

Effect of Doctors Medical Center of Modesto Inc.'s Acquisition of
Emanuel Medical Center on the Availability or Accessibility of
Healthcare Services

**Prepared for the Office of the
California Attorney General**

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Prepared by:

Medical Development Specialists, LLC



24596 Hawthorne Boulevard
Torrance, CA 90505
P: 424 237 2525 ■ F: 424 247 8248
www.MDSconsulting.com

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INTRODUCTION AND PURPOSE

Emanuel Medical Center, Inc. is a California nonprofit religious corporation (EMC Corporation or Seller) located in Turlock, California. EMC Corporation is affiliated with Covenant Ministries of Benevolence, an Illinois nonprofit corporation (CMB). CMB is a subordinate entity of the Evangelical Covenant Church, an Illinois nonprofit corporation (Church).

CMB operates two hospitals directly or through its sponsored affiliates, Emanuel Medical Center (EMC or Hospital) in Turlock, California, and Swedish Covenant Hospital in Chicago, Illinois, and 15 retirement communities, and other health and wellness programs.

Seller owns Hospital, a 209-bed general acute care hospital located in Turlock, California. Seller also owns and operates Brandel Manor, a 145-bed skilled nursing facility (Brandel); Cypress of Emanuel, a 49-bed assisted living facility (Cypress); Hospice of Emanuel; and Jessica's House, a grief counseling program.

Seller has requested the California Attorney General's consent to enter into an Asset Purchase Agreement (APA) under which Doctors Medical Center of Modesto, Inc., a California for-profit corporation (DMC Corporation or Purchaser), would acquire certain assets of Seller and assume the ownership and operation of Hospital, ambulatory clinics, and certain related services. This proposed transaction would exclude Brandel, Cypress, Hospice of Emanuel, and Jessica's House.

Purchaser is a subsidiary of Tenet California, Inc. Tenet California, Inc. is a direct, wholly owned subsidiary of Tenet Hospitals, Inc. Tenet Hospitals, Inc. is a direct, wholly owned subsidiary of Tenet Healthcare Corporation. Wholly owned subsidiaries of Tenet Healthcare Corporation own 10 hospitals in California and a 51% equity interest in one additional hospital in California that is a joint venture arrangement with John Muir Health. All 11 of these hospitals in California are operated by wholly owned subsidiaries of Tenet Healthcare Corporation.

Purchaser owns and operates Doctors Medical Center (DMC), a 459-bed general acute care hospital located in Modesto, California. Purchaser intends to consolidate the license of Hospital and its outpatient clinics with DMC's license. This will result in a single governing body and an integrated administration and medical staff for the two facilities.

This report, prepared for the Office of the California Attorney General, describes the possible effect that the proposed transaction may have on the accessibility or availability of healthcare services in the areas served by Hospital.

Medical Development Specialists, LLC (MDS), a healthcare planning and policy consulting firm, was retained to prepare this report. MDS prepared this report based on the following:

- A review of the "Notice of Submission and Request for Consent" submitted by EMC Corporation to the Office of the California Attorney General on March 22, 2013, and supplemental information and documents subsequently provided by EMC Corporation;

- Interviews with community members and public officials, Hospital's medical staff and management, DMC Corporation's representatives, and others, as set forth on the List of Interviewees;
- A review of various press releases and news articles related to Hospital;
- An analysis of financial, utilization, and service information provided by Hospital's management and the California Office of Statewide Health Planning and Development (OSHPD); and
- An analysis of data and reports regarding Hospital's service area, including:
 - Demographic characteristics and trends;
 - Payer mix;
 - Hospital utilization rates;
 - Health status indicators; and
 - Hospital service area market share.

BACKGROUND AND DESCRIPTION OF THE TRANSACTION

History of Hospital

Hospital was founded in 1917 by the Pacific-Southwest Conference (formerly the California Conference) of Church as a 34-bed hospital. Church, founded in 1885 by Swedish immigrants to the United States, now has approximately 180,000 members and ministries on five continents. Church's subordinate entity, CMB, operates a variety of healthcare facilities and is one of the nation's largest nonprofit operators of senior housing. In 1966, the Hospital's original building was closed, and a new 78-bed general acute care hospital was opened at its present location at 825 Delbon Avenue, Turlock, California. Ten years later, the California Conference transferred ownership of Hospital operations to Seller. Today, Hospital is licensed for 209 acute care beds and operates various family practice and specialty clinics. Seller also operates Brandel, Cypress, Hospice of Emanuel, and Jessica's House.

Reasons for the Sale

EMC Corporation's Board of Directors (Board) believes Hospital needs to explore new ways to deliver healthcare in order to provide better value to patients, employees, and payers. Board feels that Hospital's current healthcare service delivery model is unsustainable due to healthcare reform, rising healthcare costs, and funding cuts in government healthcare programs. Additionally, the recent expiration of a contract for services with Kaiser Foundation Hospitals, Inc. (Kaiser) is expected to significantly reduce revenue and profitability. Although Hospital's contract with Kaiser ended in March 2013, the opening of the Kaiser-Modesto Medical Center in 2008 greatly reduced the number of Kaiser patients seen at Hospital over subsequent years. At the height of the relationship with Kaiser, Hospital saw approximately 40 Kaiser patients per day. That figure has reduced to only 1 or 2 patients per day in the last year.

As a result of these factors and increasing competition, Board has determined that the strategy to operate as a standalone hospital is not viable in the long term. Thus, Board determined it was in the best interest of the local community to pursue an affiliation with another healthcare entity in order to sustain Hospital's role as a major local provider of healthcare services.

Transaction Process and Timing

- January 2012 – Request for Proposal process initiated by Seller;
- February 21, 2012 – Tenet Healthcare Corporation presents an "Indication of Interest" to Seller;
- August 14, 2012 – Seller and CMB enter into a Letter of Intent (LOI) with Tenet Health System Medical, Inc., a subsidiary of Tenet Healthcare Corporation;

- February 20, 2013 – Purchaser and Seller enter into an Asset Purchase Agreement (APA); and
- March 22, 2013 – “Notice of Submission and Request for Consent” submitted by Seller to the Office of the California Attorney General.

Summary of the Asset Purchase Agreement

The major provisions of the APA, dated February 20, 2013, include the following:

- Purchaser will acquire substantially all of the assets related to Seller’s hospital business, ambulatory clinics, and interest in joint ventures, including the following:
 - 1) Real property;
 - 2) Leased property;
 - 3) Tangible personal property;
 - 4) Advance payments, prepaid expenses, and deposits;
 - 5) Inventory of supplies, drugs, and other products;
 - 6) Contracts and agreements; and
 - 7) Prorated Quality Assurance Fees (QAF)¹ program funds.
- Excluded assets include:
 - 1) Cash and short-term investments;
 - 2) Assets used in the operation of Brandel, Cypress, Hospice of Emanuel, and Jessica's House;
 - 3) Accounts receivable and other current assets;
 - 4) All donor-restricted funds; and
 - 5) Certain religious artifacts.
- Assumed obligations include:
 - 1) Employee obligations; and
 - 2) Leases.
- Excluded liabilities include:
 - 1) Substantially all of the EMC's accounts payable and other liabilities.
- The purchase price shall be \$131 million plus the value of inventory and prepaids (assumed to be \$5 million), less Seller’s capital lease obligations and the employees’ vested accrued paid time off;
- Hospital will be maintained as a full-service general acute care hospital;

¹ The Quality Assurance Fees (QAF) program (Welfare & Institutions Code Sections 14169.1-14169.19) provides funds to hospitals to additionally compensate them for the amount of care they provided to Medi-Cal beneficiaries during a specific period.

- Purchaser will donate \$600,000 per year to CMB for nine years for mission support or other operational, transitional or financial needs determined to be necessary or desirable by CMB as a result of the transaction;
- Purchaser will consolidate the licensure of Hospital and outpatient clinics with the DMC's license;
- DMC's Governing Board will include representatives from Hospital's service area;
- Purchaser shall have the right to select the Vice-Chair of DMC's Governing Board for a period of five years;
- The following commitments made by Purchaser²:
 - 1) Maintain medical-surgical services, intensive care unit/cardiac care unit, emergency department, pediatrics (including neonatal unit), obstetrics (including perinatal), orthopedics (including surgery), cardiology (including surgery except open heart surgery) and oncology for no less than ten years;
 - 2) Maintain the open heart program for no less than three years;
 - 3) Support the development of outpatient clinics, including the rural health clinic, and other community outreach primary and specialty services for no less than five years;
 - 4) Maintain existing graduate medical education programs for a minimum of ten years³;
 - 5) Maintain participation in the Medicare and Medi-Cal programs so long as Purchaser operates Hospital;
 - 6) Expend at least \$30 million for development or expansion of Hospital, and/or Hospital's medical staff;
 - 7) Preserve, to the extent permitted by applicable law, the religious orientation of the hospital in perpetuity, including religious statuary and artifacts, and pastoral care activities designed to meet the spiritual needs of the community; and
 - 8) Maintain Hospital's charity care policy or a policy that is no less favorable.
- Purchaser shall make offers to employ all those current Hospital employees in good standing, whose function it is to provide services to the acquired businesses, including the existing management team;
- For five years after closing, Seller and its affiliates may not own, invest in, manage, or consult with any healthcare facility or business that competes with Hospital;

² For item numbers 1-5, Purchaser's commitments are contingent upon ongoing confirmation of viability (both financial and qualitatively) and strategic rationale. For item numbers 1-3, EMC Corporation Board must approve the termination or reduction of such services.

³ Since Purchaser cannot assume Hospital's residency programs approved by the American Osteopathic Association, Purchaser has agreed to make good faith efforts to designate Hospital as an additional teaching hospital site for its existing and future medical residency programs.

- Brandel, Cypress, Hospice of Emanuel and Jessica's House are not included in the APA.

Use of Net Sale Proceeds

Seller expects that there will be net proceeds from the transaction. The recipient of the net sale proceeds will be granted by Seller to the newly-formed Legacy Health Endowment over a period of years based on Seller meeting its net worth requirements and indemnification obligations under the Asset Purchase Agreement, resolving its retained liabilities, and incurring other costs related to Seller's operations after the transaction closes. In addition, the Legacy Health Endowment will be the recipient of Seller's existing restricted funds.

PROFILE OF EMANUEL MEDICAL CENTER

General Information

Hospital is a 209-licensed-bed, general acute care facility, located at 825 Delbon Avenue, Turlock, California. It provides inpatient, outpatient, and emergency services for the residents of Stanislaus County and has the following licensed beds:

EMC - BED DISTRIBUTION 2012	
Bed Type	Number of Beds
General Acute Care	163
Intensive Care	12
Neonatal Intensive Care	6
Obstetrics	28
Total Beds	209

Source: EMC Hospital License 2012

- Hospital's Emergency Department is classified as "basic level," with 32 licensed treatment stations; and
- Hospital has six surgical operating rooms and one cardiac catheterization lab. Hospital has performed open heart surgeries since 2011.

Key Statistics

The table below shows that Hospital had approximately 10,000 inpatient discharges in 2012 and an average daily census of approximately 117 inpatients.

EMC GENERAL ACUTE CARE KEY STATISTICS			
	2010	2011	2012*
Inpatient Discharges	10,402	10,573	10,069
Licensed Beds	209	209	209
Patient Days	43,893	45,395	42,732
Average Daily Census	120	124	117
Occupancy	57.5%	59.5%	55.9%
Average Length of Stay	4.2	4.3	4.2
Emergency Services Visits	59,001	58,502	58,411
Cardiac Catheterization Procedures ¹	0	1,128	1,063
Coronary Artery Bypass Graft (CABG) Surgeries ¹	0	19	22
Total Live Births	1,410	1,362	1,358
Physicians on Medical Staff	Approximately 300		
Current Number of Employees (FTEs)	Approximately 1,100		

Sources: OSHPD Disclosure Reports, 2010-2012 and EMC

*Unaudited

¹OSHPD Alirns Annual Utilization Reports

- Between 2010 and 2012, inpatient discharges at Hospital have declined 3%, to 10,069, and patient days have dropped 3%, to 42,732;
- The Emergency Department volume has remained steady, averaging approximately 58,600 visits per year;
- The average daily census has remained steady between 2010 and 2012 at approximately 120 patients per day;
- The number of births at Hospital ranges between 1,350 and 1,400 per year; and
- On average, Hospital performs approximately 1,100 diagnostic cardiac catheterization procedures per year.

Skilled Nursing and Assisted Living Facilities

Seller operates Brandel, a 145-bed skilled nursing facility, and Cypress, a 49-bed assisted living facility. Brandel and Cypress are not included in this transaction. Prior to or concurrent with the close of the transaction, Seller will transfer Brandel and Cypress' real property, including buildings and improvements to CMB. In a second transaction, Covenant Retirement Communities West, a California nonprofit corporation, will obtain the equipment, other personal

property, responsibility for the operations of Brandel and Cypress, and their trade name rights.

- Brandel is located across the street from Hospital's main campus and features semi-private rooms and includes a Medicare-certified transitional care unit. The transitional care unit provides care for patients with complex medical conditions such as post-orthopedic surgery care, cancer, and cardiovascular disease. The transitional care unit also provides physical, occupational, and speech therapy, pain management, and wound and ostomy care.

BRANDEL MANOR KEY STATISTICS			
	2010	2011	2012*
Discharges	610	648	603
Licensed Beds	145	145	145
Patient Days	49,036	48,659	48,598
Average Daily Census	134	133	133
Occupancy	92.7%	100.2%	99.8%
Average Length of Stay	80.4	75.1	80.6

Sources: OSHPD Disclosure Reports, 2010-2012

*Unaudited

- Cypress is located in the same building as Brandel. Cypress is an assisted-living facility designed for patients who require extra assistance with daily activities. The facility provides services that include a 24-hour call system, an active social program, on-site security, a gym/exercise program, transportation services, and pastoral care.

CYPRESS OF EMANUEL KEY STATISTICS			
	2010	2011	2012*
Discharges	7	9	13
Licensed Beds	45	49	49
Patient Days	9,883	9,863	8,923
Average Daily Census	27	27	24
Occupancy	60.2%	55.1%	49.8%

Sources: OSHPD Disclosure Reports, 2010-2012

*Unaudited

Programs and Services

Hospital is a full-service regional hospital that offers a comprehensive range of services that include the following:

- Cardiovascular Services: Open heart surgery and the Cardiac Cath and Interventional Lab. The Cardiac Cath and Interventional Lab offers diagnostic cardiac catheterization, permanent pacemaker and implantable defibrillator implantation, interventional radiology

procedures, and peripheral vascular angiography and interventions;

- Emanuel Cancer Center (the Cancer Center): The Cancer Center is located in a 45,000 square foot, free-standing hospital-owned building on Hospital's campus and is fully accredited by the American College of Surgeons' Commission on Cancer. The Cancer Center offers clinical trials, social services, support groups, and educational classes. Included within the Cancer Center are the Stanford Emanuel Radiation Oncology Center, the Ruby E. Bergman Women's Diagnostic Center, the Emanuel Specialty Care-Medical Oncology clinic, and the Emanuel Specialty Care-Surgery clinic;
- Emergency Services: The 24-hour Emergency Department is a Level IV trauma center. The Emergency Department features 32 beds with 21 private treatment rooms, a decontamination room, two triage stations featuring private rooms, and a separate ambulance entrance. Emergency medical care is provided by the Valley Emergency Physicians Medical Group that provides emergency medicine and primary care physician services to 23 hospitals throughout California, including Hospital;
- Laboratory Services: A full-service clinical laboratory providing chemistry, hematology, blood bank and microbiology tests and services for both inpatients and outpatients. Hospital has two outpatient locations in Turlock. Hospital's lab is licensed by Clinical Laboratory Improvement Amendments and the State of California, and overseen by a full-time, on-site pathologist;
- Pediatric Services: Through a partnership with Children's Hospital Central California, Hospital provides Pediatric Hospitalists 24 hours a day to attend to complicated births, care for infants in the nursery, and treat child-aged patients in the Intensive Care Unit and regular pediatric unit;
- Surgical Services: Hospital is equipped with state-of-the-art imaging technology and updated facilities to accommodate both major and minor surgeries. Hospital also has an outpatient surgery center;
- Women's and Children's Services:
 - Mary Stuart Rogers Birthing Center: High-tech birthing beds and a Level II Neonatal Intensive Care Unit. On-site pediatric hospitalists attend complicated births and care for infants; and
 - The Ruby E. Bergman Women's Diagnostic Center: Offers digital mammography genetic counseling, pre-operative wire localizations, digital high resolution targeted breast ultrasounds, core- and vacuum-assisted breast and stereotactic biopsies. The Aurora Breast MRI system, the only dedicated breast MRI in the service area, produces high-resolution, three-dimensional images designed specifically to enhance detection, surgery planning and image-guided biopsies. It also provides patients with genetic counseling, pre-operative wire localizations, digital high resolution targeted breast ultrasounds, core- and vacuum-assisted

breast and stereotactic biopsies.

- Rehabilitation Center: Lymphedema, neurodevelopmental treatment techniques, ergonomics, pediatrics, infant massage, hand therapy, orthopedic rehabilitation, manual therapy, strength and conditioning, vestibular rehabilitation and balance training. The services also include physical, occupational, and speech therapies;
- Imaging Services: Computed Tomography (CT), Magnetic Resonance Imaging (MRI), nuclear medicine, angiography, ultrasound, bone and body composition screening, and diagnostic radiology;
- Critical Care Services: The Critical Care Center is a three-story facility that provides patients and families with private treatment rooms for emergency, critical care, and inpatient hospital care. On the second floor, the Critical Care Department offers coronary care, post-operative care, surgical care, and medical intensive care, and includes twelve critical-care private patient rooms, including two isolation rooms, twenty telemetry private patient rooms, and intermediate-care patient rooms designed to accommodate additional critical care patients if needed. On the first floor, the Emergency Department offers emergency care. On the third floor there are 36 private patient rooms that accommodate telemetry-appropriate patients not requiring critical or intermediate care;
- Hospice Services: Hospice of Emanuel was established in 1983 and received Medicare certification in 1993. Its services include pain and symptom management, 24 hour on-call availability, assistance with personal care, respite care, and grief support.

Seller's Joint Ventures

Seller has formed various joint ventures in order to expand community access to key services. Brief descriptions of these joint ventures are outlined below:

- Stanford Emanuel Radiation Oncology Center, LLC: The center is a joint venture between Seller, Stanford Hospital and Clinics and Stanford University School of Medicine, and is staffed by Stanford physicians. The center is owned 40% by Seller and 60% by Stanford. The center offers partial breast irradiation therapy and also utilizes a Varian Trilogy Linear Accelerator that is capable of a more exact focus for therapeutic radiation;
- Turlock Imaging Service, LLC: This joint venture is between Seller and Modesto Radiology Medical Group, each owning 50% and provides CT scanning, MRI, nuclear medicine, ultrasound, angiography, and digital radiology imaging services.;
- Turlock Land Company, LLC: The medical office building opened in November 2006 and is a 50/50 joint venture between Seller and Modesto Radiology Medical Group. It was created in order to develop a new free-standing imaging center and is located approximately 1.7 miles from Hospital;

- Health and Wellness Center, L.P.: Seller, as a limited partner, owns 41% (with a group of investors making up the remaining ownership) in the Health and Wellness Center that operates a 58,900 square foot medical office building located two blocks from Hospital. Seller leases space in the building for its cardiology physician clinic, cardiothoracic surgery physician clinic, satellite x-ray service and lab draw station; and
- Health and Wellness Surgery Center, L.P.: Seller owns 49.5% (with a group of surgeons making up the remaining ownership) in the ambulatory surgery center, which leases space from the Health and Wellness Center. The surgery center opened in the fall of 2005 and provides outpatient surgery services to the surrounding Turlock community.

Accreditations, Certifications, and Achievements

Hospital and the Hospice of Emanuel are accredited with the Joint Commission through August 2013. The Clinical Laboratory is accredited with the Joint Commission through July 2014. Other accreditations, certifications, and awards Hospital has received include:

- Healthgrades' General Surgery Excellence Award for 2011 and 2013: The General Surgery Excellence Award recognizes hospitals for superior outcomes in three different areas of general surgery: bowel obstruction, cholecystectomy (gallbladder removal), and gastrointestinal surgeries and procedures;
- Healthgrades' Maternity Care Excellence Award for 2011 and 2012: This award recognizes hospitals that provide consistent high-quality care for women and their babies during pregnancy, delivery and the first few days after delivery; and
- Healthgrades' Gynecologic Surgery Excellence Award for 2011: The Gynecologic Surgery Excellence Award recognizes hospitals for superior outcomes in surgeries that treat diseases and conditions of the female reproductive system and correct certain conditions of the urinary tract and rectum.

Seismic Issues

In accordance with Senate Bill 1953 ("SB 1953"), all California hospital buildings in service prior to January 1, 2000 have been evaluated based on their expected seismic performance and rated with both a Structural Performance Category ("SPC") rating and a Nonstructural Performance Category ("NPC") rating between one and five, with one being the least compliant. SPC ratings relate to the actual building frame, while NPC ratings pertain to the seismic compliance of electrical, mechanical, plumbing and fire protection systems. By January 1, 2030, all hospital buildings must be capable of remaining intact after an earthquake and continued operation and provision of acute care medical services. Otherwise, they will otherwise be downgraded to non-acute care use.

All of Seller's acute care facilities have been designated SPC-2 or better, therefore no structural modifications are required until 2030.

Hospital was approved on December 19, 2012 for the NPC-2 seismic performance category rating for the buildings noted below. Hospital has submitted an application for the extension of the NPC-3 classification requirements.

EMC SEISMIC COMPLIANCE		
Building Number	Building Name	NPC 2013
1	Main Building - East Wing	NPC-2
2	Main Building - West Wing	NPC-2
3	Mental Health Addition	NPC-2
4	Critical Care Addition	NPC-2
5	Diagnostic Imaging/ER Emergency	NPC-2
6	Nursing Addition Unit	NPC-2
7	Engineering Addition	NPC-2
8	Central Supply Addition	NPC-2
9	Central Plant Addition	NPC-2
10	O.R./G.I. Addition	NPC-2
11	Walk-in Freezer	NPC-2
12	Dietary Addition	NPC-2
13	Surgery Addition	NPC-2
14	Utility Tunnel	NPC-2
15	Exit Passage Way	NPC-2
16	Obstetrics Expansion	NPC-2
15A	Exit Passage Way - Part II	NPC-2
15B	Exit Passage Way - Part III	NPC-2
15C	Exit Passage Way - Part IV	NPC-2

Source: EMC

Patient Volume

The following table shows patient volume trends at Hospital for FY 2008 through FY 2012.

EMC - SERVICE VOLUMES					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012*
PATIENT DAYS					
Medical/Surgical	37,342	38,413	37,197	38,601	36,214
Intensive Care	3,018	2,743	3,058	3,060	2,945
Neonatal Intensive Care	1,470	1,187	1,108	1,106	1,169
Obstetrics	4,882	3,902	2,530	2,628	2,404
Total	46,712	46,245	43,893	45,395	42,732
DISCHARGES					
Medical/Surgical	9,354	8,879	8,337	8,512	8,139
Intensive Care	250	218	256	226	182
Neonatal Intensive Care	255	191	186	196	169
Obstetrics	3,178	2,555	1,623	1,639	1,579
Total	13,037	11,843	10,402	10,573	10,069
AVERAGE LENGTH OF STAY					
Medical/Surgical	4.0	4.3	4.5	4.5	4.4
Intensive Care	12.1	12.6	11.9	13.5	16.2
Neonatal Intensive Care	5.8	6.2	6.0	5.6	6.9
Obstetrics	1.5	1.5	1.6	1.6	1.5
Total	3.6	3.9	4.2	4.3	4.2
AVERAGE DAILY CENSUS					
Medical/Surgical	102.0	105.2	101.9	105.8	98.9
Intensive Care	8.2	7.5	8.4	8.4	8.0
Neonatal Intensive Care	4.0	7.5	8.4	8.4	8.0
Obstetrics	13.3	10.7	6.9	7.2	6.6
Total	127.6	126.7	120.3	124.4	116.8
OTHER SERVICES					
Inpatient Surgeries	5,609	4,113	3,254	3,505	3,797
Outpatient Surgeries	3,728	3,299	3,052	3,034	2,729
Emergency Visits	56,281	56,065	59,001	58,502	58,411
Cardiac Cath Procedures	0	0	0	1,128	1,063
Obstetric Deliveries	2,858	2,208	1,410	1,362	1,358

Sources: OSHPD Disclosure Reports, 2008-2012 and EMC

*Unaudited

A review of historical utilization trends at Hospital between FY 2008 and FY 2012 supports the following conclusions:

- Neonatal Intensive Care and obstetrical volumes have decreased since 2008 when Kaiser opened a new hospital in Modesto;
- Between 2008 and 2012, total patient days decreased by 9% while inpatient discharges decreased by 23%. Most of this change can be attributed to a drop in obstetrics of

approximately 50% in both inpatient days and discharges;

- Between 2008 and 2010, inpatient surgery volume dropped 42%, to 3,250. It improved slightly in 2012, to approximately 3,800 surgeries. In 2012, Hospital performed 2,729 outpatient surgeries, a decrease of 27% from 2008;
- In 2011, Hospital started performing cardiac catheterizations. Since then, it has averaged approximately 1,100 procedures per a year;
- Between 2008 and 2012, Emergency Department visits increased 4% to nearly 58,500 visits with an average of 160 patient visits per day; and
- Overall, the average daily census at Hospital has decreased 9% (from 128 patients in 2008 to 117 patients in 2012).

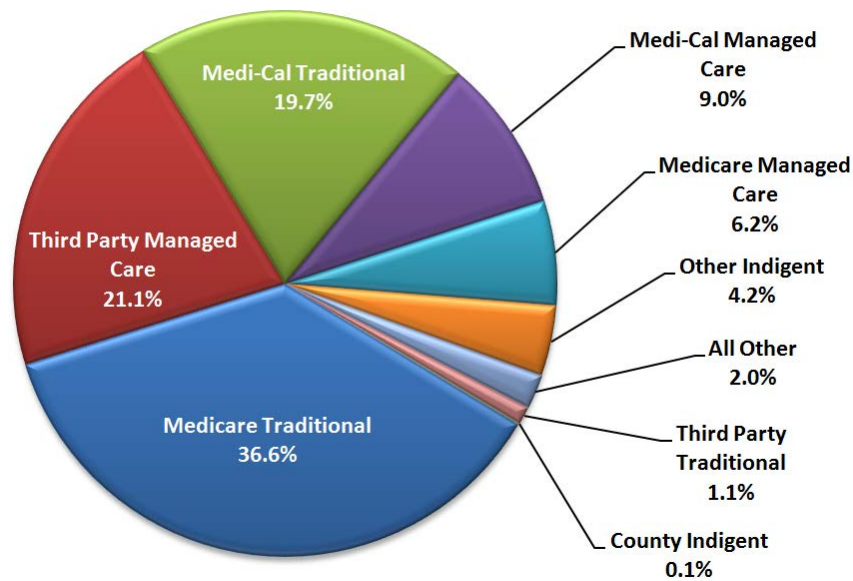
Payer Mix

As shown on the following table, Hospital has a high proportion of inpatient discharges reimbursed by Medicare and Medi-Cal (approximately 72% of all inpatient hospital discharges). However, Hospital is not designated as a Medi-Cal Disproportionate Share Hospital⁴. Traditional and Managed Care Medi-Cal discharges amounted to 20% and 9% of inpatient volume, respectively. Traditional and Managed Care Medicare made up 37% and 6% of inpatient volume, respectively. Additionally, 21% of all inpatient hospital discharges were Third-Party Managed Care that includes CHAMPUS⁵, California Children's Services, indemnity plans, fee-for-service plans, and Workers' Compensation. Additionally, 4% of all inpatient hospital discharges were indigent patients (uninsured/poor), a higher percentage compared to all California hospitals (1.9%).

⁴ A DSH hospital is a facility that receives Disproportionate Share Payments for Medi-Cal patient days. The payments are funded by intergovernmental transfers from public agencies (counties, districts, and the University of California system) to the state and from federal matching funds. Disproportionate Share Payments are received by qualifying hospitals for each Medi-Cal paid inpatient day, up to a certain maximum.

⁵ CHAMPUS is a U.S. federally funded health program that provides beneficiaries with medical care, supplemental to that available in U.S. military and Public Health Service facilities. CHAMPUS is like Medicare in that the government contracts with private parties to administer the program. CHAMPUS has been revamped as a managed care system and renamed TRICARE.

EMC Payer Mix, 2012



Total Discharges: 10,685

*“Other” includes self-pay, other government, and other payers

Source: OSHPD Financial Disclosure Report, FY 2012 (based on inpatient discharges)

The following table compares Hospital’s payer mix to Stanislaus County and California. Hospital has higher percentages of Medi-Cal Traditional, Medicare Traditional, and indigent patients, but lower percentages of Medi-Cal Managed Care, Medicare Managed Care, and Third-Party payers.

PAYER MIX COMPARISON						
	EMC (2012)		Stanislaus County (2011)		California (2011)	
	Discharges	% of Total	Discharges	% of Total	Discharges	% of Total
Medi-Cal Traditional	2,109	19.7%	9,239	16.8%	259,715	8.5%
Medi-Cal Managed Care	966	9.0%	6,449	11.7%	563,693	18.4%
Medi-Cal Total	3,075	28.8%	15,688	28.5%	823,408	27.0%
Medicare Traditional	3,911	36.6%	15,817	28.8%	898,156	29.4%
Medicare Managed Care	663	6.2%	6,601	12.0%	251,403	8.2%
Medicare Total	4,574	42.8%	22,418	40.8%	1,149,559	37.6%
Third-Party Managed Care	2,251	21.1%	10,820	19.7%	697,936	22.8%
Third-Party Managed Care Total	2,251	21.1%	10,820	19.7%	697,936	22.8%
Third-Party Traditional	114	1.1%	2,628	4.8%	150,185	4.9%
Other Payers	216	2.0%	1,209	2.2%	88,883	2.9%
Other Indigent	445	4.2%	1,436	2.6%	55,946	1.8%
County Indigent	10	0.1%	751	1.4%	89,385	2.9%
Other Total	785	7.3%	6,024	11.0%	384,399	12.6%
Total	10,685	100%	54,950	100%	3,055,302	100%

Source: OSHPD Disclosure Reports, 2011 & 2012

Medical Staff

Hospital has 306 physicians on the medical staff, with a large number of specialties represented. Of the 306 physicians, 172 physicians are considered “active” users of Hospital (representing approximately 56% of the medical staff).

EMC MEDICAL STAFF, 2012			
Specialty	EMC Physicians		
	Total	Active	% Active
Allergy/Immunology	1	0	0.0%
Anesthesiology	17	3	17.0%
Cardiology, Interventional	13	5	38.0%
Cardiothoracic Surgery	8	6	75.0%
Cardiovascular Disease	25	10	40.0%
Dentistry	3	0	0.0%
Dermatology	1	1	100.0%
DI/Teleradiology	21	1	0.0%
Diagnostic Radiology	15	8	53.0%
Emergency Medicine	25	18	72.0%
Endocrinology/Metabolism	0	0	0.0%
Family Practice	36	25	69.0%
Gastroenterology	6	4	67.0%
General Surgery	9	7	78.0%
Gynecology	0	0	0.0%
Gynecology/Oncology	0	0	0.0%
Hand Surgery	0	0	0.0%
Hematology/Oncology	7	4	57.0%
Infectious Disease	1	1	100.0%
Internal Medicine	49	29	60.0%
Medical Oncology	0	0	0.0%
Nephrology	10	8	80.0%
Neurology	2	2	100.0%
Obstetrics/Gynecology	5	5	100.0%
Occupational Medicine	0	0	0.0%
Oncology	0	0	0.0%
Ophthalmology	4	3	75.0%
Orthopedic Surgery	4	4	100.0%
Pathology	11	4	36.0%
Pediatric Cardiology	2	0	0.0%
Pediatrics	12	12	100.0%
Physical Medicine and Rehabilitation	0	0	0.0%
Plastic Surgery	1	0	0.0%
Podiatry	2	2	100.0%
Psychiatry	1	1	100.0%
Pulmonary Medicine	3	3	100.0%
Radiation Oncology	3	2	33.0%
Urology	8	3	38.0%
Vascular Surgery	1	1	100.0%
Total	306	172	56.0%

Source: EMC

Financial Profile

The table below summarizes Sellers's financial performance for the last five years as reported to OSHPD. Seller reported a net profit in 2012 of approximately \$2.3 million although Seller experienced a steep decrease in net non-operating revenue in 2012 from previous years. Seller's current ratio (2.05) is considerably higher than average for California (1.47). The operating margin of 2.24% in 2012 is also well above the California average of 0.38%.

EMC FINANCIAL AND RATIO ANALYSIS: FY 2008-2012					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012*
Patient Days	105,219	105,366	102,812	103,917	100,253
Discharges	13,625	12,467	11,019	11,230	10,685
ALOS	7.7	8.5	9.3	9.3	9.4
Net Operating Revenue	\$136,404,549	\$132,729,764	\$134,884,132	\$166,608,678	\$156,789,585
Operating Expense	\$145,105,083	\$149,966,505	\$148,105,945	\$181,459,934	\$178,988,887
Net from Operations	\$1,234,412	(\$624,117)	\$1,981,575	\$4,341,219	\$4,099,254
Net Non-Operating Rev.	\$13,195,252	\$3,215,507	\$14,688,730	\$7,700,381	\$1,240,622
Net Income	\$11,490,450	(\$1,219,904)	\$13,967,354	\$8,776,666	\$2,348,840
California Average					
Current Ratio	1.47	1.14	1.24	1.45	2.05
Days in A/R	61.3	81.6	61.3	55.4	81.4
Bad Debt Rate	1.8%	3.72%	3.75%	4.50%	2.78%
Operating Margin	0.38%	0.84%	-0.42%	1.32%	2.24%

Source: OSHPD Disclosure Reports, 2008-2012

*Unaudited

Cost of Hospital Services

In 2012, approximately 46% of Hospital's total costs were associated with Medicare patients, 25% with Medi-Cal patients, 22% with Third-Party, and the remaining 7% with indigent and other payers.

EMC COST OF SERVICES BY PAYER CATEGORY 2008-2012					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012*
Operating Expenses	\$145,105,083	\$149,966,505	\$148,105,945	\$181,459,934	\$178,988,887
Cost of Services By Payer:					
Medicare	\$60,394,742	\$65,033,119	\$67,462,706	\$83,613,096	\$82,558,221
Medi-Cal	\$24,914,203	\$29,692,023	\$35,781,336	\$43,750,242	\$43,997,098
County Indigent	\$89,719	\$301,658	\$229,312	\$227,258	\$245,347
Third Party	\$51,321,120	\$46,188,702	\$34,636,324	\$40,429,775	\$39,503,038
Other Indigent	\$1,640,652	\$2,113,260	\$1,942,736	\$2,499,390	\$3,055,717
Other Payers	\$6,744,649	\$6,637,743	\$8,053,531	\$10,940,173	\$9,629,466

Source: OSHPD Disclosure Reports, 2008-2012

*Unaudited

Charity Care

Hospital provides charity care for uninsured and under-insured patients pursuant to a policy that was last updated in FY 2012.

EMC CHARITY CARE TOTAL CHARGES 2008-2012	
Year	OSHPD Disclosure Reports (FY)
2012*	\$36,923,017
2011	\$23,586,663
2010	\$13,061,838
2009	\$10,204,896
2008	\$7,257,773
5-Year Average	\$18,206,837

Source: OSHPD Disclosure Reports 2008-2012

*OSHPD Unaudited

According to the OSHPD reports, Hospital's charity care charges have increased significantly, from approximately \$7.3 million in 2008 to \$36.9 million in 2012.

CHARITY CARE BY SERVICE FY 2008-2012				
	Inpatient	Outpatient	Emergency Room	Total Charges
2012:				
Cost of Charity	\$27,378,105	\$7,849,804	\$1,695,109	\$36,923,018
Cases/Visits	193	100	1,013	1,306
2011				
Cost of Charity	\$19,383,043	\$7,435,009	\$1,598,767	\$28,416,819
Cases/Visits	179	147	982	1,308
2010:				
Cost of Charity	\$11,928,775	\$5,070,014	\$728,618	\$17,727,407
Cases/Visits	166	109	1,004	1,279
2009:				
Cost of Charity	\$7,625,209	\$2,475,314	\$362,166	\$10,462,689
Cases/Visits	106	61	629	796
2008:				
Cost of Charity	\$6,957,384	\$1,645,552	\$158,531	\$8,761,467
Cases/Visits	83	61	348	492

Source: EMC

According to Seller, Hospital's approximately 74% of 2012 charity care charges were for inpatient services, 21% for outpatient services, and the remaining 5% for emergency services. The five-year average for charity care charges for inpatient services was approximately \$14.7 million.

The table below shows a comparison of charity care and bad debt for Hospital and all California general acute care hospitals. The five-year average of charity care and bad debt for Hospital, as a percentage of gross patient revenue, was 5.9%. This is considerably higher than the four-year (2008-2011) statewide average of 3.6%. According to OSHPD, "the determination of what is classified as...charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

CHARITY CARE COMPARISON										
EMC CHARITY CARE - FY 2008 to FY 2012										
(Millions)										
	2008		2009		2010		2011		2012*	
	EMC	CA	EMC	CA	EMC	CA	EMC	CA	EMC	CA
Gross Patient Revenue	\$666.7	\$230,007.7	\$733.9	\$252,204.3	\$755.9	\$270,511.0	\$851.7	\$287,438.8	\$948.5	n/a
Charity	\$7.3	\$4,116.5	\$10.2	\$4,603.4	\$13.1	\$5,587.1	\$23.6	\$5,859.4	\$36.9	n/a
Bad Debt	\$24.8	\$3,761.9	\$27.5	\$4,293.4	\$34.0	\$4,510.8	\$28.0	\$4,938.8	\$26.4	n/a
Total	\$32.1	\$7,878.4	\$37.7	\$8,896.7	\$47.0	\$10,097.9	\$51.6	\$10,798.1	\$63.3	n/a
Charity as a % of Gross Rev.	1.1%	1.8%	1.4%	1.8%	1.7%	2.1%	2.8%	2.0%	3.9%	n/a
Bad Debt as a % of Gross Rev.	3.7%	1.6%	3.8%	1.7%	4.5%	1.7%	3.3%	1.7%	2.8%	n/a
Total as a % of Gross Rev.	4.8%	3.4%	5.1%	3.5%	6.2%	3.7%	6.1%	3.8%	6.7%	n/a
Uncompensated Care										
Cost to Charge Ratio	20.3%	26.0%	18.2%	25.1%	17.6%	25.0%	19.1%	24.6%	16.1%	n/a
Cost of Charity	\$1.5	\$1,069.4	\$1.9	\$1,153.4	\$2.3	\$1,396.2	\$4.5	\$1,441.4	\$5.9	n/a
Cost of Bad Debt	\$5.0	\$977.2	\$5.0	\$1,075.7	\$6.0	\$1,127.3	\$5.3	\$1,214.9	\$4.3	n/a
Total	\$6.5	\$2,046.6	\$6.9	\$2,229.2	\$8.3	\$2,523.5	\$9.8	\$2,656.3	\$10.2	n/a

Source: OSHPD Disclosure Reports, 2008-2012

*Unaudited

The table below shows Hospital's historical costs for charity care as reported by OSHPD. Hospital's charity care costs rose significantly between 2008 and 2012, from a low of approximately \$1.5 million in FY 2008 to a high of nearly \$6 million in FY 2012. The average cost of charity care for the five-year period was approximately \$3.2 million.

EMC COST OF CHARITY CARE				
Year	EMC Charity Care Charges (1)	Cost to Charge Ratio	Cost of Charity Care to EMC	Percent of Total Costs Represented by Charity Care
FY 2012*	\$36,923,017	16.1%	\$5,944,030	3.3%
FY 2011	\$23,586,663	19.1%	\$4,493,852	2.5%
FY 2010	\$13,061,838	17.6%	\$2,296,483	1.6%
FY 2009	\$10,204,896	18.2%	\$1,854,337	1.2%
FY 2008	\$7,257,773	20.3%	\$1,471,570	1.0%
5-Year Average	\$18,206,837		\$3,212,054	

Source: OSHPD Disclosure Reports, 2008-2012

(1) Charity Care charges are based on final OSHPD figures.

*Unaudited

Community Benefit Services

Between 2009 and 2013, Hospital has consistently provided community benefit services that include a combination of health events, preventative health services, and educational programs.

As shown in the table below, the average annual cost of community services over five years totals approximately \$398,000 per year.

EMC COMMUNITY BENEFITS							
Community Events - Health Events	2009	2010	2011	2012	2013	5-Year Average	Total
Community Benefit Activity	\$127,688	\$139,136	\$211,497	\$268,907	\$311,829	\$202,850	\$1,059,057
Community Health Fairs	-	\$14,619	\$12,926	\$11,155	\$5,000	\$10,925*	\$43,700
Community Outreach and Events	\$107,586	\$173,652	\$244,826	\$196,301	\$165,668	\$163,840	\$888,033
Total	\$235,274	\$327,407	\$469,249	\$476,363	\$482,497	\$398,158	\$1,990,790

Source: EMC

*4-year average

- Hospital's cost of community benefit activity has increased 144% between 2009 and 2013. The community benefit activities include health education and support, such as nutrition education and childbirth education classes, as well as education programs for medical students and clinical rotations for nursing students; and
- Hospital's cost of community outreach and events has fluctuated from a high of \$244,826 in 2011 to a low of \$107,586 in 2009. The five-year average cost is approximately \$163,800 per year. Such outreach and events include American Cancer Society Sponsorships and the Annual Women's Cancer Awareness Event.

The cost of community benefit services over \$10,000 included the following:

EMC					
COST OF COMMUNITY BENEFIT SERVICES					
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Services over \$10,000 in cost					
Senior Day at the Stanislaus County Fair		\$11,364	\$11,368	\$11,295	\$8,510
Community Health Education Team		\$73,095	\$64,631	\$55,774	\$25,000
Annual Women's Cancer Awareness Event	\$102,586	\$65,719	\$83,049	\$67,155	\$67,450
Lung Cancer Awareness Programs (including "Quitter's Campaign")		\$25,216	\$47,243	\$31,413	\$35,000
Protect Your Bottom Line Program			\$38,239	\$18,967	\$15,734
Are You Baffled by Cancer?					\$10,889
Education Programs for Medical Students			\$81,269	\$83,771	\$81,956
Clinical Rotations Nursing Students	\$120,058	\$115,561	\$112,684	\$166,506	\$211,807
American Cancer Society Sponsorships	\$5,000	\$12,877	\$13,223	\$22,854	\$8,085
All Other Programs and Services Combined	\$7,630	\$23,575	\$17,544	\$18,630	\$18,066
Total Community Benefit Services	\$235,274	\$327,407	\$469,249	\$476,363	\$482,497
Source: EMC		2009-2013 Average			\$398,158

Hospital's community benefit services include:

- Senior Day at the Stanislaus County Fair: Emanuel Cancer Center hosts a day at the Stanislaus County Fair. Hospital has a booth inside the fair to educate people about cancer risks, symptoms, and prevention;
- Education Programs for Medical Students: Hospital has academic affiliations with Touro University, California College of Osteopathic Medicine, and Midwestern University Arizona College of Osteopathic Medicine to provide clinical rotations to their medical students;
- Community Health Education Team: Developed in May 2010, the volunteer team assists patients who need help finding a physician of choice, provides complimentary health screening to the community, and educates people about the importance of living a heart-healthy lifestyle;
- Annual Women's Cancer Awareness Event: The event provides cancer awareness and education programs to the community. Over 900 women attended the event in 2012; the next event is currently scheduled to occur in November 2013;
- Lung Cancer Awareness Program: Hospital operates direct-mail campaigns to households in the community. Recipients are invited to pledge to quit and invited to participate in a smoking cessation program. The "Quitter's Campaign" program is currently scheduled to occur in November 2013;

- “Are You Baffled by Cancer?”: The Cancer Center holds this community education event, scheduled annually each April; and
- American Cancer Society Sponsorships: Hospital annually sponsors the “Relay for Life” in Turlock, as well as other American Cancer Society programs such as “Look Good Feel Better”.

PROFILE OF DMC AND TENET

On July 7, 1962, Doctors Hospital of Modesto was opened by a group of local physicians, and in 1979, was renamed Doctors Medical Center (DMC).

Today, DMC is a 459-bed multispecialty hospital that is fully accredited by the Joint Commission, is an ASC-certified Level II Trauma Center, a designated Stroke Center, an accredited Chest Pain Center, and maintains a Level II NICU. DMC's services include cardiac services, imaging services, pediatric services, spine services, nuclear medicine, a community cancer program, and a Women's and Children's Center. Additionally, DMC is affiliated with Doctors Behavioral Health Center, purchased by Tenet from Stanislaus County in 2007, that provides the only inpatient psychiatric beds in Stanislaus County.

DMC has played an important role in Stanislaus County as a healthcare safety net provider. When the county hospital closed in 1997, Tenet Healthcare Corporation entered into an inpatient hospital services agreement to provide care for eligible patients in the Stanislaus County Health Services Agency's Indigent Health Care Program. Presently, DMC is a Medi-Cal Disproportionate Share Hospital.

Key Statistics for DMC include:

- Over 22,750 patients admitted annually;
- Approximately 2,000 employees;
- Over 84,000 patient Emergency Department visits in 2012;
- Approximately 10,500 surgeries performed annually; and
- Approximately, 2,500 babies delivered annually.

PAYER MIX COMPARISON						
	Doctors Medical Center		Doctors Hospital of Manteca		San Ramon Medical Center	
	Discharges	% of Total	Discharges	% of Total	Discharges	% of Total
Medi-Cal Traditional	5,000	23.7%	271	7.0%	94	2.0%
Medi-Cal Managed Care	3,360	15.9%	498	12.9%	58	1.2%
Medi-Cal Total	8,360	39.6%	769	20.0%	152	3.2%
Medicare Traditional	4,839	22.9%	1,762	45.8%	1,571	33.1%
Medicare Managed Care	1,554	7.4%	261	6.8%	327	6.9%
Medicare Total	6,393	30.3%	2,023	52.6%	1,898	40.0%
Third-Party Managed Care	3,372	16.0%	889	23.1%	2,532	53.4%
Third-Party Managed Care Total	3,372	16.0%	889	23.1%	2,532	53.4%
Third-Party Traditional	1,393	6.6%	39	1.0%	51	1.1%
Other Payers	320	1.5%	116	3.0%	84	1.8%
Other Indigent	580	2.7%	13	0.3%	23	0.5%
County Indigent	680	3.2%	0	0.0%	0	0.0%
Other Total	2,973	14.1%	168	4.4%	158	3.3%
Total	21,098	100%	3,849	100%	4,740	100%

Source: OSHFD Disclosure Reports, 2011

Tenet's California Hospitals

Wholly owned subsidiaries of Tenet Healthcare Corporation own 10 hospitals in California and a 51% equity interest in one additional hospital in California, San Ramon Regional Medical Center, that is a joint venture arrangement with John Muir Health. All 11 of these hospitals in California are operated by wholly owned subsidiaries of Tenet Healthcare Corporation and numerous outpatient centers. Three hospitals are located within 75 miles of Hospital: DMC, Doctors Hospital of Manteca, and San Ramon Medical Center. A map of the 11 hospitals in California is shown below:



A profile of the 11 hospitals in California is provided in the tables on the following pages:

CALIFORNIA HOSPITALS OWNED BY TENET HEALTHCARE								
	Doctors Medical Center General Acute		Doctors Hospital of Manteca General Acute		San Ramon Medical Center General Acute		Sierra Vista Regional Med. Cntr. General Acute	
	2010	2011	2010	2011	2010	2011	2010	2011
City	Modesto		Manteca		San Ramon		San Luis Obispo	
Licensed Beds	459	459	73	73	123	123	164	164
Patient Days	102,352	104,846	17,024	15,769	19,414	18,822	28,307	26,298
Discharges ¹	20,367	21,098	3,977	3,849	4,849	4,740	6,017	5,833
ALOS	5.0	5.0	4.3	4.1	4.0	4.0	4.7	4.5
Average Daily Census	280	287	47	43	53	52	78	72
Occupancy	63.6%	65.1%	63.9%	59.2%	47.5%	46.0%	47.3%	43.9%
ED Visits	69,865	71,606	24,155	26,319	15,934	16,570	19,624	17,340
Inpatient Surgeries	5,218	5,221	990	901	1,542	1,478	1,986	1,851
Outpatient Surgeries	5,250	5,839	1,876	1,709	4,425	4,199	1,439	1,433
Births	2,604	2,393	538	482	417	425	840	839
Payer Mix (Based on Discharges):								
Traditional Medicare	24.6%	22.9%	40.3%	45.8%	30.2%	33.1%	26.2%	27.3%
Managed Medicare	6.0%	7.4%	7.7%	6.8%	6.9%	6.9%	5.1%	5.3%
Traditional Medi-Cal	25.2%	23.7%	6.9%	7.0%	2.2%	2.0%	6.1%	6.4%
Managed Medi-Cal	13.9%	15.9%	13.1%	12.9%	0.8%	1.2%	11.8%	11.5%
County Indigent	4.8%	3.2%	0.0%	0.0%	0.0%	0.0%	2.0%	1.9%
Traditional Third-Party	5.1%	6.6%	1.2%	1.0%	2.0%	1.1%	2.8%	3.1%
Managed Third-Party	16.6%	16.0%	27.9%	23.1%	55.6%	53.4%	43.7%	42.5%
Other Indigent	2.0%	2.7%	0.3%	0.3%	0.2%	0.5%	0.7%	0.7%
Other	1.9%	1.5%	2.7%	3.0%	2.1%	1.8%	1.6%	1.4%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Income Statement:								
Gross Patient Revenue	\$2,726,107,981	\$2,952,998,835	\$632,779,730	\$599,642,493	\$634,528,612	\$629,635,501	\$660,836,580	\$659,713,842
Net Pt. Revenue	\$388,394,674	\$377,507,897	\$80,223,286	\$76,365,459	\$143,530,702	\$147,615,075	\$128,714,600	\$128,218,539
Other Operating Revenue	\$1,453,490	\$16,968,713	\$199,714	\$532,606	\$1,158,069	\$1,402,207	\$898,238	\$2,420,608
Total Operating Revenue	\$389,848,164	\$394,476,610	\$80,423,000	\$76,898,065	\$144,688,771	\$149,017,282	\$129,612,838	\$130,639,147
Total Operating Expenses	\$368,955,512	\$382,243,525	\$69,893,681	\$66,081,071	\$131,848,360	\$131,454,575	\$119,465,901	\$115,794,367
Net From Operations	\$20,892,652	\$12,233,085	\$10,529,319	\$10,816,994	\$12,840,411	\$17,562,707	\$10,146,937	\$14,844,780
Non-operating Revenue	\$605,881	\$737,857	\$20,480	\$32,325	\$248,131	\$615,361	\$103,786	\$122,493
Non-operating Expenses	\$229,969	\$359,900	\$265,855	\$100,547	\$279,938	\$166,396	\$0	\$35,721
Provision for Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Income	\$21,268,564	\$12,611,042	\$10,283,944	\$10,748,772	\$12,808,604	\$18,011,672	\$10,250,723	\$14,931,552
Other Financial:								
Charity Care Charges	\$84,764,812	\$104,169,706	\$1,714,254	\$3,131,955	\$902,955	\$2,115,055	\$2,892,127	\$5,494,262
Bad Debt Charges	\$37,801,020	\$27,594,729	\$10,804,197	\$7,789,000	\$5,197,442	\$3,120,682	\$8,800,271	\$6,016,326
Total Uncompensated Care	\$122,565,832	\$131,764,435	\$12,518,451	\$10,920,955	\$6,100,397	\$5,235,737	\$11,692,398	\$11,510,588
Cost to Charge Ratio	13.5%	12.4%	11.0%	10.9%	20.6%	20.7%	17.9%	17.2%
Cost of Charity	\$11,427,001	\$12,885,400	\$188,807	\$342,362	\$185,977	\$436,868	\$518,907	\$944,205
Uncompensated Care as % of Chgs	4.5%	4.5%	2.0%	1.8%	1.0%	0.8%	1.8%	1.7%
State of Calif. Uncompensated Care ²	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Fiscal Year Ending	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011

* Unaudited data

¹ Excludes normal new births

² Statewide average for hospitals

Source: OSHPD Disclosure Reports FY 2010-2011

CALIFORNIA HOSPITALS OWNED BY TENET HEALTHCARE								
	Los Alamitos Medical Center		Lakewood Regional Med. Cntr.		Fountain Valley Regional Hospital		Placentia-Linda Hospital	
	General Acute		General Acute		General Acute		General Acute	
	2010	2011	2010	2011	2010	2011	2010	2011
City	Los Alamitos		Lakewood		Fountain Valley		Placentia	
Licensed Beds	167	180	172	172	400	400	114	114
Patient Days	42,595	53,297	38,428	36,973	88,166	86,236	13,520	12,185
Discharges ¹	9,390	8,345	7,786	8,044	17,517	18,027	4,295	3,794
ALOS	4.5	6.4	4.9	4.6	5.0	4.8	3.1	3.2
Average Daily Census	117	146	105	101	242	236	37	33
Occupancy	69.9%	81.1%	61.2%	58.9%	60.4%	59.1%	32.5%	29.3%
ED Visits	28,897	16,488	37,378	42,322	38,281	39,999	21,828	20,800
Inpatient Surgeries	2,275	1,710	1,520	1,594	4,594	5,030	1,346	1,278
Outpatient Surgeries	3,866	319	1,842	2,081	4,585	4,452	3,326	3,446
Births	1,146	69	0	0	2,299	2,057	0	0
Payer Mix (Based on Discharges):								
Traditional Medicare	30.4%	34.3%	30.6%	29.3%	23.8%	23.7%	26.2%	26.0%
Managed Medicare	22.6%	3.5%	29.1%	29.5%	10.2%	9.4%	30.8%	30.1%
Traditional Medi-Cal	7.0%	42.3%	14.3%	13.4%	10.5%	9.9%	1.4%	1.2%
Managed Medi-Cal	3.8%	13.7%	3.8%	6.1%	24.3%	24.6%	6.1%	6.4%
County Indigent	0.9%	0.0%	0.0%	0.0%	5.6%	0.0%	2.7%	2.0%
Traditional Third-Party	1.2%	1.7%	1.3%	1.2%	0.4%	6.6%	0.9%	1.4%
Managed Third-Party	32.2%	1.0%	16.6%	15.4%	22.8%	23.6%	28.7%	30.0%
Other Indigent	0.5%	1.1%	1.9%	2.6%	0.9%	0.6%	0.3%	0.0%
Other	1.4%	2.5%	2.3%	2.6%	1.6%	1.8%	3.0%	2.8%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Income Statement:								
Gross Patient Revenue	\$1,002,316,451	\$366,290,075	\$844,195,636	\$887,929,820	\$1,596,808,820	\$1,658,268,969	\$373,112,755	\$390,697,959
Net Pt. Revenue	\$163,785,539	\$112,986,684	\$147,949,283	\$139,167,563	\$312,372,076	\$296,211,459	\$76,896,054	\$77,390,904
Other Operating Revenue	\$697,509	\$169,405	\$356,321	\$1,286,455	\$1,016,817	\$3,428,751	\$216,496	\$702,241
Total Operating Revenue	\$164,483,048	\$113,156,089	\$148,305,604	\$140,454,018	\$313,388,893	\$299,640,210	\$77,112,550	\$78,093,145
Total Operating Expenses	\$149,025,262	\$82,242,809	\$138,561,025	\$136,279,497	\$286,794,528	\$278,310,428	\$68,295,299	\$67,042,068
Net From Operations	\$15,457,786	\$30,913,280	\$9,744,579	\$4,174,521	\$26,594,365	\$21,329,782	\$8,817,251	\$11,051,077
Non-operating Revenue	\$1,421,102	\$24,146	\$88,467	\$165,697	\$0	\$0	\$429,415	\$470,474
Non-operating Expenses	\$457,281	\$3,221	\$359,449	\$29,993	\$398,550	\$85,849	\$803,356	\$655,685
Provision for Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Income	\$16,421,607	\$30,934,205	\$9,473,597	\$4,310,225	\$26,195,815	\$21,243,933	\$8,443,310	\$10,865,866
Other Financial:								
Charity Care Charges	\$3,781,343	\$2,323,555	\$10,339,330	\$13,080,718	\$13,982,175	\$6,473,602	\$739,560	\$1,116,559
Bad Debt Charges	\$9,891,443	\$8,685,818	\$16,036,471	\$11,948,197	\$10,058,601	\$10,694,334	\$7,344,278	\$4,541,892
Total Uncompensated Care	\$13,672,786	\$11,009,373	\$26,375,801	\$25,028,915	\$24,040,776	\$17,167,936	\$8,083,838	\$5,658,451
Cost to Charge Ratio	14.8%	22.4%	16.4%	15.2%	17.9%	16.6%	18.2%	17.0%
Cost of Charity	\$559,582	\$520,631	\$1,692,669	\$1,988,677	\$2,502,362	\$1,073,092	\$134,941	\$189,590
Uncompensated Care as % of Chgs.	1.4%	3.0%	3.1%	2.8%	1.5%	1.0%	2.2%	1.4%
State of Calif. Uncompensated Care ²	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Fiscal Year Ending	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011

* Unaudited data

¹ Excludes normal new births

² Statewide average for hospitals

Source: OSHPD Disclosure Reports FY 2010-2011

CALIFORNIA HOSPITALS OWNED BY TENET HEALTHCARE						
	JFK Memorial Hospital General Acute		Desert Regional Med. Cntr. General Acute		Twin Cities Community Hospital General Acute	
	2010	2011	2010	2011	2010	2011
City	Indio		Palm Springs		Templeton	
Licensed Beds	156	156	367	387	122	122
Patient Days	29,873	29,366	78,412	77,460	24,492	23,297
Discharges ¹	8,888	8,775	17,758	17,597	5,912	6,001
ALOS	3.4	3.3	4.4	4.4	4.1	3.9
Average Daily Census	82	80	215	212	67	64
Occupancy	52.5%	51.6%	64.1%	60.5%	55.0%	52.3%
ED Visits	38,754	36,817	60,168	59,781	31,560	33,975
Inpatient Surgeries	2,860	2,870	4,011	3,945	1,742	1,657
Outpatient Surgeries	1,951	2,426	1,871	1,596	1,677	1,623
Births	1,778	2,209	2,306	2,329	604	578
Payer Mix (Based on Discharges):						
Traditional Medicare	19.3%	20.0%	20.4%	20.1%	44.3%	43.4%
Managed Medicare	8.6%	9.2%	20.5%	19.9%	3.8%	3.7%
Traditional Medi-Cal	31.3%	29.1%	17.6%	16.8%	6.0%	5.1%
Managed Medi-Cal	20.7%	21.0%	7.8%	8.8%	10.6%	10.2%
County Indigent	0.0%	0.1%	0.0%	0.0%	2.2%	0.0%
Traditional Third-Party	0.7%	1.0%	2.6%	2.8%	1.5%	3.7%
Managed Third-Party	15.7%	15.7%	26.2%	26.4%	28.7%	31.0%
Other Indigent	1.1%	0.9%	3.7%	3.5%	1.5%	1.3%
Other	2.6%	3.1%	1.2%	1.7%	1.5%	1.5%
Total	100%	100%	100%	100%	100%	100%
Income Statement:						
Gross Patient Revenue	\$639,904,625	\$682,520,498	\$1,945,939,625	\$1,999,411,591	\$622,619,145	\$631,647,261
Net Pt. Revenue	\$115,586,452	\$108,552,564	\$362,149,822	\$340,578,636	\$94,684,644	\$94,940,238
Other Operating Revenue	\$575,151	\$3,907,022	\$1,425,266	\$4,234,321	\$5,416,723	\$3,773,602
Total Operating Revenue	\$116,161,603	\$112,459,586	\$363,575,088	\$344,812,957	\$100,101,367	\$98,713,840
Total Operating Expenses	\$115,356,596	\$112,494,153	\$311,460,515	\$311,083,205	\$82,759,091	\$86,671,737
Net From Operations	\$805,007	(\$34,567)	\$52,114,573	\$33,729,752	\$17,342,276	\$12,042,103
Non-operating Revenue	\$649,425	\$4,554,393	\$1,698,082	\$1,449,712	\$18,860	\$40,863
Non-operating Expenses	\$417,984	\$53,871	\$1,424,555	\$1,362,430	\$318,058	\$18,396
Provision for Taxes	\$0	\$0	\$0	\$0	\$0	\$0
Net Income	\$1,036,448	\$4,465,955	\$52,388,100	\$33,817,034	\$17,043,078	\$12,064,570
Other Financial:						
Charity Care Charges	\$8,989,239	\$6,227,168	\$73,900,137	\$75,247,543	\$9,100,861	\$5,701,869
Bad Debt Charges	\$11,956,711	\$9,172,280	\$26,428,359	\$21,229,298	\$11,357,897	\$6,845,590
Total Uncompensated Care	\$20,945,950	\$15,399,448	\$100,328,496	\$96,476,841	\$20,458,758	\$12,547,459
Cost to Charge Ratio	17.9%	15.9%	15.9%	15.3%	12.4%	13.1%
Cost of Charity	\$1,612,424	\$990,725	\$11,774,079	\$11,548,210	\$1,130,518	\$748,320
Uncompensated Care as % of Chgs.	3.3%	2.3%	5.2%	4.8%	3.3%	2.0%
State of Calif. Uncompensated Care ²	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Fiscal Year Ending	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011

* Unaudited data

¹ Excludes normal new births

² Statewide average for hospitals

Source: OSHPD Disclosure Reports FY 2010-2011

- In FY 2011, the total number of discharges for all 11 California hospitals was 107,609;
- In FY 2011, the total cost of charity care for the 11 California hospitals was \$34,126,650, up 3.2% from FY 2010; and
- In FY 2011, the 11 California hospitals had a combined licensed-bed count of 2,337 and approximately 395,000 Emergency Department visits.

Quality & Awards

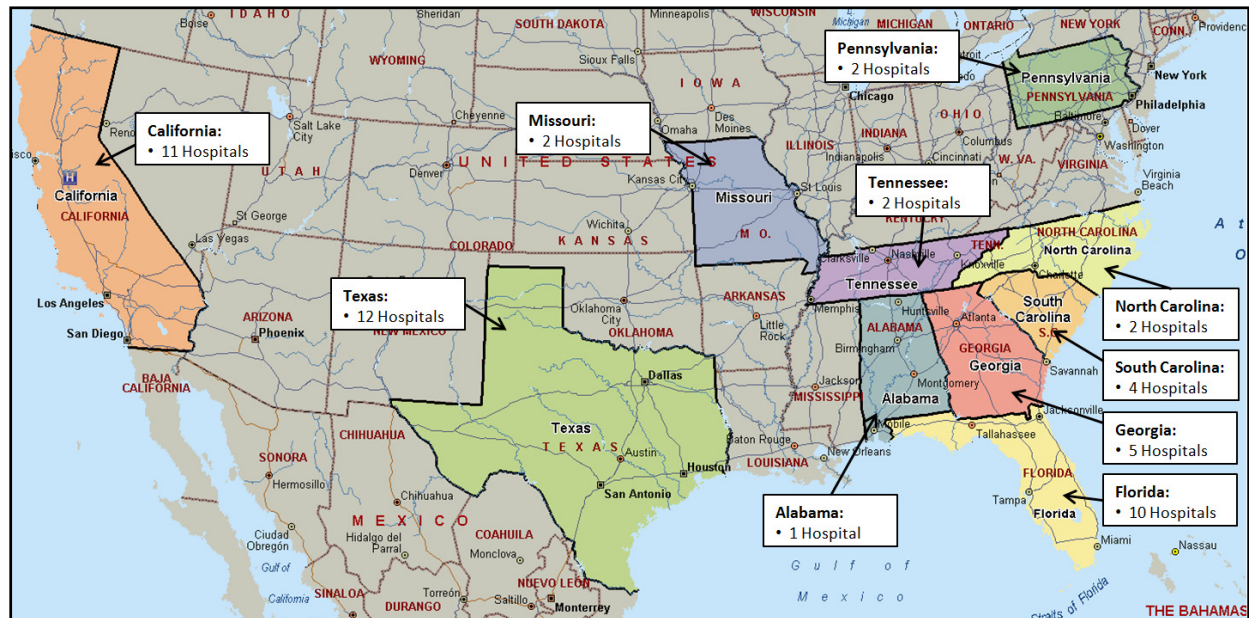
All 11 hospitals in California have received Joint Commission accreditation as indicated below:

Hospital	Effective Date
Doctors Medical Center	7/28/2012
Doctors Hospital of Manteca	7/9/2010
San Ramon Medical Center	2/5/2011
Sierra Vista Regional Medical Center	6/26/2010
JFK Memorial Hospital	8/24/2012
Desert Regional Medical Center	7/16/2011
Twin Cities Community Hospital	7/14/2012
Los Alamitos Medical Center	8/18/2012
Lakewood Regional Medical Center	7/17/2010
Fountain Valley Regional Hospital	10/20/2012
Placentia-Linda Hospital	7/8/2011

Source: The Joint Commission Accreditation Program

Tenet Healthcare Corporation

Tenet Healthcare Corporation, headquartered in Dallas, Texas, is one of the nation's largest investor-owned healthcare delivery systems. Through its subsidiaries, it owns or operates 50 acute care hospitals in 11 states, including four academic medical centers, and 99 free-standing outpatient centers.



Tenet Healthcare Corporation's Community Benefit Services

In 1998, Tenet Healthcare Corporation established Tenet Healthcare Foundation (Tenet Foundation) to make grants to worthy organizations for a variety of charitable purposes. The Tenet Foundation directs the majority of its funding to helping meet underserved or unmet healthcare needs in the communities in which Tenet Healthcare Corporation operates its hospitals and other facilities. The Tenet Foundation makes grants in support of appropriate educational, human service, civic and humanities-supporting organizations.

Through the grant-making program, the Tenet Foundation administers Tenet Healthcare Corporation's corporate and hospital grant-giving. Working with an annual allocation, each of the Tenet Healthcare Corporation's facilities and regional markets collaborate with the Tenet Foundation to provide grant support to charitable organizations in their communities that meet Foundation guidelines.

In 2011, Tenet Healthcare Corporation's economic impact in local communities included \$530 million in care to the uninsured, \$126 million in sales and property taxes, \$13 million in contributions to community organizations and academic institutions, and significant in-kind services through sponsorships and participation in local events. In addition, its hospitals and outpatient centers provided health screenings for more than 62,000 people, and hosted 4,200 educational seminars and support group meetings.

EMANUEL MEDICAL CENTER SERVICE AREA ANALYSIS

Definition of Emanuel Medical Center's Service Area

Hospital's service area is composed of 19 ZIP Codes, from which approximately 90% of Hospital's discharges originated in 2011. Almost 50% of Hospital's discharges emanate from the top two ZIP Codes, both located in Turlock. Hospital's inpatient market share in the service area was 29.5%.

EMC Service Area Patient Origin, 2011						
ZIPs	Community	Discharges	% of Discharges	Cumulative Percentage	Total Discharges	Market Share
95380	Turlock	3,084	28.8%	28.8%	5,120	60.2%
95382	Turlock	2,032	18.9%	47.7%	3,547	57.3%
95315	Delhi	649	6.1%	53.8%	1,066	60.9%
95334	Livingston	635	5.9%	59.7%	1,205	52.7%
95324	Hilmar	461	4.3%	64.0%	759	60.7%
95316	Denair	363	3.4%	67.4%	666	54.5%
95363	Patterson	348	3.2%	70.6%	1,953	17.8%
95307	Ceres	346	3.2%	73.8%	4,214	8.2%
95301	Atwater	330	3.1%	76.9%	3,289	10.0%
95360	Neman	307	2.9%	79.8%	1,135	27.0%
95326	Hughson	232	2.2%	81.9%	964	24.1%
95388	Winton	187	1.7%	83.7%	1,151	16.2%
95328	Keyes	151	1.4%	85.1%	394	38%
95322	Gustine	143	1.3%	86.4%	758	18.9%
95381	Turlock	108	1.0%	87.4%	203	53%
95374	Stevinson	84	0.8%	88.2%	168	50.0%
95358	Modesto	67	0.6%	88.8%	2,777	2.4%
95303	Ballico	45	0.4%	89.3%	84	53.6%
95313	Crows Landing	43	0.4%	89.7%	146	29.5%
Sub-Total		9,615	89.7%	89.7%	29,599	
All Other		1,108	10.3%	100.0%		
Total		10,723	100%			

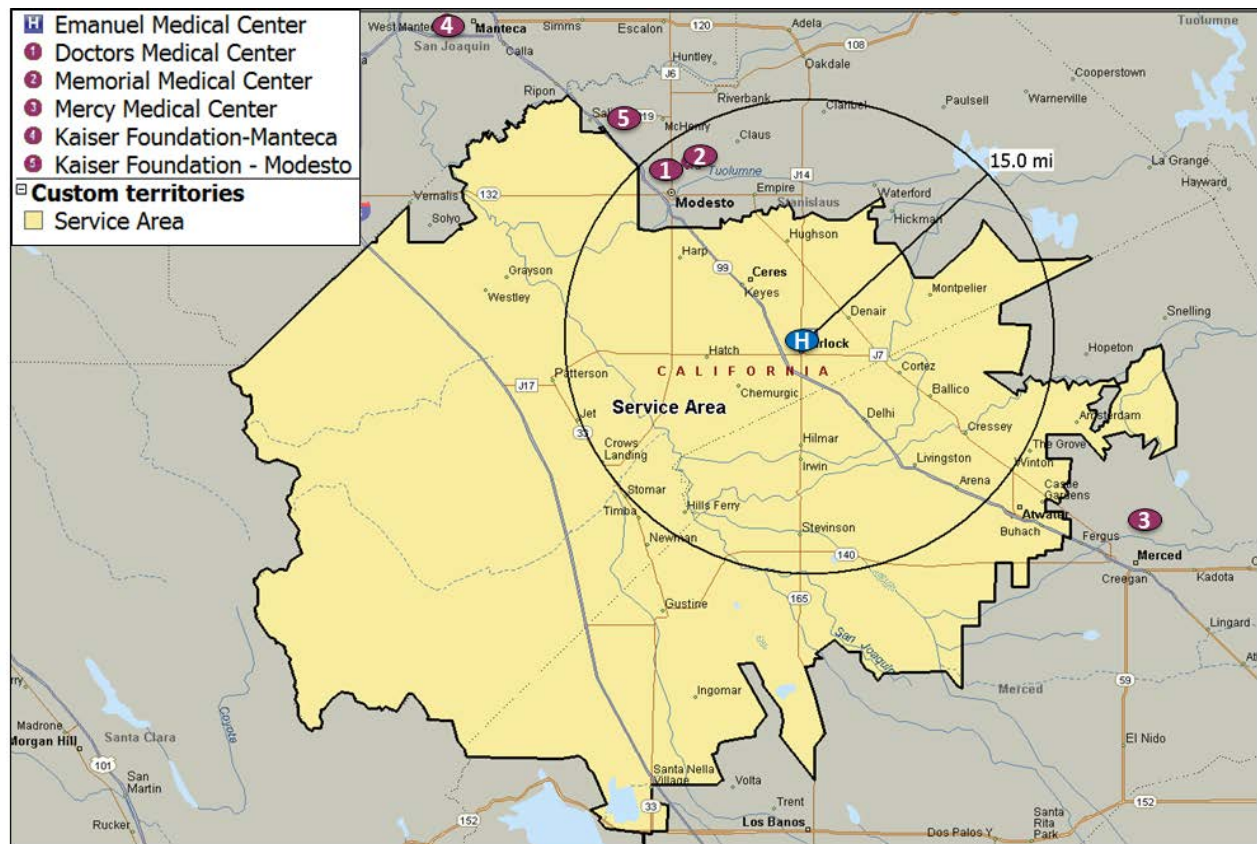
Source: OSPHD Patient Discharge Database, 2011

Note: Excludes Normal Newborns

Service Area Map

Hospital's service area includes the communities of Turlock, Delhi, Livingston, Hilmar, Denair, Patterson, Ceres, Atwater, Neman, Hughson, Winton, Keyes, Gustine, Stevinson, Modesto, Ballico, and Crows Landing. Approximately 315,000 people live within the service area.

There are four other hospitals located within close proximity to Hospital's service area: DMC, Memorial Medical Center, Mercy Medical Center, Kaiser Foundation-Modesto Medical Center, and Kaiser Foundation-Manteca Medical Center. The two Kaiser hospitals operate under the same license. There are no other hospitals in Hospital's service area.



Demographic Profile

The population in Hospital's service area is projected to grow by approximately 5.6% between 2012 and 2017. This is higher than the expected growth rate for California and Stanislaus County (2.8% and 4.3% respectively).

EMC SERVICE AREA POPULATION STATISTICS: 2012-2017			
	2012 Estimate	2017 Projection	% Change
Total Population	315,031	332,609	5.6%
Households	94,205	100,576	6.8%
Percentage Female	49.7%	49.7%	5.6%

Source: Applied Geographic Solutions

The median age of the population in Hospital's service area is 31 years. The statewide average is slightly higher (35 years of age). The percentage of adults over the age of 65 is expected to grow by approximately 6.0% between 2012 and 2017. However, between 2012 and 2017, the fastest growing age cohort is expected to be ages 45-64, at 6.1%. The population of children between the ages 0-14 and adults between the ages 15-44 is expected to increase by 5.2% and 5.5%, respectively. The percentage of females between the ages of 15 and 44 is expected to grow by 4.6% by 2017, but remain essentially the same percentage of total population.

EMC SERVICE AREA POPULATION AGE DISTRIBUTION: 2012-2017				
	2012 Estimate		2017 Projection	
	Population	% of Total	Population	% of Total
Age 0-14	77,586	24.6%	81,596	24.5%
Age 15-44	135,730	43.1%	143,135	43.0%
Age 45-64	70,387	22.3%	74,674	22.5%
Age 65+	31,328	9.9%	33,206	10.0%
Total	315,031	100%	332,610	100%
Female 15-44	66,916	21.2%	70,006	21.0%
Median Age	31.0		31.0	

Source: Applied Geographic Solutions

Approximately 49% of the population in the service area is of non-Hispanic ethnicity. This is lower than Stanislaus County's non-Hispanic ethnic population (58%) and California's non-Hispanic ethnic population (62%).

EMC SERVICE AREA POPULATION RACE/ETHNICITY: 2012-2017		
	2012	2017
White	63.1%	62.8%
Black	2.4%	2.5%
American Indian or Alaska Native	1.2%	1.2%
Asian or Pacific Islander	5.6%	5.9%
Some Other Race	23.1%	23.0%
Two or More Races	4.6%	4.6%
Total	100%	100%
Hispanic Ethnicity	50.6%	50.6%
Non-Hispanic or Latino	49.4%	49.4%
Total	100%	100%

Source: Applied Geographic Solutions

The average household income (aggregate household income divided by total households) in the service area is \$65,857. This is 5.7% lower than the Stanislaus County average of \$69,801, and it is 26.1% less than the statewide average of \$89,159. The service area household income is projected to grow by 12.7% by 2017, slightly lower than for Stanislaus County (13.4%) and the state (15.1%).

EMC SERVICE AREA POPULATION HOUSEHOLD INCOME DISTRIBUTION: 2012-2017												
	2012 Estimate						2017 Projection					
	EMC Service Area		Stanislaus County		California		EMC Service Area		Stanislaus County		California	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
\$0 - \$15,000	10,506	11.2%	18,942	11.3%	1,328,619	10.5%	9,148	9.1%	16,221	9.2%	1,122,497	8.6%
\$15,000 - \$24,999	11,446	12.1%	19,709	11.7%	1,194,662	9.4%	10,655	10.6%	18,113	10.2%	1,091,840	8.3%
\$25,000 - \$34,999	10,007	10.6%	16,801	10.0%	1,127,499	8.9%	9,555	9.5%	15,771	8.9%	1,036,807	7.9%
\$35,000 - \$49,999	14,092	15.0%	24,598	14.6%	1,572,562	12.4%	13,465	13.4%	23,076	13.0%	1,452,863	11.1%
\$50,000 - \$74,999	20,595	21.9%	35,773	21.3%	2,238,762	17.7%	21,893	21.8%	36,591	20.7%	2,065,876	15.8%
\$75,000 - \$99,999	11,849	12.6%	21,117	12.6%	1,623,847	12.8%	14,494	14.4%	25,524	14.4%	1,765,922	13.5%
\$100,000 - \$149,999	10,583	11.2%	20,300	12.1%	2,008,744	15.9%	14,471	14.4%	27,102	15.3%	2,550,031	19.5%
\$150,000 +	5,127	5.4%	10,881	6.5%	1,553,159	12.3%	6,894	6.9%	14,438	8.2%	2,006,510	15.3%
Total	94,205	100%	168,121	100%	12,647,854	100%	100,576	100%	176,836	100%	13,092,346	100%
Average Household Income	\$65,857		\$69,801		\$89,159		\$74,229		\$79,122		\$102,639	

Source: Applied Geographic Solutions

Payer/Insurance Mix in the Service Area

Approximately 28% of the population in Hospital's service area is Medi-Cal eligible, similar to Stanislaus County (27%). The percentage of persons eligible for Medi-Cal in Hospital's service area ranges from 14.4% to 39.5%. The number and percent of the population that is eligible for Medi-Cal is expected to grow significantly as a result of healthcare reform.

SERVICE AREA MEDI-CAL ELIGIBLES 2011				
ZIP Codes	City	Eligibles	Population	Percentage
95380	Turlock	13,937	41,555	33.5%
95382	Turlock	5,960	36,828	16.2%
95315	Delhi	4,064	13,356	30.4%
95334	Livingston	5,258	15,954	33.0%
95324	Hilmar	1,105	7,666	14.4%
95316	Denair	1,156	6,861	16.8%
95363	Patterson	6,406	26,465	24.2%
95307	Ceres	13,079	43,385	30.1%
95301	Atwater	10,735	38,205	28.1%
95360	Neman	3,204	11,720	27.3%
95326	Hughson	1,848	9,860	18.7%
95388	Winton	5,300	13,421	39.5%
95328	Keyes	1,482	3,972	37.3%
95322	Gustine	2,599	8,993	28.9%
95374	Stevinson	520	2,016	25.8%
95358	Modesto	11,523	32,405	35.6%
95303	Ballico	208	1,010	20.6%
95313	Crows Landing	349	1,358	25.7%
Total		88,733	315,030	28.2%

Source: California Department of Health Care Services, AGS

- The Patient Protection and Affordable Care Act (Affordable Care Act) will provide meaningful health insurance coverage to approximately 32 million people nationally. It is expected that the Affordable Care Act will lower the cost of medical services, reduce medical errors, and create savings in federal healthcare expenditures. As part of the Affordable Care Act, state health exchanges will be created for individuals to purchase lower-cost health insurance. While these initiatives may result in more individuals with health insurance, it is unknown if this will result in less charity care and bad debt, especially in a service area like Hospital's where a high percentage of the population is medically indigent; and
- On January 1, 2014, persons eligible for Medi-Cal will qualify for health insurance through state-regulated healthcare plans, from which individuals may purchase health insurance made available by federal subsidies.

Selected Health Indicators

Overall, health status in Stanislaus County is better than in the State of California as a whole. A review of health status indicators⁶ for Stanislaus County (deaths, diseases, and births) supports the following conclusions:

- Natality statistics in Stanislaus County are lower than statewide figures in the areas of adequate/ adequate plus care and prenatal care and do not meet the national goal in either indicator. The percentage of low birth weight infants in Stanislaus County (6.2%) is higher than California as a whole (6.8%) and the national goal (7.8%).

NATALITY STATISTICS: 2013			
Health Status Indicator	Stanislaus County	California	National Goal
Low birth weight infants	6.2%	6.8%	7.8%
First Trimester Prenatal Care	77.7%	83.3%	77.9%
Adequate/Adequate Plus Care	71.0%	79.7%	77.6%

Source: California Department of Health Care Services

- The overall age-adjusted mortality rate for Stanislaus County is higher than both the State of California and national rates. Stanislaus County's rates for most causes are higher than the statewide rate except for breast and prostate cancer. The county's age-adjusted mortality rates were better than the national mortality benchmarks in four of the fourteen causes.

⁶ Source: California Department of Health Services' County Health Status Profiles 2013

MORTALITY STATISTICS: 2013 RATE PER 100,000 POPULATION				
Selected cause	Stanislaus County		(Age Adjusted)	
	Crude Death Rate	Age Adjusted Death Rate	California	National Goal
All Causes	698.9	772.8	654.9	-
- All Cancers	147.2	161.7	156.4	160.6
- Colorectal Cancer	14.7	16.3	14.7	14.5
- Lung Cancer	37.8	41.8	36.5	45.5
- Female Breast Cancer	20.1	19.8	21.3	20.6
- Prostate Cancer	13.7	19.3	21.9	21.2
- Diabetes	20.1	22.4	20.2	n/a
- Alzheimer's Disease	33.6	38.7	30.5	n/a
- Coronary Heart Disease	147.5	165.2	122.4	100.8
- Cerebrovascular Disease (Stroke)	39.1	44.5	38.1	33.8
- Influenza/Pneumonia	17.1	19.2	17.3	n/a
- Chronic Lower Respiratory Disease	42.1	48.4	37.5	n/a
- Chronic Liver Disease And Cirrhosis	12.7	13.2	11.4	8.2
- Accidents (Unintentional Injuries)	37.4	38.1	27.6	36.0
- Motor Vehicle Traffic Crashes	11.4	11.5	7.5	12.4
- Suicide	11.0	11.4	10.2	10.2
- Homicide	6.5	6.4	5.2	5.5
- Firearm-Related Deaths	9.4	9.5	7.8	9.2
- Drug-Induced Deaths	16.8	16.9	10.9	11.3

Source: California Department of Public Health, Center for Health Statistics, 2013

- Stanislaus County has considerably lower incidence rates per 100,000 people for AIDS, Chlamydia, Gonorrhea, and Tuberculosis when compared to California. Stanislaus County also has lower incidence rates when compared to the national goal except in Tuberculosis.

MORBIDITY STATISTICS: 2012 RATE PER 100,000 POPULATION			
Health Status Indicator	Stanislaus		National Goal
	County	California	
AIDS	4.6	9.7	13.00
Chlamydia	353.7	417.6	n/a
Gonorrhea Female 15-44	65.7	125.9	257.00
Gonorrhea Male 15-44	62.6	164.9	198.00
Tuberculosis	2.9	6.4	1.00

Source: California Department of Health Care Services

2011 Community Health Needs Assessment

A community needs assessment was prepared for Hospital in 2011. The towns of Ceres, Delhi, Denair, Hilmar, Livingston and Turlock were included in the assessment.

The Top 10 Community Health Concerns for Stanislaus County were identified in the 2011 Health Needs Assessment and are listed below in order of ranking:

- 1) Alcohol and Substance Abuse
- 2) Obesity/Nutrition
- 3) Diabetes
- 4) Stress
- 5) Cancer
- 6) Depression
- 7) Violence
- 8) Asthma
- 9) High Cholesterol
- 10) Coronary Heart Disease

Some of the other key statistics for Stanislaus County identified in the Community Needs Assessment are:

- The leading causes of death are heart disease, cancer, and stroke;
- Stanislaus County ranks 48th of 58 California counties in terms of overall health status; and
- Stanislaus County ranks 39th of 58 California counties for all cancers, 47th of 58 California Counties for female breast cancer, and 55th of 58 California counties for coronary heart disease.

Hospital Supply, Demand, and Market Share

There are four other general acute care hospitals within approximately 31 miles of Hospital. Together with Hospital, they have a combined total of 1,406 licensed acute care beds with an aggregate occupancy rate of 63.6%. Hospital's licensed acute care bed capacity (209 beds) represents approximately 15% of the area beds.

Memorial Medical Center, located approximately 16 miles from Hospital, is a nonprofit organization affiliated with Sutter Health, serving residents of Stanislaus County. It is licensed for 423 acute care beds, accredited by The Joint Commission, has a 24-hour Emergency Department, and is a designated Level II trauma center.

Mercy Medical Center, located 31 miles from Hospital, is licensed for 186 acute care beds and has a 24-hour Emergency Department that reported over 60,000 visits in 2012. Mercy Medical Center is staffed by approximately 1,100 employees and has 234 physicians on the medical staff.

Kaiser opened its new facility in Modesto in 2008 and is located approximately 21 miles from Hospital. Both the Kaiser facilities (Modesto and Manteca) operate under the same license and have a combined total of 196 acute care beds. The Manteca hospital is located approximately 34 miles from Hospital.

An analysis of the services offered by Hospital in comparison to services offered by other providers is shown on the following pages. The hospitals shown in the table below were the primary facilities analyzed to determine area hospital available bed capacity by service.

AREA HOSPITAL DATA: 2012								
Hospital	Ownership/Affiliation	City	Licensed Acute Care Beds	Discharges	Patient Days	Occupied Beds	Percent Occupied	Miles from EMC
Emanuel Medical Center*	Emanuel Medical Center	Turlock	209	10,069	42,732	116.8	55.9%	-
Memorial Medical Center ¹	Sutter Health	Modesto	423	19,953	96,395	264.0	62.4%	16.2
Doctors Medical Center ¹	Tenet Healthcare	Modesto	392	21,101	104,846	245.4	62.6%	17.4
Kaiser - Modesto Medical Center ¹	Kaiser	Modesto	196	9,630	39,058	106.9	45.7%	21.3
Mercy Medical Center*	Dignity Health	Merced	186	11,083	44,505	121.6	65.4%	30.9
SUB-TOTAL			1,406	71,836	327,536	855	63.6%	
Children's Hospital Central California*	Children's Hospital Central California	Madera	348	12,790	79,699	217.8	62.6%	76.8
Stanford Hospital*	Stanford University Hospital	Palo Alto	613	25,164	141,131	385.6	62.9%	101.0
UCSF Medical Center*	UC Regents	San Francisco	650	28,038	178,308	487.5	75.0%	108.0
TOTAL			3,017	137,828	726,674	1,946	65.8%	

Source: OSHPD Disclosure Reports, 2012

*Unaudited

¹2011 Disclosure Report

Hospital Market Share

The table below illustrates inpatient market share of the hospitals within Hospital's service area over the past four years.

Four-Year Service Area Hospital Market Share, 2011					
Hospitals	2008	2009	2010	2011	Trend
Emanuel Medical Center	33.3%	31.3%	32.1%	32.5%	↔
Doctors Medical Center	21.7%	21.6%	20.4%	21.0%	↔
Memorial Hospital Medical Center - Modesto	18.0%	18.1%	17.9%	16.6%	↘
Mercy Medical Center Merced-Community Campus	9.3%	9.3%	10.5%	11.0%	↗
Kaiser - All	3.2%	5.9%	5.9%	6.1%	↗
Children's Hospital Central California	2.0%	1.9%	2.3%	2.1%	↔
UCSF Medical Center	1.8%	1.9%	1.8%	1.6%	↘
Stanford Hospital	1.3%	1.3%	1.4%	1.6%	↗
Stanislaus Surgical Hospital	1.0%	1.3%	1.0%	1.0%	↔
Memorial Hospital Los Banos	0.6%	0.5%	0.5%	0.5%	↔
Marie Green Psychiatric Center - P H F	0.5%	0.6%	0.5%	0.4%	↔
University Of California Davis Medical Center	0.5%	0.5%	0.5%	0.4%	↔
Lucile Salter Packard Children's Hosp. At Stanford	0.5%	0.4%	0.4%	0.5%	↔
Dameron Hospital	0.7%	0.4%	0.3%	0.3%	↔
California Pacific Med Ctr-Pacific Campus	0.4%	0.5%	0.4%	0.4%	↔
Fresno Heart Hospital	0.3%	0.3%	0.4%	0.3%	↔
Childrens Hospital and Research Ctr At Oakland	0.4%	0.3%	0.2%	0.2%	↔
Sequoia Hospital	0.3%	0.2%	0.2%	0.3%	↔
Community Medical Center - Fresno	0.2%	0.2%	0.2%	0.3%	↔
Sutter Tracy Community Hospital	0.3%	0.2%	0.2%	0.2%	↔
Sierra Vista Hospital	0.2%	0.1%	0.2%	0.3%	↔
St. Joseph's Behavioral Health Center	0.2%	0.2%	0.1%	0.2%	↔
St. Agnes Medical Center	0.2%	0.2%	0.1%	0.1%	↔
Community Medical Center - Clovis	0.2%	0.1%	0.1%	0.1%	↔
Kindred Hospital Modesto	0.4%	0.1%	0.0%	0.0%	↔
Valleycare Medical Center	0.1%	0.1%	0.1%	0.1%	↔
Sutter Memorial Hospital	0.1%	0.1%	0.1%	0.1%	↔
Good Samaritan Hospital-San Jose	0.1%	0.1%	0.1%	0.1%	↔
Santa Clara Valley Medical Center	0.1%	0.1%	0.1%	0.0%	↔
Oak Valley District Hospital (2-Rh)	0.1%	0.1%	0.1%	0.1%	↔
St. Mary's Medical Center, San Francisco	0.1%	0.1%	0.1%	0.1%	↔
Washington Hospital - Fremont	0.1%	0.1%	0.1%	0.1%	↔
San Joaquin General Hospital	0.1%	0.1%	0.1%	0.0%	↔
Doctors Hospital Of Manteca	0.1%	0.1%	0.1%	0.1%	↔
All others	1.6%	1.6%	1.6%	1.6%	↔
Total Percentage	100%	100%	100%	100%	
Total Discharges	29,255	30,098	30,193	29,599	↔

Source: OSPHD Patient Discharge Database, 2011

Note: Excludes Normal New births

- The majority of residents in Hospital's service area receive inpatient services from the following four hospitals: Hospital (33%), DMC (21%), Memorial Medical Center (17%),

and Mercy Medical Center (11%);

- The number of discharges in Hospital's service area has remained relatively stable, averaging 29,800 inpatient discharges over the four-year period;
- Hospital ranks first in terms of overall market share for discharges in the service area, averaging approximately 33% in 2011;
- Hospital's overall market share in the service area has remained relatively stable from 2008 to 2011, decreasing by less than 1%; and
- Approximately 90% of service area inpatients receive care at hospitals within 34 miles of EMC.

Market Share by Payer

The following table illustrates hospital market share by payer category as reported to OSHPD for FY 2011.

Hospital Market Share by Payer Type, 2011											
Payer Type	Total Discharges	Emanuel Medical Center	Doctors Medical Center	Memorial Hospital Medical Center - Modesto	Mercy Medical Center - Merced	Kaiser - All	Children's Hospital Central California	Stanford Hospital	UCSF Medical Center	All Others	Total
Medicare - FFS	7,898	45.4%	12.3%	17.7%	13.9%	0.3%	0.0%	2.0%	1.3%	7.0%	100%
Medi-Cal - FFS	6,365	31.4%	28.2%	6.1%	20.4%	0.2%	5.3%	0.7%	1.8%	5.9%	100%
Commercial Insurance - PPO	5,047	30.4%	22.7%	19.9%	10.6%	0.1%	1.5%	2.8%	2.4%	9.6%	100%
Commercial Insurance - HMO	2,887	13.5%	14.9%	8.1%	1.1%	46.6%	2.3%	0.9%	1.9%	10.7%	100%
Medicare - Managed	2,275	23.4%	10.7%	44.9%	0.0%	16.7%	0.0%	0.5%	0.6%	3.1%	100%
Medi-Cal - Managed	2,255	37.1%	30.0%	17.6%	0.7%	0.2%	5.4%	1.7%	1.1%	6.2%	100%
Other	1,929	30.1%	23.6%	21.3%	7.8%	1.8%	0.2%	2.5%	1.2%	11.6%	100%
Indigent Programs	754	18.0%	64.1%	1.1%	14.6%	0.0%	0.0%	0.0%	1.1%	1.2%	100%
Commercial Insurance - FFS	189	11.1%	11.1%	20.6%	14.3%	2.6%	0.0%	4.2%	2.6%	33.3%	100%
Grand Total	29,599	32.5%	21.0%	16.6%	11.0%	6.1%	2.1%	1.6%	1.6%	7.5%	100%
		9,615	6,217	4,905	3,269	1,813	610	475	463	2,232	

Note: Excludes normal new births

Source: OSHPD Patient Discharge Database

- The combined totals for Medi-Cal show that Hospital has the largest market share, with 68.5%, DMC ranks second, with 58.2%, and Memorial Medical Center ranks third, with 23.7%;
- Hospital leads in FFS Medicare (45.4%) as well as PPO private coverage (30.4%); and
- Kaiser ranks first in Commercial HMO, at 46.6% of the inpatient market share.

Medi-Cal Managed Care

The Medi-Cal Managed Care Program contracts for healthcare services through established networks of organized systems of care, with an emphasis on primary and preventive care. Today, approximately 4.5 million Medi-Cal beneficiaries in 30 counties in California receive their healthcare through three models of managed care: County Organized Health Systems, Two-Plan Model, or Geographic Managed Care. Currently, Stanislaus County has a Two-Plan Model for managed care that offers Medi-Cal beneficiaries a “Local Initiative” and a “commercial plan.”

Health Plan of San Joaquin is the local initiative plan for Stanislaus County. It provides access to healthcare to over 115,000 people, serving families in Stanislaus, San Joaquin, and Merced Counties. Hospital has a Medi-Cal contract with Health Plan of San Joaquin.

The second health plan is a private commercial plan provided by Health Net Community Solutions, Inc., a subsidiary of Health Net, Inc. Hospital also contracts with Health Net Community Solutions, Inc.

Market Share by Service Line

The following table illustrates service area hospital market share by service line for 2011.

Hospital Market Share by Service Line, 2011											
Service Line	Total Discharges	Emanuel Medical Center	Doctors Medical Center	Memorial Hospital Medical Center - Modesto	Mercy Medical Center - Merced	Kaiser - All	Children's Hospital Central California	Stanford Hospital	UCSF Medical Center	All Others	Total
General Medicine	8,125	39.9%	14.9%	18.9%	13.0%	5.3%	2.3%	0.9%	1.1%	3.7%	100%
Obstetrics	5,329	26.7%	30.6%	12.7%	16.4%	9.3%	0.0%	0.1%	0.1%	4.1%	100%
Cardiac Services	3,606	43.4%	18.2%	18.5%	8.5%	3.4%	0.5%	1.1%	0.9%	5.5%	100%
General Surgery	2,507	31.8%	13.3%	20.8%	10.2%	8.0%	2.0%	2.7%	2.1%	9.1%	100%
Orthopedics	1,805	23.2%	14.7%	20.7%	10.1%	7.2%	3.2%	3.0%	2.0%	15.8%	100%
Behavioral Health	1,378	6.6%	64.3%	1.2%	0.6%	0.7%	0.0%	0.9%	0.2%	25.5%	100%
Neonatology	1,258	22.3%	30.2%	6.9%	15.0%	12.2%	6.6%	0.0%	0.3%	6.4%	100%
Neurology	1,159	38.7%	17.4%	19.8%	9.4%	3.8%	2.3%	1.7%	2.2%	4.7%	100%
Gynecology	723	31.7%	17.0%	15.2%	11.2%	9.5%	0.4%	2.1%	1.4%	11.5%	100%
Oncology/Hematology (Medical)	717	24.7%	12.7%	17.7%	13.0%	4.2%	12.1%	4.2%	5.0%	6.4%	100%
Vascular Services	594	25.3%	22.9%	27.6%	6.6%	2.5%	1.3%	2.0%	4.9%	6.9%	100%
Rehabilitation	536	87.3%	0.0%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	12.3%	100%
Spine	508	13.6%	15.2%	16.5%	1.0%	7.1%	1.8%	13.2%	6.9%	24.8%	100%
ENT	393	22.1%	15.8%	17.3%	7.4%	4.6%	13.0%	3.8%	4.6%	11.5%	100%
Other	371	19.9%	17.8%	35.3%	1.1%	6.2%	1.3%	4.3%	1.6%	12.4%	100%
Urology	363	20.4%	20.4%	21.8%	8.5%	8.0%	2.5%	5.5%	5.8%	7.2%	100%
Neurosurgery	190	1.6%	13.7%	16.3%	1.1%	4.7%	6.3%	13.7%	28.4%	14.2%	100%
Ophthalmology	37	32.4%	8.1%	16.2%	2.7%	5.4%	5.4%	5.4%	2.7%	21.6%	100%
Grand Total	29,599	32.5%	21.0%	16.6%	11.0%	6.1%	2.1%	1.6%	1.6%	7.5%	100%
		9,615	6,217	4,905	3,269	1,813	610	475	463	2,232	

Note: Excludes normal new births

Source: OSHPD Patient Discharge Database

- Hospital ranks first in overall market share in all services within the service area (32.5%);
- Hospital is the market share leader for ten of the eighteen service lines profiled: general medicine (39.9%), cardiac services (43.4%), general surgery (31.8%), orthopedics (23.2%), neurology (38.7%), gynecology (31.7%), oncology/hematology (24.7%), rehabilitation (87.3%), ENT (22.1%), and ophthalmology (32.4%);
- Hospital is also notably high in market share for obstetrics, neonatology, vascular services, and urology (all over 20%); and
- DMC is the service line leader in three of the eighteen service lines: obstetrics (30.6%), behavioral health (64.3%), and neonatology (30.2%).

Service Availability by Bed Type

The tables on the following pages analyze existing hospital bed capacity, occupancy, and bed availability for medical/surgical, critical care, obstetrics, pediatrics, and emergency services for FY 2012.

Medical/Surgical Beds

In 2012, Hospital had 149 medical/surgical beds. There was a total of 898 medical/surgical beds within approximately 34 miles of Hospital. Kaiser currently has a combined total of 127 medical/surgical beds at its Modesto and Manteca facilities and are approximately 42% occupied. Overall, there is available hospital bed capacity for medical/surgical services in Hospital's service area based on an occupancy rate of 60% (63% if excluding Kaiser-Manteca beds from the subtotal).

MEDICAL/SURGICAL BEDS 2012						
Hospital	Miles from EMC	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
Emanuel Medical Center*	-	149	6,579	28,316	77.4	51.9%
Memorial Medical Center ¹	16.2	337	15,750	76,782	210.4	62.4%
Doctors Medical Center ¹	17.4	191	8,574	47,040	128.9	67.5%
Kaiser - Modesto Medical Center ¹	21.3	127	6,361	19,428	53.2	41.9%
Mercy Medical Center*	30.9	94	5,871	24,937	68.1	72.7%
TOTAL		898	43,135	196,503	538.0	59.8%

Source: OSHPD Disclosure Reports, 2012

*Unaudited

¹2011 Disclosure Reports

- Mercy Medical Center is running at the highest occupancy in the area at approximately 73% on 94 beds; and
- Hospital makes up about 17% occupancy of the area's medical/surgical beds. Memorial Medical Center has approximately 38% of the area's medical/surgical beds.

Critical Care Beds

There are 127 critical care beds in or in close proximity to Hospital's service area, with an overall occupancy rate of approximately 63%. Hospital has 12 critical care beds that were 67% occupied in 2012 (an average daily census of 8 patients). Memorial Medical Center, located approximately 16 miles from Hospital, is operating at an occupancy rate of 74%. DMC, located approximately 17 miles from Hospital, is operating at an occupancy rate of 63%.

ICU/CCU BEDS 2012						
Hospital	Miles from EMC	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
Emanuel Medical Center*	-	12	182	2,945	8.0	67.1%
Memorial Medical Center ¹	16.2	35	471	9,412	25.7	73.7%
Doctors Medical Center ¹	17.4	34	533	7,842	21.4	63.2%
Kaiser - Modesto Medical Center ¹	21.3	26	584	5,059	13.9	53.3%
Mercy Medical Center*	30.9	20	355	4,139	11.3	56.7%
TOTAL		127	2,125	29,397	80.4	63.2%

Source: OSHPD Disclosure Reports, 2012

*Unaudited

¹2011 Disclosure Reports

- The available bed occupancy rate, excluding Kaiser-Modesto, is approximately 66% for the area hospitals;
- Kaiser has 20 licensed ICU beds at its Modesto facility and 6 licensed ICU beds at its Manteca facility; and
- On average, 80 ICU/CCU beds are occupied in the area, for a total occupancy rate of 63.2%.

Obstetrics Beds

In 2012, there were 179 obstetrics beds among area hospitals, with an aggregate occupancy rate of 44.4%.

LICENSED OBSTETRICS BEDS 2012						
Hospital	Miles from EMC	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
Emanuel Medical Center*	-	28	1,579	2,404	6.6	23.5%
Memorial Medical Center ¹	16.2	29	2,108	5,021	13.8	47.4%
Doctors Medical Center ¹	17.4	56	4,070	11,368	31.1	55.6%
Kaiser - Modesto Medical Center ¹	21.3	36	2,462	3,939	10.8	36.0%
Mercy Medical Center*	30.9	30	2,670	6,372	17.4	58.0%
TOTAL		179	12,889	29,104	79.7	44.4%

Source: OSHPD Disclosure Reports, 2012

*Unaudited

¹2011 Disclosure Reports

- Individual area hospitals had varying percentages of occupancy rates with lows of 36% (Kaiser-Modesto) to highs of 58% (Mercy Medical Center); and
- Hospital reported 28 licensed obstetric beds (a 23.5% occupancy rate) for 2012.

Pediatric Beds

In 2012, there was a total of 54 pediatrics beds in and near the Hospital's service area, with an aggregate occupancy rate of 43%.

LICENSED PEDIATRIC BEDS 2012						
Hospital	Miles from EMC	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
Emanuel Medical Center*	-	14**	580	1,463	4.0	28.6%
Memorial Medical Center ¹	16.2	10	1,493	3,883	10.6	106.4%
Doctors Medical Center ¹	17.4	22	1,018	2,390	6.5	65.5%
Kaiser - Modesto Medical Center ¹	21.3	-	-	-	-	-
Mercy Medical Center*	30.9	8	311	701	1.9	19.2%
TOTAL		54	3,402	8,437	23.1	42.7%

Source: OSHPD Disclosure Reports, 2012

*Unaudited

¹2011 Disclosure Reports

**These beds are licensed as medical/surgical beds but used for pediatric care. OSHPD reports pediatric discharges and patient days.

- Hospital staffs medical/surgical beds with pediatric trained staff that are not licensed as pediatric beds, and had an average daily census of 4 patients;
- Memorial Medical Center, the closest general acute care hospital with pediatric beds to Hospital, ran at an occupancy rate of 106.4% in 2012; and
- DMC has 22 pediatric beds and an occupancy rate of approximately 66%.

Neonatal Intensive Care Beds

Hospital has a Level II NICU.

NEONATAL ICU SERVICES 2012						
Hospital	Miles from EMC	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
Emanuel Medical Center*	-	6	169	1,169	3.2	53.2%
Memorial Medical Center ¹	16.2	12	131	1,297	3.6	29.6%
Doctors Medical Center ¹	17.4	45	467	7,841	21.5	47.7%
Kaiser - Modesto Medical Center ¹	21.3	7	147	845	2.3	33.1%
Mercy Medical Center*	30.9	-	-	-	-	-
TOTAL		70	914	11,152	30.5	43.5%

Source: OSHPD Disclosure Reports, 2012

*Unaudited

¹2011 Disclosure Reports

- There are 70 neonatal intensive care beds in the area with a combined occupancy rate of approximately 44%; and
- In 2012, Hospital had an average daily census of 3 patients, 169 discharges, and an occupancy rate of 53%. Hospital's beds represented approximately 9% of area hospital neonatal intensive care beds.

Emergency Department Volume at Area Hospitals

Hospital had 32 Emergency Department stations and nearly 60,000 visits in 2012, amounting to 20% of total visits among area hospitals (296,552 total visits). Approximately 13% of the region's Emergency Department visits resulted in admission to area hospitals. On average, 11% of Hospital's Emergency Department patients were admitted to Hospital.

EMERGENCY DEPARTMENT VISITS BY CATEGORY 2012											
Hospital	Miles from EMC	ER Level	Stations	Total Visits	Minor	Low/ Moderate	Moderate	Severe w/o Threat	Severe w/ Threat	Percentage Admitted	Hours of Diversion
Emanuel Medical Center	-	Basic	32	59,739	3,848	14,788	24,034	13,339	3,730	11.2%	0
Memorial Medical Center	16.2	Basic	47	66,688	478	5,233	19,009	220,063	21,905	20.1%	0
Doctors Medical Center	17.1	Basic	33	84,859	7,599	11,021	24,731	22,743	18,765	14.3%	0
Kaiser - Modesto Medical Center	21.3	Basic	36	34,230	7,699	6,554	7,304	10,608	2,065	8.5%	0
Mercy Medical Center	30.9	Basic	26	62,044	1,970	16,417	23,203	16,358	4,096	8.9%	0
Kaiser - Manteca Medical Center	33.6	Basic	10	23,222	5,303	5,047	5,841	5,848	1,183	4.3%	0
TOTAL			119	296,552	26,897	44,272	104,122	288,959	51,744	13.1%	0

Source: OSHPD Airlits Annual Utilization Reports, MapPoint

Emergency Department Capacity

Industry sources, including the American College of Emergency Physicians, have used a benchmark of 2,000 visits per emergency station/bed to estimate the capacity of an Emergency Department. Based upon this benchmark, Hospital's Emergency Department is operating at 93% of its 32-bed capacity. Emergency Department capacity at all area hospitals, with the exception of Memorial Medical Center and Kaiser-Modesto, is limited based on this benchmark. DMC, Mercy Medical Center, and Kaiser-Manteca are at 129%, 119%, and 116% of capacity, respectively, bringing the total utilization rate at area hospitals to nearly 90% of recommended volumes. According to Hospital, there is a high fluctuation in the average daily census due to seasonal variation that often puts a strain on the Emergency Department.

EMERGENCY DEPARTMENT CAPACITY 2012						
Hospital	Miles from EMC	ER Level	Stations	Total Visits	Capacity	Remaining Capacity
Emanuel Medical Center	-	Basic	32	59,739	64,000	4,261
Memorial Medical Center	16.2	Basic	47	66,688	94,000	27,312
Doctors Medical Center	17.1	Basic	33	84,859	66,000	(18,859)
Kaiser - Modesto Medical Center	21.3	Basic	36	34,230	72,000	37,770
Mercy Medical Center	30.9	Basic	26	62,044	52,000	(10,044)
Kaiser - Manteca Medical Center	33.6	Basic	10	23,222	20,000	(3,222)
TOTAL			119	330,782	368,000	37,218

Source: OSHPD Airlits Annual Utilization Reports, MapPoint

SUMMARY OF COMMUNITY INTERVIEWS

In April and May of 2013, both in-person and telephone interviews were conducted with Hospital's representatives and medical staff members, community representatives and others, as set forth in the Appendix. The purpose of the interviews was to gather information from area healthcare professionals and community members regarding potential impacts on healthcare availability or accessibility as a result of the proposed transaction between Seller and Purchaser. The major findings are summarized below:

Reasons for the Transaction

Those interviewed cited a number of reasons for the importance of the transaction, including the following:

- The Affordable Care Act is changing the provider payment model for healthcare services to encourage better coordination, higher quality, and lower cost. In response, many hospitals, health systems, physicians, and other providers of healthcare are forming partnerships and “integrated delivery systems” to develop the resources and expertise to successfully adjust to these changes. As the initiatives of the Affordable Care Act encourage “population health management” and lower cost, providers need to develop broad geographic coverage and a coordinated approach for delivering comprehensive healthcare services;
- The Central Valley has suffered from unemployment rates nearly twice the national average. At the same time, there has been consolidation and integration within and across health care sectors, and the competitive bar has been raised in terms of information technology sophistication and care coordination. For Hospital in particular, the recent expiration of the 10-year Kaiser contract will have a large impact on both revenue and bottom line results. Further, success as a standalone hospital would require effective implementation of strategies for care coordination, disease management, reduction of cost structure, and physician alignment. Both Seller and Purchaser believe their affiliation will lead to an enhanced ability to support the area safety net and provide better access to services for the vulnerable and medically underserved;
- The future model for healthcare delivery will involve competition among integrated delivery systems. As a stand-alone hospital, Hospital would not be successful in the long term unless it was part of a larger, more geographically dispersed system in Stanislaus County, such as Adventist Health, Dignity Health, Sutter, or Tenet Healthcare Corporation. As these organizations become increasingly competitive and successful, Hospital would be less able to compete as an independent organization;
- Without the transaction, Hospital in the long term could not sustain itself financially and could close, thereby leaving patients without accessible medical care and flooding other area emergency rooms and hospitals;

- Without the transaction, the community could be at risk of losing needed services that are essential for uninsured and under-insured patients;

Selection of Doctors Medical Center Modesto as the Affiliation Partner

Seller concluded that it needed to form a partnership/affiliation with a regional healthcare system in order to develop a sustainable healthcare delivery model for the poor and vulnerable and to be competitive in the long term. Seller selected Purchaser because both corporations are community-based, well-respected, and successful. They also share some members and are located within 18 miles of each other. Through numerous meetings and discussions among senior management and board members, both organizations came to similar understandings about the future direction of healthcare and what was needed to serve the poor and vulnerable populations in Stanislaus County. Other affiliation alternatives for Seller were considered and believed not to provide the same compatibility of mission, vision, culture, healthcare delivery models, location, and business models as Purchaser.

All interviewed were supportive of the transaction. Many believed that Hospital could not sustain a stand-alone hospital presence financially and continue to serve the population. Both organizations are providers of care for the underserved and seek to jointly foster the provision of healthcare in a more sustainable way for the poor and vulnerable.

Some interviewees were concerned that Hospital will not preserve its religious orientation. The interviewees unanimously felt that the community has volunteered time and donated money over the years to support Hospital and would like its services maintained. Other comments that were reported related to the benefits of the transaction include:

- Ability to attain enhanced resources due to scale and size;
- Ability to increase access to new patients and managed care contracts held by Purchaser (including All Care, Blue Cross, and CareMore);
- Ability to reduce expenses by consolidating licenses;
- Ability to work closer with the physician community and enhance specialty coverage and services provided;
- Ability to support hospital-physician alignment strategies for recruitment and retention of physicians by using new models such as DMC's Medical Foundation;
- Ability to invest in new services and models of care such as "population health management" and "medical homes;"
- Ability to partner with healthcare payers, insurance companies, and employers in new models of accountable care;

- Enhanced ability to plan, organize, and support a countywide network of community clinics and health centers;
- Ability to enhance a countywide system for specialty services and clinical Centers of Excellence;
- Ability to negotiate better contracts for services, equipment, supplies, and other operational expenses; and
- An enhanced ability to access capital.

Importance of Hospital to the Community

According to those who were interviewed, Hospital is a very important provider of healthcare services to Turlock and the surrounding communities. It holds a leading market position in its primary service area as the sole acute care hospital in the Turlock market. In addition to the 209 bed acute hospital, it operates family practice and specialty clinics which are important for local patient access to healthcare services.

Hospital is especially significant for its Emergency Department that receives over 60,000 patients a year, state-of-the-art Cancer Center that is affiliated with Stanford Medical Center, Women's Diagnostic Center, obstetrics, the Critical Care Center, cardiovascular services, pediatrics, and other core services.

The five family-practice and specialty clinics, located in Patterson and Turlock, include a rural health clinic and four hospital-based outpatient clinics. Specialties offered at the clinics include medical oncology, general surgery, cardiology, and cardiac surgery. The clinics are a significant provider of services to the surrounding communities and the uninsured population.

Expectations of the Transaction

All of those interviewed were supportive and believed the transaction would make the healthcare services in the community stronger and more stable. Many believed that Purchaser has made very strong commitments to maintain and invest in the services of Hospital. Many also believed that the significant amount of net proceeds from the transaction that would fund the new Foundation would be very useful for the improvement of prevention, education, and wellness services in the community.

Impact on Availability or Accessibility

None of those interviewed believed that the transaction would have a negative impact on the availability or accessibility of healthcare services. In fact, it was believed that it would improve the availability and accessibility of healthcare services. Some interviewees were unsure and concerned about whether the for-profit status of Hospital after the transaction would affect the faith-based nature of Hospital.

Opposition to the Transaction

Although there is some concern about the unclear future religious relationship between Hospital, the Church, and the newly-formed Legacy Health Endowment, of those interviewed, no one was opposed to the transaction or was aware of any significant opposition.

ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE AVAILABILITY OR ACCESSIBILITY OF HEALTHCARE SERVICES

Continuation of Hospital as a General Acute Care Hospital

Purchaser has expressed its support for the mission, vision, and values of Hospital and its intention to maintain the essential services offered by Hospital. In the APA, Purchaser states that it will continue to maintain Hospital for no less than 10 years as a full-service general acute care hospital facility (including other licensed activities of Hospital), consolidate Hospital and DMC on the same license, and create an integrated regional network to serve Central Valley residents.

Emergency Services

With 32 emergency beds and approximately 60,000 visits in 2012, Hospital's Emergency Department has a high volume and operates at near-capacity. Based on a standard of 2,000 visits per station per year, Hospital's Emergency Department was at 93% capacity in 2012. DMC, Mercy Medical Center, and Kaiser-Manteca are at 129%, 119%, and 116% capacity, respectively, bringing the total utilization rate to 100% of recommended volumes. Therefore, keeping Hospital's Emergency Department open is critical to providing adequate emergency services in the service area.

Medical/Surgical Services

With 149 licensed beds and an average daily census of approximately 77 patients, Hospital is an important provider of medical/surgical services.

An analysis of the current supply and demand of area hospital beds shows that there could be a shortage in medical/surgical beds in the community if Hospital closed, based on current utilization patterns and an expected population growth of 6% over the next five years. Additionally, access and availability issues would be created without Hospital's medical/surgical beds.

Intensive Care/Critical Care Services

Hospital has an occupancy rate of 67% on its 12 licensed Intensive Care Unit beds. These beds are an important resource for supporting the Emergency Department and other surgical and medical services at Hospital.

Obstetrics Services

Hospital's obstetrics services were mentioned in the community interviews as being an important service despite the low occupancy rate of 24% for its 28 reported beds in 2012. Obstetrics volumes have declined since Kaiser opened its new hospital in 2008 and have been stable at about 1,600 deliveries since 2010. As a result, the average daily census has been about 6 to 7

patients for the last 3 to 4 years.

Effect on Services to Medi-Cal, Medicare, Indigent, and Other Classes of Patients

Approximately 72% of Hospital's inpatients are reimbursed through Medicare (43%) and Medi-Cal (29%). The number of Medi-Cal patients in Hospital's service area is likely to increase as a result of the Affordable Care Act. Additionally, 4.3% of Hospital's inpatient payer mix is composed of indigent patients. Purchaser has committed to maintain services to Medicare and Medi-Cal-eligible patients at Hospital, and to continue operation of the Emergency Department. As a result of these commitments, no negative impact on availability or accessibility is expected for these classes of patients.

Effect on the Level and Type of Charity Care Historically Provided

Many uninsured and under-insured individuals in the community rely on Hospital for care. Hospital provides a higher percentage of charity care than the statewide average (3.9% of gross patient revenue for Hospital as compared to 2.0% for the State).

Hospital has historically provided large amounts of charity care, averaging \$3.2 million over the last five years on a cost basis. Purchaser has agreed to maintain and adhere to Hospital's current policy on charity care or such other policy that is no less favorable. As a result, Hospital is likely to continue providing similar levels of charity care.

Effect on Community Benefit Services

Hospital has consistently provided community benefit services for residents of Stanislaus County. Between 2009 and 2013, the support for community education and prevention, health initiatives, and health professionals' training has averaged \$398,158 per year.

Effect on Staffing and Employee Rights

Purchaser has agreed to make offers of employment to all of Seller's employees, related to the acquired assets, that are in good standing, including the existing management team, who meet Purchaser's usual and customary hiring practices and policies, with terms and conditions that are not less favorable than their current wages or salaries. Some employees will be offered employment by either an affiliate of Purchaser or one of two outsourced providers of Tenet Healthcare Corporation.

Effect on the Medical Staff

Purchaser is expected to retain current Hospital medical staff and extend privileges to practice at DMC who are in good standing.

Reproductive Health Services

As a religiously affiliated entity, Hospital abides by the specified ethical affirmations and guidelines entitled “Guidelines of Emanuel Medical Center, Inc.”(Guidelines) The Guidelines state “[P]articipation in the abortion of embryonic and fetal life is not considered except in the tragic circumstances of rape or incest or when it is necessary to safeguard the life of the mother.” Tubal ligations and other reproductive health services are not prohibited under the Guidelines. Seller and Purchaser have agreed, however, that there will be no restriction of the type and level of medical services that Purchaser may offer at Hospital. The transaction does not prohibit the expansion of women’s reproductive services, including those services currently prohibited, and is not expected to reduce the availability or accessibility of reproductive health services currently provided at Hospital.

Mitigation Measures Proposed by Purchaser

Purchaser has agreed to certain measures to mitigate or eliminate any potentially significant adverse impacts on the availability or accessibility of healthcare services to the affected community, as described on page 7 of this report.

Alternatives

Board determined that this transaction was necessary in order to better fulfill its mission and provide services to the community in light of the Affordable Care Act and changes in the marketplace. The transaction is not being driven by immediate financial or strategic necessity. As such, if this transaction were not approved, it is likely that Seller would continue to operate in its current structure and reevaluate other alternatives for health system development or affiliation. However, during the assessment process, Board did not believe that other alternatives offered the same advantages as the current transaction.

CONCLUSIONS

Based on Purchaser's commitments outlined in the Asset Purchase Agreement, the proposed transaction is likely to continue the availability and accessibility of healthcare services in the community served. It is anticipated that access for Medi-Cal, Medicare, uninsured and other classes of patients will either remain unchanged or will improve. Furthermore, Purchaser's plan to invest in services, programs, and medical staff development is expected to lead to improvements in healthcare delivery.

Potential Conditions for Transaction Approval by the California Attorney General

The following recommended actions for approval have been developed as a result of this analysis and the factors that the Attorney General must consider in determining whether to consent to a transaction as set forth in Corporations Code section 5923 and section 999.5 of Title 11 of the California Code of Regulations. If the California Attorney General approves the proposed transaction, Medical Development Specialists, LLC recommends that the following conditions be required in order to minimize any potential negative health impact that might result from the transaction:

1. Hospital should continue to operate as a general acute care hospital for at least five years from the closing date of the transaction;
2. Hospital should maintain 24-hour emergency medical services at current licensure (32 treatment stations), types, and levels of service for at least five years from the closing date of the transaction;
3. Hospital should maintain the following services at current licensure, types, and levels of services for at least five years from the closing date of the transaction:
 - a. Critical care services, including a minimum of 12 ICU beds;
 - b. Neonatal Intensive Care services, including a minimum of 6 beds;
 - c. Obstetric services, including a minimum of 10 beds;
 - d. Cardiac services, including the cardiac catheterization and interventional lab, and the designation as a STEMI Receiving Center; and
 - e. The Emanuel Cancer Center and The Ruby E. Bergman Women's Diagnostic Center.
4. For at least five years from the closing date of the transaction, Purchaser should:
 - a. Maintain Hospital's participation in the Medi-Cal and Medicare programs;
 - b. Maintain a contract with the California Medical Assistance Commission; and
 - c. Maintain contracts with Health Plan of San Joaquin and Health Net Community Solutions on similar terms and conditions as other hospitals.

5. For at least five years from the closing date of the transaction, Purchaser should maintain Hospital's charity care policy or one that is no less favorable and Hospital should provide an annual amount of Charity Care at Hospital equal to or greater than \$3,212,054 (the "Minimum Charity Care Amount"). For purposes herein, the term "Charity Care" shall mean the amount of charity care costs (not charges) incurred by Hospital in connection with the operations and provision of services at Hospital. The definition and methodology for calculating "charity care" and the methodology for calculating "cost" shall be the same as that used by OSHPD for annual hospital reporting purposes. The minimum Charity Care Amount will be increased on an annual basis by the rate of inflation as measured by the Consumer Price Index for the West Region of the United States;
6. Purchaser must comply with the \$30 million "Investment Commitment" set forth in section 13.5 of the Asset Purchase Agreement;
7. For at least five years from the closing date of the transaction, Hospital should continue to expend an average of no less than \$398,158 annually in community benefit services. This amount should be increased annually based on the Consumer Price Index for the West Region of the United States; and
8. Immediately after the closing date of the transaction, Purchaser should appoint a Local Governing Board to be responsible for medical staff credentialing, quality assurance, and accreditation of Hospital, and assure that this Board reviews and approves any reports submitted to the Attorney General regarding compliance with these conditions.

Recommended Action

If the California Attorney General approves the proposed transaction, Medical Development Specialists, LLC recommends that the preceding conditions be required in order to minimize any potential negative health impact that might result from the transaction.

APPENDIX

Interviews were conducted with the following people:

Last Name	First Name	Position	Affiliation
Arakelian, MD	Ron	Chief of Staff	Emanuel Medical Center
Fairchilds	Connie	Chief Nursing Officer	Emanuel Medical Center
Greenberg, MD	Greg	Medical Director, Emergency Room	Emanuel Medical Center
Howell	Bob	Adminstrator, Brandel Manor	Emanuel Medical Center/Covenant Retirement Communities
Ittis	Michael	Executive Director, Cancer Center/Brandel Manor	Emanuel Medical Center
Koury	Jeff	Senior Vice President of Operations, California Region	Tenet Healthcare Corporation
Larson	Jennifer	Chair Board of Directors	Emanuel Medical Center
Lazar	John	Mayor	Turlock
Lee	Mary Ann	County Medi-Cal Representative	Health Service Agency
McCauley, MD	Daniel	Medical Executive Committee	Emanuel Medical Center
McDonald	Brent	Vice President, Acquisition & Development	Tenet Healthcare Corporation
Murdock	Richard	Area Representative	EMS
Neapolitan	David	Chief Financial Officer	Emanuel Medical Center
Noguera	Christine	Interim Chief Executive Officer	Golden Valley Health Centers
Pimentel	Renee	Director, ED	Emanuel Medical Center
Riddick	Julie	AVP, Quality	Emanuel Medical Center
Sigsbury	John	Chief Executive Officer	Emanuel Medical Center
Walker, MD	John	Public Health Officer	Health Service Agency
Wilson, MD	Tom	Board Member	Emanuel Medical Center

A copy of Hospital's license is below:

		License: 03050035 Effective: 04/05/2013 Expires: 04/04/2014 Licensed Capacity: 354
State of California		
Department of Public Health		
In accordance with applicable provisions of the Health and Safety Code of California and its rules and regulations, the Department of Public Health hereby issues		
<i>this License to</i>		
Emanuel Medical Center, Inc.		
to operate and maintain the following General Acute Care Hospital		
EMANUEL MEDICAL CENTER INC.		
825 Delbon Ave Turlock, CA 95382-2016		
Bed Classifications/Services	Other Approved Services	
209 General Acute Care	Basic Emergency	
28 Perinatal Services	Cardiac Catheterization Laboratory Services -	
12 Intensive Care	STEMI Program	
6 Intensive Care Newborn Nursery	Cardiovascular Surgery	
163 Unspecified General Acute Care	Nuclear Medicine	
	Occupational Therapy	
	Outpatient Clinics - Family Practice at	
	Emanuel Physician Center - Monte Vista,	
	2240 W. Monte Vista Avenue, Turlock	
	Outpatient Services - Cardiovascular clinic at	
	Cardiovascular Associates Department,	
	1801 Colorado Ave., Ste. 250, Turlock	
	Outpatient Services - Clinic at 825 Delbon	
	Avenue, Turlock	
	Outpatient Services - Medical Clinic at	
	Emanuel Physician Center, 880 E.	
	Tuolumne Road Ste. 102, Turlock	
	Outpatient Services - Medical Oncology at	
	Medical Oncology Clinic, 880 Tuolumne,	
	Suite 103, Turlock	
	Outpatient Services - OB/GYN clinic at Ruby	
	E. Bergman Women's Center, 880 E.	
	Tuolumne Rd., Suite 202, Turlock	
	Outpatient Services - Primary Care Clinic at	
	Turlock Diagnostic & Therapeutic Center,	
	2121 Colorado Avenue, Turlock	
(Additional Information Listed on License Addendum)		
Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification, Fresno District Office, 285 West Bullard Avenue, Suite 101, Fresno, CA 93704, (559)437-1560		
POST IN A PROMINENT PLACE		

State of California
Department of Public Health
License Addendum

License: 030000035
Effective: 04/05/2013
Expires: 04/04/2014
Licensed Capacity: 354

EMANUEL MEDICAL CENTER INC. (Continued)
825 Delban Ave
Turlock, CA 95382-2016

Other Approved Services (cont'd)

Outpatient Services - surgical PIP Op. clinic at
General Surgeons Practice, 880 E.
Tuolumne Road Ste. 201, Turlock

Physical Therapy

Radiation Therapy - Radiation Services at
Stanford Emanuel Radiation Oncology
Center, 880 E. Tuolumne Road Ste. 101,
Turlock

Respiratory Care Services

Social Services

Speech Pathology

BRANDEL MANOR - DIP SNF OF EMANUEL MEDICAL CTR.
1831 N Olive Ave
Turlock, CA 95382-2568

Bed Classifications/Services
145 Skilled Nursing

This LICENSE is not transferable and is granted solely upon the following conditions, limitations and comments:
None

Ron Chapman, MD, MPH

Director & State Health Officer

Shirley G. Campbell
Joan Spence, District Manager

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and
Certification, Fresno District Office, 285 West Bullard Avenue, Suite 101, Fresno, CA 93704, (559)437-1509

POST IN A PROMINENT PLACE