic standards. The cost of such re-branding will be borne by Advocate in addition to its Financial Commitment Advocate further agrees that religious symbols or artifacts may be placed on Sherman Hospital's campus only as permitted by the Sherman Hospital Board of Directors.

10.6 **Integration Plan.** In order to achieve the significant benefits that the Parties anticipate, including improved coordination of patient care services, reduction in the duplication of resources, enhanced access to capital markets and other efficiencies and cost savings, increased access to specialized health care markets, and other clinical and educational benefits, the Parties shall adhere to the post-Closing integration plan (the "**Integration Plan**") set forth herein as Exhibit E, including its target implementation timetables.

10.7 **Advocate Board Representation.** As set forth in Section 3.2(c) hereof, as of the Closing Date, Advocate will appoint to its Board of Directors two (2) individuals nominated by the Sherman Board of Directors (as comprised immediately prior to the Closing Date), one of whom shall serve one (1) three-year term and one of whom shall serve two (2) three year terms as voting member of the Advocate Board of Directors. As set forth in Section 3.2(d) herof, as of the Closing Date, Advocate Home Health Care Services, Inc., will appoint to its Board of Directors one (1) individual nominated by the Sherman Board of Directors (as comprised immediately prior to the Closing Date).

10.8 **Local Vendors.** Post-Closing, Advocate will use its commercially reasonable efforts to support local economic development and to maintain existing business relationships between local vendors and suppliers and Sherman Hospital. In furtherance thereof, Advocate shall seek to maintain relationships with local vendors that pre-date the Closing, provided that the goods and/or services provided by such vendors are provided at quality and cost levels that are comparable to or better than those that Advocate has negotiated.

10.9 **Restricted Funds.** On the Closing Date, by virtue of the transfer of Restricted Funds from Sherman Foundation to Advocate Charitable Foundation, all such Restricted Funds shall be held and utilized by Advocate Charitable Foundation in accordance with all Applicable Laws and subject to donor-imposed restrictions and conditions, as disclosed on Schedule 4.26. If such restrictions or conditions cannot be complied with or by Advocate Charitable Foundation, such restrictions or conditions may be redirected with the permission of the donor(s) or modified as permitted by Applicable Law to permit Advocate Charitable Foundation's use of the Restricted Funds. In the event that Advocate Charitable Foundation cannot use such Restricted Funds as provided above, then consistent with Applicable Law, Advocate Charitable Foundation may return the Restricted Funds to donors or otherwise dispose of the Restricted Funds consistent with the terms of such gifts. Notwithstanding anything herein to the contrary, it is expressly understood and agreed among the Parties that all unrestricted cash and investments held by Sherman Foundation as of the Closing Date, as well as future bequests, gifts and donations raised for Advocate Sherman Hospital will continue to be used and invested solely in support of Sherman Hospital and its diverse programs and services.

10.10 **Fundraising.** In order to augment the resources available to Sherman, Advocate Charitable Foundation shall include Sherman Hospital and other projects in the Sherman Primary Service Area in its future fundraising consistent with Advocate Charitable Foundation's activities for other Advocate hospitals, and general fundraising materials routinely utilized by Advocate Charitable Foundation will permit designations by donors.

## ARTICLE XI UNWIND RIGHT

### 11.1 **Right to Unwind.**

(a) In the event that, within ten (10) years from and after the Closing Date, Advocate enters into an agreement (an "**Unwind Event**") to (i) sell or lease substantially all the operations of Sherman Hospital, or (b) undertake a "change of control" of the entire Advocate System to or with a third-party for-profit investor-owned company or a Catholic Health Organization, then Sherman Foundation shall have the right to initiate the unwinding of this Agreement and to establish Sherman Hospital and the then-existing Sherman Corporations (or the operations previously conducted by Sherman Corporations in the Sherman Primary Service Area, if such operations have been transferred to Advocate entities) either as independently-governed entities or as an organized integrated health care delivery system which has no membership relationship or other affiliation with Advocate (an "**Unwind Transaction**"). Advocate has the obligation to provide written notice to Sherman Foundation within ten (10)

business days of the occurrence of an Unwind Event describing the Unwind Event in reasonable detail.

(b) If, upon receiving notice of or otherwise becoming aware of the occurrence of an Unwind Event, the Sherman Foundation desires to effect an Unwind Transaction, it shall send to Advocate a notice describing its intent to effect an Unwind Transaction (an “**Unwind Notice**”). If Advocate reasonably and in good faith disputes that an Unwind Event has occurred, it shall provide Sherman Foundation a Dispute Notice within ten (10) business days following delivery of the Unwind Notice by Sherman, and thereafter the Parties shall attempt in good faith to resolve the dispute, or at either Party’s option, may seek declaratory relief from a court of competent jurisdiction to adjudicate whether an Unwind Event has occurred.

## 11.2 **Unwind Process.**

(a) If an Unwind Event has occurred and Sherman Foundation has sent an Unwind Notice, the Parties shall take such actions as may be necessary or appropriate to effect an Unwind Transaction within one hundred eighty (180) days following the Unwind Date (or such other date upon which the Parties may agree), utilizing the process described in this Section 11.2. As used herein, “**Unwind Date**” shall mean the date upon which Sherman Foundation delivers an Unwind Notice or such later date on which any reasonable, good faith disputes described in Section 11.1(b) are resolved or adjudicated.

(b) Within fifteen (15) days following the Unwind Notice, Sherman Foundation shall appoint to a committee (the “**Unwind Committee**”) three (3) members of the Sherman Foundation Board of Directors who do not serve on the Advocate Board of Directors (the “**Sherman Foundation Members**”) and Advocate shall appoint to the Unwind Committee three (3) members of Advocate Board of Directors (the “**Advocate Members**”). Within fifteen (15) days following its formation, the Unwind Committee shall select an Independent Restructuring Expert; provided, however that if the Unwind Committee cannot agree upon an Independent Restructuring Expert within such timeframe, then, the Sherman Foundation Members (acting as a group) and the Advocate Members (acting as a group) each shall select a Restructuring Expert, and the two Restructuring Experts so selected shall agree upon a third Restructuring Expert (the three Restructuring Experts to comprise an “**Expert Panel**”). The Restructuring Expert (or Expert Panel, as applicable) shall assist the Unwind Committee to identify, agree upon and implement the actions that are necessary or appropriate to effect an Unwind Transaction within the time periods described herein, including, without limitation: (i) the equitable transfer of assets, including, without limitation, the equitable allocation of the ownership and financial obligations relating to operations within the Sherman Primary Service Area (with the assumption that no party will be allocated assets or entities as part of the Unwind Transaction unless it also is allocated the outstanding debt that was used for the acquisition of assets or entities or for a pro rata share of any Financial Commitment or any capital improvements that relate, in whole or in part, to such assets or entities, and further, taking into account the Financial Commitment and other expenditures made in the Sherman Service Area after the Closing Date, as well as any Sherman to Advocate transfers of fund balances or net assets); accounts receivable; investments, real estate and equipment; (ii) the transfer and

equitable allocation of liabilities (including payroll, taxes, accounts payable and intercompany loans and accounts payable); (iii) the refunding by Sherman of any bonds issued after the Closing to finance or refinance Sherman Hospital or other facilities within the Sherman Primary Service Area (whether at higher interest rates or less favorable terms than such existing interest rates and terms) which are at the time secured by Advocate commitments or guarantees or the entering by Sherman into contractual obligations (reasonably acceptable to Advocate) to reimburse Advocate for any payments made to pay such bonds or to make any other payments under the documents relating to such bonds, and the allocation, assumption and/or refinancing of indebtedness and credit supports; (iv) the transfer of professional and non-professional employees and contractors; (v) the assignment, termination, renewal, amendment or renegotiation of material contracts; (vi) the maintenance of payor relationships; (vii) the creation of new corporate entities and the application for tax exempt status; (viii) the securing of licenses and regulatory approvals; (ix) the implementation of amendments to governance documents; (x) the removal of officers and directors and the reconstitution of boards; (xi) the implementation of changes to signage, stationary and branding; (xii) the licensure of intellectual property rights, and (xiii) the provision of transition services to be valued at fair market value designed to replace centralized corporate services or functions that were consolidated at Advocate, all for a sufficient period of time (but in no event more than one hundred eighty (180) days after the effective date of the Unwind Transaction) to allow Sherman to develop such services and functions independently.

(c) Within ninety (90) days following the Unwind Date, the Unwind Committee shall identify and agree upon the actions that are necessary or appropriate to effectuate a Unwind Transaction (including, without limitation, those set forth in Section 11.2(b)). If the Unwind Committee cannot identify or agree upon all actions necessary to effectuate the Unwind Transaction, the open action items shall be submitted to the Independent Restructuring Expert (or Expert Panel, as applicable) for resolution. Within thirty (30) days of submission, the Independent Restructuring Expert (or Expert Panel, as applicable) shall issue a report (the “**Unwind Report**”) which: (i) restates any agreed findings of the Unwind Committee; (ii) describes in detail any other actions that are necessary or appropriate to effect the Unwind Transaction within the time frames described herein (and the parties responsible therefore); (iii) sets forth the Independent Restructuring Expert’s (or Expert panel’s, as applicable) conclusions, recommendations and findings with respect to all such actions; and (iv) allocates as between the Parties the costs associated with effecting the Unwind Transaction. As used herein, “**Unwind Transaction Commencement Date**” means the date on which the Unwind Committee identifies and agrees upon the actions that are necessary or appropriate to effectuate a Unwind Transaction, or if applicable, the date upon which the Independent Restructuring Expert or Expert Panel, as applicable, issues the Unwind Report. If the Sherman Foundation does not wish to proceed with the Unwind Transaction as set forth in the Unwind Report, the Sherman Foundation shall give written notice to this effect to Advocate within fifteen (15) business days of the Unwind Transaction Commencement Date. If no such notice is given, the Parties shall be bound by the conclusions, recommendations and findings in the Unwind Report and shall take such actions described therein in order to effect a Unwind Transaction in accordance with the time periods described herein. Without limiting any other remedies available to the Parties at law or in equity, unless the Sherman Foundation has given notice as described above, either

Party shall be entitled to enforce the conclusions, recommendations and findings within the Unwind Report in a court of competent jurisdiction.

(d) The costs of the Independent Unwind Expert (and, if applicable, the cost of the Expert Panel) shall be borne by Advocate, and the costs of the Unwind Transaction shall be allocated between the Parties as agreed upon by the Unwind Committee or as specified in the Unwind Report.

(e) Following the Unwind Date and until an Unwind Transaction is consummated, the Parties shall: (i) operate and permit each other to operate, Sherman Hospital and all other operations within the Sherman Primary Service Area exclusively in the ordinary course of their business, consistent with past practices and the terms of this Agreement; and (ii) take such actions as may be necessary or appropriate to preserve the goodwill of Sherman Hospital, including their physician, employee and payor relationships.

(f) In the event that a Unwind Transaction otherwise approved pursuant to this Section 11.2 cannot be effectuated by Sherman because of the inability of Sherman to refund any bonds or other obligations issued or incurred to finance or refinance Sherman which are at the time secured by Advocate commitments or guaranties within no more than ninety (90) days following the Unwind Date, Advocate shall provide full contractual operational control of the assets subject to the Unwind Transaction to Sherman, and Sherman shall take all commercially reasonable actions necessary to assume the obligations to pay such bonds and other obligations to enter into such contractual arrangements as may be reasonably required by Advocate to secure its obligations to pay such bonds and other obligations, including securing such payments under its financing documents by a first lien on the gross receipts, revenues and other assets of Sherman Hospital and other operations attributable to Sherman in the Sherman Primary Service Area and to pay the debt service and other payments of such bonds and other obligations as the same become due.

(g) The Advocate Board shall have the right to exclude the Sherman Representatives from the portions of the Advocate Board meetings in which matters relating to the Unwind Transaction or to a dispute of a nature and kind that triggers the process set forth in this Section 11.

## ARTICLE XII SURVIVAL OF OBLIGATIONS

12.1 **Survival of Representations and Warranties.** The representations and warranties of Sherman contained in Article IV, and the representations and warranties of Advocate contained in Article V, shall survive the Closing Date for a period of fifteen (15) months (the “**Survival Period**”). The expiration of this Survival Period shall not affect the rights of a Party in respect of any claim made by such Party in a writing received by the other Party prior to the expiration of the Survival Period; provided, however, that no Party shall be liable under this Article XII for any Losses resulting from or relating to any breach of any representation or warranty in this Agreement if the Party seeking indemnification for such Losses had knowledge of such breach before Closing. For purposes of this Agreement, a Party’s

representations and warranties shall be deemed to include such Party's disclosure schedules and all other documents or certificates delivered by such Party in connection with the representations and warranties made by such Party. A Party's waiver to any condition of Closing shall not constitute a waiver of any rights such Party may have hereunder.

**12.2 Enforcement of Sherman's Representations and Warranties.** If at any time prior to the expiration of the Survival Period, Advocate becomes aware of any purported breach of Sherman's representations and warranties contained in Article IV, Advocate shall deliver written notice thereof to the Boards of Directors of Sherman Hospital and Sherman Foundation within thirty (30) days after becoming aware of such breach, specifying in detail the facts and circumstances giving rise to Losses (the "**Breach Notice**"). Accompanying such Breach Notice, Advocate shall also deliver a check payable to the Sherman Foundation in the amount of \$50,000 (Fifty Thousand Dollars) to enable the Sherman Foundation to investigate the facts and conditions giving rise to Losses and the amount, if any, thereof. Within sixty (60) days of receipt of such Breach Notice, the Sherman Foundation Board of Directors may provide written notice to Advocate disputing in good faith whether there is, in fact, any breach by Sherman resulting in Losses suffered by Advocate and/or if so, the amount of such Losses ("**Dispute Notice**"). As soon as practicable after the delivery of the Dispute Notice and for a period of sixty (60) days thereafter, Advocate and the Board of Directors of the Sherman Foundation (or the representatives of each) shall negotiate in good faith to resolve the issues set forth in the Dispute Notice. In the event that Advocate and the Board of Directors of the Sherman Foundation cannot reach agreement regarding all of the matters set forth in the Dispute Notice, then such remaining dispute shall be settled exclusively by arbitration to be held in Chicago, Illinois, in accordance with the Complex Dispute Resolution Rules of the American Arbitration Association then in effect. The arbitrator(s) shall be bound by and shall strictly enforce the terms of this Agreement and may not limit, expand or otherwise modify its terms. Each Party shall bear its own fees and expenses with respect to the arbitration and any proceedings related thereto, and the Parties shall share equally the fees and expenses of the American Arbitration Association and the arbitrator(s). The arbitrator(s) shall have the power and authority to award any remedy or judgment that could be awarded by a court of competent jurisdiction, including, without limitation, injunctive relief. The award rendered by arbitration shall be final and binding upon the Parties, and judgment upon the award may be entered in any court of competent jurisdiction in the United States. In the event that: (i) the Sherman Foundation agrees with the amount of Losses set forth in Advocate's Breach Notice, or (ii) the rendered arbitration award concludes that Losses occurred in the amount the arbitrator(s) determines, then Advocate shall be entitled to extend its Financial Commitment by one (1) year in the event that cumulative Losses exceed Ten Million Dollars (\$10,000,000) (in which case, the Financial Commitment could be expended over a six year period) and, in the event that cumulative Losses exceed Forty Million Dollars (\$40,000,000), then Advocate shall be entitled to extend its Financial Commitment by a total of no more than two (2) years (in which case the Financial Commitment could be expended over a seven year period); provided, that in the event that Advocate extends the Financial Commitment as set forth herein, Advocate would make an additional allocation to Sherman for Routine Capital Expenditures during each year of such extension, which allocation for Routine Capital Expenditures would be in an amount consistent with Advocate's then-existing formula for routine capital expenditures at its other hospitals. Advocate's sole and exclusive remedy for any alleged breach by Sherman of any representation or warranty made by it under this Agreement

shall be the remedy provided by this Section 12.2; provided that the foregoing shall in no way preclude Advocate's application of its human resource, compliance, and other system-wide policies.

12.3 **Enforcement of Representations, Warranties, Covenants and Agreements of Advocate.** The representations and warranties, covenants and agreements of Advocate contained in Articles V and VII of this Agreement, respectively, shall survive the Closing Date for the duration provided in this Agreement. In the event Advocate is in breach of any commitment provided in this Article then the Sherman Foundation shall be entitled to address such breach with the President of Sherman Hospital and Advocate, and to the extent reasonably necessary, as determined by the Sherman Foundation and the Board of Directors of Advocate. Advocate expressly agrees that Sherman Foundation has standing to enforce such representations and commitments and covenants of Advocate under this Agreement, and that Sherman Foundation shall have the right to select and retain legal counsel, consultants and advisors and to initiate legal proceedings to enforce its rights under this Agreement, including, without limitation, Articles X and XI.

### **ARTICLE XIII GENERAL PROVISIONS**

13.1 **Amendment.** This Agreement may be modified or amended only by mutual written consent of all of the Parties.

13.2 **Assignment.** Neither this Agreement nor any of the rights or obligations under this Agreement may be assigned by Sherman without the prior written consent of Advocate, or by Advocate without the prior written consent of Sherman. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns, and, except for the rights of the Sherman Foundation set forth herein, no other Person shall have any right, benefit or obligation under this Agreement.

13.3 **Attorneys' Fees.** If any Party brings an action for any relief or collection against the other Party, declaratory or otherwise, arising out of the arrangement described in this Agreement, the losing Party shall pay to the prevailing Party a reasonable sum for attorneys' fees and costs actually incurred in bringing such action, all of which shall be deemed to have accrued upon the commencement of such action and shall be paid whether or not such action is prosecuted to judgment. Any judgment or order entered in such action shall contain a specific provision providing for the recovery of attorneys' fees and costs incurred in enforcing such judgment. For the purpose of this Section, attorneys' fees shall include fees incurred in connection with discovery, post judgment motions, contempt proceedings, garnishment and levy.

13.4 **Choice of Law.** This Agreement, the legal relations among the Parties, and any action, whether contractual or non-contractual, instituted by any Party with respect to matters arising under or growing out of or in connection with or in respect of this Agreement, including, but not limited to, the negotiation, execution, interpretation, coverage, scope, performance, breach, termination, validity or enforceability of this Agreement, shall be governed by and construed and interpreted in accordance with the laws of the State of Illinois applicable to

contracts made and performed in such State and without regard to conflicts of law doctrines, except to the extent that certain matters are preempted by federal law or are governed as a matter of controlling law by the law of the jurisdiction of incorporation of the respective Parties. Each Party hereby irrevocably submits to and accepts for itself and Affiliates and properties, generally and unconditionally, the exclusive jurisdiction of and service of process pursuant to the laws of the State of Illinois and the rules of its courts, waives any defense of forum non conveniens and agrees to be bound by any judgment rendered thereby arising under or out of, in connection with or in respect of this Agreement or any related document or obligation. Each Party further irrevocably designates and appoints the individual identified in or pursuant to Section 13.9 to receive notices on its behalf, as its agent to receive on its behalf service of all process in any such Action before any body, such service being hereby acknowledged to be effective and binding service in every respect. A copy of any such process so served shall be mailed by registered mail to each Party at its address provided in Section 13.9; provided, that, unless otherwise provided by applicable law, any failure to mail such copy shall not affect the validity of the service of such process. If any agent so appointed refuses to accept service, the designating Party hereby agrees that service of process sufficient for personal jurisdiction in any action against it in the applicable jurisdiction may be made by registered or certified mail, return receipt requested, to its address provided in Section 13.9. Each Party hereby acknowledges that such service shall be effective and binding in every respect.

13.5 **Confidentiality; Press Release.** No Party may disclose the terms of this Agreement or any of the transactions contemplated herein, including by issuance of any press release or public announcement relating to the subject matter of this Agreement, without the prior written consent of the other Parties; provided that any Party may make any public disclosure it believes in good faith is required by Applicable Law (including any disclosure required pursuant to any securities regulation or contractual undertaking applicable to the outstanding debt securities of any Party or binding on any Party), in which case the disclosing Party shall use its commercially reasonable efforts to advise and consult with the other Parties prior to making such disclosure.

13.6 **Dispute Resolution.** In the event of any controversy or dispute related to or arising out of this Agreement or the transactions contemplated hereby, the Parties agree to meet and confer in good faith to attempt to resolve the controversy or dispute without an adversary proceeding. If the controversy or dispute is not resolved to the mutual satisfaction of the Parties within five (5) business days of notice of the controversy or dispute, any Party may bring whatever action or proceeding it believes to be appropriate.

13.7 **Entire Agreement.** This Agreement is the entire understanding and agreement of the Parties to this Agreement regarding its subject matter, and supersedes the Letter of Intent dated October 22, 2012, and the “Capital Proposal” document, any other prior oral or written agreements, representations, understandings or discussions among the Parties to this Agreement with respect to such subject matter. In the event of any inconsistency or conflict between the terms and conditions set forth in this Agreement and the terms and conditions set forth in the attachments or exhibits to this Agreement, or any inconsistency or conflict between the provisions of this Agreement and the Letter of Intent, in each case, the terms and conditions of this Agreement shall govern.

13.8 **Expenses.** Except as otherwise specified in this Agreement, each Party shall pay its own respective expenses (including legal, accounting, broker, consulting, out-of-pocket and other expenses incident to this Agreement) in connection with this Agreement and the transactions contemplated hereby.

13.9 **Notices.** All communications hereunder shall be in writing and mailed by certified mail, return receipt requested, postage prepaid, or transmitted by hand delivery, national overnight express, or facsimile transmission (receipt confirmed), addressed as follows:

if sent to Sherman Hospital shall be mailed, delivered or sent by facsimile (receipt confirmed) and confirmed at:

Sherman Hospital  
1425 N Randall Rd  
Elgin, IL 60123  
Attn: Chairman of Board  
Fax:

with respect to any such communications, with copies thereof to:

Proskauer Rose LLP  
3 First National Plaza  
70 West Madison Suite 3800  
Chicago, IL 60602-4342  
Attention: Monte Dube, Esq.  
Fax: (312) 962-3551

if to Sherman Foundation, shall be mailed, delivered or sent by facsimile (receipt confirmed) and confirmed at:

Sherman Foundation  
1425 N Randall Rd  
Elgin, IL 60123  
Fax:

with respect to any such communications, with copies thereof to:

Proskauer Rose LLP  
3 First National Plaza  
70 West Madison Suite 3800  
Chicago, IL 60602-4342  
Attention: Monte Dube, Esq.  
Fax: (312) 962-3551

if to Advocate, shall be mailed, delivered or sent by facsimile (receipt confirmed) and confirmed at:

Advocate Health Care  
2025 Windsor Drive  
Oak Brook, IL 60523  
Attention: President and Chief  
Executive Officer  
Fax: (630) 990-4765

with respect to any such communications, with copies thereof to:

Advocate Health Care  
2025 Windsor Drive  
Oak Brook, IL 60523  
Attention: Senior Vice President and  
General Counsel  
Fax: (630) 990-5494

The address information in this Section 13.9 shall be used until such time as either Party notifies the other of a change of address pursuant to this Section 13.9. Each notice or other communication which shall be mailed, delivered or transmitted in the manner described above shall be deemed sufficiently effective (i) if given by mail, three (3) days after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid, (ii) if given by facsimile, when transmitted to the applicable number so specified in (or pursuant to) this Section 13.9 provided that appropriate confirmation of receipt is generated by the facsimile and a duplicate copy is mailed, postage prepaid, or (iii) if given by any other means, when actually delivered at such address.

13.10 **Severability.** If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the Parties to the greatest extent possible. All other provisions of this Agreement shall remain in full force and effect.

13.11 **Successors and Assigns.** The covenants and conditions contained herein, subject to the provisions as to assignment and subletting, apply to and bind the heirs, successors, executors, administrators and assigns of the Parties.

13.12 **Third-Person Beneficiaries.** Except as expressly set forth in Section 12.4, this Agreement does not confer any rights or remedies upon any person or other third party other than the Parties and their respective successors and permitted assigns.

13.13 **Waiver.** No delay or failure to require performance of any provision of this Agreement shall constitute a waiver of the performance of such provision or any other instance. Any waiver granted by a Person must be in writing, and shall apply solely to the specific instance expressly stated.

13.14 **Counterparts.** This Agreement may be executed in multiple counterparts, each of which shall be deemed to be an original, but all of which together shall be considered but one in the same agreement. This Agreement may be executed and delivered by facsimile or email

transmission of a file in “pdf” or similar format and upon such delivery, each signature shall be deemed to have the same effect as if the original signature had been delivered to the other Party.

13.15 **Headings**. The section and other headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

13.16 **Drafting of Agreement**. Each Party has been represented by counsel selected by such Party in connection with the negotiation and drafting of this Agreement, and this Agreement has been jointly drafted by such counsel, and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement.

13.17 **Efforts; Further Assurances**. Each Party will use commercially reasonable efforts, except where otherwise stated, to perform and fulfill all obligations on its part to be performed and fulfilled under this Agreement, to the end that the transactions contemplated by this Agreement shall be effected substantially in accordance with its terms as soon as reasonably practicable. The Parties shall cooperate with one another in such actions and in securing requisite approvals. Each Party shall execute and deliver after the Closing such further certificates, agreements and other documents and take such other actions as the other Parties may reasonably request to consummate or implement the transactions contemplated hereby or to evidence such events or matters. Notwithstanding anything herein to the contrary, as used in this Agreement, the term “**commercially reasonable efforts**” shall not mean efforts which require the performing Party to do any act that is unreasonable under the circumstances, to make any capital contribution or to expend any funds other than reasonable out-of-pocket expenses incurred in satisfying its obligations hereunder, including, but not limited to, the fees, expenses and disbursements of its accountants, actuaries, counsel and other professionals.

13.18 **Schedules and Other Documents**.

(a) The Schedules and all Exhibits and documents referred to herein or attached to this Agreement are integral parts of this Agreement and are incorporated herein as if fully set forth herein, and all statements appearing therein shall be deemed to be part of, or limitations on, the Agreement, and the representations and warranties contained herein. If there is a conflict between this Agreement and a Schedule, the Schedule shall control. If there is a conflict between this Agreement and any Exhibit, this Agreement shall control.

(b) Notwithstanding any assistance provided by Advocate in the drafting and organization of the Schedules attached to this Agreement, Sherman shall have reviewed and is fully responsible for the information contained in each Schedule, including all Schedules to which it is making a representation or warranty on its own behalf or on behalf of any Sherman Corporation. Notwithstanding anything herein to the contrary, no representation or warranty of Sherman shall be diminished or limited by reason of such assistance provided by Advocate or any Advocate Corporation.

\* \* \* \*

**IN WITNESS WHEREOF**, each of the Parties has caused this Agreement to be executed as of the date first above written.

ADVOCATE HEALTH CARE NETWORK

Signature : James Skogsbergh

Printed Name: James Skogsbergh

Title: President and Chief Executive Officer

SHERMAN HEALTH SYSTEMS

Signature : \_\_\_\_\_

Printed Name: Rick Jakle

Title: Chair

SHERMAN HOSPITAL

Signature : \_\_\_\_\_

Printed Name: C.P. Terry Dunning

Title: Chair

SHERMAN HEALTH FOUNDATION  
(for purposes of Section 12.3, and Article VII)

Signature : \_\_\_\_\_

Printed Name: Michael Shales

Title: Chair

**IN WITNESS WHEREOF**, each of the Parties has caused this Agreement to be executed as of the date first above written.

ADVOCATE HEALTH CARE NETWORK

Signature : \_\_\_\_\_

Printed Name: James Skogsbergh

Title: President and Chief Executive Officer

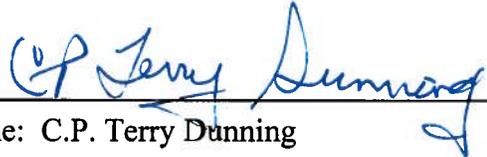
SHERMAN HEALTH SYSTEMS

Signature :  \_\_\_\_\_

Printed Name: Rick Jakle

Title: Chair

SHERMAN HOSPITAL

Signature :  \_\_\_\_\_

Printed Name: C.P. Terry Dunning

Title: Chair

SHERMAN HEALTH FOUNDATION  
(for purposes of Section 12.3, and Article VII)

Signature :  \_\_\_\_\_

Printed Name: Michael Shales

Title: Chair

## **EXHIBITS**

Exhibit A	Articles of Merger or Consolidation
Exhibit B-1	Amended Sherman Foundation Articles of Incorporation
Exhibit B-2	Amended Sherman Foundation Bylaws
Exhibit C	Commitments and Obligations Agreement
Exhibit D	Charitable Gifts Agreement
Exhibit E	Integration Plan

## SCHEDULES

Schedule 4.3	Validity
Schedule 4.4	Sherman Joint Ventures
Schedule 4.7	Tax Exempt Status
Schedule 4.10	Insurance
Schedule 4.11(a)	Owned Real Estate
Schedule 4.11(b)	Other Real Estate
Schedule 4.11(c)	Owned Real Estate located within a flood hazard area
Schedule 4.11(d)	Improvements to the Owned Real Estate
Schedule 4.11(e)	Owned Real Estate not in compliance with applicable law
Schedule 4.11(h)	Improvements
Schedule 4.11(i)	Rights of Possession
Schedule 4.12	Permits
Schedule 4.13	Material Contracts
Schedule 4.14	Taxes
Schedule 4.15	Litigation
Schedule 4.16	Accounts Receivable
Schedule 4.17	Environmental Matters
Schedule 4.19	Financial Statements
Schedule 4.20	Interim Changes
Schedule 4.21	Material Adverse Effect
Schedule 4.22	Governmental Compliance
Schedule 4.23	Consents and Approvals
Schedule 4.24	Employee Benefit Plans
Schedule 4.25(a)	Employment Agreements
Schedule 4.25(b)	Employee Strike or Labor Dispute
Schedule 4.26	Restricted Funds
Schedule 5.12	Reimbursement
Schedule 8.3	Sherman Third Parties Consents
Schedule 9.4	Advocate Third Parties Consents

**Exhibit A**  
Articles of Merger or Consolidation

[See Attached]

FORM NFP 111.25 (rev. Dec. 2003)  
ARTICLES OF MERGER  
OR CONSOLIDATION  
General Not For Profit Corporation Act

Jesse White, Secretary of State  
Department of Business Services  
501 S. Second St., Rm. 350  
Springfield, IL 62756  
Telephone (217) 782-6961  
www.cyberdriveillinois.com

Remit payment in the form of a  
check or money order payable  
to the Secretary of State.

\_\_\_\_\_ File # \_\_\_\_\_ Filing Fee: \$25.00 Approved: \_\_\_\_\_  
-----Submit in duplicate-----Type or Print clearly in black ink-----Do not write above this line-----

NOTE: Strike inapplicable word in items 1, 3 and 4.

1. Names of the corporations proposing to <sup>merge</sup> ~~consolidate~~, and the state or country of their incorporation are:

Name of Corporation	State or Country of Incorporation	File Number
<u>Sherman Health Systems</u>	<u>Illinois</u>	<u>55603219</u>
<u>Sherman Hospital</u>	<u>Illinois</u>	<u>04212436</u>
_____	_____	_____
_____	_____	_____

2. The laws of the state or country under which each corporation is incorporated permit such merger or consolidation.

3. The name of the <sup>surviving</sup> ~~new~~ corporation: Sherman Hospital

and it shall be governed by the laws of: Illinois

4. The plan of <sup>merger</sup> ~~consolidation~~ is as follows:

*(If space is insufficient, attach additional pages size 8 1/2 x 11.)*

See Attachment A

5. The plan of ~~consolidation~~ merger was approved, (a) as to each corporation not incorporated in Illinois, in compliance with the laws of the state under which it is incorporated, and (b) as to each Illinois corporation, as follows:

(Please indicate the manner by which the plan was approved by inserting the comparable letter in the box following each corporate name.)

- A. By the affirmative vote of a majority of the directors in office, at a meeting of the board of directors. (§ 111.15)
- B. By written consent, signed by all the directors in office, in compliance with Section 108.45 of this Act. (§ 108.45 & § 111.15)
- C. At a meeting of members by the affirmative vote of members having not less than the minimum number of votes necessary to adopt the plan, as provided by this Act, the articles of incorporation or the bylaws (§ 111.20)
- D. By written consent, signed by members having not less than the minimum number of votes necessary to adopt the plan, as provided by this Act, the articles of incorporation or the bylaws, in compliance with Section 107.10 of this Act. (§ 107.10 & § 111.20)

NAME OF CORPORATION

MANNER

Sherman Health Systems \_\_\_\_\_

Sherman Hospital \_\_\_\_\_

\_\_\_\_\_

6. (Not applicable if surviving or new corporation is an Illinois corporation)

It is agreed that, upon and after the issuance of a certificate of merger or consolidation by the Secretary of State of the State of Illinois:

- a. The surviving or new corporation may be served with process in this state in any proceeding for the enforcement of any obligation of any domestic corporation which is party to such merger or consolidation.
- b. The Secretary of State of the State of Illinois shall be and hereby is irrevocably appointed as the agent of the surviving or new corporation to accept service of process in any such proceeding.

7. The undersigned corporations have caused these articles to be signed by their duly authorized officers, each of whom affirms, under penalties of perjury, that the facts stated herein are true. (All signatures must be in **BLACK INK.**)

Dated \_\_\_\_\_, \_\_\_\_\_  
(Month & Day) (Year)

Sherman Health Systems  
(Exact Name of Corporation)

\_\_\_\_\_  
(Any Authorized Officer's Signature)

\_\_\_\_\_  
(Type or Print Name and Title)

Dated \_\_\_\_\_, \_\_\_\_\_  
(Month & Day) (Year)

Sherman Hospital  
(Exact Name of Corporation)

\_\_\_\_\_  
(Any Authorized Officer's Signature)

\_\_\_\_\_  
(Type or Print Name and Title)

Dated \_\_\_\_\_, \_\_\_\_\_  
(Month & Day) (Year)

\_\_\_\_\_  
(Exact Name of Corporation)

\_\_\_\_\_  
(Any Authorized Officer's Signature)

\_\_\_\_\_  
(Type or Print Name and Title)

Attachment A  
Plan of Merger  
Between Sherman Health Systems and Sherman Hospital

---

- A. Effective as of the date of merger (the “Merger Date”), the Board of Directors of Sherman Hospital, the surviving corporation (the “Hospital”) shall be reconstituted to have the following individuals serving thereon:

Terry Dunning	Sharon Jakle
William Hoffer	Joy Jensen
Richard Floyd	Pamela Jensen
Audrey Reed	Kenneth Koehler
David Bear	Lawrence Kosinski, MD
Ashok Mehta, MD	Solomon Secemsky, MD
Shuja Valika, MD	Michael Shales
Roger Bielinski, MD	Linda Wallace
Robert Cormier	James R. Dan, M.D.
Nathaniel Edmond	William P. Santulli
Richard Jakle	

- B. Effective as of the Merger Date, the Hospital’s corporate officers shall be the following individuals:

Terry Dunning, Chairman  
William Hoffer, Vice Chairman  
Gail Hasbrouck, Secretary  
Dominic J. Nakis, Treasurer  
Richard Floyd, President and CEO  
Eric Kruger, CFO

- C. Effective from and after the Merger Date, the Amended and Restated Articles of Incorporation and Bylaws of the Hospital shall be those set forth on Exhibits A and B respectively, attached hereto and incorporated herein.

**Exhibit B-1**

Amended Sherman Foundation Articles of Incorporation

[See Attached]

**To Be Adopted**

**AMENDED AND RESTATED**  
**ARTICLES OF INCORPORATION OF**  
**SHERMAN HEALTH FOUNDATION**  
**ARTICLE XIV (Restated)**

Name. The name of the Corporation is Sherman Health Foundation.

**ARTICLE XV (Restated)**

Duration. The duration of the Corporation is perpetual.

**ARTICLE XVI (Restated)**

Registered Agent and Registered Office. The address of the Corporation's registered office is 1425 North Randall Road, Elgin, Illinois 60123. The name of the registered agent at such address is Richard Floyd.

**ARTICLE XVII (Restated)**

The purposes for which the Corporation is organized are:

Exclusively charitable, educational and scientific within the meaning of Sec. 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code") or the corresponding provision of any future United States Internal Revenue law.

**ARTICLE XVIII (Amended)**

Notwithstanding anything to the contrary, the Corporation is organized and will operate exclusively for the benefit of Sherman Hospital, an Illinois not for profit corporation exempt as an organization described in both Sec. 501(c)(3) and Sec. 509(a)(1) of the Code.

No part of the net earnings of the Corporation shall inure to the benefit of any private individual; no part of the income of the Corporation shall be distributed to its trustees or officers, provided, however, that the payment of the reasonable compensation for services rendered shall not be deemed a distribution of income. No substantial part of the activities of the Corporation shall consist of carrying on propaganda or otherwise attempting to influence legislation. The Corporation shall not participate in, or intervene in (including the publication or distribution of statements) any political campaign on behalf of or against any candidate for public office.

The Corporation shall possess all powers which a corporation organized under the General Not for Profit Corporation Act of the State of Illinois, as the same from time to time may be amended, may possess, including the power to use, distribute, contribute, expend, donate and apply and appropriate all of its property and assets, and all proceeds and avails thereof, and income and profit derived therefrom, exclusively for charitable, educational or scientific purposes; provided, however, the Corporation shall not engage in any business which would disqualify it from being exempt from taxation under Sec. 501(c)(3) of the Code.

In the event of the dissolution or liquidation of the Corporation, and after payment of its just debts, and liabilities, all remaining assets shall be distributed to such organization or organizations that are organized and operated exclusively for charitable, educational or scientific

purposes and that shall at the time qualify as an exempt organization or organizations under Sec. 501(c)(3) of the Code as the Board of Trustees may determine.

Anything herein contained to the contrary notwithstanding, no assets of the Corporation shall be donated, distributed, applied to, paid over or otherwise used or employed in any manner which would disqualify the Corporation from being exempt from taxation as an organization described in Sec. 501(c)(3) of the Code.

**Exhibit B-2**  
Amended Sherman Foundation Bylaws

[See Attached]

BY-LAWS  
OF  
SHERMAN HEALTH FOUNDATION

ARTICLE I  
CORPORATION

Section 1.1 CORPORATE NAME. The name of the corporation is SHERMAN HEALTH FOUNDATION (the "Corporation"), an Illinois not-for-profit corporation.

Section 1.2 CORPORATE PURPOSES. The purposes for which the Corporation is organized are: exclusively charitable, educational and scientific within the meaning of Sec. 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), or the corresponding provision of any future United States Internal Revenue law.

Notwithstanding anything to the contrary, the Corporation is organized and will operate exclusively for the benefit of Sherman Hospital, an Illinois not for profit corporation exempt as an organization described in both Sec.501(c)(3) and Sec. 509(a)(1) of the Code.

No part of the net earnings of the Corporation shall inure to the benefit of any private individual; no part of the income of the Corporation shall be distributed to its trustees or officers, provided, however, that the payment of reasonable compensation for services rendered shall not be deemed a distribution of income. No substantial part of the activities of the Corporation shall consist of carrying on propaganda or otherwise attempting to influence legislation. The Corporation shall not participate in, or intervene in (including the publication or distribution of statements) any political campaign on behalf of or against any candidate for public office.

The Corporation shall possess all powers which a corporation organized under the General Not for Profit Corporation Act of the State of Illinois, as the same from time to time may be amended, may possess, including the power to use, distribute, contribute, expend, donate, apply and appropriate all of its property and assets, and all proceeds and avails thereof, and income and profit derived therefrom, exclusively for charitable, educational or scientific purposes; provided, however, the Corporation shall not engage in any business which would disqualify it from being exempt from taxation under Sec.501(c)(3) of the Code, or the corresponding provision of any future United States Internal Revenue law.

Anything herein contained to the contrary notwithstanding, no assets of the Corporation shall be donated, distributed, applied to, paid over or otherwise used or employed in any manner which would disqualify the Corporation from being exempt from taxation as an organization described in Sec.501(c)(3) of the Code.

Section 1.3 CORPORATE OFFICES. The Corporation shall have and continuously maintain in this state a registered office and registered agent whose office address is identical with such registered office, and may have other offices within or without the State of Illinois as the Board of Trustees may from time to time determine.

Section 1.4 CORPORATE DISSOLUTION. In the event of the dissolution or liquidation of the Corporation, and after payment of its just debts and liabilities, all remaining assets shall be distributed to such organization or organizations that are organized and operated exclusively for charitable, educational or scientific purposes and that shall at the time qualify as an exempt organization or organizations under Sec.501(c)(3) of the Code as the Board of Trustees may determine.

## ARTICLE II

### MEMBERS

Section 2.1 NO MEMBER. The Corporation shall have no members.

## ARTICLE III

### BOARD OF TRUSTEES

Section 3.1 POWERS; NO MEMBER. The Board of Trustees shall (1) govern and manage the affairs of the Corporation, (2) exercise the powers of the Corporation, (3) control its property, (4) determine compliance with the Corporation's stated purposes, and (5) have the power and authority to do and perform acts or functions not inconsistent with these by-laws or the Corporation's articles of incorporation. The Corporation shall have no members.

Section 3.2 NUMBER AND REPRESENTATIONAL REQUIREMENTS. The Board of Trustees of the Corporation shall have between three (3) and five (5) trustees. The trustees shall be appointed by the Board of Trustees at its annual meeting. The number of trustees may be increased or decreased from time to time by the amendment of these by-laws; however, no decrease in the number of trustees shall have the effect of shortening the term of any incumbent trustee.

Section 3.3 TERM. Each trustee shall hold office for a term of one (1) year and until a successor is duly elected and qualified.

Section 3.4 VACANCIES. Vacancies on the Board due to death, resignation or other cause shall be filled in the same manner as the election of trustees. Trustees appointed to fill a vacancy shall serve until the completion of the term of the trustee whose position they are filling or until their successor has been appointed and qualified.

Section 3.5 RESIGNATION. Any trustee may resign at any time by giving written notice of such resignation to the Chairman of the Board of Trustees or to the President of the Corporation.

Section 3.6 REMOVAL. Any trustee may be removed by the affirmative vote of a majority of the members of the Board of Trustees then in office, with or without cause.

Section 3.7 ADVISORS TO THE BOARD. The Board of Trustees may designate non-voting advisors to the Board, who shall be entitled to notice of and to attend all meetings of the Board, who may express their view, but who shall not be entitled to vote.

Section 3.8 COMPENSATION. Trustees shall not receive compensation for their services as trustees. However, the reasonable expenses of trustees related to their attendance at Board meetings may be paid or reimbursed by the Corporation. Trustees shall not be disqualified from receiving reasonable compensation for services rendered to or for the benefit of the corporation in any other capacity; provided, however, that Article IX of these by-laws shall have been complied with.

## ARTICLE IV

### MEETINGS OF THE BOARD OF TRUSTEES

Section 4.1 ANNUAL MEETING. The annual meeting of the Board of Trustees shall be held at such hour as may be determined by the Board of Trustees. The purposes of the annual meeting shall be (a) to elect the trustees and officers of the Corporation; (b) to elect the trustees of any affiliated corporation for which the Board of Trustees has this obligation; (c) to nominate officers for any affiliated corporation, for which the Board of Trustees has this obligation; and (d) to transact such other business as may be necessary or desirable.

Section 4.2 REGULAR MEETINGS. The Board of Trustees shall hold meetings at such times as may be required, but no less frequently than annually, at such time and place as may be designated by the Board Chairman in the notice.

Section 4.3 SPECIAL MEETINGS. Special meetings of the Board of Trustees may be called by the Board Chairman or the President, and also by the Secretary upon receipt of a written request of two (2) trustees. The notice for a special meeting need not specify the purpose for such meeting except when the purpose is the removal of a trustee. Notice of a special meeting shall be given at least seven (7) days in advance of such meetings; however, if a special meeting is called for the purpose of removing a trustee, at least twenty (20) days notice shall be given.

Section 4.4 NOTICE. Notice of all Board meetings shall be mailed by first class mail, delivered by private courier, delivered personally, sent by facsimile transmittal or by means of electronic transmission, or accomplished by internet usage or remote communications, to the last known address of each trustee not less than five (5) calendar days before the date of the meeting. Such notice may, but need not specify the nature of the business to be conducted at the meeting, except when the purpose for meeting is the removal of a trustee.

Section 4.5 WAIVER OF NOTICE. The trustees may waive the written notice of the time, place and purpose of any meeting of the trustees required by Section 4.4 of these by-laws

in the same manner as the notice of meetings is allowed in said Section 4.4, either before or after such meeting has been held. Attendance of a trustee at any meeting shall constitute a waiver of notice of such meeting except where a trustee attends the meeting for the sole purpose of objecting to the holding of such meeting.

Section 4.6 QUORUM AND MANNER OF ACTING. For all meetings of the Board of Trustees, a quorum shall be majority of the trustees then serving, who shall be present in person. Unless otherwise specified in these By-Laws, the action of a majority of a quorum of the trustees shall constitute the action of the Board.

Section 4.7 PROCEDURE. Robert's Rules of Order Newly Revised (latest edition) shall govern procedure at all meetings of the Board of Trustees where not covered expressly by these by-laws.

Section 4.8 INFORMAL ACTION BY TRUSTEES. Any action required to be taken at a meeting of the Board of Trustees, or any other action which may be taken at a meeting of the Board of Trustees, may be taken without a meeting if a consent in writing, setting forth the action so taken shall be signed by all the trustees entitled to vote with respect to the subject matter thereof. Such consents may be evidenced by one or more written approvals, each of which sets forth the action taken. Any consent signed by all the trustees shall have the same effect as a unanimous vote, and may be stated as such in any document filed with the Illinois Secretary of State or with anyone else. Such action taken shall be effective as of the date all consents are signed, unless the consent specifies a different effective date.

Section 4.9 MEETING BY TELEPHONE OR INTERACTIVE TECHNOLOGY. Members of the Board of Trustees may participate in and act at any meeting of such Board by means of conference telephone or interactive technology, including, but not limited to, electronic transmission, internet usage or remote communications. Participation in such a meeting shall constitute attendance and presence in person at such meeting.

Section 4.10 ATTENDANCE. Inasmuch as attendance at Board meetings is important to the work of the Corporation, if a trustee, in the absence of extenuating circumstances appropriately indicated, is absent from three (3) consecutive Board meetings, he shall be presumed to have resigned as a trustee.

## ARTICLE V

### OFFICERS OF THE CORPORATION

Section 5.1 DESIGNATION OF CORPORATE OFFICERS. The officers of the Corporation may include a Chairman, a Vice Chairman, a President, one or more Vice Presidents as the Board shall determine, a Treasurer, a Secretary, and such other Assistant Treasurers and/or Assistant Secretaries as may be deemed necessary by the Board. The Chairman and Vice Chairman shall be appointed by, and may be removed at any time by, the Trustees from among the trustees of the Corporation. Other officers of the Corporation shall be appointed and may be removed by the Board of Trustees. At a minimum, the Corporation shall have a Chairman and a

Secretary-Treasurer. The duties of an officer position not filled shall be assumed by the Chairman (if there is not a Vice Chairman or President) and by the Secretary-Treasurer (if there is not a Secretary or Treasurer).

Section 5.2 DUTIES OF THE CHAIRMAN. The Chairman shall be the chief policy officer of the Corporation and shall have all the duties which that position would customarily require, including chairing all meetings of the Board of Trustees and all other duties assigned to the Chairman under these by-laws or by Board resolution.

Section 5.3 DUTIES OF THE VICE CHAIRMAN. In the absence of the Chairman, or in the event of the Chairman's inability or refusal to act, the Vice Chairman shall chair meetings of the Board of Trustees and shall perform such other duties as may be delegated to the Vice Chairman from time to time by the Chairman.

SECTION 5.4 DUTIES OF THE PRESIDENT. The President shall be the chief executive officer of the Corporation and shall be the direct executive representative of the Board of Trustees in the management of the Corporation, and shall have all the duties and authority which such position would customarily require, including, but not limited to, the following:

- (a) Supervising, directly or indirectly, all Corporation activities;
- (b) Carrying out all policies established by the Board of Trustees;
- (c) Designating an individual to act for him in his absence in order to provide the Corporation with administrative direction at all times;
- (d) Attending all meetings of the Board of Trustees;
- (e) Presenting to the Board of Trustees periodic reports on the over-all activities of the Corporation and on appropriate federal, state and local developments that affect the Corporation;
- (f) Performing such other duties as may from time to time be assigned by the Chairman or by the Board of Trustees.

Section 5.5 DUTIES OF THE VICE PRESIDENT. The Vice President (or, in the event there be more than one Vice President, each of the Vice Presidents) shall perform such duties and have such responsibilities as may be prescribed from time to time by the Board of Trustees and the President.

Section 5.6 DUTIES OF THE TREASURER. The Treasurer shall have custody and control of all funds of the Corporation and shall have such duties as are customarily performed by or required of corporate treasurers, including giving a bond when requested by the Board of Trustees. The Treasurer shall ensure that a true and accurate accounting of the financial transactions of the Corporation is made periodically, that reports of such transactions are presented to the Board of Trustees, and that all accounts payable are presented to such representatives as the Board may designate for authorization of payment.

Section 5.7 DUTIES OF THE SECRETARY. The Secretary shall act as secretary of the Corporation and the Board of Trustees, shall send appropriate notices regarding Board meetings, shall prepare agenda and other materials for all meetings of the Board of Trustees, shall act as official custodian of all records, reports and minutes of the Corporation and the Board of Trustees, shall be responsible for the keeping and reporting of adequate records of all meetings of the Board of Trustees and shall perform such other duties as are customarily performed by or required of a corporate secretary.

Section 5.8 DUTIES OF THE ASSISTANT TREASURERS AND ASSISTANT SECRETARIES. The Assistant Treasurers and Assistant Secretaries shall perform such duties as shall be assigned to them by the Treasurer or the Secretary, respectively, or by the President or the Board of Trustees. If required by the Board of Trustees, the Assistant Treasurers shall give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Trustees shall determine.

## ARTICLE VI

### COMMITTEES OF THE BOARD OF TRUSTEES

Section 6.1 NO COMMITTEES. The Corporation shall have no committees of the Board

## ARTICLE VII

### CORPORATE SEAL

The Board may adopt a corporate seal which shall be in the form of a circle and shall have inscribed thereon the name of the corporation and the words "Corporate Seal, Illinois."

## ARTICLE VIII

### FISCAL MATTERS

Section 8.1 FISCAL YEAR END. The fiscal year of the Corporation shall end on April 30 of each year unless changed by the Board of Trustees.

Section 8.2 CONTRACTS. The President and his express designees shall be authorized to execute contracts on behalf of the Corporation. In addition, the Board may authorize other officers or agents to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, with such authority being either general or confined to specific instances.

Section 8.3 LOANS AND INDEBTEDNESS. No loans shall be contracted on behalf of the Corporation and no evidences of indebtedness shall be issued in its name unless they have been approved by the Board of Trustees.

Section 8.4 CHECKS, DRAFTS, ETC. All checks, drafts, or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation, shall be signed or endorsed by officers who shall be authorized as signatories on the accounts of the Corporation by resolution of the Board. The signatures of such persons may be by facsimile where expressly authorized, but shall not be preprinted on the instrument.

Section 8.5 DEPOSITS. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board may select.

Section 8.7 MAINTENANCE OF RECORDS. The Corporation shall keep correct and complete books and records of account and shall also keep minutes of the proceedings of its Board of Trustees. All books and records of the Corporation may be inspected by any trustee for any proper purpose at any reasonable time. The records of the Corporation shall be open at all times for inspection by members of the Board of Trustees.

Section 8.8 GIFTS. The Board of Trustees may accept on behalf of the Corporation any contribution, gift, bequest or devise for the general purposes, or for any special purpose, of the Corporation.

## ARTICLE IX

### CONFLICTS OF INTEREST

Section 9.1 STATEMENT OF GENERAL POLICY. No transactions involving remuneration or benefit to a trustee or officer, or to an organization in which such trustee or officer has a material financial interest or of which the trustee or officer is a member, officer, trustee, general partner, principal or controlling stockholder, shall be entered into by the Corporation without (a) a full disclosure to the Board of Trustees by the interested trustee or officer of the material facts of the transaction and the trustee or officer's interest or relationship; (b) the authorization, approval or ratification of the Board of Trustees; and (c) a determination by a majority of disinterested trustees (even though the disinterested trustees may be less than a quorum) that the transaction is fair to the Corporation at the time it is authorized, approved or ratified. No trustee so involved may vote on such authorization, approval or ratification by the Board of Trustees.

Section 9.2 COVERAGE OF THIS POLICY. This policy shall apply to all members of the Board of Trustees and corporate officers, key agents and key employees of the Corporation, including independent contractors who provide services and materials, and including all physicians and other licensed health professionals contracting with the Corporation in an amount exceeding \$50,000.00. The Corporation's management shall have the affirmative obligation to publicize periodically this policy to all such parties.

Section 9.3 DISCLOSURE OF ALL CONFLICTS. All persons to whom this policy applies shall disclose to the Board of Trustees all real and apparent, direct and indirect conflicts which they discover or have been brought to their attention in connection with the Corporation's activities. "Disclosure" as used in these by-laws shall mean providing promptly to the

appropriate persons a written description of the direct and indirect material facts of the transaction or real or apparent conflict, and the trustee's interest or relationship to the transaction or conflict. An annual disclosure statement shall be circulated to all persons to whom this policy applies to assist them in considering such disclosures, but disclosure is appropriate whenever a conflict arises. The written disclosure notices of conflicts shall be filed with the President or any other person designated by him from time to time to receive such notifications. All disclosure notices received hereunder shall be noted for record in the minutes of a meeting of the Board of Trustees.

Section 9.4 PROSCRIBED ACTIVITY BY PERSONS HAVING CONFLICTS.

When an individual trustee, officer, agent or employee believes that he or she or a member of his or her immediate family might have or does have a real or apparent, direct or indirect conflict, such individual should, in addition to filing the disclosure notice required hereunder, abstain from making motions, voting, executing agreements, or taking any other similar direct action on behalf of the Corporation to which the conflict might pertain, but shall not be precluded from debate or other similar involvement on behalf of the Corporation.

ARTICLE X

INDEMNIFICATION

Section 10.1 BASIC INDEMNIFICATION.

(a) This Corporation shall, to the fullest extent to which it is empowered to do so by, and in accordance with the requirements of, the Illinois General Not For Profit Corporation Act of 1986 (as amended from time to time) or any other applicable laws as may from time to time be in effect, indemnify any person who was or is a party, or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (other than an action by or in the right of this Corporation) by reason of the fact that the party is or was a trustee, officer, employee, member of a committee or agent of this Corporation, or is or was serving at the request of this Corporation as a trustee, officer, employee, member of a committee, or agent of another corporation, partnership, joint venture, trust or enterprise, in which it is a corporate member or owns shares of capital stock or of which it is a creditor, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the party in connection with such action, suit, or proceeding if the party acted in good faith and in a manner the party reasonably believed to be in, or not opposed to, the best interests of this Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the party's conduct was unlawful.

(b) The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the party did not act in good faith and in a manner which the party reasonably believed to be in or not opposed to the best interests of this

Corporation or, with respect to any criminal action or proceeding, had reasonable cause to believe that the party's conduct was unlawful.

Section 10.2 ACTIONS BY OR IN THE RIGHT OF THIS CORPORATION.

(a) This Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action or suit by or in the right of this Corporation to procure a judgment in its favor by reason of the fact that the party is or was a trustee, officer, employee, member of a committee, or agent of this Corporation, or is or was serving at the request of this Corporation as a trustee, officer, employee, member of a committee, or agent of another corporation, partnership, joint venture, trust or another enterprise in which it is a corporate member or owns shares of capital stock or of which it is a creditor, against expenses (including attorneys' fees) actually and reasonably incurred by the party in connection with the defense or settlement of such action or suit if the party acted in good faith and in a manner the party reasonably believed to be in or not opposed to the best interests of this Corporation.

(b) The Corporation shall not indemnify any person named in Section 10.2(a) with respect to any matter where the party is adjudged to be liable for negligence or misconduct in the performance of the party's duty to the Corporation unless and only to the extent that the court shall determine that, despite the finding of liability but in view of all circumstances of the case, such party is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

Section 10.3 INDEMNIFICATION WHEN SUCCESSFUL ON THE MERITS. To the extent that a trustee, officer, employee, member of a committee or agent of this Corporation has been successful, on the merits or otherwise, in defense of any action, suit or proceeding referred to in Sections 10.1 and 10.2 or in defense of any claim, issue or matter therein, the party shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by the party in connection therewith; provided, however, nothing contained in this section shall limit the ability of this Corporation to provide indemnity, including costs of counsel, as provided elsewhere in these by-laws.

Section 10.4 APPROPRIATE AUTHORIZATION FOR PAYMENT OF INDEMNIFICATION. Any indemnification under Sections 10.1 and 10.2 (unless ordered by a court) shall be made by this Corporation only as authorized in the specific case upon a determination that the indemnification of the indemnified party is proper in the circumstances because the party has met the applicable standard of conduct set forth in Section 10.1 or Section 10.2. Such determination shall be made:

(a) By the Board of Trustees by a majority vote of a quorum consisting of trustees who were not parties to such action, suit, or proceeding; or

(b) If a quorum is not obtainable, or even if obtainable, if a quorum of disinterested trustees so directs, by independent legal counsel in a written opinion.

Section 10.5 PAYMENT IN ADVANCE OF FINAL DISPOSITION. Expenses (including attorneys' fees) incurred in defending a civil or criminal action, suit or proceeding may be paid by this Corporation in advance of the final disposition of such action, suit or proceeding as authorized in the manner provided in Section 10.4 upon receipt of a written promise by or on behalf of a trustee, officer, employee, member of a committee or agent of this Corporation that he or she will repay such amount unless it shall ultimately be determined that such person is entitled to be indemnified by this Corporation.

Section 10.7 NON-EXCLUSIVITY OF INDEMNIFICATION RIGHTS. The indemnification provided by this Article shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any bylaw, agreement, vote of the disinterested trustees, or otherwise, both as to action in the party's official capacity and as to action in another capacity while holding such office, and shall continue as to a party who has ceased to be a trustee, officer, employee, committee member, or agent and shall inure to the benefit of the heirs, executors, or administrators of such a party.

Section 10.8 PURCHASE OF TRUSTEE AND OFFICER LIABILITY INSURANCE. The Corporation may purchase and maintain insurance on behalf of any party who is or was a trustee or officer, employee, committee member or agent of this Corporation, or who is or was serving at the request of this Corporation as a trustee, officer, employee, committee member or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against such party and incurred by such party in any such capacity, or arising out of the party's status as such, whether or not this Corporation would have the power to indemnify such party against such liability under the provisions of this Article.

Section 10.9 DEFINITIONS. For the purposes of this Article, the following terms are defined as follows:

(a) References to the "Corporation" shall include, in addition to the surviving corporation, any merging corporation (including any corporation having merged with a merging corporation) absorbed in a merger which, if its separate existence had continued, would have had the power and authority to indemnify its trustees, officers, employees, committee members, or agents so that any party who was a trustee, officer, employee, committee member or agent of such merging corporation, or was serving at the request of such merging corporation as a trustee, officer, employee, committee member or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article with respect to the surviving corporation as such party would have with respect to such merging corporation if its separate existence had continued.

(b) References to "other enterprises" shall include employee benefit plans.

(c) References to "fines" shall include any excise taxes assessed on a party with respect to an employee benefit plan.

(d) References to "serving at the request of this Corporation" shall include any service as a trustee, officer, employee, member of a committee, or agent of this Corporation which imposes duties on, or involves services by such trustee, officer, employee, member of a committee or agent with respect to an employee benefit plan, its participants, or beneficiaries. A party who acted in good faith and in a manner the party reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of this Corporation" as referred to in this Article.

## ARTICLE XI

### NON-DISCRIMINATION

The Corporation recognizes the rights of all persons to equal opportunity in employment, compensation, promotion, education, positions of leadership and power, and shall not at any time discriminate against any employee, applicant for employment, Trustee, officer, contractor or any other person with whom it deals, because of race, creed, color, handicap, sex, national origin or age.

## ARTICLE XII

### REVIEW AND AMENDMENTS

These by-laws and the Articles of Incorporation of the Corporation may be amended by the vote of two-thirds of the members of the Board of Trustees then in office.

## Exhibit C

### Commitments and Obligations Agreement

**THIS AGREEMENT** (“*Agreement*”) is entered into as of \_\_\_\_\_, 2013 (notwithstanding its actual date of execution) (the “*Closing Date*”), by and between *Advocate Health Care Network*, an Illinois not-for-profit corporation (“*Advocate*”) and Sherman Health Foundation, an Illinois not-for-profit corporation (“*Sherman Foundation*”), pursuant to the terms and conditions of that certain Affiliation Agreement dated as of \_\_\_\_\_, 2013 (the “*Affiliation Agreement*”) by and among Advocate, Sherman Health Systems (“*Sherman*”), and Sherman Hospital. Capitalized terms and section references used herein without definition and defined in the Affiliation Agreement are used herein as defined therein.

**WHEREAS**, pursuant to Section 10.1 of the Affiliation Agreement, Advocate has agreed to fund capital, programmatic, clinical and market development needs of the Sherman System in the aggregate amount of Two Hundred Million Dollars (\$200,000,000) within five (5) years from and after the Closing Date (the “*Financial Commitment*”);

**WHEREAS**, pursuant to Section 12.3 of the Affiliation Agreement, the Parties have agreed that Sherman Foundation would have standing to enforce any and all of Advocate’s commitments and obligations under the Affiliation Agreement, including, without limitation, any and all of Advocate’s post-Closing commitments set forth in Article X thereof;

**NOW THEREFORE**, in consideration of the mutual agreements, provisions and covenants contained herein and in the Affiliation Agreement, the parties agree as follows:

1. **Financial Commitment.** Within one hundred and twenty (120) days after the end of each Advocate Fiscal Year during which Advocate is required to make financial commitments to maintain Sherman’s advanced regional medical and acute care hub status pursuant to the Affiliation Agreement, Advocate shall deliver a reasonably comprehensive written report (the “*Financial Commitment Report*”) to the Boards of Directors of both Sherman Hospital and Sherman Foundation which details the made by Advocate in satisfaction of Advocate’s Financial Commitment pursuant to the Affiliation Agreement.
2. **Access to Books and Records** During the Term, the Sherman Foundation shall be given reasonable access to the books and records of Sherman Hospital and its Affiliates to the extent reasonably necessary to verify the information and computations contained in each Financial Commitment Report.
3. **Disputes.** Within sixty (60) days after receipt of each Financial Commitment Report, Sherman Foundation may dispute, in good faith, the amounts set forth on the Financial Commitment Report by delivering a written notice to Advocate which sets forth in reasonable detail the basis for the dispute (each, a “*Dispute Notice*”).
4. **Resolution of Disputes.** In the event Sherman Foundation delivers a Dispute Notice to Advocate, Advocate and Sherman Foundation shall use their commercially reasonable efforts to resolve any disputed items as soon as practicable after Advocate’s receipt of the Dispute Notice

and for a period of sixty (60) days thereafter. If the Parties are unable to reach an agreement in by the end of such sixty (60) day period then any dispute or controversy arising under or in connection with this Agreement following the Closing shall be settled exclusively by arbitration to be held in Chicago, Illinois, in accordance with the Complex Dispute Resolution Rules of the American Arbitration Association then in effect. The arbitrator(s) shall be bound by and shall strictly enforce the terms of this Agreement and may not limit, expand or otherwise modify its terms. Each Party shall bear its own fees and expenses with respect to the arbitration and any proceedings related thereto, and the Parties shall share equally the fees and expenses of the American Arbitration Association and the arbitrator(s). The award rendered by arbitration shall be final and binding upon the Parties, and judgment upon the award may be entered in any court of competent jurisdiction in the United States.

5. Monitoring Advance Notices. Within thirty (30) days after the receipt of a Financial Commitment Report, Sherman Foundation may request by one or more written notices (each, a “**Monitoring Advance Notice**”) and Advocate (or an Affiliate of Advocate at the direction of Advocate) shall deliver immediately available funds within fifteen (15) days thereafter to Sherman Foundation in an aggregate amount not to exceed Five Hundred Thousand Dollars (\$500,000) (each, a “**Monitoring Advance**”) to reimburse Sherman Foundation for its reasonable costs and expenses incurred in connection with the review of the Financial Commitment Report and enforcement of the provisions of this Agreement and Article X of the Affiliation Agreement; provided, however, that in no event shall the aggregate amount of the Monitoring Advances exceed Five Hundred Thousand Dollar (\$500,000). At the end of the Term, the unused amounts of any Monitoring Advance(s) shall be returned to Advocate or the Affiliate of Advocate that has made such Monitoring Advances. Each Monitoring Advance must be deposited and maintained in a financial institution in an FDIC insured account (the “**Monitoring Advance Account**”). The Sherman Foundation will provide an annual report containing an accounting of expenditures from and the then current balance of the Monitoring Advance Account. During the Term, Advocate will be given reasonable access to the Sherman Foundation books and records to verify expenditures reimbursed from the Monitoring Advance Account. Additionally, the Sherman Foundation agrees that no portion of any Monitoring Advance will be used for any purpose other than reimbursement of expenses incurred in connection with the review of a Financial Commitment Report, including, but not limited to, the payment of taxes or costs to file informational or income tax returns.

6. Term. This Agreement shall remain in effect from the Closing Date through the date upon which the entire Financial Commitment has been fully satisfied (the “**Term**”).

7. Headings. The Section headings in this Agreement are included herein for convenience of reference only and shall not constitute part of this Agreement for any other purpose.

8. The provisions of Sections 13.4 (Choice of Law), 13.10 (Severability), 13.13 (Waivers), and 13.14 (Counterparts) shall be incorporated by reference into this Agreement.

**ADVOCATE HEALTH CARE NETWORK**

By: \_\_\_\_\_

Its: \_\_\_\_\_

**SHERMAN HEALTH FOUNDATION**

By: \_\_\_\_\_

Its: \_\_\_\_\_

**Exhibit D**  
Charitable Gifts Agreement

This Charitable Gifts Agreement (the "**Charitable Gifts Agreement**") is entered into as of June 1, 2013, by and among Sherman Hospital, an Illinois not-for-profit corporation, Sherman Health Foundation ("SHF"), an Illinois not-for-profit corporation, Advocate Health Care Network ("Advocate"), an Illinois not-for-profit corporation, and Advocate Charitable Foundation ("ACF"), an Illinois not-for-profit corporation (together "**the Parties**").

WITNESSETH

WHEREAS, SHS and AHCN have entered into an Affiliation Agreement (the "**Agreement**"), dated April 15, 2013;

WHEREAS, pursuant to the Agreement, Sherman Health System ("SHS"), an Illinois not-for-profit corporation, has merged with and into Sherman Hospital, with Sherman Hospital as the surviving entity;

WHEREAS, Sherman Hospital and AHCN consider it in the best interests of their respective communities and constituencies to affiliate their organizations so as to better serve their communities and constituencies in a manner that exemplifies their not-for-profit and charitable missions;

WHEREAS, Sherman Hospital and its not-for-profit affiliates (Sherman Home Health Corporation "SHHC" and Sherman West Court "SWC") will continue to carry on their activities as affiliates of Advocate serving the same purposes, using the same facilities, serving the same communities, and serving the same charitable purposes as prior to their affiliation with Advocate;

WHEREAS, ACF is the philanthropic fiduciary for Advocate as ACF accepts, receipts, and administers all Charitable Gifts, as defined herein, for Advocate and its affiliates;

WHEREAS, SHF is the philanthropic fiduciary for Sherman Hospital its affiliates, it is intended that ACF become the successor to SHF for purposes of receipt and fiduciary responsibility related to Charitable Gifts;

WHEREAS, the Parties wish to insure that the charitable intentions of donors and testators are respected and fulfilled through ACF's service as philanthropic fiduciary for Charitable Gifts to Sherman Hospital and its affiliates; and

WHEREAS, the Parties are public charities under Section 501 (c)(3) of the Internal Revenue Code.

NOW, THEREFORE, for and in consideration of the premises, and the agreements, covenants, representations, and warranties hereinafter set forth, and other good and valuable consideration, the receipt and adequacy of which are forever acknowledged and confessed, the Parties hereto agree as follows:

1. "Charitable Gifts" shall be defined as and include, but not be limited to, all bequests, trust distributions, pledges receivable, estates receivable, gifts, endowments and other contributions whether they are made before or after closing, whether restricted or unrestricted, and whether they are revocable or irrevocable now, at the time of the closing, or at a future date.

2. Sherman Hospital, and SHF hereby transfer to and assign all rights to and interests in such Charitable Gifts to ACF in furtherance of the affiliation of Sherman Hospital with Advocate.
3. ACF shall hold and administer for the benefit of Advocate Sherman Hospital, Sherman Home Health Care Foundation, and Sherman West Court all Charitable Gifts consistent with the donor purpose and restrictions, if any.
4. The Parties shall use best efforts to ensure that Charitable Gifts made to, or for the benefit of, Sherman Health Foundation and/or to support the facilities and operations of Sherman Hospital, Sherman Home Health Corporation or Sherman West Court, shall be made to and collectable by ACF for the purposes designated by donors and testators.
5. This Charitable Gifts Agreement may be used by ACF and Advocate to provide documentation to donors and their legal representatives that ACF is the fiduciary for receipt of Charitable Gifts for the benefit of Sherman Health Foundation, SHS, Sherman Hospital, Sherman Home Health Corporation, and/or Sherman West Court.

ADVOCATE HEALTH CARE NETWORK

By \_\_\_\_\_  
James Skogsbergh, President and Chief Executive Officer

ADVOCATE CHARITABLE FOUNDATION

By \_\_\_\_\_  
Randy Varju, President and Chief Development Officer

SHERMAN HEALTH FOUNDATION

By \_\_\_\_\_  
Richard Floyd, President

SHERMAN HOSPITAL

By \_\_\_\_\_  
Richard Floyd, President

**Exhibit E**  
**Integration Plan**

	2013/2014/2015												
	Pre-Close	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '14 - Mar	Apr - Jun	Jul - Sep	Oct - Dec	2015
<b>Definitive Agreement</b>													
Agreement Signed	X												
Hart-Scott-Rodino Approval	X												
Exemption for Change of Ownership	X												
Closing Date (Proposed: June 1,2013)		X											
<b>Integration Planning</b>													
<b>Accreditation</b>													
Notify Joint Commission of ownership change		X											
Transition to DNV												X	
<b>Marketing/Public Affairs</b>													
Announcement Campaign (Marketing/Branding)		X											
Installation of Advocate Sherman Hospital Permanent Exterior Signage		X											
Transition of Physician referral to Advocate Health Advisor			X										
<b>Facilities</b>													
Execution of Advocate Planning, Design and Construction Service Level Agreement		X											
<b>Finance</b>													
Lawson - Financial Reporting/Budgeting		X											
Lawson - Accounts Payable/Supply Chain									X				
Implement Advocate financial policies		X											
Transition Patient Accounts to Shared Revenue Cycle Organization													X
<b>Human Resources</b>													
Payroll								X					
Benefits									X				
<b>Foundation</b>													
Create Sherman Development Council				X									
Transition Sherman to Advocate Charitable Foundation		X		X									
<b>Home Care</b>													
Transition to Advocate Home Health				X									
<b>Information Technology</b>													
Network and Telecom Connectivity Live		X											
Exchange Outlook Office 365				X									
AdvocateWorks Time and Attendance								X					
Integrate to Advocate Information													X

	2013/2014/2015												
	Pre-Close	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '14 - Mar	Apr - Jun	Jul - Sep	Oct - Dec	2015
Technology Center													
<b>ACL</b>													
ACL Lab Conversion													X
<b>Legal and Licensure</b>													
CMS 855 documents for Change of Ownership		X											
Complete all change of ownership notifications		X											
Assignment of all appropriate contracts		X											
<b>APP</b>													
Physician Membership & Credentialing								X					
Clinical Integration Implementation									X				
<b>AMG</b>													
Assign MD Employment contracts to AMG				X									
Implement IDX/Network/Telecomm		X											
Integrate physicians into AMG/ AHHC regional governance councils and service lines			X										
<b>Research</b>													
Assign research study contracts						X							
<b>Supply Chain</b>													
Convert Sherman/Advocate "like vendors"		X											
Centralized Procurement									X				
<b>Strategic Planning:</b>													
Complete initial strategic and growth plan					X								
Complete initial 5-year capital and program investment								X					
<b>Risk Management</b>													
Transition to Advocate Risk Management services								X					
<b>Leadership</b>													
Include Leadership into existing Advocate system wide councils		X											

**Schedule 4.3**  
Validity

None

**Schedule 4.4**  
Sherman Joint Ventures

The Hospital owns 50% of the outstanding common stock of ShermanChoice, an Illinois for profit business corporation.

Sherman Ventures owns, and is in the process of assigning to the Hospital, 50% of ARSC Real Estate Holdings, LLC. The other owner of ARSC Real Estate Holdings, LLC, is currently contending that Sherman Ventures is not the owner.

The Hospital owns 25.5% of Algonquin Road Surgery Center, LLC.

Sherman Health Systems owns 100% of Sherman Ventures, Inc.

Sherman Health Systems owns 83% of the outstanding common stock of Delphi Group IV, Inc.

With respect to Chicago Hospital Risk Pooling Program, an Illinois Self Insurance Trust (CHRPP), Sherman Health Systems is eligible to receive potential surplus payments once CHRPP's run-off is complete or will be required to contribute to CHRPP if a shortage exists.

**Schedule 4.7**  
Tax Exempt Status

None

**Schedule 4.10**

Insurance

<b>Insurer</b>	<b>Coverage</b>	<b>Renewal</b>	<b>Limits/ Sub-limits</b>	<b>Deductible</b>
Beazley	CYBER	05/01/12	\$3M	\$50K
Cincinnati Insurance Company	AUTO	05/01/12	\$1M Liab \$5K Med Pay	Coll \$250 Comp \$100
CHUBB (Federal Insurance Company)	FIDUCIARY LIABILITY	03/26/12	\$8M/\$8M	\$5K
CHUBB (Federal Insurance Company)	Executive Liability, Entity Liability and Employment Practices Liability	03/26/12	\$10M	Retentions vary \$75- 250K
CHUBB (Federal Insurance Company)	CRIME	03/26/12	\$1M-\$3M	\$10k
CHUBB (Federal Insurance Company)	COMMERCIAL PROPERTY	5/1/2012	\$500M	\$25k
<b>HEALTH VISIONS</b>				
Hanleigh	Accident & Sickness Permanent Total Disability	08/30/12	\$1.5M	
MetLife	Keyman Term Life	08/30/12	\$500K	
ISMIE	Physician Group PL & Cyber	06/01/12	\$1M/\$20M	
<b>SHERMAN HOME HEALTH CARE</b>				
Cincinnati Specialty Underwriters Insurance Co.	PRODUCT LIABILITY	03/23/12	\$1M/\$1M	\$1K
<b>SHERMAN CHOICE</b>				
One Beacon Professional Insurance	D&O	4/17/2012	\$1M-\$3M/\$3M	\$25K
One Beacon Professional Insurance	E&O	4/17/2012	\$1M/\$3M	\$25K
<b>SHERMAN MEDICAL GROUP LTD</b>				
One Beacon Professional Insurance	E&O	4/17/2012	\$1M-\$3M	\$25K

One Beacon Professional Insurance	D&O	4/17/2012	\$1-\$3M/\$3M	\$25K
<b>SHIC and EXCESS</b>				
ACE USA	HELIPORT LIABILITY	01/05/13	\$20M	N/A
<b>SHIC and EXCESS</b>				
SHIC	HPL	1/1/2013	\$5M no Agg	
SHIC	GL	1/1/2013	\$1M/\$3M	
SHIC	HPL & GL "Buffer"	1/1/2013	\$2M/\$2M	
AWAC	HPL & GL Excess	1/1/2013	\$5M/\$5M	
Zurich	HPL & GL Umbrella	1/1/2013	\$15M/\$15M	
AWAC	Auto;Heliport;EPLI Excess	1/1/2013	\$5M/\$5M	
Zurich	Auto;Heliport;EPLI Excess	1/1/2013	\$15M/\$15M	

**Schedule 4.11(a)**  
Owned Real Estate

Street Address	Permanent Index Number	Record Owner	Leased
1. Big Timber & Randall Road (60 acres)	03-31-400-038 06-04-100-009	Sherman Health Systems	No
2. 1900 Larkin Avenue (Blue Moon), Elgin, IL	06-16-426-023 06-16-426-024	Sherman Hospital	No
3. 620 S. Randall Road (Olsen), Algonquin, IL	19-31-226-004-0000	Sherman Health Systems	No
4. Huntley Corporate (Dahmer Drive)	02-08-101-003 02-08-301-001	Sherman Health Systems	No
5. 1090 Spring Street, South Elgin, IL	06-34-101-010	Sherman Health Systems	No
6. Schuring – Highway 47; North of Plato Road	05-20-100-002	Sherman Health Systems	No
7. Big Timber & Rt 47 (Gonzalez)	02-17-300-008	Sherman Health Systems	No
8. 1425 N. Randall Road, Elgin, IL	06-04-300-024-0000 06-04-100-008-0000 03-32-300-008-0000	Sherman Health Systems	No
9. 1019 E. Chicago St., Elgin, IL	06-18-401-016 06-18-401-019 06-18-401-020 06-18-401-025	Sherman Health Systems	Yes
10. 600 S. Randall Rd., Algonquin, IL	19-31-200-007 19-31-226-002	Sherman Health Systems	Yes
11. 4900 S. Rt. 31, Crystal Lake, IL	14-27-451-002	Sherman Hospital	No
12. 2320 Royal Blvd., Elgin, IL	06-09-151-001-000	Sherman Health Systems	Yes

<p>13. 901 Center Street (Slade Avenue, 915, JGP, Surgery)</p> <ul style="list-style-type: none"> <li>• Parking Lot</li> </ul> <p>Parking Lot, continued</p>	<p>06-12-152-015 06-12-153-007 06-12-153-015</p> <p>06-12-156-011 06-12-156-012 06-12-156-013 06-12-156-014 06-12-156-015 06-12-156-016 06-12-156-017 06-12-156-018 06-12-156-019 06-12-156-020 06-12-157-032 06-12-157-030 06-12-157-031 06-12-157-014 06-12-157-003 06-12-157-004 06-12-157-005 06-12-157-006 06-12-157-007 06-12-157-008</p>	<p>Sherman Hospital</p>	<p>Yes</p>
<p>14. 1950 Larkin Avenue, Elgin, IL (West Court)</p>	<p>06-16-426-014 06-16-426-016 06-16-426-018 06-16-426-021 06-16-426-022</p>	<p>Sherman Health Systems</p>	<p>No</p>
<p>15. Fletcher Imaging</p>	<p>06-09-151-038 06-09-151-002 06-09-151-048</p>	<p>Sherman Health Systems</p>	<p>No</p>
<p>16. Algonquin Road Surgery Center</p>		<p>Sherman Ventures and the Hospital indirectly own 50% of the Surgery Center</p>	<p>No</p>

Leases affecting Owned Real Estate

Street Address	Suite	Tenant	Lease Expiration Date
1.600 S. Randall Road, Algonquin	210	Sherman Physician Group	4/30/13
2.600 S. Randall Road, Algonquin	220	Salud Pediatrics	2/28/14
3.901 Center Street, Elgin		Pharmacy	8/1/13
4.901 Center Street, Elgin	203	Dr. Mockwe	6/30/13
5.901 Center Street, Elgin	209	Dr. Ghosh	4/30/13
6.901 Center Street, Elgin	305	Elgin Barrington Neurosurgery	4/30/16
7.901 Center Street, Elgin	3000	Elgin Family Physicians	4/30/13
8. 901 Center Street, Elgin	3002	Dr. Fendon	2/28/16
9. 901 Center Street, Elgin	A	Greater Elgin	8/7/21
10. 1019 E. Chicago Street, Elgin	Parking Lot	U-46	5/31/13
11. 1019 E. Chicago Street, Elgin	Parking Lot	Toyota	9/1/13
12. 2320 Royal Blvd, Elgin	A	Advanced Clinic	6/30/13
13. 600 S. Randall Road, Algonquin	230	Dr. Yango	1/2/14
14. 600 S. Randall Road, Algonquin	230	Dr. Majmudar	12/3/13
15. 600 S. Randall Road, Algonquin	230	Affiliated Ear Nose & Throat	8/16/13
16. 600 S. Randall Road, Algonquin	230	IL. Gastroenterology	7/8/13
17. 901 Center Street, Elgin	2002	Dr. Shah	10/1/13

**Schedule 4.11(b)**  
Other Real Estate

<b>Location</b>	<b>Use of Space</b>
1435 N. Randall Road, Elgin	Sherman department space <ul style="list-style-type: none"> <li>• Foundation</li> <li>• Health Visions</li> <li>• Cardiac Rehab</li> <li>• The Center For Advanced Liver &amp; Pancreatic Care</li> <li>• Patient Financial Services</li> <li>• Accounting</li> <li>• Conference Room</li> <li>• Advanced Cardiology Consultants</li> <li>• Shelled space</li> <li>• 2 timeshare offices (408,410)</li> </ul>
201 Penny Avenue, East Dundee	Physician Office
1000 S. State St. Hampshire	Physician Office
1050-1052 Norwood Lane, Bartlett	Physician Office (through 6/2013)
1054 Norwood Lane, Bartlett	Physician Office
2000 McDonald Road, South Elgin	Immediate Care; Physician Offices
100 Symphony Way, Elgin	Diabetes Center, Physical Medicine, Community Wellness
741 McHenry Avenue, Crystal Lake	Vacant
864 Stearns Road, Bartlett,	Physician Office (through 6/2013)
550 South Blvd, Streamwood	Physical Therapy
808 E. Woodfield Drive, Schaumburg	Physician Office (through 6/2013)
1710 Randall Road	Imaging Center Advanced Cardiology timeshare
745 Fletcher, Elgin	Physician Office Advanced Cardiology timeshare
1140 N. McLean, Elgin	Physician Office

**Schedule 4.11(c)**

Owned Real Estate located within a flood hazard area

None

**Schedule 4.11(d)**  
Improvements to the Owned Real Estate

None

**Schedule 4.11(e)**

Owned Real Estate not in compliance with applicable law

None

**Schedule 4.11(h)**  
Improvements

<b>Quantity</b>	<b>Item</b>	<b>Budget Estimate</b>	<b>Location</b>
1	Replacement roof 901 proper	\$100,000	901 Center St.
2	Replacement roof top air conditioner	\$170,000	901 Center St.
2	Elevator Replacement	\$90,000	901 Center St.
3	Corridor carpet replacement	\$15,000	901 Center St.
1	Fire pump replacement	\$10,000	901 Center St.
1	Roof replacement	\$120,000	Algonquin
1	Parking lot replacement	\$95,000	Algonquin
1	Roof top air handler	\$85,000	Algonquin
1	Roof replacement	\$85,000	West Elgin MOB
1	Sprinkler System piping replacement	\$35,000	West Elgin MOB
5	Roof top air handler	\$37,500	West Elgin MOB

**Schedule 4.11(i)**  
Rights of Possession

Sherman has a commitment to the City of Elgin to deed .46 acres for a City of Elgin park at the south end of the west parking lot at 901 Center Street. The City of Elgin has currently deferred this project; this can be exercised by the City at a future date upon request.

## Schedule 4.12

### Permits

#### Sherman Hospital

1. Hospital License issued by State of Illinois Department of Public Health expires 12/14/13.
2. Accreditation issued by The Joint Commission issued February 25, 2012 accreditation is customarily valid for up to 36 months. Organization ID # 7339.
3. Pharmacy License issued by the State of Illinois expires 3/31/2014.
4. Controlled Substance Registration Certificate Number AS3744895 issued by the United States Department of Justice Drug Enforcement Administration expires 2-28-2014.
5. Federal Communications Commission call sign KB65721 issued by the Federal Communications Commission expires 02/01/2015. Federal Communications Commission call sign KNGA969 issued by the Federal Communications Commission expires 05/05/2013. Federal Communications Commission call sign KWE887 issued by the Federal Communications Commission expires 10/21/2021. Federal Communications Commission call sign KXT866 issued by the Federal Communications Commission expires 05/23/2015. Federal Communications Commission call sign WPFH776 issued by the Federal Communications Commission expires 07/15/2014. Federal Communications Commission call sign WPQB423 issued by the Federal Communications Commission expires 05/05/2015. Federal Communications Commission call sign WPXY728 issued by the Federal Communications Commission expires 07/02/2013. Federal Communications Commission call sign WQKG313 issued by the Federal Communications Commission expires 05/07/2019.
6. Radioactive Material License issued by the Illinois Emergency Management Agency Bureau of Radiation Safety License number IL-01392-01 expires 02/28/2014. Radioactive Material License issued by the Illinois Emergency Management Agency Division of Nuclear Safety License number IL-02280-01 expires 09/30/2015. American College of Radiology accreditation for Randall Medical Imaging Center Nuclear Medicine expires 02/24/2015. American College of Radiology accreditation for Randall Medical Imaging Center MRI expires 04/29/2014. American College of Radiology accreditation for Randall Medical Imaging Center Mammography expires 10/20/2014. American College of Radiology accreditation for Randall Medical Imaging Center Computed Tomography expires 09/17/2014. American College of Radiology accreditation for Sherman Hospital expires 02/11/2016. American College of Radiology accreditation for Sherman Hospital Mammography expires 10/13/2013. IEMA accreditation for Sherman Hospital expires 02/11/2016. National Accreditation Program for Breast Centers for Sherman Hospital Expires 07/31/2014. American College of Radiology accreditation for Sherman Immediate Care South Elgin expires 09/21/2014. IEMA accreditation for Sherman Immediate Care South Elgin expires 09/21/2014. American College of Radiology accreditation for Sherman Immediate Care Algonquin

expires 06/06/2015. IEMA accreditation for Sherman Immediate Care Algonquin expires 06/06/2015. American College of Radiology accreditation for Sherman Immediate Care Elgin expires 06/25/2016. IEMA accreditation for Sherman Immediate Care Elgin expires 06/25/2016. Intersocietal Accreditation Commission Vascular Testing for Sherman Hospital Ultrasound Laboratory accreditation expires 09/30/2015. Intersocietal Accreditation Commission Echocardiography for Sherman Hospital Randall Imaging Center accreditation expires 09/30/2015.

7. CLIA Certificate issued by Centers for Medicare & Medicaid Services for Sherman Hospital Main Lab CLIA number 14D0665268 expires 02/27/2015. The College of American Pathologists certifies that Sherman Hospital Clinical Laboratory is fully accredited. CLIA Certificate issued by Centers for Medicare & Medicaid Services for Sherman Family Healthcare - Algonquin CLIA number 14D0915359 expires 10/02/2014. CLIA Certificate issued by Centers for Medicare & Medicaid Services for Sherman Family Healthcare – South Elgin CLIA number 14D1075561 expires 10/22/2013. CLIA Certificate issued by Centers for Medicare & Medicaid Services for Sherman Hospital – Royal MOB Satellite Lab CLIA number 14D0910208 expires 06/29/2013. CLIA Certificate issued by Centers for Medicare & Medicaid Services for Sherman Randall Medical Imaging Center CLIA number 14D1073733 expires 09/13/2013.
8. Elevator License issued by the City of Elgin with license numbers 12-00005236, 12-00005237, 12-00005238, 12-00005239, 12-00005240, 12-00005241, 12-00005242, 12-00005243, 12-00005244, 12-00005245, 12-00005246, 12-00005247, 12-00005248, 12-00001337, 12-00001338, 12-00001339, 12-00001340, 12-00001346 and 12-00001347 all expire 06/30/2013.
9. Food Handling License issued by the City of Elgin license number 13-00014811 expires 12/31/2013. Food Handling Category III 50% License issued by the City of Elgin license number 13-00014906 expires 12/31/2013. Illinois Business Authorization Certificate of Registration 0974-4142 expires 05/31/2016. Illinois Business Authorization Certificate of Registration 0907-8789 expires 09/30/2015. Vending Machine stickers issued by the City of Elgin numbers 56,58,59,121,55,60,57,120,51,52,53 and 54.
10. Illinois Environmental Protection Agency boiler permit application number 09090019 dated 11/09/2009 expires 180 days after the Illinois EPA sends a written request for renewal of the permit. Illinois Environmental Protection Agency boiler permit application number 09090019 revised dated 07/01/2010 expires 180 days after the Illinois EPA sends a written request for renewal of the permit. Illinois Environmental Protection Agency Bureau of Water Operating Permit number 0201-FY2007 issued 09/05/2006 is valid until revoked.
11. US Post Office Mail permits numbers 575-001, 575-002 and 107.

## Other Sherman Corporations

1. Nursing Home License issued by State of Illinois Department of Public Health expires 11/03/2013. Nursing Home Administrator License issued by the State of Illinois Department of Financial and Professional Regulation license number 044.010273 expires 11/30/2013.
2. Home Care accredited by The Joint Commission February 24, 2012, accreditation is customarily valid for up to 36 months. Organization ID # 7339.
3. Home Care license issued by the Illinois Department of Public Health expires 2/28/2014.
4. Home Care license for Home Medical Equipment and Services Provider issued by the State of Illinois Department of Financial and Professional Regulation expires 3/31/2015.
5. Business Licenses issued by the City of Elgin for Jawaad Khokhar, M.D.13-00019185, Sherman Group Practice 13-00018825, Sherman Physician Group 13-00019187, Faisal Saeed, M.D.13-00019514, Fahra Zahra, M.D. 13-00019515, Maciej Malinski, M.D. 13-00020400, Maciej Malinski, M.D. 13-00020422, Maciej Malinski, M.D. 13-00020428, Solomon Secemsky, M.D. 13-00020401, Solomon Secemsky, M.D. 13-00020421, Solomon Secemsky, M.D. 13-00020426, Azmey Matarieh, M.D. 13-00020395, Azmey Matarieh, M.D. 13-00020423, Azmey Matarieh, M.D. 13-00020429, Raminder Singh, M.D. 13-00020397, Raminder Singh, M.D. 13-00020424 and Raminder Singh, M.D. 13-00020430 all expire on 12/31/2013.
6. CLIA Certificate issued by Centers for Medicare & Medicaid Services for Sherman Hospital Physician Group CLIA number 14D1086723 expires 07/16/2014. CLIA Certificate issued by Centers for Medicare & Medicaid Services for Sherman Pediatric Health Partner CLIA number 14D0910619 expires 01/15/2014. CLIA Certificate issued by Centers for Medicare & Medicaid Services for Sherman Physician Group Inc. CLIA number 14D0877962 expires 05/29/2014. CLIA Certificate issued by Centers for Medicare & Medicaid Services for Sherman Group Practice Inc. CLIA number 14D0857609 expires 12/08/2013. CLIA Certificate issued by Centers for Medicare & Medicaid Services for Sherman Group Practice Inc. CLIA number 14D1056872 expires 02/25/2014. CLIA Certificate issued by Centers for Medicare & Medicaid Services for Sherman Group Practice Inc. CLIA number 14D1086687 expires 07/16/2014. CLIA Certificate issued by Centers for Medicare & Medicaid Services for Sherman Liliana Erazo M.D. CLIA number 14D1075807 expires 10/28/2013. CLIA Certificate issued by Centers for Medicare & Medicaid Services for Sherman Group Practice Inc. CLIA number 14D1087412 expires 08/03/2014.

**Schedule 4.13**  
Material Contracts

None

## **Schedule 4.14**

### Taxes

1. List of Tax-Exempt Debt
  - a. Series 2007A bonds
  - b. Series 1997 bonds
  - c. City of Elgin Lease and Use Agreement
2. Taxes Not Paid
  - a. 1425 N. Randall Road Hospital campus: second installment of 2011 property taxes

## Schedule 4.15

### Litigation

#### 1. Filed liability cases

<b>NAMES</b>	<b>Responsible Company</b>	<b>TPA Claim #</b>
Adams, Roosevelt	SHIC	159 PI 1171
Anderson, Gail	CHRPP	6283 PR 117
Bacon, Cheri	CHRPP	6284 PR 117
Barsanti, Norman	SHIC	182 PR 1171
Bruce, Michael	CHRPP	5475 PR 117
Bruning, Greg	SHIC	215 PR 1171
Bush, Jacob	CHRPP	6289 PR 117
Camden (Sinning), Dawna	SHIC	201 PR 1171
Champion, Quantay	SHIC	95 PR 1171
Engles, Michael	SHIC	108 PR 1171
Espinoza, Ivette	SHIC	30 GI 1171
Greene, Julius	CHRPP	5848 PR 117
Hall, Tasha Hall, Baby Boy	CHRPP	5806 PR 117
Hanson, Shannon  Hanson, Trinity Love 84-97-60	CHRPP	6298 PR 117
Hoeft, Terrence	SHIC	168 PR 1171

Horn, Viola(pltff Barbara Roberts)	CHRPP	6140 PR 117
Loboda, Jacob	CHRPP	6316 PR 117
Lopez, Osbiel	CHRPP	6036 PR 117
Martin, Jerry Lee	SHIC	44 PR 1171
Martinelli, Laura Lee	CHRPP	6114 PR 117
Martinez, Randy	CHRPP	6088 PR 117
Murillo, Manuela	SHIC	107 PR 1171
Pena-Prather, Jaclyn  Prather, Gianna (baby)	CHRPP	5410 PR 117
Rohlwing, Catherine	SHIC	171 PI 1171
Scharf, Jean	SHIC	174 PI 1171
Scherer, Clifford (Joseph Scherer, special administrator)	CHRPP	6382 PR 117
Tindle, Jeremy	SHIC	241 PR 1171
Trujillo, Mauricio  (Valdivia - mother)	CHRPP	5798 PR 117
Whitney, Diane L	CHRPP	6360 PR 117
Williams, Larry	CHRPP	6288 PR 117

2. Open Employment Cases

Christine Miller  
EEOC Charge No. 440-2006-00667

Sally Draffkofn v Sherman Health Systems  
EEOC Charge No. 440-2011-0912  
U.S. District Court, Northern District of Illinois, Case No. 12 CV 05156

Miriam Williams v. Sherman Health Systems  
EEOC Charge No. 21 BA 11792  
Illinois Department of Human Rights No. 2011 CF 3402

3. Property Tax Dispute- Sherman Health Systems vs. Kane County Treasurer/Collector  
Case Type TX                      Sub Case Type 0408                      Filed October 12, 2012  
Case No. 12 TX 166
4. Sale of Property Taxes in Error – Order declaring sale in error entered December 17,  
2012 by Judge David Akemann, Kane County Illinois. No. 12 TXK 001

**Schedule 4.16**  
Accounts Receivable

None

**Schedule 4.17**  
Environmental Matters

On February 26, 2012 Sherman had a pipe burst in room 11313 in the Medical Records office area. A solution containing methanol was released from the supply lines of the geothermal heating/cooling system. The incident was reported to IEMA and remedial action completed.

**Schedule 4.19**  
Financial Statements

[See Attached]

# **Sherman Health Systems and Affiliates**

Consolidated Financial Report  
April 30, 2012

## Contents

---

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

---

Financial Statements	
Consolidated Balance Sheets	2 - 3
Consolidated Statements of Operations and Changes in Net Assets	4
Consolidated Statements of Cash Flows	5 - 6
Notes to Consolidated Financial Statements	7 - 23

---

Independent Auditor's Report on the Supplementary Information	24
---	----

---

Consolidating Balance Sheet as of April 30, 2012	25 - 26
Consolidating Statement of Operations and Changes in Net Assets (Deficit) Year Ended April 30, 2012	27 - 28
Consolidating Balance Sheet as of April 30, 2011	29 - 30
Consolidating Statement of Operations and Changes in Net Assets (Deficit) Year Ended April 30, 2011	31 - 32

---



## Independent Auditor's Report on the Consolidated Financial Statements

To the Board of Directors and the Audit Committee  
Sherman Health Systems  
Elgin, Illinois

We have audited the accompanying consolidated balance sheets of Sherman Health Systems and Affiliates (Sherman) as of April 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Sherman's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sherman Health Systems and Affiliates as of April 30, 2012 and 2011 and the results of their operations and changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*McGladrey LLP*

Rockford, Illinois  
August 21, 2012

**Sherman Health Systems and Affiliates**

**Consolidated Balance Sheets  
April 30, 2012 and 2011**

	2012	2011
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 12,522,125	\$ 12,424,812
Investments	3,058,804	4,003,262
Assets limited as to use, debt service	4,866,194	4,749,343
Patient accounts receivable, less allowances for doubtful accounts of \$10,507,000 in 2012 and \$11,817,000 in 2011	55,681,123	47,825,188
Other receivables	6,420,546	2,828,911
Inventories	4,511,815	4,604,682
Prepaid Medicaid assessment tax	1,262,382	1,262,382
Prepaid expenses and other	3,245,313	3,727,141
<b>Total current assets</b>	<b>91,568,302</b>	<b>81,425,721</b>
<b>Other Assets</b>		
Assets limited as to use, net of amounts necessary to meet current obligations:		
Debt service reserve fund	17,290,868	17,288,584
Board designated for capital improvements	71,491,690	68,720,687
Internally designated for insurance program (SHIC)	8,241,662	-
Investments in and advances to affiliates	2,552,701	2,908,340
Deferred financing costs, net of amortization of \$1,666,603 in 2012 and \$1,495,762 in 2011	3,381,933	3,552,174
Insurance recoveries	16,508,394	-
Other long-term assets	-	611
<b>Total other assets</b>	<b>119,467,248</b>	<b>92,470,396</b>
Land, Buildings, and Equipment, net	412,087,375	436,116,933
<b>Total assets</b>	<b>\$ 623,122,925</b>	<b>\$ 610,013,050</b>

(Continued)

**Sherman Health Systems and Affiliates**

**Consolidated Balance Sheets (Continued)**  
**April 30, 2012 and 2011**

	2012	2011
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Current portion of long-term debt	\$ 4,351,466	\$ 4,189,235
Accounts payable	8,455,730	14,640,908
Estimated third-party payor settlements	25,530,917	23,789,874
Accrued salaries, wages, and payroll taxes	11,796,198	10,517,487
Deferred revenue, Medicaid assessment reimbursement	2,116,777	2,116,777
Other accrued expenses	11,148,136	11,157,004
<b>Total current liabilities</b>	<b>63,399,224</b>	<b>66,411,285</b>
Long-Term Debt, net of current portion	273,021,927	277,378,394
Accrued Medical Malpractice and Other Liabilities	33,367,941	12,007,489
	<b>306,389,868</b>	<b>289,385,883</b>
<b>Total liabilities</b>	<b>369,789,092</b>	<b>355,797,168</b>
Commitments and Contingencies (Note 15)		
Net Assets		
Unrestricted	252,915,812	253,143,337
Temporarily restricted	418,021	1,072,545
<b>Total net assets</b>	<b>253,333,833</b>	<b>254,215,882</b>
<b>Total liabilities and net assets</b>	<b>\$ 623,122,925</b>	<b>\$ 610,013,050</b>

See Notes to Consolidated Financial Statements.

**Sherman Health Systems and Affiliates**

**Consolidated Statements of Operations and Changes in Net Assets  
Years Ended April 30, 2012 and 2011**

	2012	2011
Unrestricted net assets and other support:		
Net patient service revenues	\$ 284,679,492	\$ 273,037,356
Other revenues	10,107,360	6,633,985
Medicaid assessment program revenue	12,700,662	12,700,662
Net assets released from restrictions—for operations	103,749	96,775
<b>Total unrestricted revenue and other support</b>	<u>307,591,263</u>	<u>292,468,778</u>
Operating expenses:		
Salaries	102,782,666	99,336,233
Physician salaries	2,250,285	1,789,773
Purchased salaries	3,800,732	3,193,237
Employee benefits	19,935,583	21,018,526
Medical fees	3,698,001	3,940,908
Supplies and other expenses	72,655,064	70,971,471
Medicaid provider tax	7,637,398	7,681,947
Purchased services	20,599,044	18,472,847
Insurance	7,809,498	7,357,338
Depreciation and amortization	26,490,645	27,574,417
Interest expense	15,670,810	15,846,487
Bad debts, net of collections	26,116,080	23,248,152
<b>Total operating expenses</b>	<u>309,445,806</u>	<u>300,431,336</u>
<b>Operating loss</b>	<u>(1,854,543)</u>	<u>(7,962,558)</u>
Nonoperating income (loss):		
Investment income	510,011	7,923,269
Other	(97,488)	184,011
Gain on disposal of fixed assets	82,126	6,045,455
<b>Total nonoperating income</b>	<u>494,649</u>	<u>14,152,735</u>
<b>Revenue in excess of (less than) expenses</b>	<u>(1,359,894)</u>	<u>6,190,177</u>
Other changes in net assets:		
Net assets released from restrictions—for capital	1,132,369	197,371
<b>Increase (decrease) in unrestricted net assets</b>	<u>(227,525)</u>	<u>6,387,548</u>
Changes in temporarily restricted net assets:		
Contributions and other	681,594	567,860
Net assets released from restriction	(1,336,118)	(294,146)
<b>Increase (decrease) in temporarily restricted net assets</b>	<u>(654,524)</u>	<u>273,714</u>
<b>Increase (decrease) in net assets</b>	<u>(882,049)</u>	<u>6,661,262</u>
Net assets:		
Beginning of year	<u>254,215,882</u>	<u>247,554,620</u>
End of year	<u>\$ 253,333,833</u>	<u>\$ 254,215,882</u>

See Notes to Consolidated Financial Statements.

**Sherman Health Systems and Affiliates**

**Consolidated Statements of Cash Flows  
Years Ended April 30, 2012 and 2011**

	2012	2011
<b>Cash Flows From Operating Activities</b>		
Increase (decrease) in net assets	\$ (882,049)	\$ 6,661,262
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	26,490,645	27,574,417
Amortization of deferred financing fees	170,241	170,244
Restricted contributions for land, buildings, and equipment acquisitions	681,594	(567,860)
Net change in unrealized gains and losses on investments	2,071,914	(5,171,310)
Net realized gains on sales of investments	(131,186)	(836,733)
Bad debts, net of collections	26,116,080	23,248,152
Gains on disposal of fixed assets	(82,126)	(6,027,626)
Changes in operating assets and liabilities:		
Patient accounts receivable	(33,972,015)	(28,351,276)
Inventories	92,867	(751,249)
Prepaid expenses and other	(3,109,807)	(425,686)
Accounts payable and other current liabilities	(3,994,116)	7,339,505
Estimated third-party payor settlements	1,741,043	5,709,601
Noncurrent assets and liabilities	4,852,669	983,372
<b>Net cash provided by operating activities</b>	<b>20,045,754</b>	<b>29,554,813</b>
<b>Cash Flows From Investing Activities</b>		
Purchases of investments and assets limited as to use:		
Trading	(67,529,142)	(69,672,514)
Proceeds from sales of investments and assets limited as to use:		
Trading	55,401,072	54,358,878
Proceeds from sale of fixed assets	320,271	6,260,185
Purchases of land, buildings, and equipment	(2,507,540)	(5,609,208)
Investment in and advances to affiliates	355,639	(207,291)
<b>Net cash used in investing activities</b>	<b>(13,959,700)</b>	<b>(14,869,950)</b>
<b>Cash Flows From Financing Activities</b>		
Principal payments of long-term debt	(4,194,236)	(4,030,909)
Proceeds from restricted contributions for land, buildings, and equipment acquisitions	(681,594)	567,860
Payment of accounts payable for land, buildings, and equipment purchases	(1,112,911)	(4,850,311)
<b>Net cash used in financing activities</b>	<b>(5,988,741)</b>	<b>(8,313,360)</b>
<b>Increase in cash</b>	<b>97,313</b>	<b>6,371,503</b>
Cash:		
Beginning	12,424,812	6,053,309
Ending	<b>\$ 12,522,125</b>	<b>\$ 12,424,812</b>

(Continued)

**Sherman Health Systems and Affiliates**

**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended April 30, 2012 and 2011**

	2012	2011
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	\$ 15,730,209	\$ 15,902,793
Supplemental Schedule of Noncash Investing and Financing Activities		
Land, buildings, and equipment additions included in accounts payable and construction payables	\$ 191,692	\$ 1,112,911

See Notes to Consolidated Financial Statements.

## Sherman Health Systems and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Business and Summary of Significant Accounting Policies

**Nature of business:** Sherman Health Systems, located in Elgin, Illinois, is a not-for-profit corporation incorporated under the laws of the State of Illinois. Its purpose is to establish, support, maintain, and direct health care, charitable, and educational activities. Sherman Health Systems consists of the following controlled affiliates:

Not-for-profit controlled affiliates:

- Sherman Hospital (Hospital)
- Sherman Home Health Care Corporation
- Sherman West Court (Nursing Home)
- Sherman Health Foundation

For-profit controlled affiliate:

- Health Visions, Inc., including its wholly owned subsidiaries, Sherman Physician Group, Inc. (incorporated during fiscal year 2010) and Sherman Group Practice, Inc.

Foreign controlled affiliates:

- Sherman Health Insurance Company (SHIC) - incorporated on December 2, 2010 in the Cayman Islands and is exempt from any corporate taxes in that jurisdiction. Also, as SHIC only has premium income from Sherman Health Systems, there are no taxes for SHIC in the United States.

A summary of significant accounting policies follows:

**Principles of consolidation:** The consolidated financial statements include the accounts of Sherman Health Systems and its controlled affiliates (Sherman). All intercompany accounts and transactions have been eliminated upon consolidation.

**Accounting estimates:** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The use of estimates and assumptions in the preparation of the accompanying consolidated financial statements is primarily related to the determination of the net patient accounts receivable, settlements with third-party payors, insurance recoveries, the evaluation of long-lived assets for possible impairment and the accrual for medical malpractice claims. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near-term would be material to the consolidated financial statements.

**Cash and cash equivalents:** Sherman maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Sherman has not experienced any losses in these accounts. Sherman considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Investments and assets limited as to use:** Investments in equity securities with readily determinable fair value and all investments in debt securities are carried at fair value. Investment income or loss (including realized gains and losses on investments, interest, dividends and unrealized gains and losses on trading securities) is included in revenue in excess of expenses unless the income is restricted by donor or law. Realized gains from the sale of investments are recognized using the average cost method for sales of marketable equity securities.

## Sherman Health Systems and Affiliates

### Notes to Consolidated Financial Statements

---

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

Assets limited as to use include investments externally designated under the bond indenture and internally designated by the Board of Directors for capital improvements and internally designated for the insurance program related to SHIC's investments. Amounts required to meet current liabilities of Sherman have been reclassified in the consolidated balance sheet as current assets.

#### **Patient accounts receivable, provision for doubtful accounts and due from/to third-party payors:**

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

Patient receivables due directly from the patients are carried at their original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Management estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each payor type. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

The past due status of receivables is determined on a case-by-case basis depending on the payor responsible. Interest is not charged on past due accounts.

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

**Other receivables:** Other receivables are carried at their original amount, less payments received and less an estimated allowance for doubtful accounts based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by identifying troubled accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Interest is not charged on past due receivables. Receivables are considered past due on a case-by-case basis.

**Inventories:** Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

**Deferred financing costs:** Deferred financing costs related to the issuance of the revenue bonds are being amortized using the straight-line method, which approximates the effective interest method, over the terms of the bonds.

**Insurance recoveries:** Sherman records insurance recoveries separately from related insurance claim liabilities.

## Sherman Health Systems and Affiliates

### Notes to Consolidated Financial Statements

---

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

**Land, buildings, and equipment:** Land, buildings, and equipment are stated at cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets. Useful lives assigned to the different classes of buildings and equipment are:

	<u>Life Assigned</u>
Buildings and improvements	5 - 90 years
Furnishings and equipment	5 - 20 years
Computer hardware and software	5 years

Management periodically evaluates its long-lived assets for possible impairment whenever events or circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from estimated future cash flows. Measurement of the amount of the impairment, if any, may be based on independent appraisals, established market values of comparable assets or estimates of future discounted cash flows expected to result from the use and disposition of the assets. The estimates of these future cash flows are based on assumptions and projections believed by management to be reasonable. Future events could occur which would cause management to conclude that impairment indicators exist and an impairment loss is warranted.

**Conditional asset retirement obligation:** Sherman recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the retirement obligation is capitalized by increasing the carrying value of the related asset. Over time, the liability is accreted to its present value each year, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of operations and changes in net assets.

An asset retirement obligation of approximately \$213,000 and \$1,215,000 was recorded at April 30, 2012 and 2011, respectively, and is included with other long-term liabilities on the consolidated balance sheet.

**Nonoperating income:** Nonoperating income consists primarily of contribution income, investment income or loss, and gains on disposal of fixed assets, which management views as outside of normal health care related activities.

**Revenue in excess of (less than) expenses:** The consolidated statements of operations and changes in net assets include revenue in excess of (less than) expenses. Changes in unrestricted net assets, which are excluded from revenue in excess of (less than) expenses, consistent with industry practice, include permanent transfers of assets and liabilities to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

## Sherman Health Systems and Affiliates

### Notes to Consolidated Financial Statements

---

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

**Net patient service revenues:** Sherman has agreements with third-party payors that provide for payments to Sherman at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administering agencies. Retroactive adjustments are accrued on an estimated basis in the period the related services are provided and are adjusted in future periods as final settlements are determined.

**Charity care:** Sherman provides care to patients who met the criteria established under its charity care policy without charge or at amounts less than its rates. Because Sherman does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Sherman's policy is to treat patients in immediate need of medical services without regard to their ability to pay for services.

**Contributions and temporarily and permanently restricted net assets:** Sherman records all unrestricted contributions as income when received or when the donor makes an unconditional promise to give. Restricted contributions are recorded as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

Temporarily restricted net assets of \$418,021 and \$1,072,545 at April 30, 2012 and 2011, respectively, are primarily restricted for costs associated with hospital capital projects and other miscellaneous programs.

**Advertising costs:** Sherman expenses advertising costs as incurred. Advertising expenses amounted to approximately \$1,548,200 and \$1,359,200 for the years ended April 30, 2012 and 2011, respectively.

**New accounting guidance:** During the year ended April 30, 2012, Sherman adopted the disclosure guidance contained in the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure - a consensus of the FASB Emerging Issues Task Force*. This ASU requires that the measurement of charity care by a health care entity for disclosure purposes be based on the direct and indirect costs of providing the charity care, and that Sherman provide disclosure regarding the method used to identify or determine such costs. The measurement and disclosure requirements in this ASU were required to be applied to all periods presented in the financial statements. See Note 14 for further information.

Effective May 1, 2011, Sherman adopted the provisions of the Financial Accounting Standards Board's ASU No. 2010-24 which further clarifies that health care entities should not net insurance recoveries against the related claim liabilities. In connection with Sherman's adoption of ASU No. 2010-24, Sherman recorded an increase to its "Insurance recoveries" and "Accrued medical malpractice and other liabilities" in the accompanying consolidated balance sheet of \$16,508,394 as of April 30, 2012. This increase represents Sherman's estimate of its recoveries for certain claims in excess of Sherman's self-insured retention levels for general liability claims relating to insurance policy year 2011 and prior. The adoption of ASU No. 2010-24 had no impact on Sherman's results of operations or cash flows.

## Sherman Health Systems and Affiliates

### Notes to Consolidated Financial Statements

---

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

**Subsequent events:** Sherman has evaluated subsequent events through August 21, 2012, which is the date the financial statements were issued, for possible measurement and/or disclosure effects on the financial statements.

#### **Note 2. Net Patient Service Revenues**

Contractual allowances under third-party reimbursement programs represent the aggregate of the difference between revenues at established rates and the amounts reimbursed by Medicare, Medicaid, Blue Cross, and other third-party payors and any adjustments for the differences between estimated retroactive third-party reimbursement settlements for prior years and subsequent final settlements. Sherman has a discount policy to reduce charges to uninsured patients. These contractual allowances are provided on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined. Patient service revenues are reported net of third-party contractual allowances in the consolidated statements of operations and changes in net assets.

Reported costs and/or services provided, under certain of the arrangements, are subject to audit by the administering agencies. Changes in the various programs, including Medicare and Medicaid, could have an adverse effect on Sherman.

A summary of the payment arrangements with major third-party payors follows:

**Medicare:** Inpatient medical and surgical acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Most outpatient services related to Medicare beneficiaries are paid at prospectively determined rates per service.

**Medicaid:** The Medicaid program reimburses Sherman at prospectively determined rates for both inpatient and outpatient services. Sherman also receives incremental Medicaid reimbursement for specific programs and services at the discretion of the State of Illinois Medicaid Program. Medicaid reimbursement may be subject to periodic adjustment, as well as to changes in existing payment levels and rates, based on the amount of funding available to the Medicaid program.

**Other:** Estimates for contractual allowances under managed care health plans are based primarily on the payment terms of contractual arrangements, such as predetermined rates per diagnosis, per diem rates or discounted fee for service rates. Sherman participates as a provider of health care services under a reimbursement agreement with Blue Cross. The provisions of this agreement stipulate that services will be reimbursed at a tentative reimbursement rate and that final reimbursement for these services is determined after the submission of an annual cost report by Sherman and a review by Blue Cross.

## Sherman Health Systems and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 2. Net Patient Service Revenues (Continued)

The percentage of net patient service revenues from patients and third-party payors for the years ended April 30 is:

	2012	2011
Other third-party payors	59%	57%
Medicare	28%	29%
Medicaid	7%	8%
Patients	6%	6%
	<u>100%</u>	<u>100%</u>

The percentage of net patient accounts receivable from patients and third-party payors for the years ended April 30 are:

	2012	2011
Other third-party payors	43%	58%
Medicare	18%	19%
Medicaid	32%	17%
Patients	7%	6%
	<u>100%</u>	<u>100%</u>

In December 2006, the Federal Centers for Medicare & Medicaid Services (CMS) approved State of Illinois (State) legislation for a Medicaid Hospital Assessment Program (Program) relating to the period August 15, 2005 to June 30, 2008. During 2008, the Program was renewed for another five-year period which will go through June 30, 2013. Under the Program, Sherman received additional Medicaid reimbursement from the State and paid a related assessment tax. Total reimbursement revenue recognized by Sherman related to the Program amounted to approximately \$12,701,000 during Sherman's years ended April 30, 2012 and 2011. Total assessment tax incurred by Sherman related to this Program amounted to approximately \$7,637,000 and \$7,682,000 during Sherman's years ended April 30, 2012 and 2011, respectively. Sherman expects that the corresponding net revenue from the Program for the years ended April 30, 2013 and 2014 to be \$5,126,370 and \$854,395, respectively. The laws and regulations authorizing this Program will expire on June 30, 2013.

On June 14, 2012, the Governor of Illinois signed the Save Medicaid Access and Resources Together (SMART) Act. The SMART Act reduces by 3.5% all Illinois Medicaid payments received by hospitals. The SMART Act also includes an enhanced hospital tax assessment program that, if approved by the Centers for Medicare & Medicaid Services, will extend the programs through December 14, 2014 and generate additional funds that will be used to attract additional matching funds. If approved, the additional funds will be used to provide new hospital payments designed to preserve and improve access to hospital services for residents of Illinois.

## Sherman Health Systems and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 2. Net Patient Service Revenues (Continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimated settlements will change by a material amount in the near-term.

#### Note 3. Land, Buildings, and Equipment

A summary of land, buildings, and equipment is as follows at April 30:

	2012	2011
Land	\$ 45,461,184	\$ 45,469,985
Buildings and improvements	460,915,313	459,099,412
Furnishings and equipment	178,604,478	192,149,409
Construction in progress	407,079	3,081,631
	<u>685,388,054</u>	<u>699,800,437</u>
Less accumulated depreciation	<u>273,300,679</u>	<u>263,683,504</u>
Property, plant, and equipment, net	<u>\$ 412,087,375</u>	<u>\$ 436,116,933</u>

In July 2010, Sherman sold its outpatient hemodialysis operations and related assets for proceeds of approximately \$6,280,000. The gain on the sale of the assets is recognized as a gain on disposal of fixed assets in the statement of operations and changes in net assets.

#### Note 4. Investments and Assets Limited as to Use

The composition of investments and assets limited as to use is as follows at April 30:

	2012	2011
Cash and cash equivalents	\$ 8,762,858	\$ 14,583,238
Guaranteed Investment Contract	17,290,868	17,288,584
Equity funds	47,967,612	43,484,259
Fixed income funds	27,117,742	15,796,069
Limited partnership	857,670	437,328
Commodities	2,952,468	3,172,398
	<u>\$ 104,949,218</u>	<u>\$ 94,761,876</u>

At April 30, 2012 and 2011, all investments, including assets limited as to use, were classified as trading securities.

## Sherman Health Systems and Affiliates

### Notes to Consolidated Financial Statements

#### Note 4. Investments and Assets Limited as to Use (Continued)

Total investment return for the years ended April 30 is:

	2012	2011
Dividend and interest income	\$ 2,717,237	\$ 1,915,226
Net realized gain on sales of investments	131,186	836,733
Change in net unrealized gains and losses on trading securities	(2,071,914)	5,171,310
Less gain on SHIC's investments included in other revenue	(266,498)	-
	<u>\$ 510,011</u>	<u>\$ 7,923,269</u>

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near-term and that such changes could materially affect the amounts reported in the balance sheets.

#### Note 5. Investments in Affiliates and Other

Investments in and advances to affiliates total \$2,552,701 and \$2,908,340 at April 30, 2012 and 2011, respectively. Net income (loss) from these investments is included in other revenues as these investments are directly related to Sherman's core businesses. These investments are accounted for under the equity method. Summarized (unaudited) information as to assets, liabilities, total equity, and results of operations of the investees, as of their most recent fiscal year-end, is presented below:

	Sherman Choice	Valley Infusion Care LLC	ARSC Real Estate Holdings, LLC	Algonquin Road Surgery Center, LLC
Assets	\$ 4,393,035	\$ -	\$ 5,462,442	\$ 3,489,350
Liabilities	4,468,896	-	2,697,030	2,152,313
Total equity (deficit)	(69,861)	-	2,765,412	1,337,037
Net income (loss)	(203)	(15,541)	130,592	2,315,565

Sherman Choice, a for-profit corporation owned 50% by the Hospital, with a fiscal year ending April 30, assists in the negotiation and administration of contracts on behalf of corporations and other entities in an effort to provide health care services to individuals affiliated with various third-party payors. Amounts due from Sherman Choice totaled \$998,418 and \$902,080 at April 30, 2012 and 2011, respectively. The Hospital's investment in Sherman Choice was zero at April 30, 2012 and 2011 due to Sherman Choice's deficit equity position.

Valley Infusion Care LLC, a limited liability company, was dissolved and liquidated by the unanimous written agreement of the Members of the Company. Articles of Dissolution were filed with the Illinois Secretary of State on October 14, 2011.

ARSC Real Estate Holdings, LLC is a limited liability company with a fiscal year ending December 31. It is owned 50% by the Hospital for the sole purpose of developing real property, constructing the Algonquin Road Surgery Center facility, and leasing the real estate to the Algonquin Road Surgery Center.

## Sherman Health Systems and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 5. Investments in Affiliates and Other (Continued)

Algonquin Road Surgery Center, LLC (ARSC) is a limited liability company that is owned 25.5% by the Hospital and has a fiscal year ending December 31. ARSC is a free-standing ambulatory care center that expands the availability and accessibility of high quality ambulatory care. The ambulatory care facility is leased from ARSC Real Estate Holdings, LLC.

#### Note 6. Line of Credit, Long-Term Debt, and Subsequent Event

During the year ended April 30, 2011, Sherman opened a bank line of credit that provided for borrowings up to \$9,000,000. This line of credit bears interest at prime plus 4% and is collateralized by substantially all assets of the Hospital. There were no outstanding borrowings on this line at April 30, 2012 or April 30, 2011. Subsequent to April 30, 2012, Sherman had the line of credit extended to May 2014 and reduced to \$3,000,000.

The Sherman Hospital Obligated Group (Obligated Group) has a loan agreement with the Illinois Finance Authority (Authority) covering the Authority's issuance of revenue bonds, Series 2007A (Sherman Health Systems) totaling \$170,000,000. The Obligated Group consists of Sherman Health Systems, Sherman Hospital, and Sherman West Court (Affiliate). The bonds are secured by a direct note obligation and a security interest in unrestricted receivables. Until July 2018, only semiannual payments of interest at 5.50% are required under the terms of the bond indenture. Thereafter, principal is due each year on August 1 in amounts ranging from \$820,000 in 2018 to \$19,965,000 in 2037. The bond indenture requires a Debt Service Reserve Fund which is held by the bond trustee for the benefit of the Series 2007A Bonds. Funds on deposit in the Debt Service Reserve Fund shall only be used to make up any deficiencies in the Interest Fund and the Bond Sinking Fund. The Debt Service Reserve Fund had a balance of \$17,290,868 and \$17,288,584 at April 30, 2012 and 2011, respectively, and is presented as assets limited as to use on the consolidated balance sheets. The outstanding note balance was \$170,000,000 at April 30, 2012 and 2011. This amount excludes a discount of \$1,132,707 and \$1,162,219 at April 30, 2012 and 2011, respectively. The bond indenture contains various covenants, including achievement of specified financial ratios.

The Obligated Group also has a loan agreement with the Illinois Health Facilities Authority (Authority) covering the Authority's issuance of revenue bonds, Series 1997 (Sherman Health Systems) totaling \$153,690,000. The bonds are secured by an insurance policy in an amount up to the unpaid principal and interest. The bonds are due in varying amounts on August 1 each year ranging from \$4,555,000 in 2012 to \$9,840,000 in 2027. Interest is paid semiannually at rates ranging from 5.25% to 5.50%. Quarterly deposits of principal and interest to a bond sinking fund and bond interest fund are required under the terms of the trust indenture. The bond funds had a total balance of \$4,866,194 and \$4,749,343 at April 30, 2012 and 2011, respectively. The outstanding note balance was \$110,255,000 and \$114,575,000 at April 30, 2012 and 2011, respectively. These amounts exclude a discount of \$3,188,900 and \$3,380,152 at April 30, 2012 and 2011, respectively. The bond indenture contains various covenants, including achievement of specified financial ratios.

The City of Elgin issued \$2,160,000 in General Obligation Corporate Purpose Bonds, Series 2002 (the Wellness Center Bonds) on behalf of Sherman during 2002. Sherman used the funds to finance the construction of Sherman's Wellness Center, which is included in Sherman's buildings and improvements in the consolidated balance sheets. Under the terms of the Lease and Use Agreement between the City of Elgin and Sherman Hospital, dated July 11, 2001, Sherman makes monthly payments to the City of Elgin, which includes debt service and common area maintenance. The bonds are secured by the property at the Wellness Center. The Wellness Center Bonds bear interest at rates ranging from 4% to 5%. The bonds mature in varying amounts on December 15 each year ranging from \$100,000 in 2012 to \$165,000 in 2022. The outstanding balance was \$1,440,000 and \$1,535,000 at April 30, 2012 and 2011, respectively.

## Sherman Health Systems and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 6. Line of Credit, Long-Term Debt, and Subsequent Event (Continued)

Interest cost totaled \$15,670,810 and \$15,846,487 for the years ended April 30, 2012 and 2011, respectively.

Annual future principal maturities of long-term debt as of April 30, 2012 are as follows:

<u>Years Ending April 30,</u>	
2013	\$ 4,655,000
2014	4,910,000
2015	5,170,000
2016	5,445,000
2017	5,730,000
Thereafter	255,785,000
	<u>\$ 281,695,000</u>

#### Note 7. Letters of Credit and Subsequent Event

Sherman has approximately \$2,246,000 and \$3,304,000 in letters of credit at April 30, 2012 and 2011, respectively, which have been secured through a bank and issued to an insurance company and Kane County in relation to the construction of Sherman's new facility and improvements of surrounding roads. The letter of credit issued to Kane County expired during fiscal year 2012 and was not renewed. No amounts have been drawn as of April 30, 2012. The letter of credit issued to the insurance company expires September 2012. Interest on amounts drawn on the letters of credit is payable on demand at an annual rate of prime plus 2%.

Subsequent to April 30, 2012, the City of Elgin required Sherman to issue a letter of credit approximating \$520,000 to guarantee fulfillment of Center Street demolition plans. The letter expires in May 2014.

#### Note 8. Retirement Savings Plan

Sherman has a trustee, contributory, defined-contribution plan (retirement savings plan) covering all employees meeting age and service requirements. Under the terms of the plan, Sherman contributes a percentage of total earnings of all eligible employees plus an additional matching contribution of 50% of employee contributions up to specified maximum amounts.

Sherman's contributions to the employees' Retirement Savings Plan, in accordance with the plan agreement, approximated \$3,008,000 and \$2,789,000 for the years ended April 30, 2012 and 2011, respectively.

Sherman sponsors a supplemental executive retirement plan. The supplemental plan is a nonqualified defined-contribution plan covering specified executives. The plan allows for a discretionary annual contribution to be made by Sherman each year. Total expense associated with this plan amounted to approximately \$308,000 and \$270,000 for the years ended April 30, 2012 and 2011, respectively. At April 30, 2012 and 2011, the total liability related to this plan amounted to approximately \$1,088,000 and \$780,000, respectively.

## Sherman Health Systems and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 9. Leases

Sherman leases equipment and professional office building space under operating leases expiring at varying dates to April 2023. Rental expense charged to operations amounted to approximately \$4,470,000 in 2012 and \$4,059,000 in 2011.

Future annual minimum rental payments (excluding property taxes, repairs, and maintenance) under all noncancelable operating leases in effect as of April 30, 2012 are:

<u>Years Ending April 30,</u>	
2013	\$ 3,727,196
2014	3,216,574
2015	3,157,399
2016	2,497,367
2017	2,390,183
Thereafter	6,899,769
	<u>\$ 21,888,488</u>

#### Note 10. Functional Expenses

Expenses related to providing services are as follows for the years ended April 30:

	<u>2012</u>	<u>2011</u>
Health care services	\$ 238,401,235	\$ 239,052,419
General and administrative	70,128,221	60,368,370
Fundraising	916,350	1,010,547
	<u>\$ 309,445,806</u>	<u>\$ 300,431,336</u>

Certain costs have been allocated among the health care services and general and administrative expenses.

#### Note 11. Fair Values of Financial Instruments

##### *Fair Value Measurements*

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Quoted market prices in active markets for identical assets or liabilities.
- Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3 – Unobservable inputs that are not corroborated by market data.

The following is a description of the valuation methodologies used for instruments measured at fair value:

##### *Investments*

The fair value of debt and equity securities and commodities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

## Sherman Health Systems and Affiliates

### Notes to Consolidated Financial Statements

#### Note 11. Fair Values of Financial Instruments (Continued)

The investment in the limited partnership for which a quotation was not readily available is valued at fair value based on the applicable percentage ownership of the limited partnership's net assets as of the measurement date. In determining fair value, management of Sherman utilizes a valuation provided by the limited partnership. The estimated fair value of certain investments of the limited liability company, which may include private placements and other securities for which prices are not readily available, are determined by the member of the limited liability partnership and may not reflect amounts that could be realized upon the sale, nor amounts that may be realized.

Accordingly, the estimated fair value may differ significantly from the value that would have been used had a ready market existed for the investment. The fair value of Sherman's investment in the limited partnership generally represents the amount Sherman would expect to receive if it were to liquidate its investment in the limited liability partnership.

In determining the appropriate levels, Sherman performs a detailed analysis of the assets and liabilities carried at fair value in the consolidated financial statements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

#### Fair Value on a Recurring Basis

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy as of April 30, 2012 and 2011:

	April 30, 2012			
	Total	Level 1	Level 2	Level 3
Investments and assets limited as to use:				
Limited Partnership	\$ 857,670	\$ -	\$ -	\$ 857,670
Commodities	2,952,468	2,952,468	-	-
Fixed Income:				
Corporate Bonds	13,063,303	9,517,281	3,546,022	-
Government Bonds	12,189,395	5,810,779	6,378,616	-
Emerging Markets	1,865,044	1,865,044	-	-
Equity Funds:				
Small Cap	3,136,543	3,136,543	-	-
Mid Cap	6,973,848	6,973,848	-	-
Large Cap	24,870,523	24,248,525	621,998	-
Emerging Markets	3,713,893	3,713,893	-	-
International	9,272,805	9,272,805	-	-
	<u>\$ 78,895,492</u>	<u>\$ 67,491,186</u>	<u>\$ 10,546,636</u>	<u>\$ 857,670</u>

**Sherman Health Systems and Affiliates**

**Notes to Consolidated Financial Statements**

**Note 11. Fair Values of Financial Instruments (Continued)**

	April 30, 2011			
	Total	Level 1	Level 2	Level 3
Investments and assets limited as to use:				
Limited Partnership	\$ 437,328	\$ -	\$ -	\$ 437,328
Commodities	3,172,398	3,172,398	-	-
Fixed Income:				
Corporate Bonds	8,408,508	4,935,105	3,473,403	-
Government Bonds	7,387,561	3,424,527	3,963,034	-
Equity Funds:				
Small Cap	2,650,137	2,650,137	-	-
Mid Cap	5,510,534	5,510,534	-	-
Large Cap	22,184,585	22,184,585	-	-
Emerging Markets	3,435,431	3,435,431	-	-
International	9,703,572	9,703,572	-	-
	<u>\$ 62,890,054</u>	<u>\$ 55,016,289</u>	<u>\$ 7,436,437</u>	<u>\$ 437,328</u>

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Limited Partnership
Balance, April 30, 2010	\$ 276,160
Total net gains included in:	
Revenue in excess of expenses	161,168
Balance, April 30, 2011	437,328
Total net gains included in:	
Revenue in excess of expenses	420,342
Balance, April 30, 2012	<u>\$ 857,670</u>

Gains and losses (realized and unrealized) related to the investment in the limited partnership are included in nonoperating income as investment income.

The following methods and assumptions were used by Sherman to estimate fair value of other financial instruments:

**Cash, accounts receivable, accounts payable, and accrued expenses:** Fair value approximates carrying value due to the short-term nature of these accounts.

**Long-term debt:** The estimated fair value of long-term debt is based on current traded value priced to maturity or first call. The fair value is approximately \$290,606,000 and \$258,940,000 at April 30, 2012 and 2011, respectively.

## Sherman Health Systems and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 12. Medical Malpractice Liabilities

Effective January 1, 2011, Sherman became self-insured through Sherman Health Insurance Company (SHIC). SHIC provides Medical Professional and Commercial General Liability insurance policies to Sherman and its employees. The medical professional liability and the commercial general liability are on a claims made basis. SHIC's primary limits of liability are \$5,000,000 for each and every medical incident with no annual aggregate for the medical professional liability and \$1,000,000 per occurrence and \$3,000,000 annual aggregate for general liability. SHIC also issues a Buffer Medical Professional Liability policy with limits of \$2,000,000 each medical incident with an annual aggregate of \$2,000,000. In addition, Sherman has obtained a \$20,000,000 annual excess limit per year policy for professional and general liability.

Prior to becoming self-insured, Sherman was insured for claims-made professional and general liability insurance coverage, subject to a minimal deductible, through the Chicago Hospital Risk Pool Program (CHRPP). CHRPP is a risk pooling arrangement among tax-exempt, not-for-profit entities designed to protect against the risk of financial loss due to the imposition of legal liability, which was established under the Illinois Religious and Charitable Risk Pooling Trust Act of 1977. Participation in CHRPP required monthly contributions, based upon actuarial projections, in exchange for coverage. Sherman may be required to make additional contributions to CHRPP to fund deficits for the shorter of 10 years from the date it exited CHRPP or the period during which Sherman has CHRPP-related claims outstanding. No such contributions were required in 2012 or 2011.

CHRPP engages the services of an independent consultant for actuarial valuations of self-insured funding requirements and has designated attorneys to handle professional and general liability claims. The Hospital has established its risk management program and claims-handling procedures in accordance with guidelines issued by the United States Department of Health and Human Services. The self-insurance funding, which is expensed when amounts are funded into the self-insurance trust, was recommended and certified by an independent actuarial firm. As stated above, the Hospital's required contributions to CHRPP are subject to retrospective adjustments. Management does not believe any retrospective adjustments would be material.

In June 2010, CHRPP notified its current and former members that it had resolved to discontinue the issuance of hospital professional and comprehensive general liability coverage and commence a voluntary "run-off" of its claim portfolio effective January 1, 2011.

The accrual for self-insured professional liability risks is included in "accrued medical malpractice and other" on the consolidated balance sheets. The liability for medical malpractice is approximately \$16,646,000 and \$10,792,000 at April 30, 2012 and 2011, respectively. The amount is determined by assessing asserted and unasserted claims identified by management's incident reporting system and is estimated by an independent consulting actuary based on industry data and the Hospital's own historical reporting patterns using a discount rate of 4.0% in 2012 and 2011. If accrued losses had not been discounted, the estimated liability would be approximately \$3,282,000 and \$2,168,000 higher than the amounts recorded in the consolidated balance sheets as of April 30, 2012 and 2011, respectively. Actuarial estimates are subject to uncertainty from various sources, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and economic conditions. The actual claim payments could be materially different from the estimates.

Sherman has engaged the services of an independent consultant for actuarial valuations of self-insured funding requirements and has designated attorneys to administer professional and general liability claims. The self-insurance findings, which are expensed as amounts are funded into the self-insurance trust, were recommended and certified by an independent actuarial firm. Such funding is subject to retrospective adjustment based upon subsequent studies by the actuary.

## Sherman Health Systems and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 13. Income Taxes

Sherman is primarily comprised of not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (Code). Section 501(c)(3) organizations are exempt from federal income taxes on related income on those entities pursuant to Section 501(a) of the Code. None of Sherman's not-for-profit organizations have significant unrelated business activities. Sherman uses an asset and liability approach for financial accounting and reporting purposes as it relates to income taxes. Deferred tax liabilities and assets are determined based upon the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The for-profit affiliate, Health Visions, Inc., has a net operating loss carryover of approximately \$26,343,000, which expires from 2016 to 2030. There is a valuation allowance recorded to offset this deferred tax asset and, therefore, no net deferred asset is recorded. There are no other material deferred tax items.

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

Sherman's for-profit affiliates, including Health Visions, Inc., Sherman Physician Group, Inc., and Sherman Group Practice, Inc., file Form 1120 annually. Tax positions are not offset or aggregated with other positions. Tax positions that meet the "more likely than not" recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. At April 30, 2012 and 2011, there were no unrecognized tax benefits identified or recorded as liabilities.

Forms 990 and 1120 filed by Sherman and all affiliates are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Forms 990 and 1120 filed by Sherman and all affiliates are no longer subject to examination for tax years before April 30, 2009.

## Sherman Health Systems and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 14. Charity Care

Charity care eligibility is established based on limited or no insurance coverable, income compared to published poverty levels and family size, as well as other factors. Because Sherman does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Sherman maintains records to identify and monitor the level of charity care it provides. Charity care is measured based on Sherman's estimated direct and indirect costs of providing charity care services. That estimate is made by calculating a ratio of cost to gross charges, applied to the uncompensated charges associated with providing charity care to patients. The amount of charity care provided during the years ended April 30, 2012 and 2011 was approximately \$3,088,000 and \$3,186,000, respectively. Sherman did not receive any funds from restricted contributions and gifts intended to directly offset the cost of charity care during the years ended April 30, 2012 and 2011.

#### Note 15. Commitments and Contingencies

Sherman is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on Sherman's financial condition or operations.

Congress passed the Medicare Modernization Act in 2003, which among other things established a three-year demonstration of the Medicare Recovery Audit Contractor (RAC) program. The RAC identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states by 2010. CMS implemented the RAC program in Illinois in 2010. Management does not believe the RAC audits will have a material effect on Sherman's results of operations or cash flows. At April 30, 2012 and 2011, Sherman recorded a reserve for estimated amounts that will be repaid under the RAC program based on the Hospital's RAC program experience to date.

In connection with the opening of Sherman's new facility during 2010, Sherman has submitted an application for a property tax exemption to the State of Illinois. The State of Illinois has not yet approved Sherman's application. On June 14, 2012, the Governor of Illinois signed into law legislation that governs property and sales tax exemption for not-for-profit hospitals. The law took effect on the date it was signed. Under the law, in order to maintain its property and sales tax exemption, the value of specified services and activities of a not-for-profit hospital must equal or exceed the estimated value of the hospital's property tax liability, as determined under a formula in the law. The specified services are those that address the health care needs of low-income or underserved individuals or relieve the burden of government with regard to health care services, and include: the cost of free or discounted services provided pursuant to the hospital's financial assistance policy; other unreimbursed costs of addressing the health needs of low-income and underserved individuals; direct or indirect financial or in-kind subsidies of State and local governments; the unreimbursed cost of treating Medicaid and other means-tested program recipients; the unreimbursed cost of treating dual-eligible Medicare/Medicaid patients; and other activities that the Illinois Department of Revenue determines relieve the burden of government or address the health of low-income or underserved individuals. Sherman has analyzed the details of the legislation and believes that the facility meets the requirements under the law to qualify for the property tax exemption. Accordingly, Sherman has not recorded any property tax expense for this facility.

Sherman has entered into commitments extending through fiscal year 2017 for procurement, installation, maintenance and operation of upgrades to its clinical and financial software systems. These commitments are subject to escalation should the scope of use increase beyond certain defined thresholds. Future minimum expenditures under these commitments are approximately \$16,678,000 at April 30, 2012.

## Sherman Health Systems and Affiliates

### Notes to Consolidated Financial Statements

---

#### **Note 16. Pending Adoption of New Accounting Standards**

In July 2011, the FASB issued ASU No. 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities (a consensus of the FASB Emerging Issues Task Force)*. This ASU requires health care entities that recognize significant amounts of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statement of operations. Also, a health care entity is required to provide enhanced disclosure about its policies for recognizing revenue and assessing bad debts. Further, the ASU requires disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts.

For public entities, the amendments in ASU No. 2011-07 are effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. For nonpublic entities, the amendments are effective for the first annual period ending after December 15, 2012, and interim and annual periods thereafter, with early adoption permitted. The amendments to the presentation of the provision for bad debts netted against patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented.



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

To the Board of Directors and Audit Committee  
Sherman Health Systems  
Elgin, Illinois

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual entities, and is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements taken as a whole.

*McGladrey LLP*

Rockford, Illinois  
August 21, 2012

Sherman Health Systems and Affiliates

Consolidating Balance Sheet  
April 30, 2012

	Sherman Health Systems	Sherman Hospital	Sherman Home Health Care Corporation	Sherman West Court	Health Visions, Inc.	Sherman Health Foundation	Sherman Health Insurance Co.	Eliminations	Total
<b>Assets</b>									
<b>Current Assets</b>									
Cash	\$ 44,778	\$ 10,718,739	\$ 50,007	\$ 316,333	\$ 221,021	\$ 743,821	\$ 427,426	\$ -	\$ 12,522,125
Investments	-	3,001,620	-	-	-	57,184	-	-	3,058,804
Assets limited as to use, debt service	484,722	4,172,469	-	209,003	-	-	-	-	4,866,194
Patient accounts receivable, less allowances for doubtful accounts	222,449	52,688,580	711,507	1,244,711	813,876	-	-	-	55,681,123
Other receivables	146,653	6,237,075	-	-	250	68	3,077,204	(3,040,704)	6,420,546
Inventories	-	4,502,167	-	9,648	-	-	-	-	4,511,815
Prepaid Medicaid assessment tax	-	1,262,382	-	-	-	-	-	-	1,262,382
Prepaid expenses and other	207,728	2,938,439	21,338	3,374	49,801	8,361	16,272	-	3,245,313
<b>Total current assets</b>	<b>1,106,330</b>	<b>85,521,471</b>	<b>782,852</b>	<b>1,783,069</b>	<b>1,084,948</b>	<b>809,434</b>	<b>3,520,902</b>	<b>(3,040,704)</b>	<b>91,568,302</b>
<b>Other Assets</b>									
Assets limited as to use, net of amounts necessary to meet current obligations:									
Debt service reserve fund	-	17,290,868	-	-	-	-	-	-	17,290,868
Board designated for capital improvements	71,395,559	96,131	-	-	-	-	-	-	71,491,690
Internally designated for insurance program (SHIC)	-	-	-	-	-	-	8,241,662	-	8,241,662
Investment in and advances to affiliates	2,213,564	2,806,380	-	-	-	-	-	(2,467,243)	2,552,701
Deferred finance costs, net of amortization	139,251	3,182,640	-	60,042	-	-	-	-	3,381,933
Insurance recoveries	-	16,508,394	-	-	-	-	-	-	16,508,394
<b>Total other assets</b>	<b>73,748,374</b>	<b>39,884,413</b>	<b>-</b>	<b>60,042</b>	<b>-</b>	<b>-</b>	<b>8,241,662</b>	<b>(2,467,243)</b>	<b>119,467,248</b>
Land, Buildings, and Equipment, net	45,687,190	363,037,382	34,742	2,992,725	323,863	11,473	-	-	412,087,375
<b>Total assets</b>	<b>\$ 120,541,894</b>	<b>\$ 488,443,266</b>	<b>\$ 817,594</b>	<b>\$ 4,835,836</b>	<b>\$ 1,408,811</b>	<b>\$ 820,907</b>	<b>\$ 11,762,564</b>	<b>\$ (5,507,947)</b>	<b>\$ 623,122,925</b>

(Continued)

Sherman Health Systems and Affiliates

Consolidating Balance Sheet (Continued)  
April 30, 2012

	Sherman Health Systems	Sherman Hospital	Sherman Home Health Care Corporation	Sherman West Court	Health Visions, Inc.	Sherman Health Foundation	Sherman Health Insurance Co.	Eliminations	Total
<b>Liabilities and Net Assets (Deficit)</b>									
<b>Current Liabilities</b>									
Current portion of long-term debt	\$ 517,590	\$ 3,649,507	\$ -	\$ 184,369	\$ -	\$ -	\$ -	\$ -	\$ 4,351,466
Accounts payable	13,125	7,926,845	66,886	438,964	9,910	-	-	-	8,455,730
Estimated third-party payor settlements	-	25,455,631	9,059	66,227	-	-	-	-	25,530,917
Accrued salaries, wages, and payroll taxes	112,305	11,195,625	152,609	257,273	68,954	9,432	-	-	11,796,198
Deferred revenue, Medicaid assessment reimbursement	-	2,116,777	-	-	-	-	-	-	2,116,777
Other accrued expenses	1,064,202	12,568,963	11,351	280,700	21,265	161	242,198	(3,040,704)	11,148,136
<b>Total current liabilities</b>	<b>1,707,222</b>	<b>62,913,348</b>	<b>239,905</b>	<b>1,227,533</b>	<b>100,129</b>	<b>9,593</b>	<b>242,198</b>	<b>(3,040,704)</b>	<b>63,399,224</b>
Long-Term Debt, net of current portion	11,587,263	257,020,545	-	4,414,119	-	-	-	-	273,021,927
Accrued Medical Malpractice and Other Liabilities	139,042	22,155,167	35,573	341,778	37,014	-	10,659,367	-	33,367,941
	11,726,305	279,175,712	35,573	4,755,897	37,014	-	10,659,367	-	306,389,868
<b>Total liabilities</b>	<b>13,433,527</b>	<b>342,089,060</b>	<b>275,478</b>	<b>5,983,430</b>	<b>137,143</b>	<b>9,593</b>	<b>10,901,565</b>	<b>(3,040,704)</b>	<b>369,789,092</b>
<b>Net Assets (Deficit)</b>									
Common stock	-	-	-	-	1,000	-	12,000	(13,000)	-
Additional paid-in capital	-	-	-	-	13,226,905	-	108,000	(13,334,905)	-
Unrestricted	107,108,367	145,995,503	542,116	(1,206,912)	(11,956,237)	476,738	740,999	11,215,238	252,915,812
Temporarily restricted	-	358,703	-	59,318	-	334,576	-	(334,576)	418,021
<b>Net assets (deficit)</b>	<b>107,108,367</b>	<b>146,354,206</b>	<b>542,116</b>	<b>(1,147,594)</b>	<b>1,271,668</b>	<b>811,314</b>	<b>860,999</b>	<b>(2,467,243)</b>	<b>253,333,833</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 120,541,894</b>	<b>\$ 488,443,266</b>	<b>\$ 817,594</b>	<b>\$ 4,835,836</b>	<b>\$ 1,408,811</b>	<b>\$ 820,907</b>	<b>\$ 11,762,564</b>	<b>\$ (5,507,947)</b>	<b>\$ 623,122,925</b>

Sherman Health Systems and Affiliates

Consolidating Statement of Operations  
and Changes in Net Assets (Deficit)  
Year Ended April 30, 2012

	Sherman Health Systems	Sherman Hospital	Sherman Home Health Care Corporation	Sherman West Court	Health Visions, Inc.	Sherman Health Foundation	Sherman Health Insurance Co.	Eliminations	Total
Unrestricted revenues and other support:									
Net patient services revenues	\$ 921,963	\$ 264,880,751	\$ 4,217,900	\$ 10,393,432	\$ 4,265,446	\$ -	\$ -	\$ -	\$ 284,679,492
Other revenues	9,868,437	8,141,564	264	51,595	269,539	164,788	8,881,887	(17,270,714)	10,107,360
Medicaid assessment program revenue	-	12,700,662	-	-	-	-	-	-	12,700,662
Net assets released from restrictions-for operations	-	-	-	-	-	103,749	-	-	103,749
<b>Total unrestricted revenues and other support</b>	<b>10,790,400</b>	<b>285,722,977</b>	<b>4,218,164</b>	<b>10,445,027</b>	<b>4,534,985</b>	<b>268,537</b>	<b>8,881,887</b>	<b>(17,270,714)</b>	<b>307,591,263</b>
Operating expenses:									
Salaries	1,310,833	93,952,944	1,999,124	3,970,494	1,338,059	211,212	-	-	102,782,666
Physician salaries	-	33,426	-	-	2,216,859	-	-	-	2,250,285
Purchased salaries	-	2,182,065	6,121	1,513,357	99,189	-	-	-	3,800,732
Employee benefits	242,176	18,094,428	370,741	699,550	488,353	40,335	-	-	19,935,583
Medical fees	-	3,663,551	-	34,450	-	-	-	-	3,698,001
Supplies and other expenses	3,496,384	67,418,791	1,024,859	2,112,543	985,940	227,467	29,533	(2,640,453)	72,655,064
Medicaid provider tax	-	7,637,398	-	-	-	-	-	-	7,637,398
Purchased services	1,267,821	24,061,806	346,704	165,844	720,583	42,759	121,268	(6,127,741)	20,599,044
Insurance	172,477	7,566,624	38,396	344,027	139,892	-	8,050,602	(8,502,520)	7,809,498
Depreciation and amortization	1,314,250	24,898,031	13,584	176,112	87,785	883	-	-	26,490,645
Interest expense	682,399	14,724,565	43	263,803	-	-	-	-	15,670,810
Bad debts, net of collections	245,911	25,710,082	31,306	103,696	25,085	-	-	-	26,116,080
<b>Total operating expenses</b>	<b>8,732,251</b>	<b>289,943,711</b>	<b>3,830,878</b>	<b>9,383,876</b>	<b>6,101,745</b>	<b>522,656</b>	<b>8,201,403</b>	<b>(17,270,714)</b>	<b>309,445,806</b>
<b>Operating income (loss)</b>	<b>2,058,149</b>	<b>(4,220,734)</b>	<b>387,286</b>	<b>1,061,151</b>	<b>(1,566,760)</b>	<b>(254,119)</b>	<b>680,484</b>	<b>-</b>	<b>(1,854,543)</b>

(Continued)

**Sherman Health Systems and Affiliates**

**Consolidating Statement of Operations  
and Changes in Net Assets (Deficit) (Continued)  
Year Ended April 30, 2012**

	Sherman Health Systems	Sherman Hospital	Sherman Home Health Care Corporation	Sherman West Court	Health Visions, Inc.	Sherman Health Foundation	Sherman Health Insurance Co.	Eliminations	Total
Nonoperating income (loss):									
Investment income (loss)	\$ (320,971)	\$ 831,515	\$ -	\$ -	\$ -	\$ (533)	\$ -	\$ -	\$ 510,011
Other	-	(97,925)	-	437	-	-	-	-	(97,488)
Gain (loss) on disposal of fixed assets	100,660	(16,015)	-	(2,519)	-	-	-	-	82,126
<b>Total nonoperating income (loss)</b>	<b>(220,311)</b>	<b>717,575</b>	<b>-</b>	<b>(2,082)</b>	<b>-</b>	<b>(533)</b>	<b>-</b>	<b>-</b>	<b>494,649</b>
Equity in loss of wholly-owned subsidiaries	(886,276)	-	-	-	-	-	-	886,276	-
<b>Revenue in excess of (less than) expenses</b>	<b>951,562</b>	<b>(3,503,159)</b>	<b>387,286</b>	<b>1,059,069</b>	<b>(1,566,760)</b>	<b>(254,652)</b>	<b>680,484</b>	<b>886,276</b>	<b>(1,359,894)</b>
Other changes in net assets:									
Net assets released from restrictions-for capital	-	119,842	-	-	-	1,012,527	-	-	1,132,369
Additional paid-in capital	-	-	-	-	11,098,371	-	-	(11,098,371)	-
Equity transfers	7,031,605	(2,788,585)	(1,269,334)	(2,847,026)	-	(126,660)	-	-	-
<b>Increase (decrease) in unrestricted net assets (deficit)</b>	<b>7,983,167</b>	<b>(6,171,902)</b>	<b>(882,048)</b>	<b>(1,787,957)</b>	<b>9,531,611</b>	<b>631,215</b>	<b>680,484</b>	<b>(10,212,095)</b>	<b>(227,525)</b>
Changes in temporarily restricted net assets:									
Contributions and other	-	685,212	-	32	-	561,720	-	(565,370)	681,594
Net assets released from restriction	-	(1,339,768)	-	-	-	(1,216,276)	-	1,219,926	(1,336,118)
<b>Increase (decrease) in temporarily restricted net assets</b>	<b>-</b>	<b>(654,556)</b>	<b>-</b>	<b>32</b>	<b>-</b>	<b>(654,556)</b>	<b>-</b>	<b>654,556</b>	<b>(654,524)</b>
<b>Increase (decrease) in net assets (deficit)</b>	<b>7,983,167</b>	<b>(6,826,458)</b>	<b>(882,048)</b>	<b>(1,787,925)</b>	<b>9,531,611</b>	<b>(23,341)</b>	<b>680,484</b>	<b>(9,557,539)</b>	<b>(882,049)</b>
Net assets (deficit):									
Beginning of year	99,125,200	153,180,664	1,424,164	640,331	(8,259,943)	834,655	180,515	7,090,296	254,215,882
End of year	\$ 107,108,367	\$ 146,354,206	\$ 542,116	\$ (1,147,594)	\$ 1,271,668	\$ 811,314	\$ 860,999	\$ (2,467,243)	\$ 253,333,833

Sherman Health Systems and Affiliates

Consolidating Balance Sheet  
April 30, 2011

	Sherman Health Systems	Sherman Hospital	Sherman Home Health Care Corporation	Sherman West Court	Health Visions, Inc.	Sherman Health Foundation	Sherman Health Insurance Co.	Eliminations	Total
<b>Assets</b>									
<b>Current Assets</b>									
Cash	\$ 490,300	\$ 9,992,531	\$ 135,937	\$ 287,925	\$ 197,315	\$ 1,273,955	\$ 46,849	\$ -	\$ 12,424,812
Investments	-	4,003,262	-	-	-	-	-	-	4,003,262
Assets limited as to use, debt service	473,082	4,072,277	-	203,984	-	-	-	-	4,749,343
Patient accounts receivable, less allowances for doubtful accounts	334,857	45,114,618	688,411	1,449,703	237,599	-	-	-	47,825,188
Other receivables	135,661	2,585,106	-	2,768	22,046	83,330	2,730,908	(2,730,908)	2,828,911
Inventories	-	4,595,034	-	9,648	-	-	-	-	4,604,682
Prepaid Medicaid assessment tax	-	1,262,382	-	-	-	-	-	-	1,262,382
Prepaid expenses and other	231,850	3,416,146	25,336	3,091	32,370	-	18,348	-	3,727,141
Due from affiliates	5,156,916	2,238,971	695,863	1,530,714	-	-	-	(9,622,464)	-
<b>Total current assets</b>	<b>6,822,666</b>	<b>77,280,327</b>	<b>1,545,547</b>	<b>3,487,833</b>	<b>489,330</b>	<b>1,357,285</b>	<b>2,796,105</b>	<b>(12,353,372)</b>	<b>81,425,721</b>
<b>Other Assets</b>									
Assets limited as to use, net of amounts necessary to meet current obligations:									
Debt service reserve fund	-	17,288,584	-	-	-	-	-	-	17,288,584
Board designated for capital improvements	67,231,772	1,429,130	-	-	-	59,785	-	-	68,720,687
Investment in and advances to affiliates	(7,988,846)	3,604,231	104,508	-	98,151	-	-	7,090,296	2,908,340
Deferred finance costs, net of amortization	148,382	3,339,813	-	63,979	-	-	-	-	3,552,174
Other long-term assets	-	-	-	-	611	-	-	-	611
<b>Total other assets</b>	<b>59,391,308</b>	<b>25,661,758</b>	<b>104,508</b>	<b>63,979</b>	<b>98,762</b>	<b>59,785</b>	<b>-</b>	<b>7,090,296</b>	<b>92,470,396</b>
Land, Buildings, and Equipment, net	46,926,605	385,749,817	48,326	3,059,563	320,267	12,355	-	-	436,116,933
<b>Total assets</b>	<b>\$ 113,140,579</b>	<b>\$ 488,691,902</b>	<b>\$ 1,698,381</b>	<b>\$ 6,611,375</b>	<b>\$ 908,359</b>	<b>\$ 1,429,425</b>	<b>\$ 2,796,105</b>	<b>\$ (5,263,076)</b>	<b>\$ 610,013,050</b>

(Continued)

Sherman Health Systems and Affiliates

Consolidating Balance Sheet (Continued)  
April 30, 2011

	Sherman Health Systems	Sherman Hospital	Sherman Home Health Care Corporation	Sherman West Court	Health Visions, Inc.	Sherman Health Foundation	Sherman Health Insurance Co.	Eliminations	Total
<b>Liabilities and Net Assets (Deficit)</b>									
Current Liabilities									
Current portion of long-term debt	\$ 501,264	\$ 3,510,641	\$ -	\$ 177,330	\$ -	\$ -	\$ -	\$ -	\$ 4,189,235
Accounts payable	847	14,174,273	59,645	376,943	29,200	-	-	-	14,640,908
Estimated third-party payor settlements	-	23,776,280	13,594	-	-	-	-	-	23,789,874
Accrued salaries, wages, and payroll taxes	133,814	9,936,787	141,594	258,705	31,806	14,781	-	-	10,517,487
Deferred revenue, Medicaid assessment reimbursement	-	2,116,777	-	-	-	-	-	-	2,116,777
Other accrued expenses	1,141,521	12,439,846	26,536	243,837	28,430	917	6,825	(2,730,908)	11,157,004
Due to affiliates	-	-	-	-	9,043,392	579,072	-	(9,622,464)	-
<b>Total current liabilities</b>	<b>1,777,446</b>	<b>65,954,604</b>	<b>241,369</b>	<b>1,056,815</b>	<b>9,132,828</b>	<b>594,770</b>	<b>6,825</b>	<b>(12,353,372)</b>	<b>66,411,285</b>
Long-Term Debt, net of current portion	12,109,854	260,670,052	-	4,598,488	-	-	-	-	277,378,394
Accrued Medical Malpractice and Other Liabilities	128,079	8,886,582	32,848	315,741	35,474	-	2,608,765	-	12,007,489
	<b>12,237,933</b>	<b>269,556,634</b>	<b>32,848</b>	<b>4,914,229</b>	<b>35,474</b>	<b>-</b>	<b>2,608,765</b>	<b>-</b>	<b>289,385,883</b>
<b>Total liabilities</b>	<b>14,015,379</b>	<b>335,511,238</b>	<b>274,217</b>	<b>5,971,044</b>	<b>9,168,302</b>	<b>594,770</b>	<b>2,615,590</b>	<b>(12,353,372)</b>	<b>355,797,168</b>
Net Assets (Deficit)									
Common stock	-	-	-	-	1,000	-	12,000	(13,000)	-
Additional paid-in capital	-	-	-	-	2,128,534	-	108,000	(2,236,534)	-
Unrestricted	99,125,200	152,167,405	1,424,164	581,045	(10,389,477)	(154,477)	60,515	10,328,962	253,143,337
Temporarily restricted	-	1,013,259	-	59,286	-	989,132	-	(989,132)	1,072,545
<b>Net assets (deficit)</b>	<b>99,125,200</b>	<b>153,180,664</b>	<b>1,424,164</b>	<b>640,331</b>	<b>(8,259,943)</b>	<b>834,655</b>	<b>180,515</b>	<b>7,090,296</b>	<b>254,215,882</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 113,140,579</b>	<b>\$ 488,691,902</b>	<b>\$ 1,698,381</b>	<b>\$ 6,611,375</b>	<b>\$ 908,359</b>	<b>\$ 1,429,425</b>	<b>\$ 2,796,105</b>	<b>\$ (5,263,076)</b>	<b>\$ 610,013,050</b>

**Sherman Health Systems and Affiliates**

**Consolidating Statement of Operations  
and Changes in Net Assets (Deficit)  
Year Ended April 30, 2011**

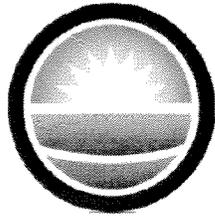
	Sherman Health Systems	Sherman Hospital	Sherman Home Health Care Corporation	Sherman West Court	Health Visions, Inc.	Sherman Health Foundation	Sherman Health Insurance Co.	Eliminations	Total
Unrestricted revenues and other support:									
Net patient services revenues	\$ 1,090,435	\$ 254,094,186	\$ 3,960,043	\$ 10,866,632	\$ 3,026,060	\$ -	\$ -	\$ -	\$ 273,037,356
Other revenues	8,904,024	5,162,382	(56,273)	89,957	220,719	47,660	2,730,908	(10,465,392)	6,633,985
Medicaid assessment program revenue	-	12,700,662	-	-	-	-	-	-	12,700,662
Net assets released from restrictions-for operations	-	-	-	-	-	125,822	-	(29,047)	96,775
<b>Total unrestricted revenues and other support</b>	<b>9,994,459</b>	<b>271,957,230</b>	<b>3,903,770</b>	<b>10,956,589</b>	<b>3,246,779</b>	<b>173,482</b>	<b>2,730,908</b>	<b>(10,494,439)</b>	<b>292,468,778</b>
Operating expenses:									
Salaries	2,189,005	90,078,691	1,846,288	3,891,807	1,079,271	251,171	-	-	99,336,233
Physician salaries	-	91,107	-	-	1,698,666	-	-	-	1,789,773
Purchased salaries	-	1,753,185	6,473	1,421,340	11,666	573	-	-	3,193,237
Employee benefits	495,338	19,074,111	307,459	685,901	407,055	48,662	-	-	21,018,526
Medical fees	-	3,910,358	-	30,550	-	-	-	-	3,940,908
Supplies and other expenses	3,497,165	66,203,403	944,170	1,971,553	835,662	171,349	15,239	(2,667,070)	70,971,471
Medicaid provider tax	-	7,681,947	-	-	-	-	-	-	7,681,947
Purchased services	1,709,321	20,417,962	384,171	260,543	610,271	111,604	46,389	(5,067,414)	18,472,847
Insurance	169,152	6,813,899	35,247	327,207	133,976	-	2,608,765	(2,730,908)	7,357,338
Depreciation and amortization	1,346,782	25,923,144	20,849	193,641	89,118	883	-	-	27,574,417
Interest expense	707,160	14,868,248	-	271,079	-	-	-	-	15,846,487
Bad debts, net of collections	193,527	22,803,869	25,073	141,546	84,137	-	-	-	23,248,152
Contribution expense - Sherman Hospital	-	-	-	-	-	29,047	-	(29,047)	-
<b>Total operating expenses</b>	<b>10,307,450</b>	<b>279,619,924</b>	<b>3,569,730</b>	<b>9,195,167</b>	<b>4,949,822</b>	<b>613,289</b>	<b>2,670,393</b>	<b>(10,494,439)</b>	<b>300,431,336</b>
<b>Operating income (loss)</b>	<b>(312,991)</b>	<b>(7,662,694)</b>	<b>334,040</b>	<b>1,761,422</b>	<b>(1,703,043)</b>	<b>(439,807)</b>	<b>60,515</b>	<b>-</b>	<b>(7,962,558)</b>

(Continued)

**Sherman Health Systems and Affiliates**

**Consolidating Statement of Operations  
and Changes in Net Assets (Deficit) (Continued)  
Year Ended April 30, 2011**

	Sherman Health Systems	Sherman Hospital	Sherman Home Health Care Corporation	Sherman West Court	Health Visions, Inc.	Sherman Health Foundation	Sherman Health Insurance Co.	Eliminations	Total
Nonoperating income:									
Investment income	\$ 7,073,658	\$ 838,135	\$ -	\$ -	\$ -	\$ 11,476	\$ -	\$ -	\$ 7,923,269
Other	-	184,011	-	-	-	-	-	-	184,011
Gain on disposal of fixed assets	224,067	5,815,754	4,195	1,439	-	-	-	-	6,045,455
<b>Total nonoperating income</b>	<b>7,297,725</b>	<b>6,837,900</b>	<b>4,195</b>	<b>1,439</b>	<b>-</b>	<b>11,476</b>	<b>-</b>	<b>-</b>	<b>14,152,735</b>
Equity in loss of wholly-owned subsidiaries	(1,642,528)	-	-	-	-	-	-	1,642,528	-
<b>Revenue in excess of (less than) expenses</b>	<b>5,342,206</b>	<b>(824,794)</b>	<b>338,235</b>	<b>1,762,861</b>	<b>(1,703,043)</b>	<b>(428,331)</b>	<b>60,515</b>	<b>1,642,528</b>	<b>6,190,177</b>
Other changes in net assets:									
Net assets released from restrictions-for capital	-	145,417	-	51,954	-	-	-	-	197,371
Purchase of common stock and addition paid-in capital	-	-	-	-	-	-	120,000	(120,000)	-
Equity transfers	18,000,000	(18,125,000)	-	-	-	125,000	-	-	-
<b>Increase (decrease) in unrestricted net assets (deficit)</b>	<b>23,342,206</b>	<b>(18,804,377)</b>	<b>338,235</b>	<b>1,814,815</b>	<b>(1,703,043)</b>	<b>(303,331)</b>	<b>180,515</b>	<b>1,522,528</b>	<b>6,387,548</b>
Changes in temporarily restricted net assets:									
Contributions and other	-	470,285	-	800	-	450,690	-	(353,915)	567,860
Net assets released from restriction	-	(145,417)	-	(51,954)	-	(125,822)	-	29,047	(294,146)
<b>Increase (decrease) in temporarily restricted net assets</b>	<b>-</b>	<b>324,868</b>	<b>-</b>	<b>(51,154)</b>	<b>-</b>	<b>324,868</b>	<b>-</b>	<b>(324,868)</b>	<b>273,714</b>
<b>Increase (decrease) in net assets (deficit)</b>	<b>23,342,206</b>	<b>(18,479,509)</b>	<b>338,235</b>	<b>1,763,661</b>	<b>(1,703,043)</b>	<b>21,537</b>	<b>180,515</b>	<b>1,197,660</b>	<b>6,661,262</b>
Net assets (deficit):									
Beginning of year	75,782,994	171,660,173	1,085,929	(1,123,330)	(6,556,900)	813,118	-	5,892,636	247,554,620
End of year	\$ 99,125,200	\$ 153,180,664	\$ 1,424,164	\$ 640,331	\$ (8,259,943)	\$ 834,655	\$ 180,515	\$ 7,090,296	\$ 254,215,882



**ShermanHealth**

Every life, every moment, every day

---

**Consolidated Financial  
Statements**

---

**Quarter ended  
January 31, 2013**

# Contents

January 2013

	<u>Page</u>
Consolidated Balance Sheet	1
Consolidating Balance Sheet (Assets)	2
Consolidating Balance Sheet (Liabilities & Net Assets)	3
3 <sup>rd</sup> Quarter Consolidated Statement of Operations and Net Assets	4
3 <sup>rd</sup> Quarter Consolidating Statement of Operations and Net Assets	5
Year to Date Consolidated Statement of Operations and Net Assets	6
Year to Date Consolidating Statement of Operations and Net Assets	7
Consolidated Statement of Cash Flows	8
Sherman Hospital Utilization Statistics	9

**SHERMAN HEALTH SYSTEMS**  
**CONSOLIDATED BALANCE SHEET**  
**January 31, 2013**

<b>ASSETS</b>			<b>LIABILITIES &amp; NET ASSETS</b>		
	<u>January 31, 2013</u>	<u>April 30, 2012</u>		<u>January 31, 2013</u>	<u>April 30, 2012</u>
		<i>(Audited)</i>			<i>(Audited)</i>
CURRENT ASSETS			CURRENT LIABILITIES		
CASH & CASH EQUIVALENTS	\$ 8,479,299	\$ 12,203,029	CURRENT MATURITIES		
INVESTMENTS	58,908	3,377,900	BONDS PAYABLE	\$ 4,611,466	\$ 4,351,466
RESTRICTED CASH	9,948,333	4,866,194	NOTES PAYABLE	-	-
ACCOUNTS RECEIVABLE			ACCOUNTS PAYABLE		
PATIENTS	74,874,019	66,188,342	TRADE	9,011,204	8,455,730
ALLOWANCE FOR DOUBTFUL ACCTS	(15,502,000)	(10,507,219)	DUE TO THIRD PARTY PAYORS	26,564,697	25,530,917
NET ACCOUNTS RECEIVABLE - PTS	59,372,019	55,681,123	ACCRUED LIABILITIES		
OTHER	3,568,550	6,420,546	SALARIES	4,938,460	5,511,660
INVENTORIES	4,581,032	4,511,815	VACATION SALARIES	5,789,374	6,284,538
PREPAID MEDICAID ASSESSMENT TAX	-	1,262,382	ACCRUED INTEREST	7,449,625	3,787,444
PREPAID EXPENSES	4,704,623	3,245,313	DEF REV, MEDICAID ASSESSMENT REIMB	780,306	2,116,777
TOTAL CURRENT ASSETS	90,712,764	91,568,302	OTHER	7,028,315	7,360,692
PROPERTY, PLANT, & EQUIPMENT			TOTAL CURRENT LIABILITIES	66,173,447	63,399,224
LAND	45,461,185	45,461,185	LONG-TERM LIABILITIES		
BUILDINGS & IMPROVEMENTS	397,273,705	460,915,314	BONDS PAYABLE - SERIES 1997	98,165,229	102,773,460
EQUIPMENT	180,980,494	178,604,477	BONDS PAYABLE - SERIES 2007	168,921,848	168,898,467
CONSTRUCTION IN PROGRESS	4,300,864	407,078	BONDS PAYABLE - CITY OF ELGIN	1,265,000	1,350,000
TOTAL	628,016,248	685,388,054	OTHER	35,962,010	33,367,941
LESS ACCUM DEPRECIATION	(228,177,603)	(273,300,679)	TOTAL LONG-TERM LIABILITIES	304,314,087	306,389,868
TOTAL FIXED ASSETS	399,838,645	412,087,375	TOTAL LIABILITIES	370,487,534	369,789,092
OTHER ASSETS			NET ASSETS		
DEFERRED FINANCE CHARGES	3,254,250	3,381,933	NET ASSETS - UNRESTRICTED	256,413,618	252,915,812
INVESTMENT-AFFILIATES & OTHERS	1,247,953	2,552,701	NET ASSETS - TEMPORARILY RESTRICTED	713,452	418,021
FUNDS FOR CAPITAL IMPROVEMENTS	79,757,647	71,491,690	NET ASSETS - PERMANENTLY RESTRICTED	250,000	-
INVESTMENT-SELF INSURANCE	17,382,145	8,241,662	TOTAL NET ASSETS	257,377,070	253,333,833
DEBT SERVICE RESERVE FUND	17,286,300	17,290,868	TOTAL LIABILITIES & NET ASSETS	\$ 627,864,604	\$ 623,122,925
INSURANCE RECOVERIES	16,508,394	16,508,394			
OTHER LONG TERM ASSETS	1,876,506	-			
TOTAL OTHER ASSETS	137,313,195	119,467,248			
TOTAL ASSETS	\$ 627,864,604	\$ 623,122,925			

**SHERMAN HEALTH SYSTEMS**  
**CONSOLIDATING BALANCE SHEET**  
**January 31, 2013**  
**ASSETS**

	SHERMAN HOSPITAL CONSOLIDATED *	SHERMAN WEST COURT	SHERMAN HOME CARE PARTNERS	HEALTH VISIONS, INC	SHERMAN HEALTH SYSTEMS	SHERMAN HEALTH FOUNDATION	SHERMAN HEALTH INSURANCE CO	ELIMINATIONS	SHERMAN HEALTH SYSTEMS CONSOLIDATED
<b>CURRENT ASSETS</b>									
CASH & CASH EQUIVALENTS	\$ 5,804,307	\$ 249,630	\$ 69,925	\$ 690,140	\$ 16,008	\$ 1,419,621	\$ 229,668	\$ -	\$ 8,479,299
INVESTMENTS	115	-	-	-	-	58,793	-	-	58,908
RESTRICTED CASH	9,210,282	222,358	-	-	515,693	-	-	-	9,948,333
ACCOUNTS RECEIVABLE									
PATIENTS	70,979,526	1,473,179	618,650	1,615,624	187,040	-	-	-	74,874,019
ALLOWANCE FOR DOUBTFUL ACCTS	(15,252,820)	(97,140)	(45,351)	(45,416)	(61,273)	-	-	-	(15,502,000)
NET ACCOUNTS RECEIVABLE - PTS	55,726,706	1,376,039	573,299	1,570,208	125,767	-	-	-	59,372,019
OTHER	3,339,616	(52,521)	2,577	(393)	202,961	877	799,465	(724,032)	3,568,550
RECEIVABLE-SUBSID/AFFIL	5,601,909	-	431,041	-	-	-	-	(6,032,950)	-
INVENTORIES	4,571,384	9,648	-	-	-	-	-	-	4,581,032
PREPAID MEDICID ASSESSMENT TAX	-	-	-	-	-	-	-	-	-
PREPAID INSURANCE	999,134	3,240	-	-	5,808	-	-	-	1,008,182
OTHER PREPAID EXPENSES	3,293,464	-	37,963	102,483	233,580	1,504	27,447	-	3,696,441
TOTAL CURRENT ASSETS	88,546,917	1,808,394	1,114,805	2,362,438	1,099,817	1,480,795	1,056,580	(6,756,982)	90,712,764
<b>PROPERTY, PLANT &amp; EQUIPMENT</b>									
LAND	15,177,056	504,179	-	-	29,779,950	-	-	-	45,461,185
BUILDINGS & IMPROVEMENTS	359,717,630	5,761,773	-	103,534	31,690,768	-	-	-	397,273,705
EQUIPMENT	174,065,404	1,635,760	502,428	892,743	3,869,657	14,502	-	-	180,980,494
CONSTRUCTION IN PROGRESS	4,011,860	-	-	236,109	52,895	-	-	-	4,300,864
TOTAL	552,971,950	7,901,712	502,428	1,232,386	65,393,270	14,502	-	-	628,016,248
LESS ACCUM DEPRECIATION	(201,463,175)	(4,993,881)	(475,847)	(634,584)	(20,607,626)	(2,490)	-	-	(228,177,603)
TOTAL FIXED ASSETS	351,508,775	2,907,831	26,581	597,802	44,785,644	12,012	-	-	399,838,645
<b>OTHER ASSETS</b>									
DEFERRED FINANCE CHARGES	3,064,759	57,089	-	-	132,402	-	-	-	3,254,250
INVESTMENT-AFFILIATES AND OTHERS	1,502,656	-	-	-	2,329,412	-	-	(2,584,115)	1,247,953
FUNDS FOR CAPITAL IMPROVEMENT	-	-	-	-	79,757,647	-	-	-	79,757,647
INVESTMENT-SELF INSURANCE	-	-	-	-	-	-	17,382,145	-	17,382,145
DEBT SERVICE RESERVE FUND	17,286,300	-	-	-	-	-	-	-	17,286,300
INSURANCE RECOVERIES	16,508,394	-	-	-	-	-	-	-	16,508,394
OTHER LONG TERM ASSETS	1,283,333	-	-	593,173	-	-	-	-	1,876,506
TOTAL OTHER ASSETS	39,645,442	57,089	-	593,173	82,219,461	-	17,382,145	(2,584,115)	137,313,195
<b>TOTAL ASSETS</b>	<b>\$ 479,701,134</b>	<b>\$ 4,773,314</b>	<b>\$ 1,141,386</b>	<b>\$ 3,553,413</b>	<b>\$ 128,104,922</b>	<b>\$ 1,492,807</b>	<b>\$ 18,438,725</b>	<b>\$ (9,341,097)</b>	<b>\$ 627,864,604</b>

\* Includes Hospital, Family Healthcare Centers, Auxiliary

**SHERMAN HEALTH SYSTEMS**  
**CONSOLIDATING BALANCE SHEET**  
**January 31, 2013**  
**LIABILITIES & NET ASSETS**

	SHERMAN HOSPITAL CONSOLIDATED *	SHERMAN WEST COURT	SHERMAN HOME CARE PARTNERS	HEALTH VISIONS, INC	SHERMAN HEALTH SYSTEMS	SHERMAN HEALTH FOUNDATION	SHERMAN HEALTH INSURANCE CO	ELIMINATIONS	SHERMAN HEALTH SYSTEMS CONSOLIDATED
<b>CURRENT LIABILITIES</b>									
<b>CURRENT MATURITIES</b>									
BONDS PAYABLE	\$ 3,863,867	\$ 195,107	\$ -	\$ -	\$ 552,492	\$ -	\$ -	\$ -	\$ 4,611,466
NOTES PAYABLE	-	-	-	-	-	-	-	-	-
<b>ACCOUNTS PAYABLE</b>									
TRADE	8,514,527	388,464	71,049	36,074	1,090	-	-	-	9,011,204
DUE TO THIRD PARTY PAYORS	26,547,638	-	17,059	-	-	-	-	-	26,564,697
DUE TO AFFILIATES	-	107,747	-	5,199,619	347,843	377,741	-	(6,032,950)	-
<b>ACCRUED LIABILITIES</b>									
SALARIES	4,333,750	175,742	65,223	319,017	41,276	3,452	-	-	4,938,460
VACATION SALARIES	5,293,751	231,664	115,085	57,884	86,096	4,894	-	-	5,789,374
ACCRUED INTEREST	7,054,075	119,170	-	-	276,380	-	-	-	7,449,625
DEFERRED REV. MEDICAID ASSESS REIMB	780,306	-	-	-	-	-	-	-	780,306
OTHER	6,732,410	194,885	10,978	54,104	740,686	670	18,619	(724,037)	7,028,315
<b>TOTAL CURRENT LIABILITIES</b>	<b>63,120,324</b>	<b>1,412,779</b>	<b>279,394</b>	<b>5,666,698</b>	<b>2,045,863</b>	<b>386,757</b>	<b>18,619</b>	<b>(6,756,987)</b>	<b>66,173,447</b>
<b>LONG-TERM LIABILITIES</b>									
BONDS PAYABLE - SERIES 1997	84,170,797	4,216,195	-	-	9,778,237	-	-	-	98,165,229
BONDS PAYABLE - SERIES 2007	168,921,848	-	-	-	-	-	-	-	168,921,848
BONDS PAYABLE - CITY OF ELGIN	-	-	-	-	1,265,000	-	-	-	1,265,000
OTHER	21,798,483	356,578	37,093	37,014	139,042	-	13,593,800	-	35,962,010
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>274,891,128</b>	<b>4,572,773</b>	<b>37,093</b>	<b>37,014</b>	<b>11,182,279</b>	<b>-</b>	<b>13,593,800</b>	<b>-</b>	<b>304,314,087</b>
<b>TOTAL LIABILITIES</b>	<b>338,011,452</b>	<b>5,985,552</b>	<b>316,487</b>	<b>5,703,712</b>	<b>13,228,142</b>	<b>386,757</b>	<b>13,612,419</b>	<b>(6,756,987)</b>	<b>370,487,534</b>
<b>NET ASSETS</b>									
CONTRIBUTED CAPITAL	-	-	-	13,227,905	-	-	120,000	(13,347,905)	-
NET ASSETS - UNRESTRICTED	141,330,979	(1,271,735)	824,899	(15,378,204)	114,876,780	226,222	4,706,306	11,098,371	256,413,618
NET ASSETS - TEMPORARILY RESTRICTED	358,703	59,497	-	-	-	629,828	-	(334,576)	713,452
NET ASSETS - PERMANENTLY RESTRICTED	-	-	-	-	-	250,000	-	-	250,000
<b>TOTAL NET ASSETS</b>	<b>141,689,682</b>	<b>(1,212,238)</b>	<b>824,899</b>	<b>(2,150,299)</b>	<b>114,876,780</b>	<b>1,106,050</b>	<b>4,826,306</b>	<b>(2,584,110)</b>	<b>257,377,070</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 479,701,134</b>	<b>\$ 4,773,314</b>	<b>\$ 1,141,386</b>	<b>\$ 3,553,413</b>	<b>\$ 128,104,922</b>	<b>\$ 1,492,807</b>	<b>\$ 18,438,725</b>	<b>\$ (9,341,097)</b>	<b>\$ 627,864,604</b>

\* Includes Hospital, Family Healthcare Centers, Auxiliary

**SHERMAN HEALTH SYSTEMS**  
**CONSOLIDATED STATEMENT OF OPERATIONS AND NET ASSETS**  
**3RD QUARTER**  
**ACTUAL COMPARED TO PRIOR YEAR**

	QUARTER ENDED January 31, 2013	QUARTER ENDED January 31, 2012
<b><u>OPERATING REVENUE</u></b>		
Inpatient Revenue	\$ 164,013,275	\$ 138,615,208
Outpatient Revenue	133,958,366	116,436,679
Total	297,971,641	255,051,887
<b><u>CONTRACTUAL ALLOWANCES</u></b>		
Governmental Discounts	122,503,184	102,347,733
Managed Care Discounts	90,075,109	76,650,545
Administrative Adjustments	475,196	728,077
Bad Debts net of Collection	8,965,051	6,059,834
Charity	2,340,923	2,804,952
Total	224,359,463	188,591,141
<b>NET PATIENT SERVICE REVENUES</b>	73,612,178	66,460,746
Other Operating Revenue	2,219,608	1,972,437
<b>TOTAL NET OPERATING REVENUE</b>	75,831,786	68,433,183
<b><u>OPERATING EXPENSES</u></b>		
Staff Salary	27,206,992	25,519,569
Physician Salaries	1,385,476	596,859
Purchased Salaries	957,728	842,144
Subtotal Salaries	29,550,196	26,958,572
Benefits	5,927,010	4,751,813
Supplies	13,252,104	12,708,687
Medical Fees	1,365,780	816,022
Purchased Services	5,633,165	5,157,132
Insurance	(765,985)	1,495,783
Utilities	1,070,028	1,231,150
Repairs & Maintenance	2,065,597	2,114,762
Leases and Rentals	1,311,546	1,143,130
Depreciation	6,500,718	6,323,574
IL Medicaid Tax	2,003,469	1,930,007
Interest	3,857,344	3,902,843
Other Operating Expenses	783,676	914,491
<b>TOTAL OPERATING EXPENSE</b>	72,554,648	69,447,966
<b>NET INCOME (LOSS) FROM OPERATIONS</b>	3,277,138	(1,014,783)
<b><u>NON-OPERATING REVENUE</u></b>		
Investment Income:		
Realized Investment Return	1,460,060	1,270,213
Unrealized Investment Gains/(Losses), Net	2,554,555	1,218,392
Total Investment Income	4,014,615	2,488,605
Other	(1,683,357)	10,742
<b>TOTAL NON-OPERATING REVENUE</b>	2,331,258	2,499,347
<b>EXCESS OF REVENUE (LOSS) OVER EXPENSE</b>	\$ 5,608,396	\$ 1,484,564
Operating Margin	4.3%	-1.5%
Excess Margin	7.4%	2.2%
Operating Cash Flow Margin	18.0%	13.5%

**SHERMAN HEALTH SYSTEMS**  
**CONSOLIDATING STATEMENT OF REVENUE AND EXPENSE**  
**QUARTER ENDING JANUARY 31, 2013**

	SHERMAN HOSPITAL CONSOLIDATED *	SHERMAN WEST COURT	SHERMAN HOME CARE PARTNERS	HEALTH VISIONS INC	SHERMAN HEALTH SYSTEMS	SHERMAN HEALTH FOUNDATION	SHERMAN HEALTH INSURANCE CO	ELIMINATIONS	SHERMAN HEALTH SYSTEMS CONSOLIDATED ACTUAL
<b>OPERATING REVENUE</b>									
Inpatient Revenue	\$ 160,080,413	\$ 3,932,862	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 164,013,275
Outpatient Revenue	127,270,845	-	1,100,864	4,025,016	1,561,641	-	-	-	133,958,366
Total	287,351,258	3,932,862	1,100,864	4,025,016	1,561,641	-	-	-	297,971,641
<b>CONTRACTUAL ALLOWANCES</b>									
Governmental Discounts	120,779,650	1,102,863	77,585	529,070	14,016	-	-	-	122,503,184
Managed Care Discounts	87,188,046	366,556	84,970	1,098,708	1,336,829	-	-	-	90,075,109
Administrative Adjustments	475,196	-	-	-	-	-	-	-	475,196
Bad Debts net of Collection	8,868,162	28,776	14,352	23,804	29,957	-	-	-	8,965,051
Charity	2,329,791	3,357	7,775	-	-	-	-	-	2,340,923
Total	219,640,845	1,501,552	184,682	1,651,582	1,380,802	-	-	-	224,359,463
<b>NET PATIENT SERVICE REVENUES</b>	67,710,413	2,431,310	916,182	2,373,434	180,839	-	-	-	73,612,178
Revenue from Affiliates	-	-	-	-	528,556	-	-	(528,556)	-
Other Operating Revenue	1,795,428	10,835	-	79,441	1,116,924	34,272	2,349,854	(3,167,146)	2,219,608
<b>TOTAL NET OPERATING REVENUE</b>	69,505,841	2,442,145	916,182	2,452,875	1,826,319	34,272	2,349,854	(3,695,702)	75,831,786
<b>OPERATING EXPENSES</b>									
Staff Salary	24,737,794	1,173,374	440,243	555,171	276,814	23,596	-	-	27,206,992
Physician Salaries	61,168	-	-	1,324,308	-	-	-	-	1,385,476
Purchased Salaries	719,147	193,411	2,839	42,331	-	-	-	-	957,728
Subtotal Salaries	25,518,109	1,366,785	443,082	1,921,810	276,814	23,596	-	-	29,550,196
Benefits	5,299,431	219,635	89,425	254,043	59,688	4,788	-	-	5,927,010
Supplies	12,729,580	346,757	61,629	97,889	9,209	6,290	750	-	13,252,104
Medical Fees	1,342,830	22,950	-	-	-	-	-	-	1,365,780
Purchased Services	5,141,362	120,257	122,294	591,715	372,032	22,401	29,072	(765,968)	5,633,165
Insurance	2,454,865	83,769	11,801	145,923	5,927	-	(1,241,582)	(2,226,688)	(765,985)
Utilities	859,132	58,675	1,566	31,064	119,591	-	-	-	1,070,028
Repairs & Maintenance	1,997,721	23,632	-	9,979	34,265	-	-	-	2,065,597
Leases and Rentals	1,044,101	13,741	161,904	238,494	542,165	14,187	-	(703,046)	1,311,546
Depreciation	5,772,297	47,494	2,416	361,297	316,930	284	-	-	6,500,718
IL Medicaid Tax	1,935,643	67,826	-	-	-	-	-	-	2,003,469
Interest	3,630,364	63,387	-	-	163,593	-	-	-	3,857,344
Other Operating Expenses	508,790	10,768	22,214	35,833	167,458	35,626	2,987	-	783,676
<b>TOTAL OPERATING EXPENSE</b>	68,234,225	2,445,676	916,331	3,688,047	2,067,672	107,172	(1,208,773)	(3,695,702)	72,554,648
<b>NET INCOME (LOSS) FROM OPERATIONS</b>	1,271,616	(3,531)	(149)	(1,235,172)	(241,353)	(72,900)	3,558,627	-	3,277,138
<b>NON-OPERATING REVENUE</b>									
Investment Income:									
Realized Investment Return	205,656	-	-	-	1,253,367	1,037	-	-	1,460,060
Unrealized Investment Gains/(Losses), Net	-	-	-	-	2,553,075	1,480	-	-	2,554,555
Total Investment Income	205,656	-	-	-	3,806,442	2,517	-	-	4,014,615
Other	(1,686,254)	2,897	-	-	-	-	-	-	(1,683,357)
<b>TOTAL NON-OPERATING REVENUE</b>	(1,480,598)	2,897	-	-	3,806,442	2,517	-	-	2,331,258
<b>EXCESS OF REVENUE (LOSS) OVER EXPENSE</b>	\$ (208,982)	\$ (634)	\$ (149)	\$ (1,235,172)	\$ 3,565,089	\$ (70,383)	\$ 3,558,627	\$ -	\$ 5,608,396

\* Includes Hospital, Family Healthcare Centers, Auxiliary

**SHERMAN HEALTH SYSTEMS**  
**CONSOLIDATED STATEMENT OF OPERATIONS AND NET ASSETS**  
**NINE MONTHS YEAR TO DATE**  
**ACTUAL COMPARED TO PRIOR YEAR**

	<b>NINE MONTHS ENDED January 31, 2013</b>	<b>NINE MONTHS ENDED January 31, 2012</b>
<b><u>OPERATING REVENUE</u></b>		
Inpatient Revenue	478,296,474	420,703,663
Outpatient Revenue	389,806,370	349,502,927
Total	868,102,844	770,206,590
<b><u>CONTRACTUAL ALLOWANCES</u></b>		
Governmental Discounts	354,513,807	310,893,880
Managed Care Discounts	259,559,981	227,599,817
Administrative Adjustments	2,482,515	1,621,312
Bad Debts net of Collection	27,078,261	19,403,875
Charity	8,698,704	7,064,196
Total	652,333,268	566,583,080
<b>NET PATIENT SERVICE REVENUES</b>	215,769,576	203,623,510
Other Operating Revenue	5,142,341	5,152,414
<b>TOTAL NET OPERATING REVENUE</b>	220,911,917	208,775,924
<b><u>OPERATING EXPENSES</u></b>		
Staff Salary	80,737,055	76,980,309
Physician Salaries	3,469,722	1,593,400
Purchased Salaries	2,648,202	3,154,017
Subtotal Salaries	86,854,979	81,727,726
Benefits	17,202,505	14,489,879
Supplies	39,281,840	38,585,618
Medical Fees	3,640,372	2,797,058
Purchased Services	15,982,506	15,709,687
Insurance	3,703,029	5,681,470
Utilities	3,702,038	4,050,711
Repairs & Maintenance	6,263,217	6,448,827
Leases and Rentals	3,848,597	3,406,050
Depreciation	19,528,745	19,979,772
IL Medicaid Tax	5,866,365	5,789,981
Interest	11,634,661	11,767,969
Other Operating Expenses	2,583,685	2,802,909
<b>TOTAL OPERATING EXPENSE</b>	220,092,539	213,237,657
<b>NET INCOME (LOSS) FROM OPERATIONS</b>	819,378	(4,461,733)
<b><u>NON-OPERATING REVENUE</u></b>		
Investment Income:		
Realized Investment Return	2,447,167	2,261,658
Unrealized Investment Gains/(Losses), Net	2,563,734	(4,045,690)
Total Investment Income	5,010,901	(1,784,032)
Other	(2,465,118)	154,387
<b>TOTAL NON-OPERATING REVENUE</b>	2,545,783	(1,629,645)
<b>EXCESS OF REVENUE (LOSS) OVER EXPENSE</b>	\$ 3,365,161	\$ (6,091,378)
Operating Margin	0.4%	-2.1%
Excess Margin	1.5%	-2.9%
Operating Cash Flow Margin	14.5%	13.1%

**SHERMAN HEALTH SYSTEMS**  
**CONSOLIDATING STATEMENT OF REVENUE AND EXPENSE**  
**NINE MONTHS ENDED JANUARY 31, 2013**

	SHERMAN HOSPITAL CONSOLIDATED *	SHERMAN WEST COURT	SHERMAN HOME CARE PARTNERS	HEALTH VISIONS INC	SHERMAN HEALTH SYSTEMS	SHERMAN HEALTH FOUNDATION	SHERMAN HEALTH INSURANCE CO	ELIMINATIONS	SHERMAN HEALTH SYSTEMS CONSOLIDATED ACTUAL
<b>OPERATING REVENUE</b>									
Inpatient Revenue	466,662,442	11,634,032	-	-	-	-	-	-	\$ 478,296,474
Outpatient Revenue	371,256,586	-	3,679,400	10,652,197	4,218,187	-	-	-	389,806,370
Total	837,919,028	11,634,032	3,679,400	10,652,197	4,218,187	-	-	-	868,102,844
<b>CONTRACTUAL ALLOWANCES</b>									
Governmental Discounts	349,706,180	3,144,181	168,057	1,457,249	38,140	-	-	-	354,513,807
Managed Care Discounts	251,296,305	1,207,266	284,672	3,217,743	3,553,995	-	-	-	259,559,981
Administrative Adjustments	2,482,515	-	-	-	-	-	-	-	2,482,515
Bad Debts net of Collection	26,757,935	95,110	42,756	105,622	76,838	-	-	-	27,078,261
Charity	8,663,798	13,984	20,922	-	-	-	-	-	8,698,704
Total	638,906,733	4,460,541	516,407	4,780,614	3,668,973	-	-	-	652,333,268
<b>NET PATIENT SERVICE REVENUES</b>	199,012,295	7,173,491	3,162,993	5,871,583	549,214	-	-	-	215,769,576
Revenue from Affiliates	-	-	-	-	1,585,667	-	-	(1,585,667)	-
Other Operating Revenue	3,779,011	30,726	-	148,696	3,373,236	131,971	7,144,807	(9,466,106)	5,142,341
<b>TOTAL NET OPERATING REVENUE</b>	202,791,306	7,204,217	3,162,993	6,020,279	5,508,117	131,971	7,144,807	(11,051,773)	220,911,917
<b>OPERATING EXPENSES</b>									
Staff Salary	73,537,868	3,262,136	1,414,750	1,544,236	896,765	81,300	-	-	80,737,055
Physician Salaries	61,168	-	-	3,408,554	-	-	-	-	3,469,722
Purchased Salaries	1,512,252	966,109	9,739	160,102	-	-	-	-	2,648,202
Subtotal Salaries	75,111,288	4,228,245	1,424,489	5,112,892	896,765	81,300	-	-	86,854,979
Benefits	15,465,578	576,464	285,532	676,585	181,323	17,023	-	-	17,202,505
Supplies	37,652,443	1,034,564	190,269	342,460	26,453	33,475	2,176	-	39,281,840
Medical Fees	3,601,522	38,850	-	-	-	-	-	-	3,640,372
Purchased Services	14,869,057	291,578	377,153	1,510,813	939,390	103,731	96,962	(2,206,178)	15,982,506
Insurance	6,669,148	256,527	36,004	392,326	17,780	-	3,065,897	(6,734,653)	3,703,029
Utilities	3,090,566	145,981	4,980	88,156	372,355	-	-	-	3,702,038
Repairs & Maintenance	5,941,711	122,404	-	28,624	170,478	-	-	-	6,263,217
Leases and Rentals	3,034,793	29,455	479,298	687,574	1,677,410	51,009	-	(2,110,942)	3,848,597
Depreciation	17,944,745	138,723	8,161	476,493	959,898	725	-	-	19,528,745
IL Medicaid Tax	5,722,789	143,576	-	-	-	-	-	-	5,866,365
Interest	10,944,794	192,850	-	-	497,017	-	-	-	11,634,661
Other Operating Expenses	1,742,220	23,301	74,325	127,638	502,233	99,503	14,465	-	2,583,685
<b>TOTAL OPERATING EXPENSE</b>	201,790,654	7,222,518	2,880,211	9,443,561	6,241,102	386,766	3,179,500	(11,051,773)	220,092,539
<b>NET INCOME (LOSS) FROM OPERATIONS</b>	1,000,652	(18,301)	282,782	(3,423,282)	(732,985)	(254,795)	3,965,307	-	819,378
<b>NON-OPERATING REVENUE</b>									
Investment Income:									
Realized Investment Return	619,764	-	-	-	1,825,786	1,617	-	-	2,447,167
Unrealized Investment Gains/(Losses), Net	-	-	-	-	2,561,749	1,985	-	-	2,563,734
Total Investment Income	619,764	-	-	-	4,387,535	3,602	-	-	5,010,901
Other	(2,472,467)	7,349	-	-	-	-	-	-	(2,465,118)
<b>TOTAL NON-OPERATING REVENUE</b>	(1,852,703)	7,349	-	-	4,387,535	3,602	-	-	2,545,783
<b>EXCESS OF REVENUE (LOSS) OVER EXPENSE</b>	<b>\$ (852,051)</b>	<b>\$ (10,952)</b>	<b>\$ 282,782</b>	<b>\$ (3,423,282)</b>	<b>\$ 3,654,550</b>	<b>\$ (251,193)</b>	<b>\$ 3,965,307</b>	<b>\$ -</b>	<b>\$ 3,365,161</b>

\* Includes Hospital, Family Healthcare Centers, Auxiliary

SHERMAN HEALTH SYSTEMS  
CONSOLIDATED STATEMENT OF CASH FLOWS  
January 31, 2013

	1/31/2013
<b>Operating activities</b>	
Increase (decrease) in net assets	\$ 3,747,806
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	19,528,745
Amortization of bond discount and deferred finance charges	347,832
(Gain)/Loss on asset dispositions	850,072
Net change in restricted contributions	250,000
Net change in unrealized (gains)/ losses on investments	(2,786,797)
Net realized (gains)/ losses on sales of investments	(13,388)
Provision for bad debts	27,078,261
Changes in operating assets and liabilities:	
Patient accounts receivable, net	(30,769,157)
Inventories	(69,217)
Prepaid expenses and other	(1,974,931)
Accounts payable	1,698,816
Estimated 3rd party settlements	1,033,780
Noncurrent assets and liabilities	717,563
Net cash provided by (used in) operating activities	19,639,385
<b>Investing activities</b>	
Proceeds from sale of assets	4,324
Net additions to property, plant, and equipment	(8,134,411)
Purchases of restricted cash or investments, net	(61,762,684)
Proceeds from sale of restricted cash or investments, net	45,179,477
Investment in and advances to affiliates	1,304,748
Net cash provided by (used in) investing activities	(23,408,546)
<b>Financing activities</b>	
Principal payments of long-term debt	-
Net proceeds (release) from restricted contributions	(250,000)
Principal payments on capital leases	-
Net cash provided by (used in) financing activities	(250,000)
Net increase (decrease) in cash and cash equivalents	(3,723,730)
Cash and cash equivalents at the beginning of the fiscal year	12,203,029
Cash and cash equivalents at the end of the month	\$ 8,479,299

**SHERMAN HOSPITAL  
UTILIZATION STATISTICS**

<b>QUARTER ENDED January 31, 2013</b>	<b>QUARTER ENDED January 31, 2012</b>		<b>NINE MONTHS ENDED January 31, 2013</b>	<b>NINE MONTHS ENDED January 31, 2012</b>
<b>UTILIZATION OF SERVICES</b>				
3,903	3,669	Admissions	11,285	10,896
1,091	1,031	Observation patients	3,287	3,178
<u>4,994</u>	<u>4,700</u>	Total admissions and observation patients	<u>14,572</u>	<u>14,074</u>
7,006	6,730	Equivalent Admissions	20,263	19,887
15,054	13,569	Patient Days	43,327	40,097
653	692	Deliveries	2,135	2,128
16,329	14,608	Emergency Room Visits	46,317	42,877
67,349	63,021	Outpatient Registrations	197,609	187,808
<b>Surgeries:</b>				
1,236	1,196	Inpatient	3,728	3,527
2,920	2,762	Outpatient	8,632	8,225
<u>4,156</u>	<u>3,958</u>	Total	<u>12,360</u>	<u>11,752</u>

**Schedule 4.20**  
Interim Changes

None

**Schedule 4.21**  
Material Adverse Effect

None

**Schedule 4.22**  
Governmental Compliance

None

**Schedule 4.23**  
Consents and Approvals

1. Governmental
  - a. Hart-Scott-Rodino
  - b. Certificate of Need
2. Non-Governmental
  - a. Financing document requirements: notices to issuers, trustees, bond insurers, and EMMA; delivery of certificates and opinions concerning Sherman merger; consent of City of Elgin to Sherman merger.
  - b. Contracts with non-governmental parties: consent required to the extent contracts require consent in the event of a change in control, and to the extent Sherman contracts require consent in the event of transfer by operation of law.

**Schedule 4.24**  
Employee Benefit Plans

**Employee Benefit Plans**

1. Sherman Health Systems Consolidated Retirement Savings Plan
2. Sherman Hospital Retirement Savings Plan Part II (403(b) plan) (terminated August 1, 2010)
3. Sherman Health Systems Health Care Plan (PPO Plan A and Plan B with BCBS of Illinois)
4. Sherman Self-Funded Dental Benefits Plan administered by MetLife
5. Vision Plan with VSP
6. Sherman Health Systems Flexible Benefit Plan
7. Sherman Health Systems Disability Income Protection Plan (long-term disability insurance with Standard)
8. Extended Leave Bank
9. Voluntary short-term disability insurance with Standard
10. Sherman Health Systems Life Insurance Plan (life and AD&D with MetLife)
11. Sherman Health Systems Life Insurance Plan (supplemental life insurance)
12. Paid Time Off
13. Sherman Health Systems Employee Assistance Plan (with Optum Health)
14. Tuition Reimbursement
15. Sherman Health Systems Care Adoption Assistance Program (see Supplement E to the Sherman Health Systems Health and Dental Care And Flexible Spending Accounts Plan)
16. Sherman Wellness Program
17. Sherman Health Systems Involuntary Separation Assistance Plan and Summary Plan Description as amended and restated effective as of August 21, 2008

### **Executive Benefits**

18. Sherman Hospital 2013 Executive Incentive Compensation Plan
19. Sherman Health Severance Benefits Plan for Senior Executives, restated September 20, 2012
20. CEO and EVP/COO annual car allowances of \$12,000 and \$9,600, respectively
21. Cell phones for Sherman directors and above
22. Country club membership for CEO
23. Executive long term disability insurance
24. Executive short term disability insurance
25. Executive Paid Time Off
26. Sherman Health Systems Supplemental Executive Retirement Plan
27. Sherman Retention Bonus Plan

**Schedule 4.25(a)**  
Employment Agreements

[See Attached]

<b>Employee Name</b>	<b>Position</b>	<b>Date of Agreement</b>	<b>Sherman Corporation Holding Agreement</b>
1. Wayne Carlson	Physician	10/01/2011 – 09/30/2014	Sherman Physician Group
2. Priya Gambhir	Physician	03/05/2012 – 02/29/2015	Sherman Physician Group
3. Brian Chudik	Physician	10/01/2011 – 09/30/2015	Sherman Physician Group
4. Liliana Erazo	Physician	11/01/2011 – 10/31/2014	Sherman Physician Group
5. Angel Gomez	Physician	01/01/2012 – 12/31/2015	Sherman Group Practice
6. Ellen Kochman	Physician	08/01/2012 – 07/31/2015	Sherman Group Practice
7. Michelle Seo	Physician	01/01/2012 – 12/31/2015	Sherman Physician Group
8. Susan Hamada	Physician	12/01/2011 – 11/30/2014	Sherman Physician Group
9. Kushleen Dhillion	Physician	08/01/2011 – 07/31/2013	Sherman Group Practice
10. Farah Zahra	Physician	09/04/2012 – 08/31/2015	Sherman Physician Group
11. Faisal Saaed	Physician	07/1/2012 – 06/30/2015	Sherman Group Practice
12. Boguslaw Bonczak	Physician	07/09/2012 – 07/08/2015	Sherman Physician Group
13. Ramon Gonzalez	Physician	12/28/2012 – 12/31/2015	Sherman Physician Group
14. John Brems	Physician	02/01/2013 – 01/31/2018	Sherman Physician Group
15. Raul Aron	Physician	06/01/2012 – 05/31/2017	Sherman Physician Group
16. Rachel Baer	Physician	06/01/2012 – 05/31/2017	Sherman Physician Group
17. Leo Farbota	Physician	06/01/2012 – 05/31/2017	Sherman Physician Group
18. Chirag Dholakia	Physician	06/01/2012 – 05/31/2017	Sherman Physician Group
19. Solomon Secemsky	Physician	01/01/2013 – 12/31/2017	Sherman Physician Group
20. Reminder Singh	Physician	01/01/2013 – 12/31/2017	Sherman Physician Group
21. Maciej Malinski	Physician	01/01/2013 – 12/31/2017	Sherman Physician Group

22. Azmey Matarieh	Physician	01/01/2013 – 12/31/2017	Sherman Physician Group
23. Jawaad Khokhar	Physician	04/09/2013 – 04/08/2016	Sherman Physician Group
24. Vu Hoang	Physician	02/04/2013 – 01/31/2018	Sherman Physician Group

\* Drs. Mary George and Ulysses Manganao are currently employed but will be terminating their employment on April 30, 2013.

**Schedule 4.25(b)**  
Employee Strike or Labor Dispute

See Schedule 4.15

**Schedule 4.26**  
Restricted Funds

**Sherman Health Systems\***

Balances as of January 31, 2013

<u>Name of Fund</u>	<u>GL Acct #</u>	<u>Current Balance</u>	<u>Nature of restriction</u>	
Breast Health Center	60.1600.292000	3,685	Breast Health Center purposes	Temp
Cancer Care / Oncology Clinic	60.1600.292000	91,896	Cancer Care / Oncology Clinic purposes	Temp
Cardiac Care	60.1600.292000	3,700	Cardiac Care purposes	Temp
Cardiac Cath Lab	60.1600.292000	1,660	Cardiac Cath Lab purposes	Temp
Cardiac Arrhythmia Center	60.1600.292000	12,255	Cardiac Arrhythmia Center purposes	Temp
Clinical Excellence	60.1600.292000	28,081	Clinical Excellence Department purposes	Temp
Coumadin Clinic	60.1600.292000	333	Coumadin Clinic	Temp
Diabetes Center	60.1600.292000	10,178	Diabetes Center	Temp
Dialysis Center	60.1600.292000	1,423	Dialysis Center	Temp
Emergency Department	60.1600.292000	129	Emergency Department	Temp
EMG/EEG Exam Tables	60.1600.292000	500	EMG/EEG Exam Tables	Temp
Garden	60.1600.292000	19,720	Garden	Temp
Musicians Care	60.1600.292000	23,226	Musicians Care	Temp
Neurosurgery	60.1600.292000	4,943	Neurosurgery	Temp
Nursing Fellowship	60.1600.292000	84,311	Nursing Fellowship	Temp
Nursing	60.1600.292000	3,362	Nursing	Temp
Pediatric Ward	60.1600.292000	14,355	Pediatric Ward	Temp
Pharmacy Education	60.1600.292000	19,670	Pharmacy Education	Temp
Physical Therapy	60.1600.292000		Physical Therapy	Temp

West Court Capital	60.1600.292000	7,635	West Court	Temp
Campaign General endowment	60.1600.292000	229,897	Capital for new hospital construction, to be released prior to 4.30.2013	Temp
	60.1600.293000	253,552	Endowment Fund	Perm
West Court	30.1300.292110	59,506	Charity Care	Temp
<i>Grant Funds</i>				
HRSA Bioterrorism grant	1.100.241640	480,684	Unspent grant funds to be paid back to State of Illinois. Waiting for payback instructions from State.	

\*Entities on whose books the funds are shown are identified by the two-digit number at the beginning of the GL account number. The Foundation is 60; the Hospital is 1; and SHIC is 70. The item showing "multiple" account numbers has amounts on the books of Sherman Health System, the Hospital, and West Court

**Schedule 5.12**  
**Reimbursement**

Advocate is currently undergoing the following reviews. Advocate believes that each such review is being undertaken under the ordinary course of business.

<b>Site</b>	<b>Type of Audit</b>
AMG	Medical Record Documentation
AMG	Multiple Physician Audits
Christ Medical Center	Medicaid Inpatient Accounts
Condell Medical Center	Medicaid Inpatient Accounts
Good Samaritan Hospital	Medicaid Outpatient Accounts
Good Shepherd Hospital	Medicaid Inpatient Accounts
Illinois Masonic Medical Center	Medicaid Inpatient Accounts
South Suburban Hospital	Medicaid Inpatient Accounts
Bethany Hospital	Medicaid Inpatient Accounts
Trinity Hospital	Medicaid Inpatient Accounts

**Schedule 8.3**  
Sherman Third Parties Consents

1. Governmental
  - a. Hart-Scott-Rodino
  - b. Certificate of Need
2. Non-Governmental
  - a. Financing document requirements: notices to issuers, trustees, bond insurers, and EMMA; delivery of certificates and opinions concerning Sherman merger; consent of City of Elgin to Sherman merger.
  - b. Contracts with non-governmental parties: consent required to the extent contracts require consent in the event of a change in control, and to the extent Sherman contracts require consent in the event of transfer by operation of law.

**Schedule 9.4**  
Advocate Third Parties Consents

Illinois Health Facilities  
Services Review Board