

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

JUN 28 2013

ORIGINAL

HEALTH FACILITIES &
SERVICES REVIEW BOARD

1. INFORMATION FOR EXISTING FACILITY

Current Facility Name Central DuPage/ProCure Treatment Center a/k/a CDH Proton Center, a Procure Center
Address 4455 Weaver Parkway
City Warrenville, IL Zip Code 60555 County DuPage
Name of current licensed entity for the facility Chicago ProCure Management, LLC (operating entity)
Does the current licensee: own this facility yes OR lease this facility (if leased, check if sublease)
Type of ownership of the current licensed entity (check one of the following:) Sole Proprietorship
Not-for-Profit Corporation For Profit Corporation Partnership Governmental
X Limited Liability Company Other, specify
Illinois State Senator for the district where the facility is located: Sen. Michael Connelly
State Senate District Number 21 Mailing address of the State Senator
1725 S. Naperville Road Wheaton, IL 60189
Illinois State Representative for the district where the facility is located: Rep. Jeanne Ives
State Representative District Number 42 Mailing address of the State Representative
1725 S. Naperville Road Wheaton, IL 60189

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

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

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

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

Exact Legal Name of Applicant CDH-Delnor Health System d/b/a Cadence Health
Address 25 North Winfield Road
City, State & Zip Code Winfield, IL 60190
Type of ownership of the current licensed entity (check one of the following:) Sole Proprietorship
X Not-for-Profit Corporation For Profit Corporation Partnership Governmental
Limited Liability Company Other, specify

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

Exact Legal Name of Entity to be Licensed Chicago Procure Management, LLC (operating entity- no change)
Address 208 South LaSalle Street
City, State & Zip Code Chicago, IL 60604
Type of ownership of the current licensed entity (check one of the following:) Sole Proprietorship
Not-for-Profit Corporation For Profit Corporation Partnership Governmental
X Limited Liability Company Other, specify

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

Exact Legal Name of Entity That Will Own the Site CDH-Delnor Health System
Address 25 North Winfield Road
City, State & Zip Code Winfield, IL 60190
Type of ownership of the current licensed entity (check one of the following:) Sole Proprietorship
X Not-for-Profit Corporation For Profit Corporation Partnership Governmental
Limited Liability Company Other, specify

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\_\_\_\_\_

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

Exact Legal Name of Applicant Chicago Procure Management, LLC  
Address 208 South LaSalle Street  
City, State & Zip Code Chicago, IL 60604 Type of ownership of the current licensed entity (check one of the following:) \_\_\_\_\_ Sole Proprietorship \_\_\_\_\_ Not-for-Profit Corporation \_\_\_\_\_ For Profit Corporation \_\_\_\_\_ Partnership \_\_\_\_\_ Governmental  Limited Liability Company \_\_\_\_\_ Other, specify \_\_\_\_\_

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Exact Legal Name of Entity That Will Own the Site CDH-Delnor Health System  
Address 25 North Winfield Road  
City, State & Zip Code Winfield, IL 60190  
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**8. TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:**

- Purchase resulting in the issuance of a license to an entity different from current licensee;
- Lease resulting in the issuance of a license to an entity different from current licensee;
- Stock transfer resulting in the issuance of a license to a different entity from current licensee;
- X Stock transfer resulting in no change from current licensee;
- Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
- Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
- Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
- Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
- Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
- Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
- Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"

**9. APPLICATION FEE.** Submit the application fee in the form of a check or money order for \$2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1.**

**10. FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2A.**

**11. ANTICIPATED ACQUISITION PRICE:** \$ 25,000,000 (to include transfer of approx. \$11.4M in claims) \_\_\_\_\_

**12. FAIR MARKET VALUE OF THE FACILITY:** \_\_\_\_\_ please see ATTACHMENT 2B \_\_\_\_\_  
(to determine fair market value, refer to 77 IAC 1130.140)

**13. DATE OF PROPOSED TRANSACTION:** \_\_\_ August 30, 2013 \_\_\_

**14. NARRATIVE DESCRIPTION.** Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3.**

**15. BACKGROUND OF APPLICANT** (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Partnerships must provide the name and address of each partner and specify whether each is a general or limited partner. Append this information to the application as **ATTACHMENT #4.**

**16. TRANSACTION DOCUMENTS.** Provide a copy of the document(s) which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities Planning Board. Append this document(s) to the application as **ATTACHMENT #5.**

**17. FINANCIAL INFORMATION** (co-applicants must also provide this information). Per 77 IAC 1130.520(b)(3), an applicant must demonstrate it has sufficient funds to finance the acquisition and to operate the facility for 36 months by providing evidence of a bond rating of "A" or better (that must be less than two years old) from Fitch, Moody or Standard and Poor's rating agencies or evidence of compliance with the financial viability review criteria (as applicable) to the type of facility being acquired (as specified at 77 IAC 1120). Append as **ATTACHMENT #6.**

**18. PRIMARY CONTACT PERSON.** Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: \_\_\_ Michael Holzhuetter Vice President & General Counsel Cadence Health \_\_\_\_\_  
Address: \_\_\_ 25 North Winfield Road \_\_\_\_\_  
City, State & Zip Code: \_\_\_ Winfield, IL 60190 \_\_\_\_\_  
Telephone ( ) Ext. \_\_\_ 630/933-1600 \_\_\_\_\_

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

Name: \_\_\_\_\_ Ms. Honey Skinner Partner Sidley & Austin \_\_\_\_\_  
Address: \_\_\_\_\_ 1 East Dearborn Street \_\_\_\_\_  
City, State & Zip Code: \_\_\_\_\_ Chicago, IL 60603 \_\_\_\_\_  
Telephone ( ) Ext. \_\_\_\_\_ 312/853-7577 \_\_\_\_\_

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

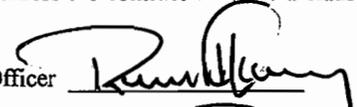
Name: \_\_\_\_\_ Jacob M. Axel President Axel & Associate \_\_\_\_\_  
Address: \_\_\_\_\_ 675 North Court Suite 210 \_\_\_\_\_  
City, State & Zip Code: \_\_\_\_\_ Palatine, IL 60067 \_\_\_\_\_  
Telephone ( ) Ext. \_\_\_\_\_ 847/776-7101 \_\_\_\_\_

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

Name: \_\_\_\_\_ please see following page \_\_\_\_\_  
Address: \_\_\_\_\_  
City, State & Zip Code: \_\_\_\_\_  
Telephone ( ) Ext. \_\_\_\_\_

20. **CERTIFICATION** **CDH-Delnor Health System**

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

Signature of Authorized Officer   
Typed or Printed Name of Authorized Officer ROBERT FRIEDBERG  
Title of Authorized Officer: EXECUTIVE VICE PRESIDENT  
Address: 25. N. WINFIELD RD.  
City, State & Zip Code: WINFIELD, IL 60190  
Telephone (630) 933-5521 Date: 6/26/13

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

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

Name: \_\_\_\_\_ please see following page \_\_\_\_\_  
Address: \_\_\_\_\_  
City, State & Zip Code: \_\_\_\_\_  
Telephone ( ) Ext. \_\_\_\_\_

22. **CERTIFICATION** **Chicago Procure Management, LLC**

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

Signature of Authorized Officer 

Typed or Printed Name of Authorized Officer Chris Chandler

Title of Authorized Officer: President

Address: 4455 Weaver Parkway

City, State & Zip Code: Warrenville, IL 60555

Telephone (630) 821-6400 Date: 6/26/13

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

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

**NOT APPLICABLE**

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

FACILITY NAME \_\_\_\_\_ CITY: \_\_\_\_\_

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

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

2. Provide the bed capacity by category of service:

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

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

3. Chronic Renal Dialysis: Enter the number of ESRD stations: \_\_\_\_\_

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

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

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

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

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



## FUNDING

The acquisition will be funded through cash.



June 25, 2013

Mr. John Orsini  
Executive Vice President and Chief Financial Officer  
Cadence Health  
25 North Winfield Road  
Winfield, Illinois 60190

Dear Mr. Orsini:

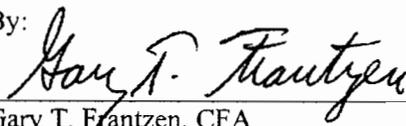
Alvarez & Marsal Valuation Services LLC ("A&M VS") has completed its analysis of the fair market value ("FMV") of the total invested capital ("TIC") of Chicago ProCure Management LLC (the "Proton Center"). It is our understanding that Cadence is contemplating a purchase of all of the equity interests and all other claims of ProCure Treatment Centers, Inc. ("ProCure") in the Proton Center, ProCure Illinois Holdings LLC ("Midco") and ProCure Chicago Holdings LLC ("Holdco") through a series of transactions. Cadence has requested that A&M VS assist with an assessment and opinion as to the FMV of the TIC and/or equity investments in the Proton Center, as necessary for the i) purpose of evaluating and implementing the alternatives being considered and ii) for the purposes of regulatory and tax reporting with respect to the potential transaction (the "FMV Opinion"). The scope of our work was limited to analyses in support of the purposes of our work as stated herein. We have prepared a draft FMV Opinion of the TIC of the Proton Center as of a current date.

Based upon the information provided, discussions with management and our independent research, as well as the analyses performed, we have concluded that the consideration to be paid by Cadence, including \$25 million for all of Procure's interests in the Proton Center, which include transferred claims, debt and equity interests, to increase its effective ownership interest in the Proton Center from 12.0% to 81.25%, is reasonable relative to our conclusion of the FMV of the Proton Center as of the current date and the alternative investment options available to Cadence.

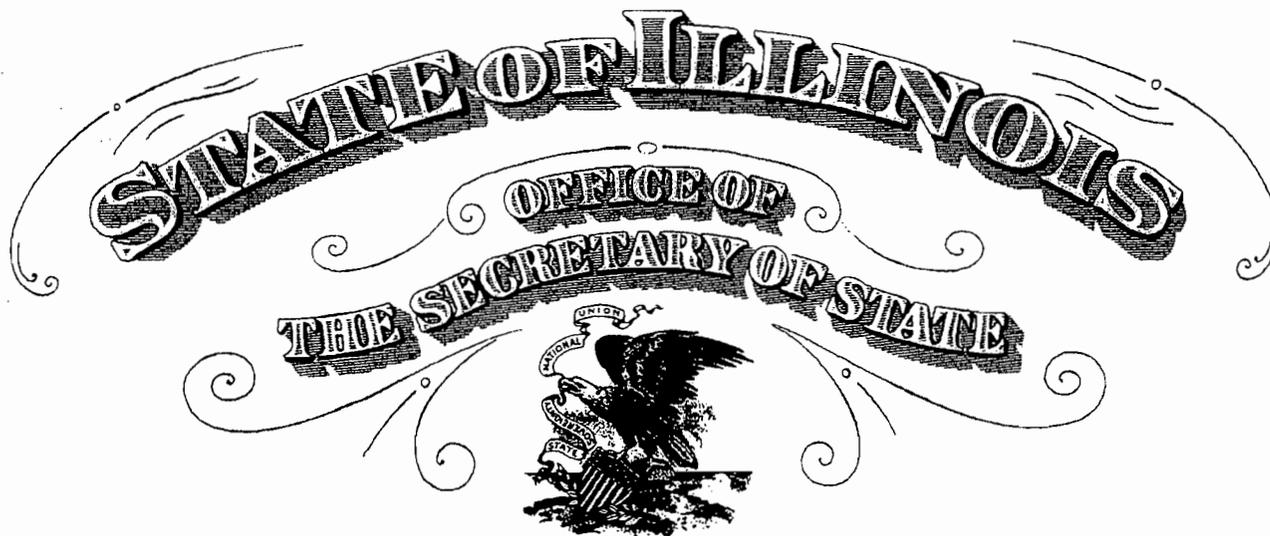
This analysis and valuation are subject to all assumptions, limitations, terms and conditions of the underlying valuation report and engagement. Cadence is the sole intended user of, and the only party that may rely on, our final opinion and report. No third party shall have the right of reliance on our final report or opinion.

Sincerely,

Alvarez & Marsal Valuation Services LLC

By:   
\_\_\_\_\_  
Gary T. Frantzen, CFA  
Managing Director

ATTACHMENT 2B



**To all to whom these Presents Shall Come, Greeting:**

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

CDH-DELNOR HEALTH SYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON OCTOBER 03, 1980, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



Authentication #: 1219801816

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

***In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 16TH day of JULY A.D. 2012***

*Jesse White*

SECRETARY OF STATE

ATTACHMENT 4



**To all to whom these Presents Shall Come, Greeting:**

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

CHICAGO PROCURE MANAGEMENT, LLC, A DELAWARE LIMITED LIABILITY COMPANY HAVING OBTAINED ADMISSION TO TRANSACT BUSINESS IN ILLINOIS ON AUGUST 03, 2007, APPEARS TO HAVE COMPLIED WITH ALL PROVISIONS OF THE LIMITED LIABILITY COMPANY ACT OF THIS STATE, AND AS OF THIS DATE IS IN GOOD STANDING AS A FOREIGN LIMITED LIABILITY COMPANY ADMITTED TO TRANSACT BUSINESS IN THE STATE OF ILLINOIS.



Authentication #: 1317602032

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

***In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 25TH day of JUNE A.D. 2013 .***

*Jesse White*

SECRETARY OF STATE

ATTACHMENT 4

November 23, 2011

## Illinois Finance Authority Central DuPage Health; Hospital

**Primary Credit Analyst:**

Suzie Desai, Chicago (1) 312-233-7046; [suzie\\_desai@standardandpoors.com](mailto:suzie_desai@standardandpoors.com)

**Secondary Contact:**

Brian T Williamson, Chicago (1) 312-233-7009; [brian\\_williamson@standardandpoors.com](mailto:brian_williamson@standardandpoors.com)

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# Illinois Finance Authority Central DuPage Health; Hospital

## Credit Profile

### Illinois Fin Auth, Illinois

Central DuPage Health, Illinois

Illinois Finance Authority (Central DuPage Health) (MBIA)

Unenhanced Rating

AA(SPUR)/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services affirmed its 'AA' long-term rating on the Illinois Finance Authority's \$240 million series 2009B and \$90 million series 2009 fixed-rate revenue bonds, issued for Central DuPage Health. Standard & Poor's also affirmed its 'AA' long-term rating and underlying rating (SPUR) on the authority's \$6 million series 2000A periodic auction-rate securities (PARS), insured by National Public Finance Guarantee Corp. (formerly known as MBIA Insurance Corp. of Illinois) and issued for Central DuPage Health. The outlook on all ratings is stable.

Effective April 1, 2011, Central DuPage Health and Delnor-Community Hospital (Delnor; A/Positive) merged to create CDH-Delnor Health System (CDH-Delnor). Central DuPage Health and its affiliates are located in Winfield, a western suburb of Chicago, and Delnor is located approximately 11 miles west of Central DuPage Health. The two entities, while integrated operationally, maintain two distinct obligated groups. We revised the Delnor rating outlook to positive from stable and affirmed the rating in January 2011, and will review the rating in the next few months. The financials presented in this article are those of the consolidated system of CDH-Delnor (for the quarter ended June 30, 2011), but we also provide financials for Central DuPage Health and Central DuPage Health-specific affiliates (collectively referred to as CDH) for year-over-year comparisons. This analysis, however, incorporates the newly consolidated system.

The 'AA' rating reflects our view of CDH-Delnor's strong financial profile, good market strength in a favorable demographic service area, and position as a regionally based system with a focus on several key high-acuity service lines. The consolidated system's financial profile is dominated by CDH, given the smaller scale of operations at Delnor. We anticipate that CDH-Delnor will maintain its strong financial profile as services on both campuses are enhanced and as management continues to focus on expenses, and we anticipate that the operations of Delnor, which in recent years has had light (though positive) operating performance levels and volume declines, will improve. The market remains fairly competitive and there have been several mergers and consolidations in the larger geographic region, possibly making market dynamics a little more fluid.

More specifically, the 'AA' rating reflects our view of CDH-Delnor's:

- Healthy levels of unrestricted liquidity, with approximately 471 days' cash on hand at June 30, 2011 for CDH-Delnor and approximately 544 days' at June 30, 2011 for CDH, and with a fairly conservative investment allocation helping to maintain the stability of unrestricted liquidity levels;
- Continued robust profitability, with an operating margin of 3.6% for the quarter ended June 30, 2011 for

CDH-Delnor and with CDH generating a third consecutive year of strengthened operating margins of 10.7% for the full fiscal year ended June 30, 2011;

- Strong 4.1x pro forma maximum annual debt service coverage (MADS) in fiscal 2011 for CDH (including all debt for CDH-Delnor except for CDH's series 2000 PARS, which will be fully redeemed on Dec. 20, 2011);
- Management team, which has implemented a strategic plan to enhance its facilities and operations and which will broaden some of its key strategic initiatives at Delnor over the next few years;
- Location in an economically and demographically favorable service area, with a dominant 65% market share in its primary service area (despite competition in the suburban Chicago market); and
- Slightly more moderate debt levels as indicated by roughly 30% debt to capitalization and a debt burden of almost 4% (for both CDH and CDH-Delnor).

Management refinanced the CDH obligated group's \$127.2 million series 2004 variable-rate demand bonds (VRDB) and Delnor's \$58.4 million series 2008A VRDBs with three series of direct placement debt with JPMorgan Chase and has maintained overall levels of contingent liability. Unrestricted cash to contingent liabilities is a strong 615% and CDH-Delnor no longer has any puttable debt. CDH maintains a contingent liability for approximately \$31.8 million of debt related to its senior living business, which was sold in 2009. The put option on that debt could be exercised should the new owner of the business be unable to meet certain covenants. To date, CDH has not had to support any of the divested entity's debt obligations.

The sole member of both Central DuPage Hospital (313 licensed beds) and Delnor-Community Hospital (159 licensed beds) is CDH-Delnor Health System. CDH-Delnor Health System (formerly known as Central DuPage Health) and Central DuPage Hospital are members of the CDH obligated group, while Delnor remains a separate obligated group. Management reports that it intends to collapse the Delnor obligated group into the CDH obligated group should Delnor bondholders agree to accept the CDH obligated group security package. Management reports that until such time, each obligated group will remain solely responsible for its obligated debt (prior to the merger and including the recently issued direct placement debt). Other entities that are part of the CDH-Delnor system but are not part of the obligated groups are Community Nursing Service of DuPage County Inc.; Central DuPage Physician Group, which employs approximately 111 physicians; foundations for both Delnor and CDH; and a residential living facility. While the unrestricted receivables of the CDH obligated group secure the CDH obligated group debt, such pledge will be eliminated on Dec. 20, 2011, when CDH redeems its series 2000 bonds. After the redemption, remaining CDH obligated group debt will be general obligations of the CDH obligated group. Delnor obligated debt is secured by the gross receivables of and a springing mortgage on Delnor. Delnor has approximately \$129 million of debt that we have incorporated into the consolidated system analysis. Total debt at CDH is approximately \$470 million, and total debt of CDH-Delnor is approximately \$600 million.

## Outlook

The stable outlook reflects our view of significant flexibility derived from CDH's strong cash balances and good trend of strong operating performance along with its business position. While CDH-Delnor's financial profile remains quite strong and its geographic footprint has expanded with the merger of the two organizations, the broader metropolitan Chicago market remains competitive and continues to see consolidation and a potentially evolving landscape. CDH-Delnor's concentration in a relatively limited but demographically favorable geographic area requires strong liquidity with consistently strong performance as a consolidated entity. We could consider raising the rating as the merger is fully digested and if Delnor's operations improve. In addition, we could raise the

rating if CDH's and CDH-Delnor's operating margins and cash on hand remain at current levels with a continued trend of declines in debt levels.

Although we do not expect to do so over the next one to two years given CDH-Delnor's strong market position, financial cushion at the current rating level, and management and the board's ability to exceed its budget for the past few years, we could lower the rating if operating margins decrease and are sustained at less than 3% or if cash on hand declines to 200 days. However, we do not anticipate that such a situation is likely to occur, based on historical trends and the ability of management and the board to manage CDH-Delnor's overall operating performance and balance sheet.

## Enterprise Profile

### Market

The combined organization of CDH and Delnor has close to \$1 billion of operating revenues, with CDH's revenue base accounting for about three-fourths of that total. The merger with Delnor creates an expanded footprint for the system in the western suburbs of Chicago, from Sycamore in the west to Lombard in the east, with the combined organization maintaining a dominant market position of 65% in a fairly competitive service area. Several hospitals have service areas that overlap in CDH's larger service area, including Alexian Brothers Medical Center to the northeast, Sherman Hospital (BBB/Stable) to the northwest, Edward Hospital (A+/Stable) to the south, Advocate Good Samaritan (part of Advocate Health Care; AA/Stable) to the southeast, and Elmhurst Hospital to the east. In addition, recent consolidations in the broader market could affect broader market dynamics. CDH-Delnor's geographic area has maintained fairly favorable demographics, including a favorable payer mix with about 50% of gross revenues coming from commercial payers, and population growth in certain parts of the greater service area, specifically in Delnor's immediate service area.

In recent years, CDH has focused on key service lines that support its solid business position: cardiac care, pediatrics, cancer, stroke, and orthopedics. Management aims to enhance some of the same services at Delnor to enhance its competitive position. The consolidated system now employs 111 physicians (compared with 48 in 2008) and continues to focus on physician alignment strategies.

### Utilization

CDH, which is in a competitive service area with a relatively stable population, continues to increase volumes (albeit at a much slower rate than that of a few years ago) and market share as management has focused on key service lines. We anticipate that although there may be some moderate growth on the inpatient side, particularly in some of the areas of focus, CDH will likely experience more outpatient growth. Acute-care admissions at CDH grew by a slight 0.8% to 22,336 in 2011, following a similar trend for fiscal 2010. Both inpatient surgeries and outpatient surgeries declined in 2011, by 2% to 8,717 and 5.9% to 16,641, respectively, due partially to the ongoing economic challenges.

Delnor has exhibited more steady volume declines over the past few years as competition has increased, particularly to the north with the opening of Sherman's replacement hospital on Randall Road. In 2011, inpatient admissions declined 3.7% to 8,557, but since fiscal 2008, admissions have declined 16%. Surgeries followed a similar trend, with declines of 9.2% to 3,128 for inpatient surgeries and 7.1% to 5,579 for outpatient surgeries in 2011. We anticipate that CDH's experience in employing physicians and expanding services should help Delnor stabilize volumes within its market over the next few years.

## Management

With the merger of the two systems, the CEO of CDH, Luke McGuinness, has become CEO of the CDH-Delnor Health System. The 20-member board of CDH-Delnor has equal representation from the two hospitals. Management has historically been effective at implementing its strategic plan and generating volumes for its key service lines, and this, along with strong cost controls, has allowed CDH to either meet or exceed its budget for the past five years. We believe that this experience, along with continued focus on process improvement and the use of data to manage the cost and quality of care (partially from the use of Epic as its electronic health record system), should allow CDH-Delnor to continue to generate strong operating performance.

## Financial Profile

### Income statement

For fiscal 2011, CDH posted a strong operating income of \$78.2 million (or a 10.7% margin), compared with \$69.8 million (or a 10.3% margin) posted in fiscal 2010. The operating income for the combined CDH-Delnor system for the quarter ended June 30, 2011 was \$8.8 million (3.6% margin) and on a full-year pro forma basis (unaudited) would have been \$82 million had the two entities been combined on July 1, 2010. Through the first quarter of fiscal 2012, CDH-Delnor generated an unaudited \$24.3 million (9.8% margin) of operating income. Management attributed its strong operations to a good payer mix and continued focus on increasing top-line revenues, particularly in the outpatient area and along key service lines, in conjunction with minimal expense growth. The last quarter of fiscal 2011 did have some merger-related expenses that contributed to the softer operating income levels. CDH continues to focus on key higher-acuity and higher-intensity service lines. Excess income, excluding unrealized losses on investments and changes in swap valuation, amounted to \$90.1 million (12.1% margin) for fiscal 2011, on par with the prior year's \$87.8 million (12.7% margin). This, along with strong operations, contributed to good pro forma MADS coverage of 4.1x. For the quarter ended June 30, 2011, CDH-Delnor generated excess income of \$16 million (6.4% margin), contributing to still good MADS coverage of 3.9x. Debt service coverage excludes partial guarantees of approximately \$4.4 million on joint-venture debt that totals \$11.3 million.

Management expects to continue its focus on expense management while increasing outpatient revenues and reducing costs of delivery of care. We believe that this focus, coupled with efficiencies and service line enhancements at Delnor, make CDH-Delnor's \$95 million operating income budget for fiscal 2012 an attainable goal.

### Balance sheet

CDH's unrestricted liquidity levels, which totaled \$915 million at June 30, 2011 (equal to 544 days' cash on hand), grew 10.1% over the prior year. (All unrestricted cash levels have been adjusted to exclude cash that is equal to the full long-term self-insurance liability.) Unrestricted cash to long-term debt for CDH continued to improve to 196% at June 30, 2011, with leverage at a reasonable 29%. At June 30, 2011, the combined CDH-Delnor system looked similar to CDH, with unrestricted cash at \$1.1 billion, equal to 471 days' cash on hand, 192% cash to long-term debt, and 30% leverage. As part of its strategic efforts around care delivery and provision of higher-acuity services, capital plans for construction, and improvements to the hospital campus, CDH has spent on average 252% of annual depreciation expense over the past three years and recently completed a five-story, 280,000-square-foot bed pavilion (with 202 medical-surgical private rooms) and its Epic information technology (IT) investment. Average age of plant for both CDH and CDH-Delnor is low, at 6.6 years for CDH and 6.8 years for CDH-Delnor. Capital expenditures for CDH-Delnor are budgeted at approximately \$179 million for 2012, with amounts set aside for

implementation of Epic at both campuses, a new cancer center at Delnor, and other building and IT-related projects. We expect that if operating cash flow (budgeted at \$204 million for fiscal 2012) remains robust, unrestricted liquidity levels should continue to improve and maintain pace with the expense growth. A conservative investment allocation has aided CDH's maintenance of liquidity levels with approximately 22% of investments in equities and alternative investments, but management expects the percentage allocated to equities and alternatives to increase to 30% over the next six months.

## Debt Derivative Profile

CDH is party to two variable- to fixed-rate swaps with Morgan Stanley Capital Services Inc. (guaranteed by 'A' rated Morgan Stanley) for a total notional amount of \$130 million. Standard & Poor's assigned CDH a Debt Derivative Profile (DDP) overall score of '2' on a four-point scale, with '1' representing the lowest risk. The score of '2' represents a low credit risk.

The overall DDP score of '2' denotes a low credit risk due to:

- The minimal counterparty and termination risk because of the strongly rated counterparty and obligor, with no collateral posting required by either party;
- The swap's average economic viability over stressful economic cycles due, in large part, to the swaps' long maturities (2038); and
- Adequate management oversight and disclosure practices.

CDH's net variable-rate exposure, including the swaps, is approximately 3%. There is also one swap with shorter maturities at one of CDH's joint ventures, for a total notional amount of about \$3.9 million, half of which is subject to CDH's guarantees. We have not fully incorporated this swap into the DDP score, but this swap has a negative mark-to-market value of approximately \$575,000 with no collateral posting required, approximately \$288,000 of which is subject to CDH's guarantee with the bank.

Delnor also has two variable- to fixed-rate swaps, with UBS AG as the counterparty, for a total notional amount of \$68.2 million. Standard & Poor's also assigned Delnor a DDP score of '2'.

The overall DDP score of '2' denotes a low credit risk due to:

- Moderate-to-low risk of termination due to a highly rated counterparty and obligor, with no collateral posting required by Delnor given that Assured Guaranty insures the swap;
- The swap's low economic viability over stressful economic cycles due, in large part, to the swaps' long maturities (2032 and 2033); and
- Adequate management oversight and disclosure practices.

Delnor has 0% net variable-rate exposure after taking into account the effect of the swaps.

The four swaps for CDH-Delnor at Aug. 31, 2011 had a negative mark-to-market value of \$30.1 million, with no collateral posted at that time.

**Central DuPage Health And Affiliates Financial Statistics**

	--Quarter ended Sept. 30*--	--Quarter ended June 30*--	--Fiscal year ended June 30--		
	2012	2011	2011	2010	2009
<b>Income statement and cash flow</b>					
Operating revenue (\$000s)	249,431	242,525	730,720	676,107	646,677
Total expenses (\$000s)	225,099	233,765	652,551	606,301	584,901
Operating income (\$000s)	24,332	8,760	78,169	69,806	61,776
Operating margin (%)	9.8	3.6	10.7	10.3	9.6
Net nonoperating revenue	8,560	6,774	11,919	18,009	21,222
Excess income (\$000s)	32,892	15,534	90,088	87,815	82,998
Excess margin (%)	12.7	6.2	12.1	12.7	12.4
EBIDA/total revenue (%)	23.5	14.8	21.1	21.3	21.2
Capital expenditures (\$000s)	N.A.	38,703	138,161	146,398	94,838
<b>Debt</b>					
Net available for debt service (\$000s)	60,617	36,914	156,428	147,971	141,471
Maximum debt service (\$000s)	38,038	38,038	38,038	32,501	32,501
Maximum debt service coverage (x)	6.4	3.9	4.1	4.6	4.4
Maximum debt service-to-total revenue (%)	3.7	3.8	5.1	4.7	4.9
<b>Balance sheet</b>					
Unrestricted cash and investments (\$000s)	1,139,979	1,141,108	915,019	830,888	854,545
Unrestricted days' cash on hand	493	471	544	530	568
Unrestricted cash/debt (%)	191.4	191.7	196.0	177.0	172.0
Cushion ratio (x)	30.0	30.0	24.1	25.6	26.3
Net fixed assets (\$000s)	826,847	818,279	646,683	562,305	497,879
Long-term debt (\$000s)	595,451	595,402	466,854	469,391	496,949
Unrestricted fund balance (\$000s)	1,368,558	1,410,428	1,161,549	1,022,716	870,285
Debt/capitalization (%)	30.3	29.7	28.7	31.5	36.3
Average age of plant (years)	6.8	7.0	6.6	6.6	8.4

\*Unaudited. \$Data reflects the consolidated system of COH/Deinor; prior fiscal years consist of the audited Central DuPage Health financials

**Related Criteria And Research**

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Debt Derivative Profile Scores, March 27, 2006

**Ratings Detail (As Of November 23, 2011)**

**Illinois Fin Auth, Illinois**

Central DuPage Health, Illinois

Illinois Finance Authority (Central DuPage Health)

Long Term Rating

AA/Stable

Affirmed

Many issues are enhanced by bond insurance.

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The McGraw-Hill Companies

# Fitch Ratings

## FITCH AFFIRMS CDH HEALTH SYSTEM (IL) REVS AT 'AA'; OUTLOOK STABLE

Fitch Ratings-Chicago-25 October 2011: As part of its ongoing surveillance efforts, Fitch Ratings has affirmed the 'AA' rating on the following revenue bonds issued on behalf of Central DuPage Health (CDH):

- \$90,000,000 Illinois Finance Authority, series 2009;
- \$240,000,000 Illinois Finance Authority, series 2009B;
- \$12,175,000 Illinois Health Facilities Authority, series 2000A.

The Rating Outlook is Stable

### SECURITY

The bonds are unsecured obligations of the obligated group. They are not secured by a pledge of, mortgage on or security interest in any obligated group assets.

### KEY RATING DRIVERS

**Substantial Balance Sheet Strength:** CDH's strong cash flow generation has led to a very robust liquidity position with indicators that exceed Fitch's 'AA' category medians.

**Strong Operating Profitability:** CDH has sustained robust operating profitability with average operating and operating EBITDA margin of 9.6% and 18.9%, respectively, over the last four fiscal years (2008-2011).

**Dominant Market Position:** With the recent merger with Delnor-Community Hospital, CDH and Delnor combined have a 65.1% market share in their collective primary service area.

**High but Manageable Debt Burden:** CDH's debt burden is somewhat high with maximum annual debt service (MADS) representing 4.3% of fiscal 2011 revenues as compared to the 'AA' median of 2.8%, but because of the robust profitability, debt service coverage remains solid.

### CREDIT PROFILE

The 'AA' rating reflects CDH's ample liquidity, consistently robust profitability and leading market share position as a tertiary provider in the west suburban area of Chicago.

For fiscal 2011 (year ending June 30), CDH's financial performance remained very strong as evidenced by operating and operating EBITDA margins of 10.7% and 19.8%, respectively, both well exceeding the 'AA' category medians of 4.3% and 10.6%. Moreover, fiscal 2011 marked the third consecutive year of year-over-year improvement in operating, operating EBITDA and net EBITDA margins. As a result of CDH's strong operating performance, liquidity metrics are excellent. At June 30, 2011, CDH's unrestricted cash and investments totaled \$923.7 million which equates to a very strong 612.2 days cash on hand, 29.1 times (x) cushion ratio and 197.9% cash to debt, all well exceeding the respective 'AA' category medians of 240 days, 22.4x cushion and 159% cash to debt. CDH's debt burden is somewhat elevated as indicated by MADS (\$31.7 million) equating to 4.3% of fiscal 2011 total revenues when compared to the 'AA' category median of 2.6%. However, CDH's robust profitability has generated MADS coverage by EBITDA of 4.6x and 5x in fiscal 2010 and 2011, respectively.

On April 1, 2011, CDH merged with Delnor-Community Health System located in Geneva, IL. At June 30, 2011, Delnor had approximately \$126.7 million of revenue bonds outstanding, which are not rated by Fitch. Currently the obligated groups securing the debt of CDH and Delnor, respectively, will remain separate. Given the strength of CDH's history of robust operating performance and exceptionally strong balance sheet, Fitch expects ongoing financial results of the combined system to exceed 'AA' category medians despite the immediate effects of the merger,

acquisition, including an expanded regional presence and further physician alignment, are viewed positively by Fitch and outweigh any short-term dip in financial performance.

Based on three months of consolidated audited results of CDH-Delnor Health System for the period ended June 30, 2011, CDH-Delnor's balance sheet metrics are robust with 524.7 days cash on hand, 28.7x cushion ratio and 193.6% cash to long-term debt. Profitability indicators are somewhat diluted with operating margin and operating EBITDA margins of 3.6% and 12.4%, respectively. However, Fitch expects profitability to improve as CDH-Delnor achieves the benefits of a system approach to care. Additionally, management continues to focus on investing in its key service lines, including pediatrics, neurosciences, orthopedics, oncology and cardiology, attracting specialists and sub-specialists that historically have strategically differentiated CDH from its competitors and transformed the hospital into a tertiary medical center. CDH has benefited from its integrated delivery strategy, which has resulted in a strong referral network through its growing employed physician base, which totaled 111 physicians as of October 2011.

The primary credit concerns include CDH-Delnor's relatively high debt burden and the highly fragmented Chicagoland service area. MADS for CDH-Delnor equated to a high 4.1% of fiscal 2011 revenues at June 30, 2011 (three months of consolidated results), compared to the 'AA' category median of 2.6%. MADS coverage by EBITDA of 2.8x during the same time period is somewhat below the 'AA' category median of 5x, but expected to improve closer to CDH's historical three-year average of 4.3x (2008-2011) going forward as CDH and Delnor achieve some economies of scale over the next year. Also, CDH completed its bed tower project and emergency department expansion in 2011 and does not have plans to issue additional debt in the near-to-medium term.

The Stable Outlook reflects Fitch's expectation that the CDH-Delnor merger will result in an expanded regional presence leading to financial performance that continues to meet or exceed Fitch's 'AA' category medians.

Total combined outstanding debt for CDH-Delnor as of June 30, 2011 was approximately \$595.4 million, of which, about 66% is fixed rate, 2% is auction rate and about 31% is variable rate that has been placed with a bank through a direct purchase and is not rated by Fitch. CDH has a total of \$212.1 million notional of fixed payer swaps with Morgan Stanley and UBS AG, as counterparties. As of Aug. 31, 2011, the total mark-to-market valuation on the swap portfolio was negative \$48.7 million; however, there is no collateral posting requirement.

CDH-Delnor Health System includes Central DuPage Health, which is a 313 licensed bed hospital located in Winfield, IL, approximately 30 miles west of Chicago, and Delnor Hospital, which is a 159 bed hospital located in Geneva, IL, approximately 40 miles west of Chicago. CDH-Delnor had combined total revenues of \$242.5 million in fiscal 2011 (three months of consolidated results). Total revenues for the year ended June 30, 2011 as if the merger had occurred July 1, 2010 would be \$951.5 million. CDH covenants to disclose annual financial information within 150 days of each fiscal year-end and quarterly information within 60 days of the first three fiscal quarter-ends to EMMA.

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Applicable Criteria and Related Research:

- Revenue-Supported Rating Criteria (June 20, 2011);
- Nonprofit Hospitals and Health Systems Rating Criteria' (Aug. 12, 2011).

For information on Build America Bonds, visit [www.fitchratings.com/BABs](http://www.fitchratings.com/BABs).

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=637130](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=637130)

Nonprofit Hospitals and Health Systems Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=648836](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648836)

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