



# Daughters of Charity Health System

## Confidential Information Memorandum

February 2014



HOULIHAN LOKEY

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# Confidential Material

Houlihan Lokey Capital, Inc. (“Houlihan Lokey” or the “Advisor”) has been retained by Daughters of Charity Health System (“DCHS,” the “Company” or the “System”) to serve as financial advisor to assist with a strategic transaction (the “Transaction”). This Confidential Information Memorandum (the “Memorandum”) is provided to you in your capacity as a potential party to a Transaction. Your receipt of this document evidences your understanding and consent to the following:

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# Contact Information

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All communications or inquiries relating to the Company or this Memorandum and requests for additional information must be directed to the representatives of Houlihan Lokey listed below. *No personnel of the Company should be contacted directly under any circumstances unless expressly permitted by Houlihan Lokey.*



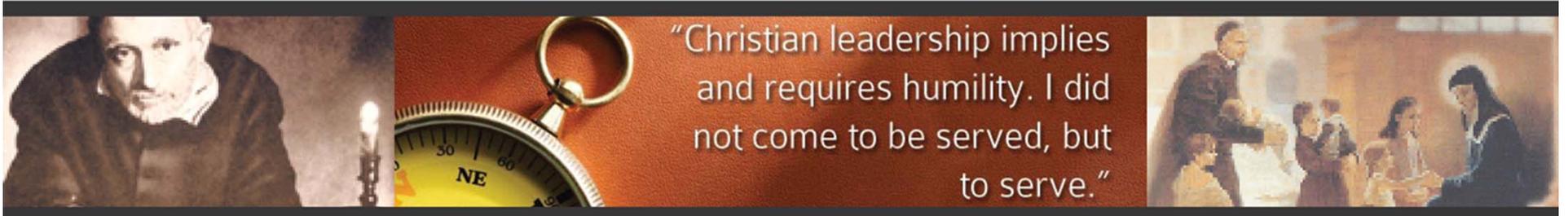
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## Executive Summary



# Introduction to Investment Opportunity

- DCHS has announced its intent to sell its six acute care hospitals and related operations (including the DCHS Medical Foundation, convenient care sites and medical office buildings)
- This provides a unique opportunity to acquire a system that provides critical access to healthcare in the major metropolitan areas of California, through six well established hospitals, a strategic physician network and other ancillary services that, in combination, generate more than 50,000 annual patient discharges and more than \$1.3 billion and \$1.0 billion in total revenue and patient revenue<sup>(a)</sup>, respectively
  - In addition, the System is at the forefront in the California hospital industry, leading local and state-wide initiatives and collaborating with legislators to increase access to funding sources and support for similarly situated healthcare providers
- Houlihan Lokey has been retained by DCHS to serve as its investment banking advisor to lead the solicitation for indications of interest from potential qualified parties with financial and operational wherewithal in an attempt to identify comprehensive transaction solutions for the System
- DCHS is willing to evaluate offers for the System in its entirety (i.e., all of the hospitals and related operations) or individual components of the System<sup>(b)</sup>
- Preference will be given to proposals that consider acquiring substantially all of the System's operations, assume the collective bargaining agreements, assume the pension obligations, do not have material contingencies and anticipate a prompt diligence review period and expected timeline to closing
- Shortly after the distribution of these materials, Houlihan Lokey will provide you with a process letter detailing the timeline for submission of a non-binding indication of interest. In such submission, we would like to understand the extent of your interest, preliminary views on valuation and form of consideration, treatment of the System's associates, benefit plans, collective bargaining agreements, physicians and working capital.



## Values of DCHS

- **Respect:** *Recognizing our own value and the value of others*
- **Compassionate Service:** *Providing excellent care with gentleness and kindness*
- **Simplicity:** *Acting with integrity, clarity and honesty*
- **Advocacy for the Poor:** *Supporting those who lack resources for a healthy life and full human development*
- **Inventiveness to Infinity:** *Being continuously resourceful and creative*



Note:

- (a) Patient revenue defined as inpatient and outpatient revenue net of provision for bad debt
- (b) DCHS is unwilling to sell the current names of the hospitals / operations

# System Overview

- DCHS is a diversified, Catholic, not-for-profit corporation headquartered in Los Altos Hills, CA
  - The System was formed in 2001 and, since 1981, has been sponsored by the Daughters of Charity Ministry Services Corporation, which is sponsored by the Daughters of Charity of St. Vincent DePaul Province of the West
  - DCHS is one of the largest not-for-profit healthcare systems in California, operating six acute care hospitals (local health ministries or “LHMs”), servicing Los Angeles County, Santa Clara County and San Mateo County
    - The System also operates the DCHS Medical Foundation (“Medical Foundation”), a network with approximately 400<sup>(a)</sup> primary care and specialty physicians, offering a wide range of medical, surgical and other healthcare services
    - DCHS Caritas Business Services (“CBS”) provides key support services, including accounting, finance and patient financial services to the System and the LHMs
    - Additionally, DCHS operates convenient care sites, providing primary and specialty care, urgent care, outpatient (“OP”) treatment, lab and imaging, surgical care and other services
- DCHS’ hospitals represent some of California’s oldest and most trusted providers of healthcare and hold meaningful market share in its heavily populated primary service areas
  - The Daughters of Charity commenced its mission to the poor in California in 1852 and established its healthcare mission in 1856 when it opened its first hospital in Los Angeles
  - The Daughters of Charity healthcare mission expanded into San Jose in 1889 and San Francisco in 1893
  - These establishments were the forerunners of today’s St. Vincent Medical Center, O’Connor Hospital and Seton Medical Center
  - DCHS expanded to include Seton Medical Center Coastsides, located in Moss Beach (1980), St. Francis Medical Center in Lynwood (1981) and Saint Louise Regional Hospital in Morgan Hill (1987)



## DCHS Mission Statement:

*“In the spirit of our founders, St. Vincent de Paul, St. Louise de Marillac and St. Elizabeth Ann Seton, the Daughters of Charity Health System is committed to serving the sick and the poor. With Jesus Christ as our model, we advance and strengthen the healing mission of the Catholic Church by providing comprehensive, excellent health care that is compassionate and attentive to the whole person: body, mind and spirit. We promote healthy families, responsible stewardship of the environment and a just society through value-based relationships and community-based collaboration.”*

**DCHS provided more than \$159 million in benefits to the poor in FY2013**

## System Overview (cont.)

- DCCHS is recognized for its quality and variety of services in acute and emergency care, surgical procedures and skilled nursing
  - The System's award-winning specialty programs offered by its stroke care, orthopedics, ear, nose and throat and cardiovascular institutes have received regional and national recognition
- The System is based on a locally-focused model of governance, management and finance that encourages each LHM to develop its unique role and service configuration best suited to the community it serves
- Collectively, the LHMs represent a significant presence in California, accounting for nearly 1,700 licensed acute and subacute care beds
- DCCHS monitors performance and provides selective services on a system-wide basis
- As of December 2013, the System generated more than \$1.3 billion in LTM total revenue, representing approximately 50,000 discharges, 180,000 emergency room visits and 285,000 patient days

Summary of Select Entities (LTM December 2013) (\$ millions)

Facility Name	Location	Established	Net Revenue	Licensed Beds		Discharges (a)		Patient Days	
				Total	Acute	Total	Acute (b)	Total	Acute
<b>Los Angeles County</b>									
St. Francis Medical Center ("SFMC")	Lynwood	1945	\$410	384	314	18,596	18,263	85,574	79,453
St. Vincent Medical Center ("SVMC")	Los Angeles	1856	201	366	320	8,621	7,579	50,815	36,874
<b>Santa Clara County</b>									
O'Connor Hospital ("OCH")	San Jose	1889	293	358	334	11,642	11,615	52,148	44,703
Saint Louise Regional Hospital ("SLRH")	Gilroy	1987	84	93	72	3,012	3,012	10,542	10,542
<b>San Mateo County</b>									
Seton Medical Center ("SMC")	Daly City	1893	259	357	274	6,988	6,949	47,682	34,104
Seton Medical Center Coastside ("SMCC") (c)	Moss Beach	1980	25	121	5	93	0	38,030	0
<b>DCCHS Medical Foundation</b>	Statewide	2012	75	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total</b>			<b>\$1,350</b>	<b>1,679</b>	<b>1,319</b>	<b>48,952</b>	<b>47,418</b>	<b>284,791</b>	<b>205,676</b>

Notes: LTM – Latest twelve months; N/A – not applicable

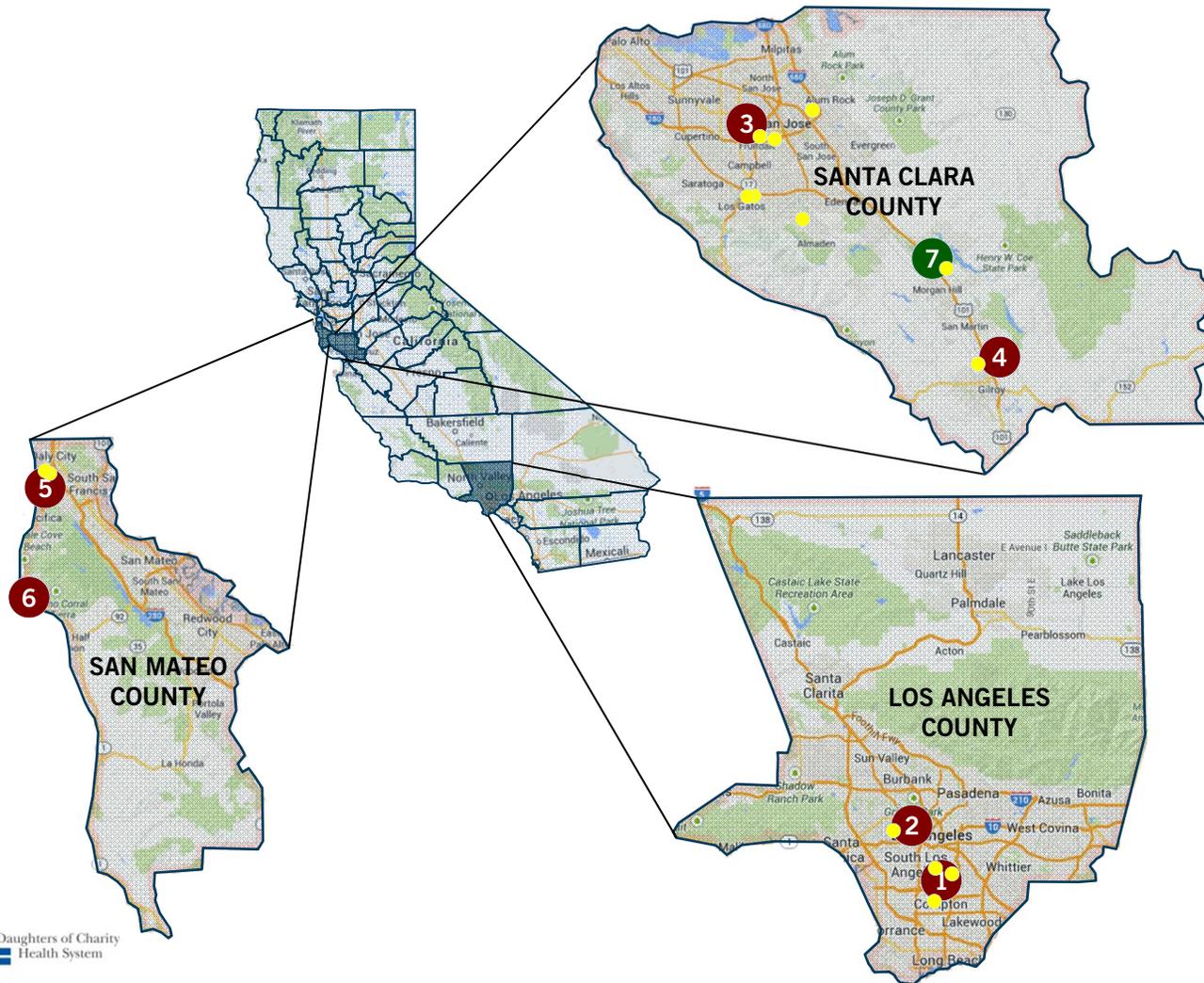
(a) Excludes routine nursery discharges

(b) Includes psychiatric acute

(c) SMCC operates as a 116-bed skilled nursing facility with a five-bed acute care 24-hour standby Emergency Department

# System Coverage

- DCHS is located in highly attractive and strategic locations in Northern and Southern California
- Through its locations in Los Angeles, Santa Clara and San Mateo counties, the System draws from a significant population base



## Facility Locations

Los Angeles County: 10.0 million

1 St. Francis Medical Center

2 St. Vincent Medical Center

Santa Clara County: 1.8 million

3 O'Connor Hospital

4 Saint Louise Regional Hospital

San Mateo County: 0.7 million

5 Seton Medical Center

6 Seton Medical Center Coastside

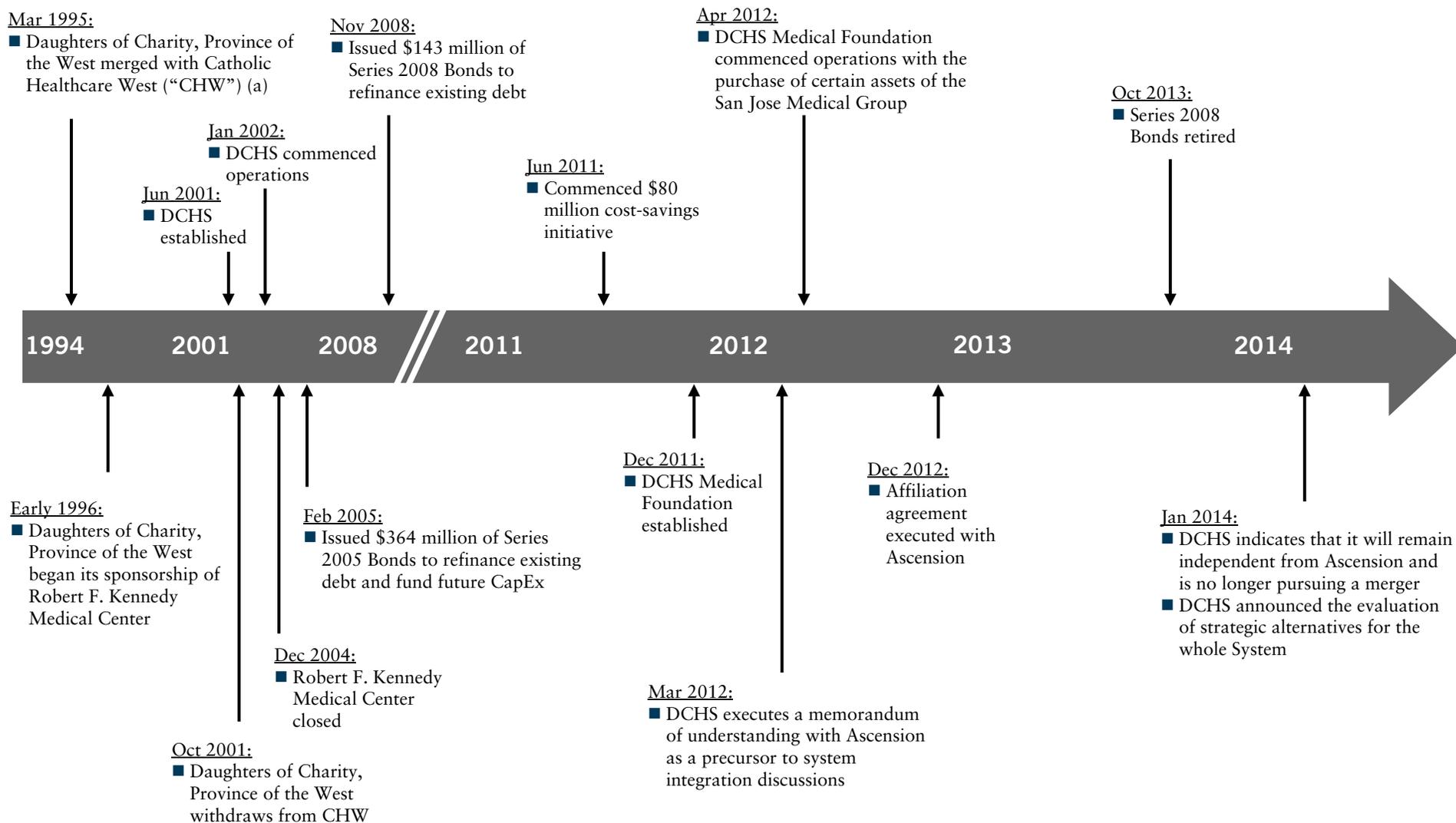
Source: Estimated 2011 population per U.S. Census Bureau

## Other Locations

7 DePaul Urgent Care Center

● DCHS Medical Foundation Offices

# Timeline of Major Developments



# Select Awards and Recognitions

- As illustrated by the numerous accolades highlighted below, the System is recognized locally and nationally for its superior quality of care, breadth of service offerings and contribution to the local communities served over the course of its long and extensive operating history

SFMC	SVMC	OCH / SLRH	SMC / SMCC
 <ul style="list-style-type: none"> <li>Recognized as a High Performing Hospital in Ear, Nose &amp; Throat, Nephrology, and Urology in 2012</li> </ul>	 <ul style="list-style-type: none"> <li>Recognized as one of the Top 50 Hospitals in the U.S. in 2012 and 2013</li> </ul>	 <ul style="list-style-type: none"> <li>Earned the Gold Plus Performance Achievement Award in 2013 from the American Heart Association/American Stroke Association</li> </ul>	 <ul style="list-style-type: none"> <li>Earned the Gold Plus Performance Achievement Award from the American Heart Association/American Stroke Association in 2013</li> </ul>
 <ul style="list-style-type: none"> <li>Ranked in top 50 cardiovascular hospitals in 2012</li> </ul>	 <ul style="list-style-type: none"> <li>Recognized as a Best Hospital Nationally – Ear, Nose &amp; Throat and Regionally – Cancer, Diabetes, Geriatrics, Gynecology, Nephrology, Neurology, Orthopedics, Pulmonology and Urology</li> </ul>	 <ul style="list-style-type: none"> <li>Designated as a Blue Distinction Center for Cardiac Care</li> </ul>	 <ul style="list-style-type: none"> <li>Recognized as a Top 5 Bay Area Hospital for its specialty care in orthopedics in 2011</li> </ul>
 <ul style="list-style-type: none"> <li>Honorable Mention Award for top performance in Evidence-Based Care, Mortality, and Cost of Care in 2011</li> </ul>	 <ul style="list-style-type: none"> <li>Ranked as #5 Best Hospital in LA Metropolitan Area in 2011</li> </ul>	 <ul style="list-style-type: none"> <li>Gold Certified Primary Stroke Center</li> </ul>	 <ul style="list-style-type: none"> <li>Gold Certified Primary Stroke Center</li> </ul>
	 <ul style="list-style-type: none"> <li>Recognized for Clinical Excellence – 2009-2011, 2013 &amp; 2014</li> </ul>	 <ul style="list-style-type: none"> <li>Recognized as one of the best hospitals in the South Bay area by:                             <ul style="list-style-type: none"> <li>Consumer Reports "A" Rating for Hospital Safety</li> <li>Leap Frog</li> <li>U.S. News Best Hospitals, San Jose</li> </ul> </li> </ul>	

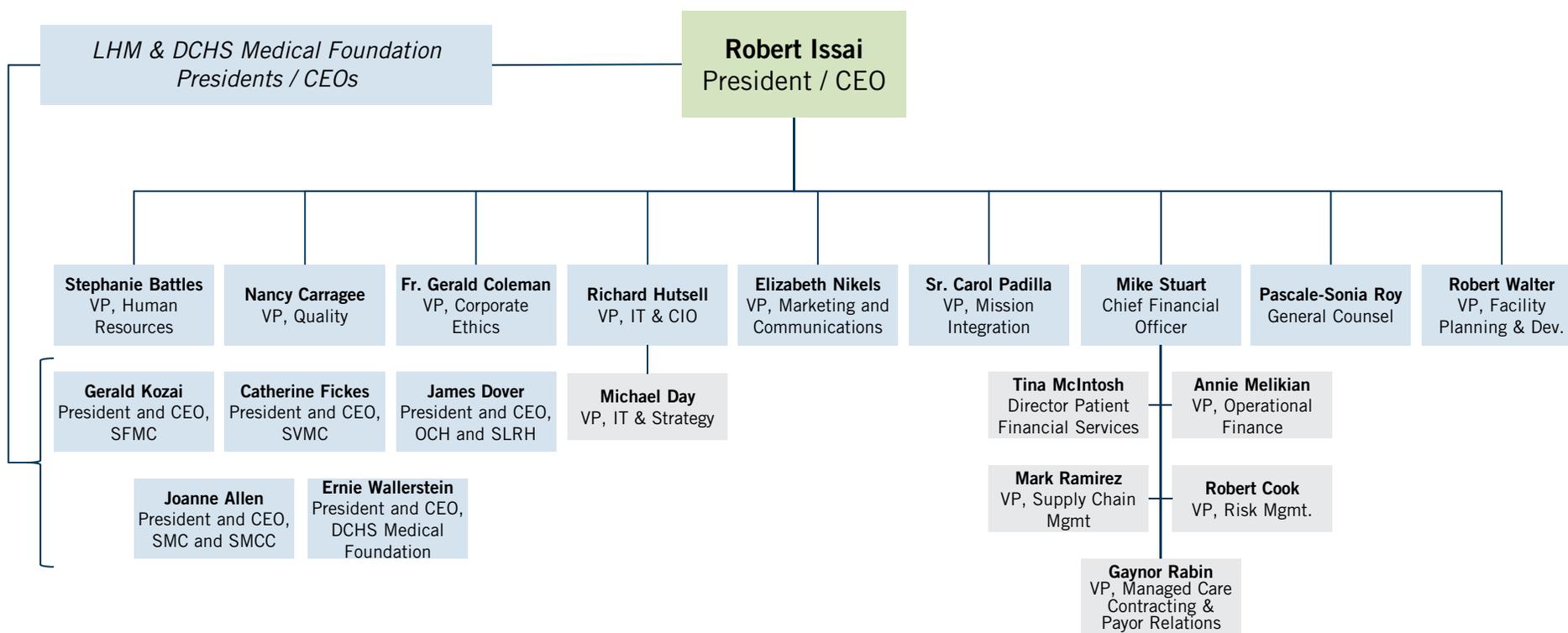
## Other System Awards and Recognitions



# Highly Experienced Management Team

- DCHS and the LHMs are led by a highly experienced team of hospital operators with extensive industry experience
- The team has successfully managed the System and the LHMs through a very difficult reimbursement and regulatory environment, while effectively executing on DCHS' core mission, vision and values
- The System's organizational structure emphasizes the provision of care at the local level while maintaining a centralized view of the organization through constant interaction among the System Office and management teams of various LHMs

## Executive Management Team



# Select Corporate Leadership Bios

	Years of Experience		Biography
	Industry	DCHS	
<b>Robert Issai</b> <i>President and CEO</i>	30	22	Mr. Issai has more than 30 years of management experience in major healthcare organizations. He was a key player in guiding the passage of AB1383, the Medi-Cal Stabilization Act. Past experience includes serving as Regional Vice President of Finance for Catholic Healthcare West (n.k.a Dignity Health), and also Senior Vice President and CFO of SFMC Medical Center in Lynwood, CA. He received his undergraduate degree in Business Administration at Andrews University of Michigan and his MBA in Finance, with honors, from California State Polytechnic University in Pomona.
<b>Mike Stuart, FACHE</b> <i>CFO</i>	15	12	Mr. Stuart is in charge of guiding the health system's financial direction. He joined DCHS in 2002 as a consultant with Deloitte & Touche, LLP in its Healthcare Consulting Group, and in 2003 became the DCHS Director of Financial Services. He then moved to Vice President of System Finance in 2005 before assuming the role of interim CFO of DCHS in 2006, and in 2007 he was promoted to full-time CFO. He earned his Bachelor of Science degree in Business Administration from California State University, Chico, and his MBA in Finance from Saint Mary's College of California.
<b>Pascale-Sonia Roy</b> <i>General Counsel</i>	20	2	Ms. Roy has been practicing law for more than 30 years representing clients in different sectors primarily in healthcare and education. Ms. Roy joined DCHS in 2012, and was promoted to General Counsel in November 2013. Prior to joining DCHS, Ms. Roy worked for Burke Williams Sorensen, where she was a member of the Public Law Practice Group, Litigation Practice Group, Education Practice Group and Labor-Employment Practice Group. Previous roles also include equity partner at Nelligan O'Brien Payne and General Counsel for the Canada Industrial Relations Board. Ms. Roy obtained her Civil Law degree and graduated from the University of Sherbrooke, Québec, Canada, and received her Common Law degree, with honors, from the University of Moncton, New Brunswick, Canada. Ms. Roy is a member of the State Bar of California and the Quebec Bar in Canada.
<b>Annie Melikian</b> <i>VP, Operational Finance</i>	25	9	Ms. Melikian oversees the monthly operating review process for DCHS Local Health Ministries. Prior to this, she spent time serving as a financial consultant to a number of healthcare organizations, including Catholic Healthcare West (n.k.a Dignity Healthcare) and Memorial Health Services. Prior to that, she spent time with Arthur Andersen from 1986 to 1995. Ms. Melikian received her Bachelor of Science degree in Accounting from the University of Southern California.
<b>Elizabeth Nikels</b> <i>VP, Marketing and Communications</i>	20	9	Ms. Nikels has nearly 20 years of communications and public relations experience. She started her healthcare career in Southern California, working for Hoag Memorial Hospital Presbyterian, Saddleback Memorial Medical Center and St. Joseph Hospital. During all of these tenures, her responsibilities included all aspects of public relations. Additional duties with DCHS include serving as the primary spokesperson. Ms. Nikels earned her Bachelor of Science degree in Journalism from Ball State University in Muncie, Indiana.

## Select Corporate Leadership Bios (cont.)

	Years of Experience		Biography
	Industry	DCHS	
<b>Nancy Carragee</b> <i>VP, Quality</i>	25	9	<p>Since joining DCHS, Ms. Carragee has consistently demonstrated in-depth knowledge in clinical performance, quality improvement and patient safety. As Vice President of Quality, she represents DCHS in various quality committees and panels, both locally and nationally. In her system leadership role, Ms. Carragee guides and supports the Local Health Ministries to raise the bar on key measures and has secured multi-million dollar grants for reducing sepsis mortality in the DCHS hospitals. Ms. Carragee has served on the Editorial Advisory Board for the Joint Commission Journal on Quality Improvement and is an active contributor to national work groups addressing sustainable quality improvement strategy. Ms. Carragee received her Bachelor of Science degree in Nursing from Villanova University and her Master of Science degree in Administrative Medicine from the University of Wisconsin Medical School.</p>
<b>Dick Hutsell</b> <i>VP &amp; CIO</i>	35	12	<p>Mr. Hutsell's professional healthcare and technology career began 30 years ago with the Consulting Division of Arthur Andersen (now Accenture). From 1986 to 1995, Mr. Hutsell worked for the Daughters of Charity National Health System – West as Vice President of Information Systems and its subsequent merge into Catholic Healthcare West (CHW). With CHW, he was a corporate Vice President, and prior to that, he was Director of Information Technology Application Services for Blue Shield of California. During the formation of DCHS, Mr. Hutsell established the initial strategy for Quality Improvement and developed work groups for marketing, nursing, supply chain management, imaging and other ancillary support areas. Currently, he has responsibility for Supply Chain Management, in addition to traditional CIO duties. Hr. Hutsell graduated from the University of Washington, where his graduate school emphasis was Accounting.</p>

# Select Healthcare Leadership Bios

	Years of Experience		Biography
	Industry	DCHS	
<b>Gerald Kozai, Pharm.D.</b> <i>President and CEO, SFMC</i>	33	25	Dr. Kozai was first associated with SFMC in 1989 as Director of Pharmacy Services. Soon after, he accepted the position of Division Director of Clinical Support Services in 1990. He was appointed Vice President of Professional Services in 1991, followed by Administrator/COO in 1996. He was named President of SFMC and Robert F. Kennedy Medical Center in 1998, and Senior Vice President, COO of the South Market of CHW Southern California in 2000. Dr. Kozai was trained as a clinical pharmacist and received his Doctor of Pharmacy degree from the University of the Pacific School of Pharmacy.
<b>Catherine Fickes</b> <i>President and CEO, SVMC</i>	35	8	Ms. Fickes came to SVMC from Cambio Health Solutions, where she held the CEO position in several health systems. She also served as the interim CEO for Daniel Freeman Hospitals in Los Angeles. During that time, she led the turnaround and business development of two hospitals that were part of the Carondelet Health System. In addition to these responsibilities, she has spent time working with international healthcare organizations to provide medical services to the underserved population in Nicaragua. Ms. Fickes has a master's degree in Healthcare Administration, a bachelor's degree in Business Administration and an associate's degree in Nursing.
<b>James Dover, FACHE</b> <i>President and CEO, OCH and SLRH (Santa Clara Ministry Market)</i>	30	5	Mr. Dover has more than 30 years of leadership experience in healthcare, with the last 22 years working in Catholic healthcare with a variety of Catholic health systems. Prior to leading the Santa Clara County market, which includes both OCH in San Jose and SLRH in Gilroy, he served as the CEO of St. Anthony North Hospital. He also served as the Interim Group President for the Centura Health North Denver Hospital Group. Mr. Dover holds a bachelor's degree in Bacteriology from the University of Idaho and a master's degree in Hospital Administration from the University of Minnesota.
<b>Joanne Allen</b> <i>President and CEO, SMC and SMCC</i>	25	17	Ms. Allen joined SMC and SMCC as President & CEO in April 2013. Prior to this, she served as President & CEO of SLRH in Gilroy. Ms. Allen joined SLRH from OCH in San Jose, where she was the COO/Chief Strategic Officer. Ms. Allen holds a master's degree in Health Care Administration and a bachelor's degree in Business Administration, both from San Jose State University.
<b>Ernie Wallerstein</b> <i>President and CEO, DCHS Medical Foundation</i>	20	2	Mr. Wallerstein leads the DCHS Medical Foundation. Prior to DCHS, Mr. Wallerstein served as CEO of San Jose Medical Group (SJMG), an integrated multi-specialty medical group with multiple clinics located in and around San Jose. Prior to his CEO role, he served as SJMG's Chief Information Officer and Vice President of Managed Care. Mr. Wallerstein earned his Bachelor of Science degree in History from Ohio State University.

# Key Investment Considerations

<b>Rich Heritage and Community Relationship</b>	<ul style="list-style-type: none"> <li>■ DCHS' hospitals have a rich heritage of providing quality and critical healthcare in California for more than 160 years and are an integral part of the fabric of the communities they serve</li> <li>■ The System operates on key Vincentian values of respect, compassionate care, simplicity and advocacy of poor that resonate deeply with the communities it serves</li> <li>■ The System and LHMs are driven to continuously develop new and innovative programs specific for the communities to better address challenges at the local level</li> <li>■ The System plays a vital role in both Los Angeles, Santa Clara and San Mateo counties as a safety net by providing critical access and care to its underserved community members</li> <li>■ The California Hospital Provider Fee Program is expected to provide \$318 million in net funding (\$106 million per year) to the System's hospitals over the three years (a 77% increase over 2011-2013 funding levels)</li> </ul>
<b>High-Quality Service Offerings</b>	<ul style="list-style-type: none"> <li>■ DCHS provides a broad array of healthcare services, including some of the nation's leading programs in cardiovascular, orthopedic, organ transplant, wound care, neonatal care, cancer care and robotic surgery</li> <li>■ Many of the LHMs have received prestigious accolades over the years, including:             <ul style="list-style-type: none"> <li>● SFMC recognized as a High Performing Hospital in Ear, Nose &amp; Throat, Nephrology, and Urology in 2012</li> <li>● SVMC ranked as a Top 5 Best Hospital in LA metro area in 2011</li> <li>● SMC earned the Gold Plus Performance Achievement Award from the American Heart Association/American Stroke Association in 2013</li> <li>● OCH designated as a Blue Distinction Center by Blue Cross and Blue Shield Association for Cardiac Care in 2013</li> </ul> </li> </ul>
<b>Strategic Geographic Presence with Critical Coverage and Reach</b>	<ul style="list-style-type: none"> <li>■ DCHS' strategic locations and expansive LHM campuses in several major California metro areas allow for expansion in geographic and demographic sectors, drawing patients from a population base of more than 12.5 million across three counties</li> <li>■ DCHS also owns a 45% interest in a Health Center Office Building joint venture and 11 medical office buildings occupied by physicians that act as strong referral sources</li> <li>■ The six LHMs in aggregate account for approximately 1,700 beds and nearly 50,000 patient discharges annually             <ul style="list-style-type: none"> <li>● Further, DCHS owns and operates a large network of outpatient centers, providing primary and specialty care, urgent care, OP treatment, lab and imaging, surgical care and other services</li> </ul> </li> </ul>
<b>Significant Funds Potentially Available for Seton Medical's Redevelopment</b>	<ul style="list-style-type: none"> <li>■ In 2012, San Mateo County passed Measure A, a 0.5% sales tax increase that is expected to generate approximately \$15 million in annual funding through 2022 to help SMC address its seismic challenges and ensure operating viability</li> <li>■ SMC and SMCC enjoy a strategic alignment with the Health Plan of San Mateo ("HPSM") and San Mateo County, evidenced by Measure A, and play an important role serving both the acute care and long-term care needs of the Medi-Cal and underinsured population in San Mateo County</li> <li>■ \$135 million may be available from the County to the new owners of SMC over the remaining nine years of the ballot measure</li> </ul>

# Key Investment Considerations (cont.)

## Strategic Network of Owned and Affiliated Physicians

- In 2012, through the acquisition of the San Jose Medical Group, DCHS established the DCHS Medical Foundation, comprising of approximately 400<sup>(a)</sup> primary care and specialty physicians
  - The DCHS Medical Foundation provides a strong base of primary care and specialty physicians working within the System platform
  - It also owns Northern Cal Advantage Medical Group (“NCA”), an Independent Physician Association (“IPA”), comprised of approximately 200 physician members
  - It also owns a full-service management services organization (“MSO”) that operates and supports the clinical operations
- The network is comprised of primary care and specialists across a breadth of disciplines that provide world class patient care and are renowned in their respective fields and offers interested community physicians a variety of options to join an integrated physician network
- The System has strong relationships with a number of IPAs, including AppleCare, Healthcare Partners, Omnicare Medical Group and Brown & Toland
- As of December 2013, DCHS’ extensive physician network comprised of 1,272 active physicians

## Numerous Opportunities For Growth, Expansion and Development

- SVMC is scheduled to offer full-service emergency department, including ambulance receiving capability, this summer
- SMC is exploring expanding post-acute services (including re-opening SNF unit and leasing LTAC “lite” beds), opening a gero-psychiatric unit and further developing its oncology program, in addition to pursuing other land and medical office building expansion opportunities
- SFMC has been accredited to become a STEMI-Receiving Hospital, effective March 1, 2014
- OCH and SLRH are pursuing opportunities to increase non-government business and improve payer mix in the San Jose market. Through partnerships with DCHS Medical Foundation and other physician entities, both hospitals are working collaboratively to create an organized delivery network to compete against larger integrated systems
- SMC has been working on a long-term plan to address the seismic challenges of the primary patient tower, which contemplates a major realignment and development of SMC’s large contiguous campus
  - SMC growth initiatives also include the opening of a gero-psychiatrics unit, re-opening a skilled nursing unit, enhanced wound care services, including hyperbaric medicine, developing an intensivist program and increased occupancy of its medical office buildings (“MOBs”)
- Vast experience and strong knowledge base with capitation and managing patients in chronic disease states

## Robust System Platform with Significant Scale Potential

- DCHS Medical Foundation has a network of approximately 400<sup>(a)</sup> physicians with a full-service MSO
- The individual LHMs benefit from leveraging the larger System's collective expertise to develop new and innovative programs that address the specific patient and community needs
- System-wide services office (CBS), providing key support services to LHMs and the System
  - CBS provides accounting, finance, patient financial services and supply chain management and purchasing services for the entire System

# Consolidated Payor Statistics

## Summary of Historical Discharges

					% of Total			
	<u>FY2011A</u>	<u>FY2012A</u>	<u>FY2013A</u>	<u>LTM Dec-2013</u>	<u>FY2011A</u>	<u>FY2012A</u>	<u>FY2013A</u>	<u>LTM Dec-2013</u>
Medicare	18,044	16,471	16,663	15,921	34%	32%	33%	33%
Medi-Cal	18,215	17,288	16,542	15,600	34%	34%	33%	32%
HMO/PPO	11,654	11,939	11,739	12,267	22%	23%	23%	25%
Self-Pay	2,709	2,584	2,531	2,428	5%	5%	5%	5%
Capitation	2,467	2,502	2,191	2,267	5%	5%	4%	5%
Other	259	534	502	469	0%	1%	1%	1%
<b>Total</b>	<b><u>53,348</u></b>	<b><u>51,317</u></b>	<b><u>50,168</u></b>	<b><u>48,952</u></b>	<b><u>100%</u></b>	<b><u>100%</u></b>	<b><u>100%</u></b>	<b><u>100%</u></b>

## Summary of Historical Patient Days

					% of Total			
	<u>FY2011A</u>	<u>FY2012A</u>	<u>FY2013A</u>	<u>LTM Dec-2013</u>	<u>FY2011A</u>	<u>FY2012A</u>	<u>FY2013A</u>	<u>LTM Dec-2013</u>
Medicare	117,032	109,547	100,950	97,315	37%	36%	35%	34%
Medi-Cal	122,597	114,781	114,358	110,482	39%	38%	39%	39%
HMO/PPO	50,683	52,798	52,970	53,106	16%	17%	18%	19%
Self-Pay	13,421	11,666	11,476	11,961	4%	4%	4%	4%
Capitation	9,863	9,665	7,935	8,162	3%	3%	3%	3%
Other	1,139	3,330	2,666	3,765	0%	1%	1%	1%
<b>Total</b>	<b><u>314,735</u></b>	<b><u>301,787</u></b>	<b><u>290,355</u></b>	<b><u>284,791</u></b>	<b><u>100%</u></b>	<b><u>100%</u></b>	<b><u>100%</u></b>	<b><u>100%</u></b>

## Summary of Historical Average Length of Stay ("ALOS")

	<u>FY2011A</u>	<u>FY2012A</u>	<u>FY2013A</u>	<u>LTM Dec-2013</u>
Medicare	6.5	6.7	6.1	6.1
Medi-Cal	6.7	6.6	6.9	7.1
HMO/PPO	4.3	4.4	4.5	4.3
Self-Pay	5.0	4.5	4.5	4.9
Capitation	4.0	3.9	3.6	3.6
Other	4.4	6.2	5.3	8.0

# St. Francis Medical Center

## Key Service Lines

- Recognized for its full range of diagnostic and treatment services in specialties including Cardiovascular, Surgical, Maternal-Child Health and Trauma, an established network of community clinics and outreach programs, and a vital role in LA County's Public/Private Health Care Safety Net
- Key services include:
  - Comprehensive Maternal-Child Health
  - Neonatal Intensive Care Unit Level II
  - Cardiovascular Care
  - Emergency Services/Paramedic Base Station
  - Trauma Services (Level II)
  - STEMI Receiving Center
  - Behavioral Health Services
  - Primary Care and Occupational Health Clinics, Wound Care Center including Hyperbaric Medicine
  - Community Outreach and Wellness Programs

## Select Awards and Certifications

- 
 ■ 2013 Healthcare Leadership Award – Hospital Finalist, Los Angeles Business Journal
- 
 ■ Ranked in top 50 cardiovascular hospitals in 2012 by Thomson Reuters
- 
 ■ Recognized as a High Performing Hospital in Ear, Nose & Throat, Nephrology, and Urology in 2012 by U.S. News and World Report
- 
 ■ Honorable Mention Award for top performance in Evidence-Based Care, Mortality and Cost of Care in 2011 by Premier Website QUEST



Lynwood, CA (16 miles south of Los Angeles, CA)  
[www.stfrancis.dochs.org](http://www.stfrancis.dochs.org)

## Key Statistics (FY2013)

Available / Licensed Beds	384 / 384
Annual Discharges	18,957
Acute Average Length of Stay (Days)	4.2
Acute Average Daily Census	192
Case Mix Index (CMI)	1.259
Medicare CMI	1.617
Productive Hours (Millions)	3.1
Productive FTEs (a)	1,481
Total Hours (Millions)	3.6
Total FTEs (a)	1,749
<b>Payor Mix</b>	
Medicare (b)	26%
Medi-Cal (b)	50%
HMO/PPO	8%
County - Other Government	11%
Self-Pay	5%

## Summary of Financial Performance (FY ending June 30; \$ millions)

	FY2011A	FY2012A	FY2013A	LTM Dec-13
Patient Revenue	\$ 224	\$ 209	\$ 220	\$ 211
Supplemental Funding Receipts	133	133	157	156
Other Revenue	39	36	40	44
<b>Total Revenue</b>	<b>396</b>	<b>379</b>	<b>417</b>	<b>410</b>
Salaries and Benefits	(187)	(190)	(191)	(193)
Supplies	(34)	(30)	(30)	(32)
Purchased Services and Other	(68)	(70)	(74)	(79)
Supplemental Funding Tax	(35)	(34)	(43)	(44)
<b>Total Expenses (c)</b>	<b>(324)</b>	<b>(324)</b>	<b>(338)</b>	<b>(347)</b>
Allocated Shared Services (d)	(14)	(15)	(18)	(19)
<b>EBIDA Before Adjustments</b>	<b>57</b>	<b>39</b>	<b>61</b>	<b>44</b>
<b>EBIDA Adjustments:</b>				
Third-Party Settlements (e)	(7)	1	(4)	(5)
Estimated Litigation Cost (f)	-	-	2	1
<b>Total Adjustments</b>	<b>(7)</b>	<b>1</b>	<b>(3)</b>	<b>(4)</b>
<b>Adjusted EBIDA</b>	<b>51</b>	<b>40</b>	<b>58</b>	<b>40</b>
<b>Adjusted EBIDA (w/o Shared Services)</b>	<b>65</b>	<b>56</b>	<b>76</b>	<b>59</b>
Capital Expenditures	\$ 7	\$ 10	\$ 13	\$ 13

8% Notes:

- (a) Implied FTEs calculated based on working hours, assuming 52 weeks per year and 40 hours per FTE
- (b) Includes managed care plans
- (c) Excludes Depreciation, Amortization, Interest and Asset Impairment
- (d) Includes Caritas Business Systems (CBS), Corporate and IT expenses
- (e) LTM Dec-13 figure represents settlement payments as of LTM November 2013
- (f) Est. litigation costs for LTM Dec-13 period assumes \$1 million incurred between Jan – Jun 2013



# St. Vincent Medical Center

## Key Service Lines

- Surgical specialty hospital providing tertiary care and distinguished by its House Ear Clinic, Multi-Organ Transplant Center and complementary specialty clinics and services
- Key services include:
  - Cancer Care
  - Cardiac Care (incl. Catheterization Lab)
  - Dialysis and Transplant Services
  - Neurology Services
  - Neurotology Services
  - Orthopaedics and Joint Replacement
  - Spine Care

## Select Awards and Certifications



- Recognized as one of the Top 50 Hospitals in the U.S. in 2012 and 2013 by Healthgrades
- Ranked as #5 Best Hospital LA Metropolitan Area in 2011-12 and A Top 10 Best Hospitals, 2010 – 2011 – U.S. News & World Report
- A Top 100 Best Orthopedic Programs in the Country, 2012 – Becker's Hospital Review
- Silver-Level Award, SVMC's Multi-Organ Transplant Center, 2012 – U.S. Department of Health and Human Services
- High Performing in Nephrology, Neurology & Neurosurgery, Orthopedics and Urology, 2013 – U.S. News & World Report



Los Angeles, CA (Downtown)  
www.stvincentmedicalcenter.org

## Key Statistics (FY2013)

Available / Licensed Beds	366 / 366
Annual Discharges	9,213
Acute Average Length of Stay (Days)	4.8
Average Daily Census	106
Case Mix Index (CMI)	1.689
Medicare CMI	1.771
Productive Hours (Millions)	1.7
Productive FTEs (a)	796
Total Hours (Millions)	2.1
Total FTEs (a)	990
<b>Payor Mix</b>	
Medicare (b)	68%
Medi-Cal (b)	12%
HMO/PPO	16%
Self-Pay	0%
Other	4%

## Summary of Financial Performance (FY ending June 30; \$ millions)

	FY2011A	FY2012A	FY2013A	LTM Dec-13
Patient Revenue	\$ 176	\$ 198	\$ 176	\$ 168
Supplemental Funding Receipts	16	19	15	16
Other Revenue	15	15	16	17
<b>Total Revenue</b>	<b>207</b>	<b>231</b>	<b>207</b>	<b>201</b>
Salaries and Benefits	(95)	(97)	(100)	(102)
Supplies	(46)	(48)	(46)	(43)
Purchased Services and Other	(46)	(50)	(52)	(51)
Supplemental Funding Tax	(16)	(15)	(17)	(18)
<b>Total Expenses (c)</b>	<b>(203)</b>	<b>(209)</b>	<b>(216)</b>	<b>(215)</b>
Allocated Shared Services (d)	(12)	(11)	(12)	(13)
<b>EBIDA Before Adjustments</b>	<b>(7)</b>	<b>11</b>	<b>(21)</b>	<b>(26)</b>
<b>EBIDA Adjustments:</b>				
Third-Party Settlements (e)	(1)	(8)	3	3
<b>Adjusted EBIDA</b>	<b>(8)</b>	<b>3</b>	<b>(18)</b>	<b>(23)</b>
<b>Adjusted EBIDA (w/o Shared Services)</b>	<b>4</b>	<b>14</b>	<b>(7)</b>	<b>(11)</b>
Capital Expenditures	\$ 6	\$ 9	\$ 12	\$ 15

Notes:

- (a) Implied FTEs calculated based on working hours, assuming 52 weeks per year and 40 hours per FTE
- (b) Includes managed care plans
- (c) Excludes Depreciation, Amortization, Interest and Asset Impairment
- (d) Includes CBS, Corporate and IT expenses
- (e) LTM Dec-13 figure represents settlement payments as of LTM November 2013

# O'Connor Hospital

## Key Service Lines

- Accredited as a Primary Stroke Center and Hip Replacement Center and home to the only Family Residency Program in the area
- Key services include:
  - Cardiac Care
  - Emergency Services
  - Orthopedics and Joint Replacement
  - Stroke Program
  - Vascular Services
  - Women's and Children's Services
  - Wound Care Clinic, including Hyperbaric Medicine

## Select Awards and Certifications



- Earned Get With The Guidelines 2013 Stroke Gold Plus Performance Award from the American Heart Association/American Stroke Association



- Designated as a Blue Distinction Center for Cardiac Care in 2013



- Identified as a Blue Distinction Center+ for Knee and Hip Replacement in 2013



- "A" Rating for Hospital Safety, The Leapfrog Group Hospital Safety Score Program, 2013 Rating



San Jose, CA (Downtown)  
www.oconnor.dochs.org

## Key Statistics (FY2013)

Available / Licensed Beds	281 / 358
Annual Discharges	11,751
Acute Average Length of Stay (Days)	3.8
Acute Average Daily Census	123
Case Mix Index (CMI)	1.324
Medicare CMI	1.771
Productive Hours (Millions)	2.0
Productive FTEs (a)	968
Total Hours (Millions)	2.6
Total FTEs (a)	1,249
<b>Payor Mix</b>	
Medicare (b)	47%
Medi-Cal (b)	24%
HMO/PPO	24%
Self-Pay	2%
Other	3%

## Summary of Financial Performance (FY ending June 30; \$ millions)

	FY2011A	FY2012A	FY2013A	LTM Dec-13
Patient Revenue	\$ 266	\$ 255	\$ 260	\$ 258
Supplemental Funding Receipts	16	17	27	26
Other Revenue	9	7	9	10
<b>Total Revenue</b>	<b>290</b>	<b>279</b>	<b>295</b>	<b>293</b>
Salaries and Benefits	(192)	(182)	(189)	(191)
Supplies	(41)	(38)	(41)	(43)
Purchased Services and Other	(30)	(29)	(31)	(34)
Supplemental Funding Tax	(15)	(14)	(17)	(18)
<b>Total Expenses (c)</b>	<b>(278)</b>	<b>(264)</b>	<b>(278)</b>	<b>(285)</b>
Allocated Shared Services (d)	(20)	(21)	(23)	(24)
<b>EBIDA Before Adjustments</b>	<b>(8)</b>	<b>(5)</b>	<b>(6)</b>	<b>(15)</b>
<b>EBIDA Adjustments:</b>				
Third-Party Settlements (e)	(1)	(4)	(7)	(8)
<b>Adjusted EBIDA</b>	<b>(10)</b>	<b>(9)</b>	<b>(12)</b>	<b>(23)</b>
<b>Adjusted EBIDA (w/o Shared Services)</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>1</b>
Capital Expenditures	\$ 13	\$ 5	\$ 6	\$ 6

Notes:

- (a) Implied FTEs calculated based on working hours, assuming 52 weeks per year and 40 hours per FTE
- (b) Includes managed care plans
- (c) Excludes Depreciation, Amortization, Interest and Asset Impairment
- (d) Includes CBS, Corporate and IT expenses
- (e) LTM Dec-13 figure represents settlement payments as of LTM November 2013

# Saint Louise Regional Hospital

## Key Service Lines

- Widely recognized for its specialty services and Centers of Excellence, including Breast Care, De Paul Urgent Care Center, Women's Services and Emergency Services
- Key services include:
  - Critical Care
  - Diagnostic Imaging
  - Emergency Services
  - Medical/Surgical/Pediatrics
  - Maternal Child Health Services
  - Minimally Invasive Surgery
  - Nuclear Medicine
  - Orthopedics and Sports Medicine
  - Stroke Care

## Select Awards and Certifications

- 
  - Three-year term of accreditation from the American College of Radiology (ACR)
- 
  - Winner of Making Medicine Mercury Free Award
- 
  - Gold Certified Primary Stroke Center by the Joint Commission



Gilroy, CA (35 miles south of San Jose, CA)  
[www.saintlouiselouise.dochs.org](http://www.saintlouiselouise.dochs.org)

## Key Statistics (FY2013)

Available / Licensed Beds	93 / 93
Annual Discharges	3,021
Acute Average Length of Stay (Days)	3.6
Acute Average Daily Census	30
Case Mix Index (CMI)	1.259
Medicare CMI	1.515
Productive Hours (Millions)	0.6
Productive FTEs (a)	287
Total Hours (Millions)	0.8
Total FTEs (a)	384
<b>Payor Mix</b>	
Medicare (b)	44%
Medi-Cal (b)	21%
HMO/PPO	26%
Self-Pay	4%
Other	5%

## Summary of Financial Performance (FY ending June 30; \$ millions)

	FY2011A	FY2012A	FY2013A	LTM Dec-13
Patient Revenue	\$ 84	\$ 80	\$ 72	\$ 74
Supplemental Funding Receipts	5	6	6	8
Other Revenue	2	1	2	2
<b>Total Revenue</b>	<b>91</b>	<b>87</b>	<b>80</b>	<b>84</b>
Salaries and Benefits	(56)	(55)	(57)	(57)
Supplies	(10)	(8)	(7)	(8)
Purchased Services and Other	(12)	(12)	(12)	(12)
Supplemental Funding Tax	(3)	(3)	(4)	(4)
<b>Total Expenses (c)</b>	<b>(81)</b>	<b>(79)</b>	<b>(81)</b>	<b>(81)</b>
Allocated Shared Services (d)	(6)	(7)	(7)	(7)
<b>EBIDA Before Adjustments</b>	<b>4</b>	<b>1</b>	<b>(7)</b>	<b>(4)</b>
<b>EBIDA Adjustments:</b>				
Third-Party Settlements (e)	0	(0)	(0)	(0)
<b>Adjusted EBIDA</b>	<b>4</b>	<b>1</b>	<b>(8)</b>	<b>(5)</b>
<b>Adjusted EBIDA (w/o Shared Services)</b>	<b>10</b>	<b>8</b>	<b>(1)</b>	<b>3</b>
Capital Expenditures	\$ 1	\$ 5	\$ 6	\$ 5

Notes:

- (a) Implied FTEs calculated based on working hours, assuming 52 weeks per year and 40 hours per FTE
- (b) Includes managed care plans
- (c) Excludes Depreciation, Amortization, Interest and Asset Impairment
- (d) Includes CBS, Corporate and IT expenses
- (e) LTM Dec-13 figure represents settlement payments as of LTM November 2013

# Seton Medical Center

## Key Service Lines

- Recognized for its quality and range of care in inpatient and outpatient services, clinical services, vital services and education and support programs
- Specialty programs include:
  - Cancer Care
  - Cardiovascular Care
  - Emergency & Stroke Care
  - Orthopedics & Joint Replacement
  - Spine Care
  - Sub-acute services
  - Women's Services

## Select Awards and Certifications



- Recognized as a Top 5 Bay Area Hospital in 2011-12 by U.S. News and World Report



- Earned the Gold Plus Performance Achievement Award from the American Heart Association/American Stroke Association in 2013



Daly City, CA (Nine miles southwest of San Francisco, CA)  
www.seton.dochs.org

## Key Statistics (FY2013)

Available / Licensed Beds	307 / 357
Annual Discharges	7,125
Acute Average Length of Stay (Days)	4.8
Acute Average Daily Census	92
Case Mix Index (CMI)	1.666
Medicare CMI	1.814
Productive Hours (Millions)	1.7
Productive FTEs (a)	823
Total Hours (Millions)	2.2
Total FTEs (a)	1,062
<b>Payor Mix</b>	
Medicare (b)	55%
Medi-Cal (b)	15%
HMO/PPO	23%
Self-Pay	1%
Other	5%

## Summary of Financial Performance (FY ending June 30; \$ millions)

	FY2011A	FY2012A	FY2013A	LTM Dec-13
Patient Revenue	\$ 255	\$ 230	\$ 224	\$ 222
Supplemental Funding Receipts	13	13	21	27
Other Revenue	10	8	7	10
<b>Total Revenue</b>	<b>278</b>	<b>251</b>	<b>252</b>	<b>259</b>
Salaries and Benefits	(171)	(156)	(160)	(157)
Supplies	(39)	(34)	(36)	(38)
Purchased Services and Other	(38)	(31)	(32)	(30)
Supplemental Funding Tax	(14)	(13)	(16)	(16)
<b>Total Expenses (c)</b>	<b>(262)</b>	<b>(234)</b>	<b>(244)</b>	<b>(242)</b>
Allocated Shared Services (d)	(15)	(20)	(22)	(22)
<b>EBIDA Before Adjustments</b>	<b>(0)</b>	<b>(3)</b>	<b>(13)</b>	<b>(4)</b>
<b>EBIDA Adjustments:</b>				
Third-Party Settlements (e)	(1)	(2)	(1)	(2)
Estimated Litigation Cost	(1)	-	-	-
<b>Total Adjustments</b>	<b>(2)</b>	<b>(2)</b>	<b>(1)</b>	<b>(2)</b>
<b>Adjusted EBIDA</b>	<b>(2)</b>	<b>(5)</b>	<b>(14)</b>	<b>(6)</b>
<b>Adjusted EBIDA (w/o Shared Services)</b>	<b>13</b>	<b>14</b>	<b>7</b>	<b>16</b>
Capital Expenditures	\$ 14	\$ 10	\$ 10	\$ 22

Notes:

- (a) Implied FTEs calculated based on working hours, assuming 52 weeks per year and 40 hours per FTE
- (b) Includes managed care plans
- (c) Excludes Depreciation, Amortization, Interest and Asset Impairment
- (d) Includes CBS, Corporate and IT expenses
- (e) LTM Dec-13 figure represents settlement payments as of LTM November 2013

# Seton Medical Center Coastside

## Key Service Lines

- 116-bed skilled nursing facility with the only 24-hour standby emergency department (five acute beds) along the 55-mile coastal stretch between Daly City and Santa Cruz
- Specialty programs include:
  - Emergency Services & Acute Care Unit
  - Skilled Nursing Facility
  - Ancillary Services
  - Community Outreach
  - Spiritual Care Services

## Select Awards and Certifications



- Accredited by the Joint Commission and the California Department of Health Services

- Staffed by additional healthcare members including a resident advocate and financial counselors for insurance assistance



- Winner of the Waste Reduction Award Program



Moss Beach, CA (22 miles southwest of San Francisco, CA)  
[www.setoncoastside.org](http://www.setoncoastside.org)

## Key Statistics (FY2013)

Available / Licensed Beds	121 / 121
Average Daily Census	106
Case Mix Index (CMI)	1.330
Medicare CMI	1.373
Productive Hours (Millions)	0.2
Productive FTEs (a)	114
Total Hours (Millions)	0.3
Total FTEs (a)	147
<b>Payor Mix</b>	
Medicare (b)	16%
Medi-Cal (b)	49%
HMO/PPO	22%
Self-Pay	5%
Other	8%

## Summary of Financial Performance (FY ending June 30; \$ millions)

	FY2011A	FY2012A	FY2013A	LTM Dec-13
Patient Revenue	\$ 18	\$ 16	\$ 21	\$ 23
Other Revenue (c)	0	4	4	2
<b>Total Revenue</b>	<b>19</b>	<b>20</b>	<b>25</b>	<b>25</b>
Salaries and Benefits	(16)	(17)	(17)	(17)
Supplies	(1)	(2)	(2)	(2)
Purchased Services and Other	(2)	(2)	(2)	(2)
<b>Total Expenses (d)</b>	<b>(19)</b>	<b>(20)</b>	<b>(21)</b>	<b>(20)</b>
Allocated Shared Services (e)	(1)	(1)	(1)	(1)
<b>EBIDA Before Adjustments</b>	<b>(1)</b>	<b>(1)</b>	<b>4</b>	<b>4</b>
<b>EBIDA Adjustments:</b>				
Third-Party Settlements (f)	-	-	(3)	(3)
<b>Adjusted EBIDA</b>	<b>(1)</b>	<b>(1)</b>	<b>1</b>	<b>1</b>
<b>Adjusted EBIDA (w/o Shared Services)</b>	<b>(0)</b>	<b>0</b>	<b>2</b>	<b>2</b>
Capital Expenditures	\$ 0	\$ 0	\$ 0	\$ 0

Notes:

- (a) Implied FTEs calculated based on working hours, assuming 52 weeks per year and 40 hours per FTE
- (b) Includes managed care plans
- (c) Includes \$4 million contribution from the Daughters of Charity
- (d) Excludes Depreciation, Amortization, Interest and Asset Impairment
- (e) Includes CBS, Corporate and IT expenses
- (f) LTM Dec-13 figure represents settlement payments as of LTM November 2013

# DCHS Medical Foundation

- In December 2011, DCHS started an important strategic initiative that supports the development of an aligned primary care physician base for DCHS LHMs
  - The System formed DCHS Medical Foundation as a not-for-profit subsidiary for purposes of creating a network of primary care and specialty physicians
- The entity began its operations on April 1, 2012, after acquiring assets from San Jose Medical Group and its affiliated MSO for \$13 million, including a full-service MSO that can handle further growth with nominal investments
- In FY2013, the entity acquired a regional IPA, NCA, in Santa Clara County, with approximately 200 physician members and nine additional independent physician practices comprising a statewide network of physicians delivering high quality, patient-centered care
- DCHS Medical Foundation has approximately 400 primary care and specialty physicians and offers medical, surgical and related healthcare services at multi-specialty community clinics conveniently located in areas served by LHMs

## Summary of Full-Time Physicians by Specialty and Market\*

	Market Count			Total
	SFMC/SVMC	OCH/SLRH	SMC/SMCC	
1. Family Practice	5	32	1	38
2. Internal Medicine	3	15	1	19
3. Hospitalist	-	6	10	16
4. Acute	-	12	-	12
5. Obstetrics & Gynecology	2	7	-	9
6. Pediatrics	2	4	-	6
7. General Surgery	2	2	-	4
8. Ophthalmology	2	2	-	4
9. Orthopaedic Surgery	3	1	-	4
10. Podiatry	1	3	-	4
<b>Total Top 10</b>	<b>20</b>	<b>84</b>	<b>12</b>	<b>116</b>
Other	10	18	-	28
<b>Total</b>	<b>30</b>	<b>102</b>	<b>12</b>	<b>144</b>

\* - Excludes Northern Cal Advantage Medical Group and Allied Healthcare Providers Medical Group IPAs

## Key Statistics (FY2013)

### Revenue Management

#### Visits

FFS	139,958
HMO	<u>86,983</u>
Total	226,941

FFS Visits / Workday	555
Revenue / Visit	\$ 231

#### HMO Enrollment (Average)

Commercial HMO	11,838
Senior HMO	2,151
Sub Cap-PCP HMO	<u>7,451</u>
Total	21,440

### Cost Management

Total Salaries as % of Revenue	61%
Purchased Medical Services as % of HMO Revenue	41%
Materials & Supplies as % of Revenue	12%

## Summary of Financial Performance (FY ending June 30; \$ millions)

	FY2013A	LTM Dec-13
Patient Revenue	\$ 34	\$ 43
Premium Revenue	24	30
Other Operating Revenue	2	3
<b>Total Revenue</b>	<b>60</b>	<b>75</b>
Salaries And Benefits	(45)	(57)
Supplies	(6)	(8)
Purchased Services And Other (a)	(22)	(29)
<b>Total Operating Expenses (b)</b>	<b>(74)</b>	<b>(94)</b>
<b>EBIDA</b>	<b>\$ (13)</b>	<b>\$ (19)</b>



#### Notes:

- (a) Includes professional and medical fees, out-of-network and other operating expenses
- (b) Excludes Depreciation, Amortization and Interest

# Overview of Owned MOBs

Property	Address	Sq. Footage	Year Built
<b>SFMC</b>			
Huntington Park Medical Office Building	2700 E. Slauson Ave. Huntington Park, CA 90255	9,432	1965
Maywood Medical Office Building	5931 Atlantic Blvd. Maywood, CA 90270	6,045	1976
<b>SVMC</b>			
St. Vincent Professional Office Building (POB)	201 S. Alvarado St. & 199 S. Alvarado St. Los Angeles, CA 90057	53,455	1977
Ocean View Pavilion	2222 Ocean View Ave. Los Angeles, CA 90057	35,967	1975
<b>OCH</b>			
Medical Office Building*	2101 Forest Ave. San Jose, CA 95128	55,585	1960
Clarmar Building	2030 Forest Ave. San Jose, CA 95128	11,200	1960 (Rebuilt 1992)
Barclay Building Medical Office Condo	2039 Forest Ave., Units B2 and 204 San Jose, CA 95128	2,038	1960 (Rehab in 1980s)
<b>SLRH</b>			
Morgan Hill Medical Office Building	18550 Saint Louise Dr. Morgan Hill, CA 95037	25,840	1989
<b>SMC</b>			
Serramonte Medical Center	1500 Southgate Ave. Daly City, CA 94015	34,508	1973
SMOC #1 Medical Office Building	1800 Sullivan Ave. Daly City, CA 94015	55,801	1968
SMOC #2 Medical Office Building	1850 Sullivan Ave. Daly City, CA 94015	84,908	1987

\* Property is attached to Previous Main Hospital (currently vacant)

# Overview of Owned Land and Other Related Properties

Property	Address	Sq. Footage	Year Built
<b>SFMC</b>			
Parking Lot	3633 Martin Luther King Jr. Blvd Lynwood, CA 90262	N/A	2009
<b>SVMC</b>			
House Ear Clinic (Ground Lease)	2100 W 3rd St. Los Angeles, CA 90057	85,497	N/A
<b>OCH</b>			
45% JV Interest in Health Center One Office Building	455 O'Connor Dr. San Jose, CA 95128	52,000	1996
<b>SLRH</b>			
Previous Hospital Facility (Vacant)*	18500 Saint Louise Drive Morgan Hill, CA 95037	87,954	1989

\* Property is attached to Morgan Hill Medical Office Building

# Physician Overview

- The table below summarizes affiliated medical staff by LHM and demonstrates a wide range of specialties available at each hospital

Summary of Physicians by LHM

Specialty	SFMC		SVMC		OCH		SLRH		SMC (a)		Total	
	Count	% of Total	Count	% of Total								
<b>Active Physicians</b>												
1. Internal Medicine	23	9%	20	11%	57	12%	8	8%	31	13%	139	11%
2. Cardiology	11	4%	23	13%	38	8%	4	4%	20	8%	96	8%
3. Pediatrics	24	9%	N/A	N/A	48	10%	6	6%	14	6%	92	7%
4. Family Practice	16	6%	8	4%	41	8%	8	8%	15	6%	88	7%
5. Obstetrics/Gynecology	23	9%	8	4%	36	7%	8	8%	9	4%	84	7%
6. Emergency Medicine	14	5%	22	12%	14	3%	11	11%	13	5%	74	6%
7. Anesthesiology	11	4%	13	7%	19	4%	5	5%	11	5%	59	5%
8. Orthopedic Surgery	8	3%	11	6%	21	4%	4	4%	16	7%	60	5%
9. General Surgery	13	5%	9	5%	18	4%	6	6%	7	3%	53	4%
10. Nephrology	17	7%	17	9%	11	2%	4	4%	7	3%	56	4%
11. Other	97	38%	53	29%	185	38%	32	33%	98	41%	465	37%
Total Active	257	100%	184	100%	488	100%	96	100%	241	100%	1,266	100%
<b>Non-Active (b)</b>	119		297		94		110		173		793	
<b>Total</b>	<b>376</b>		<b>481</b>		<b>582</b>		<b>206</b>		<b>414</b>		<b>2,059</b>	

Notes:

- (a) Excludes 10 SMCC physicians (six active and four non-active)
- (b) Includes administrative, provisional, courtesy, temporary and other medical staff

# Consolidated Financial Overview

- On a LTM December 2013 basis, the System generated more than \$1.3 billion in total revenue, which was slightly up from FY2013
  - 74% of total revenue was comprised of patient revenue with the remaining coming from other sources including supplemental funding
- LTM net patient revenue (“NPR”)<sup>(a)</sup> declined slightly from FY2013, however, supplemental funding and other revenue offset this decline resulting in an overall revenue increase of \$7 million

## Select Balance Sheet Items (\$ millions)

	LTM	
	FY2013	Dec-13
<b>Current Assets</b>		
Patient Accounts Receivable, Net	\$ 154	\$ 162
Due From Government Agencies	22	15
Other Current Assets	119	74
Total Current Assets	296	250
<b>Current Liabilities</b>		
Accounts Payable	37	48
Due to Government Agencies	20	1
Accrued Liabilities	137	115
Total Current Liabilities	\$ 195	\$ 163

## Summary of Financial Performance (FY ending June 30; \$ millions)

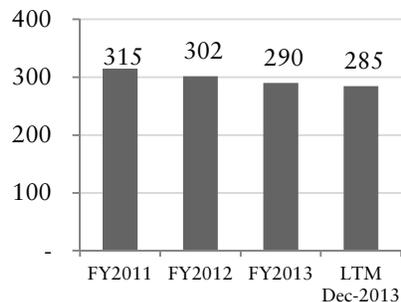
					Common Size			
	Actual FY2011	Actual FY2012	Actual FY2013	LTM 12/2013	Actual FY2011	Actual FY2012	Actual FY2013	LTM 12/2013
Patient Revenue	\$ 1,027	\$ 999	\$ 1,012	\$ 1,002	80%	78%	75%	74%
Supplemental Funding Receipts	183	188	226	233	14%	15%	17%	17%
Other Revenue (b)	76	86	105	115	6%	7%	8%	9%
Total Revenue	1,286	1,274	1,343	1,350	100%	100%	100%	100%
Salaries and Benefits	(740)	(730)	(784)	(797)	(58%)	(57%)	(58%)	(59%)
Supplies	(173)	(162)	(170)	(175)	(13%)	(13%)	(13%)	(13%)
Purchased Services and Other	(185)	(206)	(214)	(220)	(14%)	(16%)	(16%)	(16%)
Supplemental Funding Tax	(83)	(79)	(98)	(101)				
Total Expenses (c)	(1,180)	(1,177)	(1,265)	(1,293)	(92%)	(92%)	(94%)	(96%)
<b>Allocated Shared Services:</b>								
Corporate	(23)	(24)	(31)	(33)	(2%)	(2%)	(2%)	(2%)
CBS	(21)	(17)	(17)	(17)	(2%)	(1%)	(1%)	(1%)
IT	(30)	(34)	(34)	(36)	(2%)	(3%)	(3%)	(3%)
Total Shared Services	(74)	(74)	(82)	(85)	(6%)	(6%)	(6%)	(6%)
EBIDA Before Adjustments	32	22	(5)	(28)	2%	2%	(0%)	(0)
<b>EBIDA Adjustments (d)</b>								
Third-Party Settlements	(9)	(13)	(12)	(14)	(1%)	(1%)	(1%)	(1%)
Estimated Litigation Cost	(1)	-	2	1	(0%)	0%	0%	0%
Total Adjustments	(10)	(13)	(10)	(13)	(1%)	(1%)	(1%)	(1%)
Adjusted EBIDA	22	9	(15)	(41)	2%	1%	(1%)	(3%)
Adjusted EBIDA (w/o Shared Services)	95	83	67	44	7%	7%	5%	3%
Capital Expenditures	\$ 36	\$ 41	\$ 50	\$ 47	3%	3%	4%	3%

Notes:

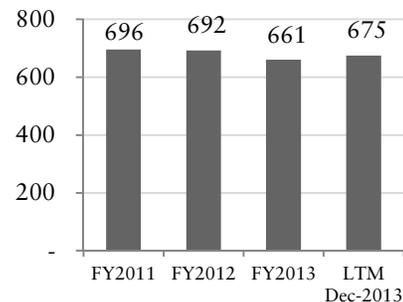
- Net patient revenue is defined as Patient Revenue plus Supplemental Funding Receipts
- Excludes forgiveness of debt and charitable contribution of \$142 million from Daughters of Charity Foundation
- Excludes Depreciation, Amortization, Interest and Asset Impairment
- LTM Dec-13 figure represents LTM settlement payments and estimated litigation costs as of November 2013

# Select Consolidated Operating Statistics - System

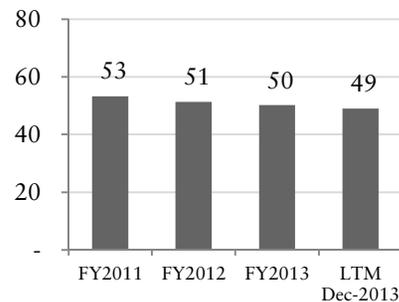
**Patient Days (thousands)**



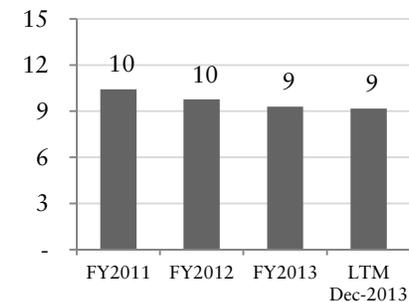
**Outpatient Visits (thousands)**



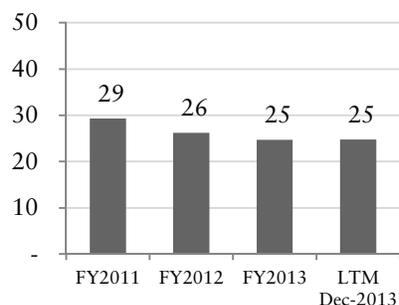
**IP Discharges (thousands)**



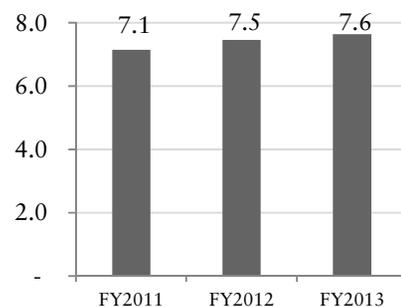
**Deliveries (thousands)**



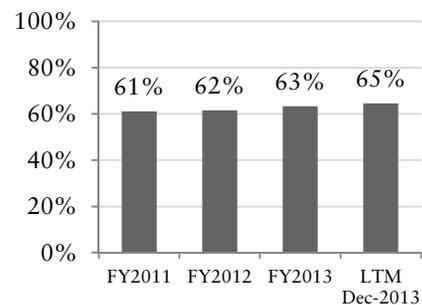
**Surgeries (thousands)**



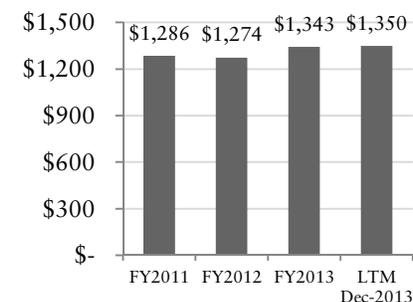
**Total Employees (thousands)**



**SWB % of NPR**



**Total Revenue (\$ millions)**



# Union Representation by LHM

- In FY2013, the System had approximately 7,650 employees, with more than 70% covered by collective bargaining agreements (“CBAs”)
- The System has strong relationships with a number of unions across the state of California
- Over the course of the System’s history, the unions have been cooperative and continue to support DCHS’s mission and vision of servicing underprivileged patients in its local communities

	# of Employees						Total	CBA Expiration (a)
	SFMC	SVMC	OCH	SLRH	SMC	SMCC		
SEIU Local 250 (“SEIU 250”)	543		496	274	569	134	2,016	Apr 2015
SEIU Local 250 Technical Unit (“SEIUT”)	286		137				423	Apr 2015
SEIU 1 (b)		419					419	Apr 2015
California Nurses Association (“CNA”)		364	750	269	475		1,858	Mar 2014
California Licensed Vocational Nurses’ Association (“CLVNA”)			27	8			35	Oct 2015
International Union of Operating Engineers, Stationary Engineers, Local 39 (“Local 39”)			17	11	21	1	50	Sep 2016
United Nurses Association of California (“UNAC”)	762						762	Jun 2014
Local 20 Pharmacy Technicians (“Local 20”)			41	17	33		91	In Negotiation (c)
<b>Total</b>	<b>1,591</b>	<b>783</b>	<b>1,468</b>	<b>579</b>	<b>1,098</b>	<b>135</b>	<b>5,654</b>	

Notes:

- (a) Subject to annual renewals
- (b) SVMC’s unionized employees are covered by certain provisions of the SEIU 250 CBA
- (c) Employees voted to organize over the course of 2012 and 2013 (various dates)

# Pension and Other Postretirement Plans

- DCHS has three defined benefit postretirement plans:
  - DCHS participates in a multi-employer-defined benefit pension plan called Retirement Plan for Hospital Employees (“RPHE”)
  - It also sponsors a single-employer-defined benefit “church” pension plan (“Church Plan”) and a postretirement healthcare benefits plan (“Postretirement Healthcare Plan”)
    - The Church Plan and RPHE combined cover substantially all eligible employees, and the Postretirement Healthcare Plan is available to a limited number of DCHS associates in Northern California only
- SEIU, the System’s largest union by number of DCHS members, ratified freezing the Church Plan and RPHE benefits effective January 1, 2013
- RPHE and Church Plan benefits for non-contractual employees at all LHMs were frozen effective on March 11, 2011
  - UNAC at SFMC was frozen on January 1, 2012
- DCHS also maintains three defined contribution pension plans
  - A 403(b)/ TSA plan allows voluntary employee contributions. Another defined contribution plan requires employer participation based on a percentage of the employees’ contributions, and the third plan is fully employer-paid.
- Select CBAs contain language that prohibits certain terminations or discontinuation of contributions to these plans

**Summary of Pension and Postretirement Plans (\$ millions)**

Plan Type	# of DCHS Active Participants (a)	# of DCHS Non-Active Participants (b)	DCHS Cash Contributions (FY2013)	Union Participation by LHM					
				SFMC	SVMC	OCH	SLRH	SMC	SMCC
Church Plan	3,748	4,487	\$13	SEIU*, UNAC*	SEIU*, CNA	SEIU*, CNA, CLVNA*	SEIU*, CNA, CLVNA*		
RPHE	3,026	2,235	16			SEIU*, CNA, CLVNA*	SEIU*, CNA, CLVNA*	SEIU*, CNA	SEIU*
Postretirement Healthcare Plan	11	0	0.2			SEIU, CNA, CLVNA	SEIU, CNA, CLVNA	SEIU, CNA	SEIU
Defined Contribution Plans	RPA – 4,305 401(a) – 4,498 401(b) – 5,077		22	SEIU, UNAC	SEIU, CNA	SEIU, CNA, CLVNA	SEIU, CNA, CLVNA	SEIU, CNA	SEIU
<b>Total</b>			<b>\$51</b>						

Notes:

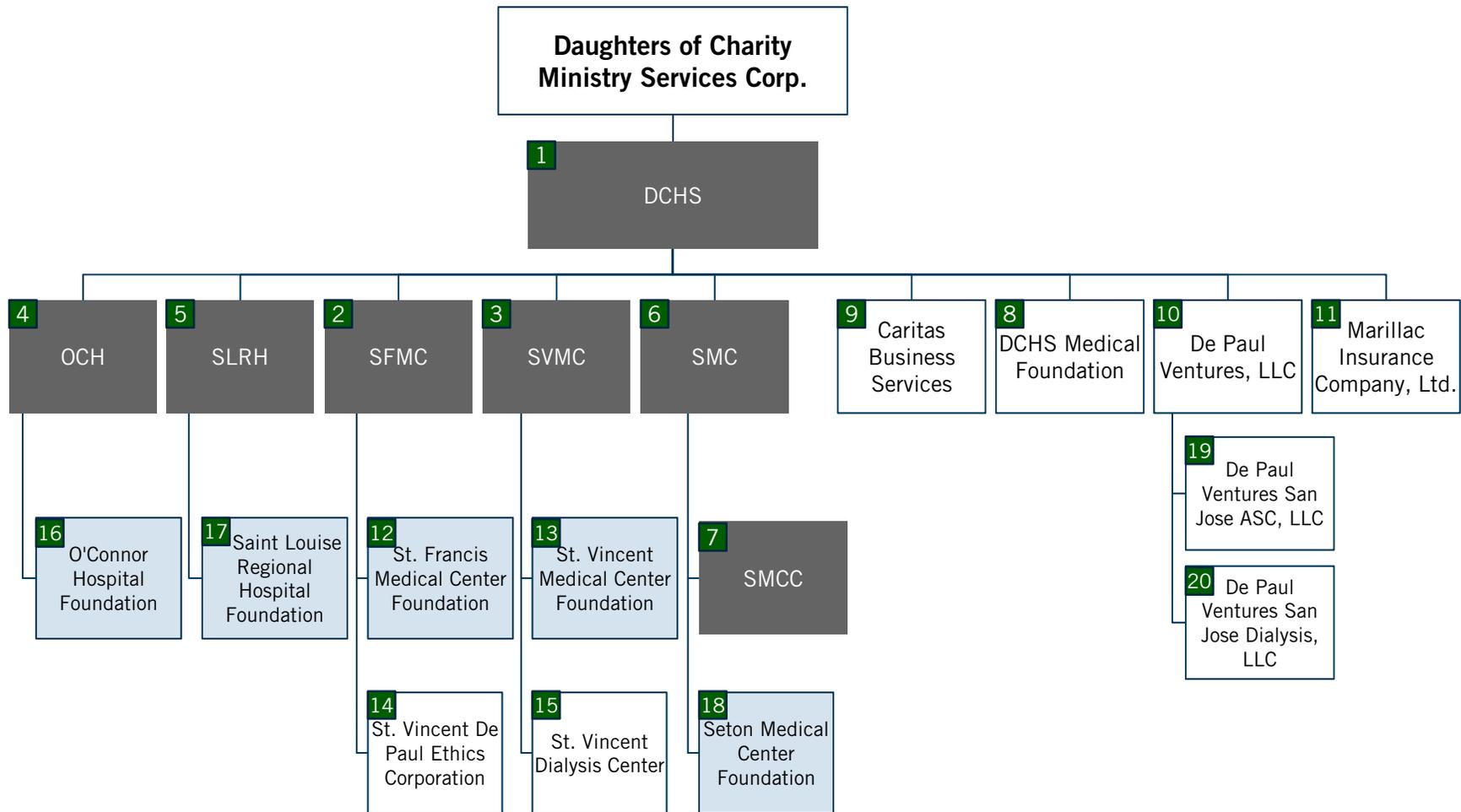
- \* Denotes frozen benefits
- (a) Postretirement Healthcare Plan active participant count as of latest census dated 7/1/2012
- (b) Retiree count as of 7/1/2013

# Electronic Health Records Status

- Each of the System’s LHMs are actively utilizing Quadramed QCPR and have achieved Stage 1 Meaningful Use attestation. Set forth in the table below are the major components deployed for each of the LHMs and HIMSS level achieved.
- All facilities are actively pursuing Stage 2 Meaningful Use attestation

Major Components Deployed by LHM						
		SFMC	SVMC	OCH	SLRH	SMC
Major Components Deployed	· EMR	✓	✓	✓	✓	✓
	· Nursing documentation	✓	✓	✓	✓	✓
	· CPOE with alerting	✓	✓	✓	(ED only)	(ED only)
	· Non-physician order entry	✓	✓	✓	✓	✓
	· Clinical decision support	✓	✓	✓	✓	✓
	· View lab results	✓	✓	✓	✓	✓
	· View radiology results	✓	✓	✓	✓	✓
	· View transcription	✓	✓	✓	✓	✓
	· View EKG	✓	✓	✓	✓	✓
	· View radiology PACS	✓	✓	✓	✓	✓
	· View cardiology PACS	✓	✓	✓	✓	✓
	· Automated capture of medical device data	✓	✓	✓	✓	✓
	· Advanced reporting and analytics	✓	✓	✓	✓	✓
	· Integrated medication management (pharmacy) BCMA	✓	✓	✓	✓	✓
	· Drug-drug interaction checking and alerting	✓	✓	✓	✓	✓
	· Problem list	✓	✓	✓	✓	✓
	· Physician inbox	✓	✓	✓	✓	✓
	· Patient lists	✓	✓	✓	✓	✓
	· Medication reconciliation	✓	✓	✓	✓	✓
HIMSS		Level 5/6	Level 5/6	Level 5/6	Level 4	Level 4

# Legal Organizational Chart



■ Member of Obligated Group under Series 2005 Bonds

■ Charitable foundations



Note: Entity descriptions can be found in the Appendix. Numbers tie to entity descriptions

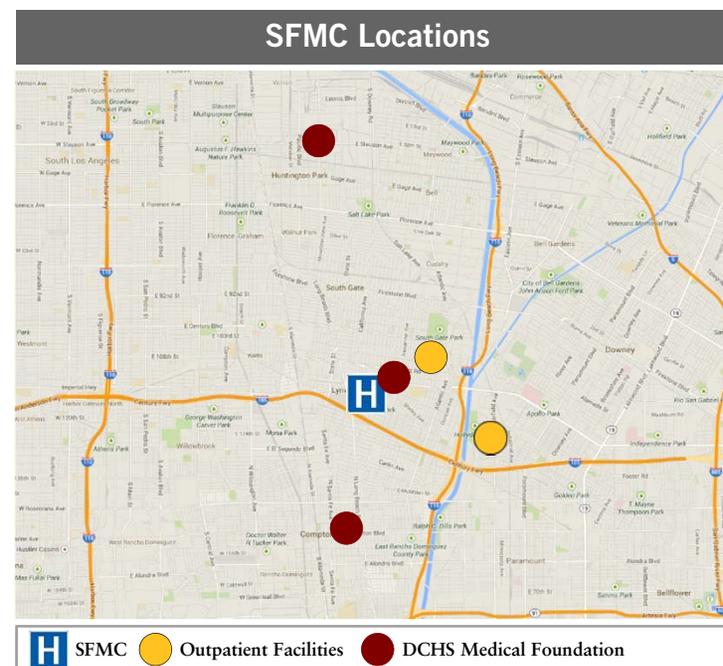


# **Overview of Operations**

**St. Francis Medical Center**

# Introduction

- Founded in 1945 and located in Lynwood, CA, SFMC is the only comprehensive, not-for-profit healthcare institution serving the 1.2 million residents of southeast Los Angeles, a densely populated and underserved community
  - The Daughters of Charity, Province of the West began its sponsorship of SFMC in 1981
- SFMC has 384 licensed beds and offers a full range of diagnostic and treatment services provided by more than 1,650 associates and 375 physicians
- In addition to the main hospital campus, SFMC also operates eight community-based health clinics, four primary and obstetrical prenatal clinics, two children's counseling centers, one occupational health clinic, one wound care center, one distinct part skilled nursing unit and one mobile health unit
- SFMC operates one of Los Angeles County's busiest Emergency/Trauma Centers, serving more than 70,000 patients annually
  - SFMC's Family Life Center records approximately 5,000 births per year and includes an Antepartum Unit, a Neonatal Intensive Care Unit (NICU) and a Pediatric Unit
- In 2011, SFMC was named one of nation's top 50 Cardiovascular Hospitals by Thomson Reuters. Additionally, in 2011, SFMC was recognized as a High Performing Hospital in Ear, Nose, and Throat, Nephrology and Urology by U.S. News and World Report and recognized as one of the Best Hospitals, Los Angeles Metropolitan Area.
- SFMC's primary service area (PSA) includes the communities of Lynwood, South Gate, Downey, Huntington Park, Cudahy, Bell Gardens, Compton, Southeast Los Angeles and South Los Angeles



3630 East Imperial Highway, Lynwood, CA 90262  
[www.stfrancis.dochs.org](http://www.stfrancis.dochs.org)

# Overview of Key Services

- SFMC is recognized for its comprehensive range of acute care services, including cardiac care, maternal-child health, pediatrics, neonatal intensive care and oncology. SFMC operates one of Los Angeles County's largest and busiest private emergency and level II trauma centers
- Service lines include:
  - Maternal-Child Health
  - Neonatal Intensive Care (Level II)
  - Cardiovascular Services
  - Surgical Services
  - Emergency Services/Paramedic Base Station
  - Trauma Services (Level II)
  - STEMI Receiving Center
  - Behavioral Health Services
- Clinics and specialty services include:
  - Primary Care & Obstetrical Prenatal Clinics
  - Occupational Health Clinic
  - Wound Care Center
  - Children's Counseling Center
  - Health Benefits Resource Center
  - Vida Sana Healthy Life Community Wellness
  - Mobile Health Unit
  - Senior Wellness Program
  - Casa de Esperanza Transitional Housing
- SFMC has been recognized for its outstanding care, having received numerous quality awards and honors
- In 2013, SFMC provided more than \$56 million in community benefit programs and services to the community, as well as more than \$8 million in care for the elderly

## Select Awards and Certifications



- 2013 Healthcare Leadership Award – Hospital Finalist, Los Angeles Business Journal



- Ranked in top 50 cardiovascular hospitals in 2012 by Thomson Reuters



- Recognized as a High Performing Hospital in Ear, Nose & Throat, Nephrology and Urology in 2012 by U.S. News and World Report



- Honorable Mention Award for top performance in Evidence-Based Care, Mortality and Cost of Care in 2011 by Premier Website QUEST



- SFMC is recognized by the Institute for Patient- and Family-Centered Care (PFCC) as an organization dedicated to role modeling and advancing the understanding and practice of PFCC



## Aerial View of SFMC



## Key Statistics (FY2013)

Available / Licensed Beds	384 / 384
Annual Discharges	18,957
Acute Average Length of Stay (Days)	4.2
Acute Average Daily Census	192
Case Mix Index (CMI)	1.259
Medicare CMI	1.617
Productive Hours (Millions)	3.1
Productive FTEs (a)	1,481
Total Hours (Millions)	3.6
Total FTEs (a)	1,749
<b>Payor Mix</b>	
Medicare (b)	26%
Medi-Cal (b)	50%
HMO/PPO	8%
County - Other Government	11%
Self-Pay	5%

Notes: Fiscal year ends June 30

(a) Implied FTEs calculated based on working hours, assuming 52 weeks per year and 40 hours per FTE

(b) Includes managed care

# Summary of Hospital Services

Summary of Hospital Services					
	<u>Inpatient</u>	<u>Outpatient</u>		<u>Inpatient</u>	<u>Outpatient</u>
Ambulatory Surgery Services	✓	✓	Medical / Surgical Intensive Care Unit	✓	
Autopsy Service	✓		Medical / Surgical Acute Care Services	✓	
Blood Bank	✓		Microbiologic Services	✓	
Cardiac Catheterization Lab	✓	✓	Neonatal Intensive Care	✓	
Cardiovascular Surgery	✓		Nuclear Medicine	✓	✓
Chemotherapy	✓		Occupational Therapy	✓	✓
Clinical Laboratory	✓	✓	Oncology Services	✓	✓
Clinical Pathology	✓		Outpatient Clinic Services		✓
Comprehensive Obstetric Services	✓	✓	Outpatient Respiratory Therapy		✓
Computerized Tomography (CT Scan)	✓	✓	Pediatrics	✓	✓
Diagnostic Radioisotope	✓	✓	Percutaneous Transluminal Coronary Angioplasty	✓	✓
Electrocardiography	✓	✓	Pharmacy Services	✓	
Electroencephalography	✓	✓	Physical Medicine (PT)	✓	✓
Electromyography	✓	✓	Psychiatric Services	✓	
Electrophysiology (EPS)	✓	✓	Respiratory Therapy	✓	✓
Emergency Services		✓	Skilled Nursing Unit	✓	
Gastrointestinal Laboratory	✓	✓	Social Work Services / Case Management	✓	✓
Helipad (1)	✓		Speech Therapy	✓	✓
Hemodialysis	✓		STEMI Receiving Center	✓	
Hypothermia	✓		Stroke Services	✓	
Infusion Therapy	✓	✓	Trauma Services		✓
Lithotripsy	✓	✓	Wound Care / Hyperbaric Medicine	✓	✓
Magnetic Resonance Imaging (MRI)	✓	✓			

# Management Overview

Management Experience				
Name	Position	Years of Experience		Biography
		Industry	DCHS	
Gerald Kozai, Pharm.D.	President and CEO	33	25	<ul style="list-style-type: none"> <li>■ Dr. Kozai has been associated with SFMC for 25 years, beginning in 1989 as Director of Pharmacy Services</li> <li>■ He was named President of SFMC and Robert F. Kennedy Medical Center in 1998, and Senior VP, COO of the South Market of CHW Southern California in 2000</li> <li>■ Prior to being named President of SFMC in 1998, he was the Administrator/COO for two years, Vice President of Professional Services for five years and Division Director of Clinical Support Services for one year</li> <li>■ He also held positions in the Pharmacy and Clinical Support at St. Joseph Medical Center, Burbank from 1981 to 1989</li> <li>■ He trained as a clinical pharmacist and received his Doctor of Pharmacy degree from the University of the Pacific School of Pharmacy. He is also a board member of the Hospital Association of Southern California and previously served as a member of the American Hospital Association Region 9 Policy Board</li> <li>■ He currently serves as Chair, representing Private Trauma Hospitals in the Public/Private Trauma Hospital Network for Los Angeles County</li> </ul>
Jesse Guevara	SVP and CFO	35	14	<ul style="list-style-type: none"> <li>■ Mr. Guevara has served as Chief Financial Officer for the past 14 years and currently oversees the patient financial services, revenue cycle, health information services, admitting, case management, materials management, decision support and finance departments</li> <li>■ He is actively involved in growth initiatives DCHS' service population needs, including the new stroke, STEMI and orthopaedics programs and ensuring government funding sources, including Disproportionate Share Hospital ("DSH") and Los Angeles County Funding for Trauma</li> <li>■ Mr. Guevara has more than 35 years of experience in hospital finance in for-profit and not-for-profit hospitals and systems and is a Governing Board member of the Meals on Wheels chapter at SVMC</li> <li>■ He previously held the position of CFO for four facilities in the Los Angeles area and was honorably discharged from the U.S. Army</li> </ul>

# Management Overview

## Management Experience

		Years of Experience		
Name	Position	Industry	DCHS	Biography
Mary Lynne Knighten	VP, Patient Care Services and CNE	25	3	<ul style="list-style-type: none"> <li>■ Dr. Mary Lynne Knighten, the Chief Nursing Officer and Vice President of Patient Care Services is a board-certified nurse executive with more than 25 years of progressive management experience in leading patient care operations, developing staff, building clinical programs, improving patient satisfaction and quality outcomes, and ensuring regulatory compliance for major medical centers and teaching hospitals. Dr. Knighten is a recognized expert, published author, and international speaker in the areas of patient- and family-centered care and leadership</li> <li>■ Prior to assuming the CNO position, Mary Lynne was the Senior Director for Patient Experience and Care Delivery at SFMC from 2010 to 2013, and consulted hospitals to improve CMS, The Joint Commission, and psychiatric (IPF-PSS) regulatory compliance, quality management and patient experience from 2009 to 2010. She held progressive leadership positions for 16 years in the Catholic Healthcare West system, including interim CNO at Glendale Memorial Hospital and Health Center and California Hospital Medical Center</li> <li>■ Dr. Knighten trained at the Washington Hospital School of Nursing in Pennsylvania, completing her BSN and MSN on the East Coast. She received her Doctor of Nursing Practice degree from the University of San Francisco and holds certificates in Project Leadership and Parish Nursing</li> </ul>
Judi Binderman, M.D.	VP, CMIO	25	<1	<ul style="list-style-type: none"> <li>■ Before joining SFMC, Dr. Binderman served as CMO for Encore Health Resources and held multiple interim CMIO positions for several other institutions, ranging from large, multi-facility, nationally recognized, faith-based organizations and strong community single facilities</li> <li>■ Her expertise includes change management, operational and cultural transformation, clinical process workflow and design, ambulatory workflow and medical records planning. She has facilitated the implementation of medication management and led numerous projects in closed-loop patient safety, clinical IT strategic planning and physician engagement</li> <li>■ Dr. Binderman holds a medical degree from Texas A&amp;M College of Medicine and was trained in OB/GYN at Louisiana State University in New Orleans. She also earned her MBA and MHSA at Arizona State University</li> </ul>

# Management Overview

Management Experience				
Name	Position	Years of Experience		Biography
		Industry	DCHS	
Kurt Weinmeister	COO	25	1	<ul style="list-style-type: none"> <li>■ Prior to joining DCHS, Mr. Weinmeister served as Executive Vice President/COO for Pomona Valley Hospital Medical Center</li> <li>■ He has also held key administrative positions at Baptist Health System, St. Joseph Health Center, St. Joseph Hospital West and St. Mary's Hospital Medical Center</li> <li>■ He holds a Master of Hospital and Health Care Administration degree from St. Louis University and a Bachelor of Arts in American History from the University of Illinois, Urbana. In addition, he has served on the boards for the Pomona Chamber of Commerce and Pomona Valley YMCA</li> </ul>
Michael Stephen, M.D.	President of the Medical Staff <sup>(a)</sup>	23	21	<ul style="list-style-type: none"> <li>■ Dr. Stephen has been associated with SFMC for 21 years and has been a physician in the Emergency Department since 1994</li> <li>■ He currently serves as Chief of Staff. Prior to this, he was the Medical Director of Emergency Services at SFMC from 2003 to 2013</li> <li>■ Dr. Stephen has served as Director of Bioethics at SFMC since 2006 and has served as Chair of the Interdisciplinary Practice Committee since 2004</li> <li>■ From 2005 to the present, he has served as the Board Chair for Front Line Emergency Care Specialists and prior to that was Board Secretary</li> <li>■ He completed his undergraduate studies at the University of California at Riverside prior to attending UCLA School of Medicine and completing his internship in Emergency Medicine at Harbor UCLA</li> </ul>

# Key Considerations

## Strengths and Investment Highlights

- SFMC operates a 384-bed acute care hospital, eight community-based health clinics and one of the largest and busiest private emergency trauma center in Los Angeles County—treating 70,000 children and adults each year. Last year, approximately 5,000 babies were born at SFMC’s Family Life Center, with about 500 neonates cared for in its state-of-the-art NICU
- SFMC is a key safety net provider in the densely populated Southeast Los Angeles community
  - Clear market leader in major clinical services in the local market
- Strong and consistent financial performance with LTM December 2013 revenue of \$410 million and EBIDA of \$40 million, representing an EBIDA margin of 10%
  - The hospital accounts for approximately 31% of overall System revenue
- Leading market share across numerous specialties in SFMC’s total service area, including: obstetrics (22%), neonatology (19%), trauma (19%), mental health (12%), pulmonary (10%) and gastroenterology (9%)
- SFMC is dedicated to achieving excellent quality outcomes and to building a culture of patient safety
  - Voluntarily participated in the CMS/Premier Hospital Quality Incentive Demonstration for the past six years. This past year, received eight attainment and performance awards for quality
  - Founding member of Premier’s QUEST program in 2007, the healthcare performance model, which focuses on quality, efficiency and safety with transparency
- SFMC has a very strong relationship with Los Angeles County and a proven track record of successful public/private collaborative partnerships, including Ballot Measure B Funding—Trauma Care, Impacted Hospital Program (SB 474), and radiation therapy partnership with Harbor-UCLA
- SFMC enjoys strong physician loyalty and alignment with IPAs, including AppleCare Medical Group, Omnicare Medical Group, Angeles IPA, AllCare IPA/Allied Physicians IPA and Health Care LA, IPA
- Considered an essential provider with most managed care medical health plans
- Current capitated agreements with health plans and aligned IPAs easily transform into population health management
- Founding member of Private Essential Access Community Hospitals (PEACH), a network of private hospitals in California committed to preserving private safety net hospitals through strong, coordinated advocacy of public policy at the local, state and federal level
- State-of-the-art facility conforms to all structural seismic regulations (SB 1953)
- Full-time CMIO with Electronic Medical Record (“EMR”) successfully meeting Meaningful Use Stage One
- 40+ schools of nursing and allied health affiliations providing clinical rotations for pre-licensure students to Advanced Practice Nurses
- Strong community partnerships supporting wellness, preventive and education outreach programs

# Key Considerations (cont.)

## Opportunities

### Near-Term

- Physician recruitment; specifically in the West and East service areas of SFMC
- Leverage DCHS Medical Foundation to expand primary care physicians and add specialists
- Specialist recruitment to support tertiary services
- Enhance care management to drive outcomes, reduce costs
- Maximize referral potential
  - Expand IPA relationships to continue securing referrals for managed populations
  - Expand the continuum of care beyond acute care services with collaborative providers
- Development of PCP/Patient-centered Medical Home expertise
- Unify care delivery network with Martin Luther King, Jr. Community Hospital

### A number of ongoing initiatives are expected to drive volumes and revenue

- Received STEMI Receiving Center designation, channeling cardiac volume as of March 1, 2014
- Achieve Stroke Center accreditation and designation by EMS in 2Q2014
- Establish Orthopedic Clinic and inpatient service line by 3Q2014
- Government advocacy remains a key strategic focus
- In this new era of the Affordable Care Act, SFMC has strategic alignment with ACOs and all qualified health plans under Covered CA
- Almost fully implemented EMR with Quadramed, branded as ARCIS (Accessible, Real-time Clinical Information System). SFMC successfully attested for Meaningful Use Stage One and received full incentive bonuses for both Medicaid and Medi-Cal programs

# Institutes of Excellence

Center / Services	Description
<b>Emergency Services</b>	<ul style="list-style-type: none"> <li>SFMC's 24-hour emergency department includes 46 beds and advanced technology, providing immediate treatment for medical emergencies. The ED has a full complement of specialties and sub-specialties, on-call and in-house. It is an integral part of LA County's Emergency Medical Services as a paramedic base station manned by highly qualified MICNs. The ED ensures that all patients are triaged quickly, have medical information gathered efficiently, and provides resources necessary for swift and highly skilled care. The ED Fast Track program for minor emergencies is open daily and is designed to provide patients a quick yet thorough evaluation. An innovative Rapid Medical Evaluation (RME) area enables patients to get tests and treatments ordered while waiting to see a physician, reducing waiting times. A designated space with behavioral health beds is available for patients with mental health needs.</li> </ul>
<b>Trauma Services</b>	<ul style="list-style-type: none"> <li>The Trauma Center at SFMC has provided quality, compassionate care to meet the needs of the community since it opened in 1996, and was verified the same year as a Level II Trauma Center by the American College of Surgeons. It is staffed by fellowship-trained, board certified, critical care surgical intensivists, as well as a full surgical team available in-house, 24/7, including surgeons, anesthesiologists, emergency physicians and nurses who provide care for the most critically ill and injured patients. With one of the busiest Emergency/Trauma Centers in Los Angeles County, SFMC plays an essential role in the region.</li> </ul>
<b>Heart Center</b> 	<ul style="list-style-type: none"> <li>SFMC's Heart Center combines today's technology with the skills of its dedicated cardiac specialists, vascular surgeons and minimally-invasive endovascular surgeons. Approved as a STEMI Receiving Center by LA County Emergency Medical Services, SFMC's team of interventional cardiologists provide potentially life-saving cardiac procedures that reduce heart damage and possible serious complications. The hospital operates three digital interventional labs, two surgical suites for open-heart surgery, a 36-bed critical care unit, a telemetry unit that provides clinicians with up-to-the minute information about a patient's condition, and a complete non-invasive cardiology department. The Heart Center provides comprehensive cardiovascular diagnosis and care, including advanced non-invasive and invasive diagnostic procedures and therapies. Services include cardiac catheterization, coronary stenting, balloon angioplasty, automatic implantable cardiac defibrillators, pacemaker clinic and cardiovascular surgical services.</li> </ul>
<b>Maternal-Child Health (Family Life Center)</b> 	<ul style="list-style-type: none"> <li>The Family Life Center provides the most comprehensive Maternal-Child Health program in the region, with state-of-the-art technology and capabilities. The 69,000 square-foot facility includes 20 labor/delivery/recovery rooms, a 40-bed newborn nursery and 29-bed neonatal intensive care unit, which is certified by California Children's Services (CCS). The Family Life Center is supported by in-house obstetricians, in-house anesthesiologists who provide epidural and various pain management modalities, and perinatologists who provide care for high-risk patients. The highly experienced nursing staff includes RNs who are specialty-trained, nationally-certified OB and postpartum nurses with active involvement in the Association of Women's Health OB and Neonatal Nurses (AWHONN) and who teach one of the few AWHONN courses on advanced fetal monitoring in the region. Approximately 5,000 babies are born at the center each year, and about 500 are cared for in the state-of-the-art Neonatal Intensive Care Unit.</li> </ul>
<b>Behavioral Health Services</b>	<ul style="list-style-type: none"> <li>Behavioral Health Services provides acute care, inpatient mental health services, including patient stabilization, through a multi-disciplinary approach tailored to a patient's individual treatment goal plan. With 40 licensed beds to provide care, the Behavioral Health Team includes psychiatrists, psychologists, social workers, registered nurses, mental health workers, an occupational/recreational therapist and nutritionists. SFMC also offers a Psychiatric Evaluation Team (PET) with licensed mental health professionals serving SFMC and surrounding emergency departments and board and care facilities through mobile crisis evaluation services. In addition, SFMC is contracted with the Department of Mental Health in providing outpatient services through the hospital's Children's Counseling Center.</li> </ul>

# Overview of Select Hospital Services

Service	Description
<b>Surgical Services</b>	<ul style="list-style-type: none"> <li>■ SFMC has state-of-the-art surgical facilities, including a dedicated trauma and heart room. SFMC surgeons are highly skilled in their areas of expertise, which include general surgery, trauma surgery, cardiac, cardio thoracic, neurological, orthopedic, ENT, ophthalmologic, and vascular/minimally invasive endovascular, among others. SFMC offers same-day treatment for blood transfusion and observation; two anesthesiologists are staffed in the hospital at all times; and the SFMC in-house trauma and cardiac surgery team is available 24 hours a day. SFMC is constructing a state-of-the-art multi-specialty room expected to open in May 2014.</li> </ul>
<b>Intensive Care Unit / Critical Care Unit</b>	<ul style="list-style-type: none"> <li>■ The Intensive Care Unit (ICU) is a 36-bed unit that provides intensive care and monitoring services to critically ill adult (age 14 and older) patients. The ICU is a combined intensive medical, surgical and cardiac care unit composed of three separate 12-bed “pods.”</li> <li>■ The ICU practices a primary nursing care delivery model, with registered nurses responsible for the overall provision of nursing care. The ICU offers a full array of critical care services that include, but are not necessarily limited to, the following: cardiac monitoring, cardioversion/defibrillation, temporary cardiac pacing, hypothermia, pulmonary artery and arterial monitoring, intubation, mechanical ventilation, oxygen administration, pulse oximetry, intra-aortic balloon pumping, acute hemodialysis, medication and fluid administration—including thrombolysis and vasoactive medications, insertion and monitoring of diagnostic and therapeutic devices, skin and wound care, and patient/family education.</li> <li>■ The ICU is available and staffed 24 hours a day, seven days a week, and 365 days a year. Its highly skilled clinical staff includes Trauma Nurse Core Course (TNCC) and Advanced Cardiac Life Support (ACLS) certified nurses, specialty RNs Levels I, II, III, and IV in ICU, and specialty-trained heart nurses. Building upon its trauma intensivist program, SFMC is implementing an in-house medical intensivist program with both critical care and surgical physicians.</li> </ul>
<b>Radiation Oncology</b>	<ul style="list-style-type: none"> <li>■ SFMC’s mission is to provide exceptional medical care to the whole person—physically, emotionally, and spiritually. The Hospital’s commitment extends to cancer prevention, detection, education, as well as treatment. SFMC recognizes that cancer affects patients and loved ones on several levels and can have a profound effect on a person’s self esteem. Along with the person’s sense of mortality, there is the physical toll of the disease and the treatment itself. SFMC’s radiation oncology services blend both a technical and compassionate approach to the fight against cancer. The Hospital’s cancer team of medical and nursing professionals provide the special care patients deserve. Care is delivered in a patient-centered manner in collaboration with other services, including spiritual care, pain management, discharge planning, case management, and home health, palliative and hospice care.</li> <li>■ Radiation therapy effectively treats cancer by using high-energy X-rays to pinpoint and destroy cancerous cells in the body. It is a targeted, localized treatment that can be used alone as well as in conjunction with other treatments, including surgery or chemotherapy. CT Simulation provides a care path for radiation therapy. The hospital’s Radiation Oncology Services provide a full range of radiation treatments, including Intensity Modulated Radiation Therapy (IMRT). IMRT is an advanced three-dimensional therapy and one of the most significant breakthroughs in cancer treatment in the last 30 years. SFMC provides quality care to more than 500 new cancer patients each year.</li> </ul>

# Overview of Select Hospital Services (cont.)

Service	Description
<b>Imaging Services</b>	<ul style="list-style-type: none"> <li>As part of SFMC’s mission to deliver high-quality patient care, the Hospital offers a comprehensive array of imaging services by highly skilled radiologists, technologists and other healthcare professionals. The entire staff is dedicated to providing the best patient experience possible while delivering respectful and compassionate service. The Imaging Services department is accredited by the American College of Radiology (ACR), the professional organization that sets national standards for imaging services. Beyond that, the experience and expertise of the hospital’s board-certified physicians and technologists will give you peace of mind that they are committed to maintaining the highest of standards. Services offered include interventional radiology, 3-D mammography, ultra-fast computerized tomography (CT), magnetic resonance imaging (MRI), ultrasound, radiology (X-ray) and fluoroscopy, nuclear medicine and radiation therapy.</li> </ul>
<b>Skilled Nursing</b>	<ul style="list-style-type: none"> <li>The SNF is a 30-bed licensed skilled nursing facility, which operates under long-term care regulations as defined by Title 22. The SNF practices an interdisciplinary team model, headed by the medical director. The SNF offers a full array of skilled nursing services to an adult and geriatric patient population (age 18 and older). These services include, but are not limited to: skilled nursing care, oxygen administration, medication and fluid administration, insertion and monitoring of diagnostic and therapeutic devices, skin and wound care, tube feedings, PT/OT/speech therapy, social activities, social work services, discharge planning and patient/family education. The SNF provides services 24 hours a day, 365 days a year.</li> </ul>
<b>Community Health Clinics</b>	<ul style="list-style-type: none"> <li>SFMC’s Community Health Clinics are located in Lynwood, Compton, Downey and Huntington Park. The mission of these clinics is to bring primary healthcare services to children and families who have limited access to the main campus and essential healthcare services. The clinics provide general medicine, obstetrics and pediatric healthcare services. They also offer Child Health Disability Program (CHDP) examinations and immunizations (i.e., TB, hepatitis B, polio, diphtheria and hepatitis) for newborns and children up to 18 years old. In addition, the Comprehensive Perinatal Services Program (CPSP) is offered to pregnant women. This program assesses a mother’s financial, medical and psychosocial needs; provides comprehensive education; and makes referrals to social services, counselors and nutritionists, as well as to medical and mental health professionals, to ensure a healthy start for mom and baby. In fiscal year 2013, the clinics had 38,211 patient visits.</li> <li>The Children’s Counseling Center provides outpatient-based mental health services through individual, family and group counseling sessions and parent education classes at both its SFMC site and satellite clinic in South Gate, as well as sessions on school campuses. Services include trauma-focused and alternative treatment cognitive behavioral therapy, case management, social services, medication support and psychological testing. Parents can participate in the positive parenting program (Triple P).</li> </ul>
<b>Rehabilitation Services</b>	<ul style="list-style-type: none"> <li>The Rehabilitation Services department consists of physical therapy, occupational therapy and speech therapy. SFMC provides service to inpatients, outpatients and the skilled nursing unit. The hospital addresses the whole person and looks at potential barriers that may impede recovery. SFMC educates patients and families on areas such as: fall prevention, energy conservation, home safety, equipment needs, developmental milestones, joint protection, back protection, body mechanics, independent communication and safety with swallowing. The staff works with other team members to help facilitate the patient’s recovery and independence. Rehabilitation services will be instrumental upon designation of SFMC’s stroke center and the establishment of orthopedic services.</li> </ul>

# Overview of Select Hospital Services (cont.)

Service	Description
<b>Wound Care</b>	<ul style="list-style-type: none"> <li>■ The Wound Care Center at SFMC provides comprehensive wound management to patients suffering from chronic, non-healing wounds. The Hospital's care is effective, timely and accessible and is performed in a caring, compassionate manner and mindful of the needs of patients and family members. A multi-specialty team of dedicated physicians and nurses work together to treat these difficult wounds. SFMC's comprehensive approach has expected healing rates of 80%–90%, as opposed to traditional approaches with less than 30% success rates. Treatments may include hyperbaric oxygen therapy, surgical intervention, vascular testing and education on wound prevention. Each patient's plan of care is determined by a physician and coordinated by a Nurse Case Manager. Referring physicians remain an integral part of each patient's treatment plan and will receive regular progress reports throughout the course of treatment. The average time for healing is normally 6-12 weeks.</li> </ul>
<b>Health Benefits Resource Center</b>	<ul style="list-style-type: none"> <li>■ The Health Benefits Resource Center (HBRC), launched in 1998, works extensively with parents and caregivers of children 0-5, providing screening and enrollment assistance for public benefits programs (Healthy Families, Healthy Kids, Medi-Cal, CalFresh, WIC); case management and physician referral; and education and skills-building activities aimed at reducing behavioral risk factors and improving health and nutrition. HBRC links families to organizations providing legal aid, such as Bet Tzedek; to programs providing social assistance, such as In-Home Supportive Services; and to programs addressing housing and economic insecurities.</li> <li>■ The majority of HBRC's 15,000 clients per year are families with young children, including 1,608 children 0-5 last year. In 2013, the HBRC became part of the DPH's Children's Health Outreach, Enrollment, Utilization and Retention (CHOEUR) program to provide insurance benefits outreach, enrollment and retention assistance to children 0-5 and their families. On behalf of SFMC and four other Daughters of Charity hospitals, HBRC also received a substantial grant from Covered California to provide outreach and education to the community about Covered California. HBRC relies on word of mouth, which keeps demand high.</li> </ul>
<b>Right to Health Project</b>	<ul style="list-style-type: none"> <li>■ Established in 2009, legal support services through the Right to Health Project are provided as a medical-legal partnership with the not-for-profit organization Bet Tzedek. Legal support services are provided at no cost to Health Benefits Resource Center clients who need assistance and/or advice regarding issues such as Landlord/Tenant Law, Kinship Care and Power of Attorney for Health Care. Many of these issues affect health and wellness.</li> <li>■ Medical-legal partnerships recognize that social and legal factors can have a major impact on health outcomes, particularly for low-income families. The Legal Support Services program can help initiate corrective action on the part of the landlord through the appropriate legal channels. There are currently more than 300 medical-legal partnerships in the U.S., and that number is expected to grow dramatically under federal healthcare reform. In fiscal year 2013, 227 individuals were provided with legal support services.</li> </ul>

# Overview of Select Hospital Services (cont.)

Service	Description
<b>Healthy Community Initiatives</b>	<ul style="list-style-type: none"> <li>■ Healthy Community Initiatives (HCI) brings health screenings, immunizations, flu shots, fitness classes and health education directly to area schools, churches, businesses and community organizations via its HCI nurse, educator, promotoras, staff and Mobile Unit. For individuals and families without access to primary care, HCI provides them with important preventive services and healthcare resources.</li> <li>■ HCI health screenings for blood pressure, cholesterol, glucose, body fat (BMI), and height and weight provide the first step in identifying health conditions and linking individuals to essential follow-up care and treatment. Immunizations for diphtheria, pertussis, haemophilus influenzae type B, measles, mumps, rubella, polio and chicken pox help to prevent childhood diseases and help students meet school enrollment requirements. Vision and audio screenings at private and public elementary schools help to identify health issues early on so that students can receive corrective interventions and eliminate barriers to learning.</li> <li>■ HCI also offers community health education and school-based educational programs to children and adults throughout Southeast Los Angeles to enhance their well-being. Classes address growth and development, dental health, diabetes, nutrition, behavioral risk factors, parenting and childbirth and include a series of four educational classes for senior citizens.</li> <li>■ Last year, more than 5,000 adults and children were provided with free health screenings, immunizations and health education. Its Vida Sana Community Wellness program had 5,635 registered participants.</li> </ul>
<b>Spiritual Care</b>	<ul style="list-style-type: none"> <li>■ SFMC's Spiritual Care team of certified chaplains, lay ministers and volunteer ministers is dedicated to providing spiritual and emotional ministry to patients, families and staff. The team serves all faiths and denominations, distributes communion and provides for the Sacramental needs to in-house patients, and provides emergency assistance to patients and their families.</li> <li>■ The standard of care for the spiritual healthcare team is to provide a spiritual assessment of each patient within 24 hours of admission. This spiritual assessment is integrated into the patients' overall care plans.</li> <li>■ Spiritual care services has established the post-traumatic stress disorder (PTSD) counseling program in response to the special needs of patients who have been victims of violence or traumatic injury. The PTSD counselor, he himself a victim of traumatic injury, assists trauma patients and family members who have been identified by chaplains, nursing and social services as patients who are dealing with the stress of trauma due to a near-death experience or a permanent disability as a result of an injury.</li> </ul>

# Overview of Select Hospital Services (cont.)

Service	Description
<b>Palliative Care / Integrated Care Support</b>	<ul style="list-style-type: none"> <li>■ SFMC has offered palliative care since 2009. The program, under the direction of SFMC’s palliative care medical director, provides for the comprehensive care and management of the physical, psychological, emotional and spiritual needs of patients (of all ages) and their families. Patients are screened for palliative care needs upon admission and again as needed. Some needs, such as pain or symptom management, assistance with decision-making or facilitating family communication, are managed by primary or consulting physicians, registered nurses, nurse practitioners, chaplains, social workers and/or case managers. Patients with complex needs receive a team approach, whereby palliative care physicians are consulted, family conferences are facilitated, and the interdisciplinary team collaborates to provide needed support to the patient and family.</li> <li>■ SFMC was recently awarded a grant from the UniHealth Foundation to implement an innovative integrated care support program. This initiative will create an interdisciplinary team, comprised of a nurse practitioner, social worker and supportive care physician, to support a wide range of physical, emotional, mental and spiritual needs for patients both inside and outside of the hospital. Starting with the Medicare-Medicaid dual eligible population, the team will prospectively identify and provide the clinical and/or psychosocial care support needed to reduce or eliminate avoidable hospital readmissions and reduce emergency room use as a primary care source. Upon full implementation, it is estimated that the integrated care support model can achieve annual net savings in direct costs of \$2 million or more a year.</li> </ul>
<b>Vida Sana/Health Life Community Wellness</b>	<ul style="list-style-type: none"> <li>■ The Vida Sana/Healthy Life Community Wellness Program promotes healthier communities through a six-month, coordinated program that advances heart health, diabetes and obesity awareness; disease prevention and education; diet and nutrition classes; stress reduction; and physical fitness activities to establish healthy lifestyle habits. Vida Sana collaborates with eight local churches, as faith-based organizations have traditionally been the center of most ethnic communities. The program is led by promotoras recruited from the community, and includes health screenings, exercise sessions, and nutrition and health education. Trained instructors lead activities that integrate cardiovascular exercise, strength and flexibility. Healthy eating classes teach participants how to maintain their traditional dishes with minor healthy alterations.</li> <li>■ Through a web-based data collection system established in partnership with the National Health Foundation, Vida Sana is able to record baseline data on health indicators such as height, weight, glucose, cholesterol, blood pressure and BMI (body mass index). In fiscal year 2013, the Vida Sana program was integrated into the hospital’s Health Community Initiatives’ community wellness program. Last year, Vida Sana had 5,635 registered participants.</li> <li>■ Last year, SFMC was awarded a grant from Anthem Blue Cross Foundation to enhance the community’s medical consumerism skills. The grant allowed SFMC to augment the Vida Sana program with a patient empowerment module entitled Health Options for Patient Empowerment (HOPE). The module focuses on improving patient communication skills with physicians and on helping them understand how to navigate the healthcare system for optimal and appropriate utilization of medical resources.</li> </ul>

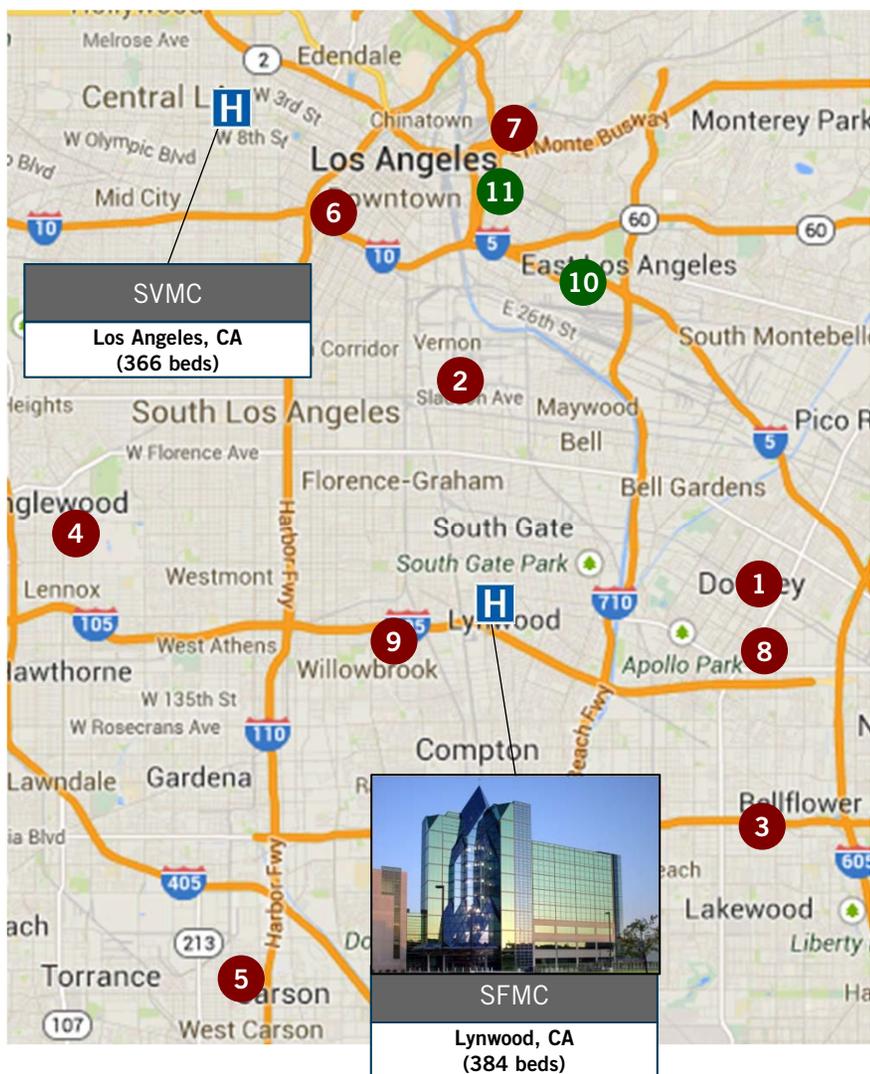
# Overview of Select Hospital Services (cont.)

Service	Description
<b>Trauma and Injury Prevention Program</b>	<ul style="list-style-type: none"> <li>Facilitated by a dedicated injury prevention coordinator, the trauma &amp; injury prevention program works with schools, hospitals and other public and private organizations to help prevent traumatic injury. The program addresses safety, suicide, bullying, domestic and gang violence. With firsthand knowledge of the devastating effects of violence and injury on patients and family members, SFMC’s trauma team of physicians, nurses and staff serve as expert presenters at local and national violence prevention conferences, such as the Eastern Association of Surgery for Trauma conference, organize safety and injury prevention programs for students and youth, and work with elected officials and community groups to coalesce prevention efforts. The program represents a primary focus of the hospital’s trauma services—prevention.</li> </ul>
<b>Jim Ryan Memorial Footprints Program</b>	<ul style="list-style-type: none"> <li>For 23 years, Footprints has distributed shoes, clothing and other basic necessities to nearly 2,000 children annually, including 500 children 0-5. The program was created when it was discovered that children in surrounding neighborhoods were being turned away from school because they had no shoes. Children were also found to be wearing second-hand shoes and clothing that were in poor condition or ill-fitting. This impacted the children’s self-esteem and self-confidence. Through Footprints, children and families receive properly fitting new shoes, new clothing and school uniforms, toiletries and food items.</li> <li>The majority of families are referred to the program through SFMC’s HBRC. Personalized appointments are scheduled to ensure that families receive the time and attention necessary to select and try on the shoes and clothing that are needed. Footprints works with a local shoe company, which provides footwear at a discounted price for the program.</li> </ul>
<b>Casa de Esperanza</b>	<ul style="list-style-type: none"> <li>Casa de Esperanza provides transitional housing and support services to help homeless families achieve stability and self-sufficiency and transition into safe homes. Families are referred by Catholic Charities of Long Beach and the Department of Health and Human Services Multi-Service Center in Long Beach. Casa de Esperanza houses up to four families at a time for up to five months. During their stay, families are required to meet regularly with the Casa Esperanza director, who is a Spiritual Care chaplain, for counseling and support sessions. The director provides employment counseling and links families to social service agencies and community resources that will ensure that the heads of households are on track to transition successfully to a stable home environment within the five-month time frame.</li> </ul>
<b>Naseau Reading Program</b>	<ul style="list-style-type: none"> <li>The Naseau Reading Program is a remedial reading program designed for elementary school students whose reading, spelling and comprehension skills are two or more levels below their current grade level. The after-school program provides one-on-one instruction to participants and has grown from accommodating 20 students per year to as many as 36 per year. Instructors from surrounding private and public schools refer students to the program. The program’s high level of individualized attention enables children to dramatically improve their English language and reading skills, thus eliminating a significant obstacle to their development into self-sufficient, productive adults.</li> </ul>
<b>Healthcare First South Los Angeles (HFSLA)</b>	<ul style="list-style-type: none"> <li>In 2012, SFMC took the lead in a groundbreaking and unique safety-net delivery system being developed in South Los Angeles to help overcome challenges associated with healthcare reform. This effort culminated in the creation of Healthcare First South Los Angeles, a safety-net collaboration of public and private partners to form an accountable care organization.</li> </ul>

# Overview of Select Hospital Services (cont.)

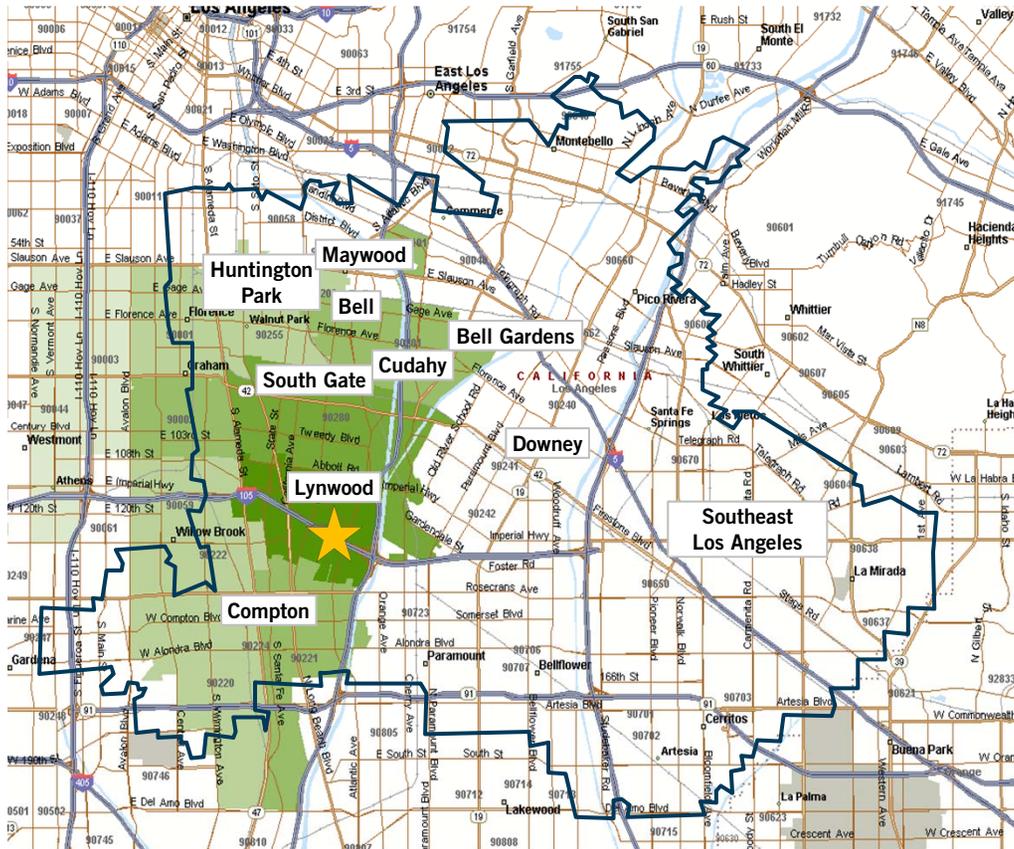
Center / Services	Description
<b>Senior Services</b>	<ul style="list-style-type: none"> <li>■ SFMC’s Senior Circle Wellness Program offers activities and educational sessions that are tailored for aging adults. Bi-monthly dinners on SFMC’s main campus are for local senior citizens 55 years and older and offer nutritious and balanced meals and entertainment. Wellness programs address health concerns specific to seniors, including stroke education and awareness, diabetes management, healthy heart and lifestyle choices for seniors, annual exams, and aging and memory loss. Flu immunization clinics are also held. Through these activities, seniors benefit from opportunities for regular socialization and health education and can be linked to needed healthcare and social services. More than 1,102 seniors were served through the program last year.</li> </ul>
<b>Community Outreach Collaborations</b>	<ul style="list-style-type: none"> <li>■ SFMC works with dozens of community agencies and key stakeholders—relationships that are deeply rooted in trust and like-minded service to the community. SFMC’s partners range from local mom-and-pop shops to extensive collaborative networks and local government entities. SFMC’s community-based partners include multiple workforce investment boards (for example, Southeast LA County WIB), violence prevention coalitions; health and wellness coalitions; national organizations and health associations; farmers markets; Hospital Association of Southern California; and 65 employers in SPAs 6, 7 and 8. For 10 years, SFMC has collaborated with Angels for Sight, an organization that provides glasses for underserved children. Other community partners include school districts and individual elementary, middle and high schools in the Compton, Lynwood, Montebello and other South and Southeast LA areas.</li> <li>■ SFMC has participated in numerous community coalitions, including the Compton Family Health Collaborative, a group of 40 organizations working to minimize health disparities, and the Long Beach Alliance for Children with Asthma. Many of these partnerships have been in place for more than 20 years.</li> </ul>
<b>Patient- and Family-Centered Care</b>	<ul style="list-style-type: none"> <li>■ SFMC is recognized by the Institute for Patient- and Family-Centered Care (PFCC) as an organization dedicated to role modeling and advancing the understanding and practice of PFCC. SFMC embraces the core concepts of PFCC: Respect and dignity—healthcare practitioners listen to and honor patient and family perspectives and choices. Patient and family knowledge, values, beliefs and cultural backgrounds are incorporated into the planning and delivery of care. Information Sharing—healthcare practitioners communicate and share complete and unbiased information with patients and families in ways that are affirming and useful. Patients and families receive timely, complete and accurate information in order to effectively participate in care and decision-making. Participation—patients and families are encouraged and supported in participating in care and decision-making at the level they choose. Collaboration—patients and families are also included on an institution-wide basis. Health care leaders collaborate with patients and families in policy and program development, implementation and evaluation; in healthcare facility design; and in professional education, as well as in the delivery of care. As such, SFMC takes the true partnership with patients and families seriously, having an established and active patient family advisory council, a patient family advisor with full voting rights on the quality patient safety committee of the governing board, and a patient family faculty program to teach clinicians.</li> </ul>

# Competitive Landscape – Los Angeles County



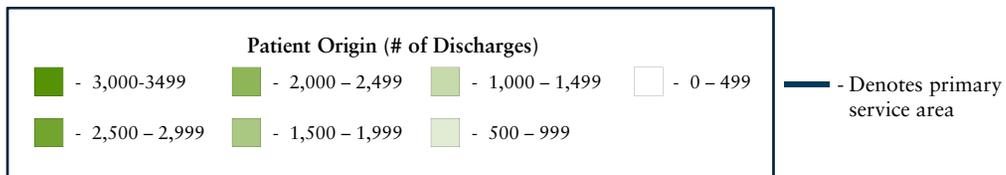
	Affiliation	Beds	Distance (mi)	
<b>PRIMARY COMPETITION</b>				
1	Downey Regional	PIH Health	181	5
2	Community Hospital of Huntington Park	Avanti Hospitals	81	5
3	Bellflower Medical Center	Standalone	117	10
4	Centinela Hospital Medical Center	Prime Healthcare	345	11
5	LA County – UCLA Harbor	LAC	538	12
6	California Hospital Medical Center	Dignity Health	318	14
7	LAC-USC Medical Center	LAC	724	13
8	Kaiser Downey	Kaiser Permanente	352	6
9	MLK, Jr. Community Hospital	Standalone, opening in 2015	141	3
<b>OTHER COMPETITION</b>				
10	Los Angeles Community Hospital	Alta Hospitals System	130	9
11	Promise Hospital of East Los Angeles	Promise Healthcare	36	12

# Primary Service Area



Service Area	Households	Total Population	Median Income	Per Capita Income
Bell	9,208	35,820	\$36,654	\$12,323
Bell Gardens	10,108	42,757	\$38,272	\$11,756
Compton	23,622	97,559	\$42,335	\$13,661
Cudahy	5,652	24,021	\$39,263	\$11,649
Downey	33,493	112,873	\$60,132	\$22,761
Huntington Park	14,451	58,673	\$36,620	\$12,464
Lynwood	16,368	70,709	\$42,723	\$12,374
Maywood	6,523	27,659	\$36,540	\$11,845
South Gate	24,128	95,304	\$41,851	\$14,342

Source: U.S. Census Bureau



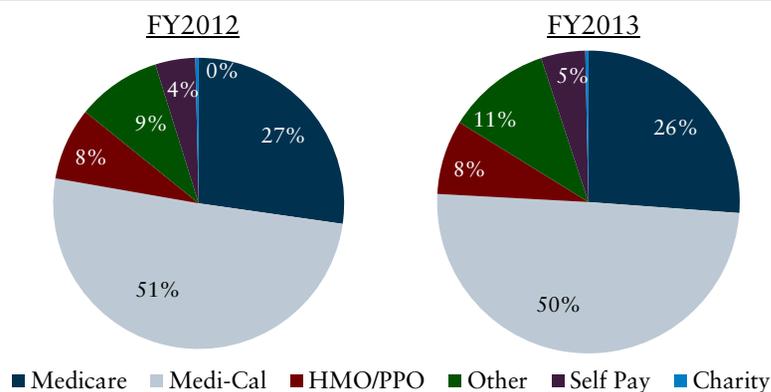
# Sources of Revenue

- SFMC received \$99 million and \$114 million in net supplemental funding under several programs in FY2012 and FY2013, respectively
  - In FY2013, approximately \$60 million was received under the statewide Hospital Quality Assurance Fee Program and approximately \$4 million as a result of meeting certain Meaningful Use program requirements
  - SFMC also received approximately \$50 million in Medi-Cal supplemental funding and is the only DCHS hospital to receive such payments
    - SFMC received a Capitation Premium of \$34 million in calendar year 2012 and \$41 million in calendar year 2013
- Medicare and Medi-Cal participants accounted for more than 76% of all patient days over the past two fiscal years

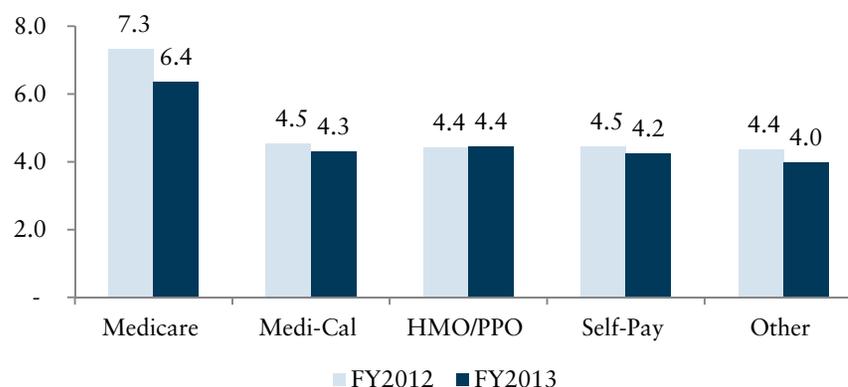
## Net Supplemental Funding (FY2011–13 YTD) (\$ millions)

	FY2011	FY2012	FY2013	LTM Dec-2013
<b>Provider Fee</b>				
Provider Fee - Medi-Cal	\$ 64	\$ 76	\$ 54	\$ 58
Provider Fee - Medi-Cal Managed Care	22	7	49	49
Provider Tax	(35)	(34)	(43)	(44)
Net Provider Fee	51	48	60	62
<b>Other Grants</b>				
SB 1255	8	9	8	8
SB 1732	8	8	8	5
SB 855	28	26	32	31
SB 474	2	2	2	2
Total Other Payments	46	46	50	47
Meaningful Use	-	5	4	3
<b>Total</b>	<b>\$ 98</b>	<b>\$ 99</b>	<b>\$ 114</b>	<b>\$ 112</b>

## Patient Days by Payor (FY2012-13) \*



## Average Length of Stay by Payor (FY2012-13) \*



# Employee and Physician Overview

- SFMC has more than 2,120 employees (1,674 FTEs) and more than 375 affiliated physicians
  - Approximately 75%, or 1,591 employees are covered by CBAs
  - UNAC has the largest union representation with 762 members
- SFMC has 257 active physicians, with the three largest specialties—pediatrics, internal medicine and OB/GYN—comprising approximately 27% of active doctors
- SFMC has relationships with five large IPAs, including AppleCare Medical Group, OmniCare Medical Group, Health Care LA IPA, Angeles IPA and AltaMed
- SFMC’s affiliate status with Ascension Health allowed for an alignment with Touchpoint Support Services. The formal relationship with TouchPoint began in September 2012 by providing management leadership for Environmental Services (EVS), Patient Transport and Linen
- Food and nutritional coverage by Touchpoint began in May 2013, and as with EVS, provides management coverage. All hourly associates within these departments continue to be SFMC associates
- Engineering services are not outsourced; however, the biomed program is outsourced to TriMedx, also through SFMC’s affiliated status with Ascension Health. TriMedX is a nationally recognized service provider in the biomedical clinical engineering field.

## Employee FTEs by Type (September 2013)

Employee Category	Count	FTEs
<i>Union</i>		
UNAC	762	598
SEIUS	543	421
SEIU Local 250 Technical	286	197
<i>Non-Union</i>		
Manager	44	44
Director	36	36
Supervisor	37	33
Administration	7	7
Other	408	339
<b>Total</b>	<b>2,123</b>	<b>1,674</b>

## Summary of Physicians by Specialty

Specialty	Count	% of Total
<i>Active Physicians</i>		
1. Pediatrics	24	9%
2. Internal Medicine	23	9%
3. Obstetrics/Gynecology	23	9%
4. Nephrology	17	7%
5. Family Practice	16	6%
6. Emergency Medicine	14	5%
7. General Surgery	13	5%
8. Anesthesiology	11	4%
9. Cardiology	11	4%
10. Orthopedic Surgery	8	3%
11. Other	97	38%
<b>Total Active</b>	<b>257</b>	<b>100%</b>
<b>Non-Active (a)</b>	<b>119</b>	
<b>Total</b>	<b>376</b>	

# Financial Performance Overview

- SFMC received ~\$112 million in net supplemental funding in LTM December 2013, up from ~\$98 million in FY2011
- Net patient revenue is projected to decline due to a reduction in reimbursement rates and a decrease in number of patient visits

## Summary of Financial Performance (FY ending June 30; \$ millions)

	FY2011A	FY2012A	FY2013A	LTM Dec-13
Patient Revenue	\$ 224	\$ 209	\$ 220	\$ 211
Supplemental Funding Receipts (a)	133	133	157	156
Other Revenue	39	36	40	44
Total Revenue	396	379	417	410
Salaries and Benefits	(187)	(190)	(191)	(193)
Supplies	(34)	(30)	(30)	(32)
Purchased Services and Other	(68)	(70)	(74)	(79)
Supplemental Funding Tax	(35)	(34)	(43)	(44)
Total Expenses (b)	(324)	(324)	(338)	(347)
<u>Allocated Shared Services (c)</u>				
Corporate	(5)	(6)	(8)	(9)
CBS	(0)	(1)	(1)	(1)
IT	(8)	(9)	(9)	(9)
Total Shared Services	(14)	(15)	(18)	(19)
EBIDA Before Adjustments	57	39	61	44
<u>EBIDA Adjustments:</u>				
Third-Party Settlements	(7)	1	(4)	(5)
Estimated Litigation Cost	-	-	2	1
Total Adjustments	(7)	1	(3)	(4)
Adjusted EBIDA	51	40	58	40
Adjusted EBIDA (w/o Shared Services)	65	56	76	59
Capital Expenditures	\$ 7	\$ 10	\$ 13	\$ 13

## Select Balance Sheet Items (\$ millions)

	6/30/2013	12/31/2013
<u>Current Assets</u>		
Patient Accounts Receivable, Net	\$ 45	\$ 52
Due From Government Agencies	13	14
Other Current Assets	39	20
Total Current Assets	98	86
<u>Current Liabilities</u>		
Accounts Payable	5	7
Due to Government Agencies	4	(0)
Accrued Liabilities	38	38
Total Current Liabilities	\$ 46	\$ 45

Notes:

- (a) Includes Provider Fee, SB 1255, SB 1732, SB 855, SB 474 and meaningful use  
 (b) Excludes Depreciation, Amortization, Interest and Asset Impairment  
 (c) LTM December 2013 represents shared services as of LTM November 2013



# Select Operating Statistics

## Key Operating Statistics

	FY2013	LTM Dec-2013
<u>Discharges</u>		
General Acute	16,738	16,238
SNF	388	333
Psych	1,831	2,025
Total	18,957	18,596
<u>Average Daily Census (a)</u>		
Acute	192	185
SNF	19	17
Rehabilitation	30	32
Total	241	234
<u>Average Length of Stay (Days) (a)</u>		
Acute	4.2	4.2
SNF	17.6	19.3
Psych	6.0	5.8
Total	4.6	4.6

## Summary of Patient Days by Unit (a)

Unit	FY2013	LTM Nov-2013
ICU	9,820	9,436
NICU	7,933	7,519
Telemetry	9,105	8,648
Med Surge 2 East	4,176	3,942
4th Floor	5,940	5,957
7th Floor	9,827	9,512
8th Floor	9,938	9,626
Peds	1,878	1,758
Maternity Center (Mother)	8,310	10,269
WHC (Mother)	1,886	654
Antepartum Unit	1,060	659
Total General Acute	69,873	67,980
Psych	11,056	11,454
SNF	6,815	6,222
Total	87,744	85,656

## Other Operating Statistics

	FY2013	LTM Dec-2013
<u>Emergency Services</u>		
IP Visits	11,567	11,324
OP Visits	63,329	64,618
Total	74,896	75,942
<u>Surgery (a)</u>		
IP Minutes	358,188	366,941
OP Minutes	141,054	149,014
Total	499,242	515,955
Total Cases (a)	4,969	5,223
<u>Wound Care Clinic (a)</u>		
Total Visits	2,577	2,542
<u>Gastro-Intestinal Services (a)</u>		
IP Visits	662	704
OP Visits	869	906
Total	1,531	1,610
<u>Rehabilitation Services (a)</u>		
IP Procedures	20,643	19,355
OP Procedures	16,211	14,757
Total	36,854	34,112
<u>Renal Dialysis (a)</u>		
IP Treatments	14,582	15,177
OP Treatments	652	660
Total	15,234	15,837
<u>Laboratory Tests (IP and OP RVUs) (a)</u>		
Clinical Lab Services	2,580,532	2,539,571
Path Lab Services	344,684	348,566
Radiology Diagnostic	72,463	72,085
Radiation Therapy	63,267	70,566
Pharmacy	7,655,993	7,975,900
Respiratory Therapy	154,143	87,965



Note:  
(a) Metrics as of November 2013

# Top 10 Product Lines and Physicians

## Top 10 Product Lines by Discharges (FY2013) (a)

Product Line	Cases	% of Total
1. OB/GYN	10,123	43%
2. Psychiatric Svcs	1,799	8%
3. General Medicine	1,398	6%
4. Other Heart - Medical	1,375	6%
5. All Surgery	1,315	6%
6. Gastroenterology	1,146	5%
7. Trauma	1,026	4%
8. Pulmonary	872	4%
9. Peds Only	691	3%
10. Urology	651	3%
Total Top 10	20,396	87%

## Top 10 Physicians by Discharges (FY2013) (a)

Physicians	Cases	% of Total
1. Physician A	1,071	5%
2. Physician B	734	3%
3. Physician C	709	3%
4. Physician D	697	3%
5. Physician E	584	2%
6. Physician F	581	2%
7. Physician G	563	2%
8. Physician H	560	2%
9. Physician I	554	2%
10. Physician J	450	2%
Total Top 10	6,503	28%

## Top 10 Product Lines by Gross Revenue (FY2013) (\$ millions) (b)

Product Line	Gross Revenue	% of Total	Total Payments	% of Total
1. All Surgery	\$ 156.2	17%	\$ 23.3	14%
2. OB/GYN	135.6	15%	26.4	16%
3. Trauma	109.1	12%	20.8	13%
4. General Medicine	89.1	10%	14.9	9%
5. Other Heart - Medical	59.9	6%	9.5	6%
6. Pulmonary	52.1	6%	7.8	5%
7. Gastroenterology	49.0	5%	8.2	5%
8. Urology	26.0	3%	4.4	3%
9. Psychiatric Svcs	26.0	3%	7.9	5%
10. Peds Only	17.3	2%	3.0	2%
Total Top 10	\$ 720.3	78%	\$ 126.1	76%

## Top 10 Physicians by Gross Revenue (FY2013) (\$ millions) (b)

Physicians	Gross Revenue	% of Total	Total Payments	% of Total
1. Physician A	\$ 38.6	4%	\$ 8.5	5%
2. Physician B	36.5	4%	6.3	4%
3. Physician C	35.5	4%	6.4	4%
4. Physician D	33.6	4%	5.5	3%
5. Physician E	28.0	3%	4.3	3%
6. Physician F	26.1	3%	3.5	2%
7. Physician G	22.9	2%	2.6	2%
8. Physician H	21.9	2%	3.5	2%
9. Physician I	21.8	2%	4.3	3%
10. Physician J	21.7	2%	3.7	2%
Total Top 10	\$ 286.7	31%	\$ 48.7	30%

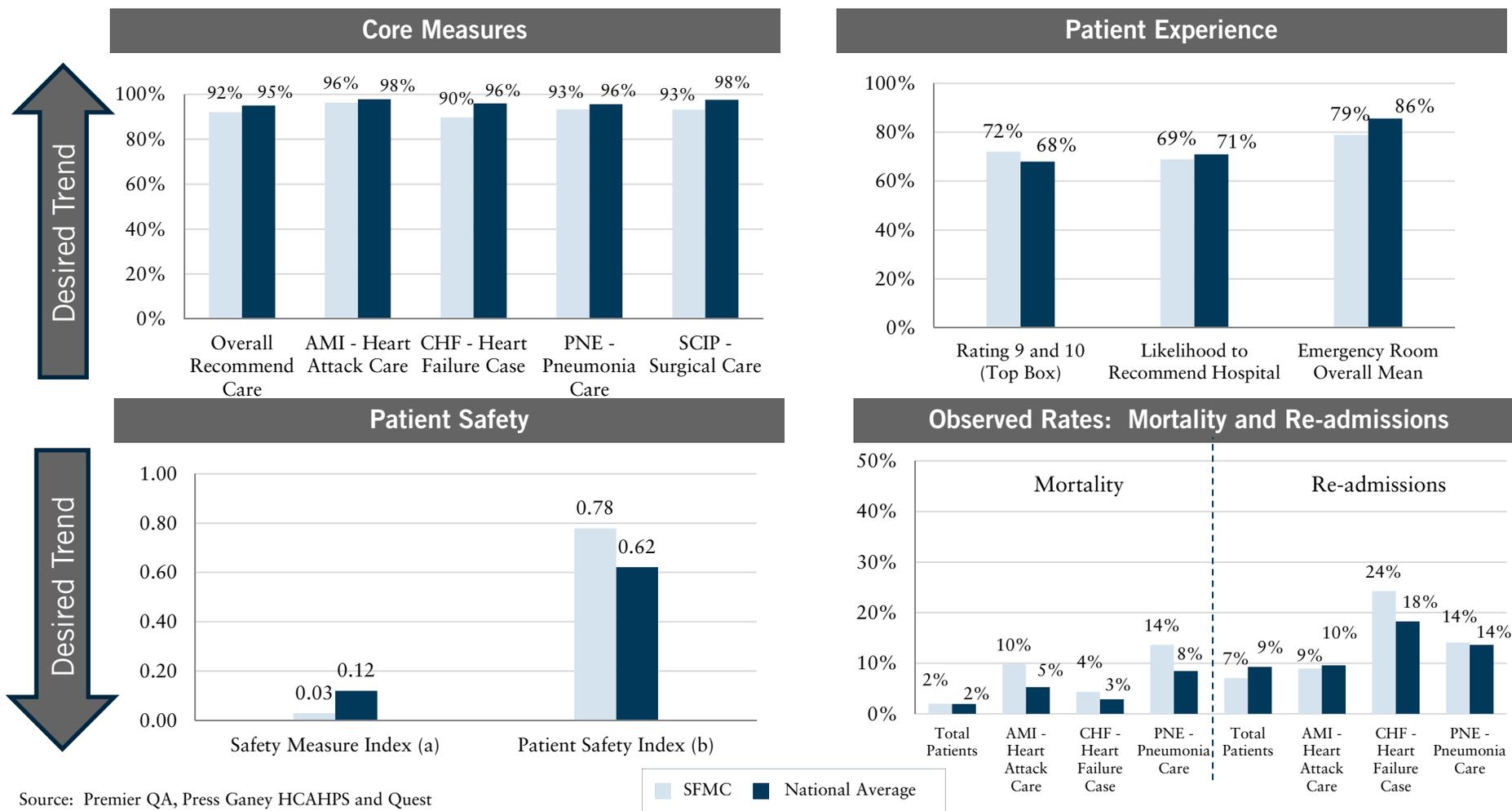
Notes: Fiscal year ends June 30

(a) Includes routine nursery discharges

(b) Total Payments include cash posted to individual patient accounts only, excluding Medicare cost report settlements, Medi-Cal disproportionate share payments, Trauma payments (Measure B funds), Provider Fee and Capitation Settlements

# Health, Safety and Quality Metrics

■ The charts below compare select SFMC quality and safety performance metrics to national averages



Source: Premier QA, Press Ganey HCAHPS and Quest

Notes:

- (a) Safety Measure Index (Quest Harm Composite) is the Occurrence of Harm captured by ICD9 Coded data. QUEST harm composite accounts for the deviation of the observed rate from the expected rate and then divides by a measure of dispersion (or standard deviation) indicating variation within the hospital's performance across the cohort
- (b) Patient Safety Index (PSI90) composite measure select patient safety indicators: Pressure Ulcer, Iatrogenic Pneumothorax, Central Venous Catheter-Related Blood Stream Infections, Postop Hip Fracture, Postop PE or DVT, Postop Sepsis, Postop Wound Dehiscence and Accidental Puncture or Laceration

# Capital Expenditure Summary

- SFMC is in compliance with current seismic standards, with no expected material seismic expenditures required beyond 2030
- A summary of the recent investments and near-term capital needs are highlighted in the tables below:
  - Invested approximately \$19 million in software upgrades, including medical device integration and security in FY2012 and FY2013, \$11 million and \$9 million, respectively
  - Relocated the trauma office, purchased a new A/C unit and remodeled the cafeteria and modified the central plant in FY2011, FY2012 and FY2013, for approximately \$0.4 million, \$0.8 million and \$1.0 million, respectively
  - Purchased new endoscopy and defibrillator equipment in FY2011 for approximately \$1.5 million and anesthesia units in FY2011 and FY2013 for approximately \$0.5 million combined

## Summary of Major Near-Term CapEx Needs (\$ millions)

CapEx Need	Estimated		Description
	Cost	Timing	
Building Improvements	\$0.2	< 2 years	Air Handler replacement
Building Improvements	0.3	< 2 years	Elevator upgrades
CT units	1.9	< 2 years	CT units (two-unit package)
Medical Equipment	0.4	< 2 years	Radiology Units (2)
Medical Equipment	0.3	< 2 years	Infant Security System
Medical Equipment	0.3	< 2 years	Radiation Therapy EMR
Medical Equipment	1.3	< 2 years	Cath Lab upgrade
Medical Equipment	0.5	< 2 years	Surgical Suite upgrade
<b>Total</b>	<b>\$5.2</b>		

## Summary Historical CapEx (FY2011-13) (\$ millions)

	FY2011	FY2012	FY2013
<u>Building, Fixtures and Leasehold</u>			
1. Building Fixtures	\$ 0.2	\$ 1.1	\$ -
2. Building Improvements	1.3	5.2	1.5
3. Furniture & Fixtures	0.2	0.2	0.2
Subtotal	1.7	6.5	1.7
4. Medical Equipment	3.7	2.5	2.6
<u>Software and IT</u>			
5. Software	1.5	11.2	8.6
6. Computer Equipment	0.6	0.5	0.1
7. Network Equipment	2.3	1.0	1.1
8. Telephone Equipment	-	0.1	0.5
Subtotal	4.4	12.7	10.2
9. Vehicles	-	-	0.0
<b>Total</b>	<b>\$ 9.8</b>	<b>\$ 21.6</b>	<b>\$ 14.5</b>

# Summary of Major Equipment

	Manufacturer / Model	Owned / Leased	Age of Equipment (years)
<b>RADIOLOGY &amp; IMAGING</b>			
CT	GE / LightSpeed QXI	Owned	14
CT	GE / LightSpeed VCT	Owned	8
X-ray	Siemens / Polydoros IT	Owned x2	7
X-ray	Picker / MTX	Owned	14
X-ray	GE / ADVANTIX	Owned	14
Fluoro Rm	Philips / Multidiagnostic Eliva	Owned	9
MOB Rm	Siemens / Polydoros IT	Owned x2	7 and 8
Portable	Fuji / FCR	Owned	4
Portable	GE / MX 4	Owned x2	3
Portable	Shimadzu / Mobile Star II	Owned	14
C arm	Philips / Pulsera-BV (old)	Owned	9
C arm	Philips / Pulsera-BV (new)	Owned	6
C arm (mini)	OEC / Mini View 6800	Owned	9
C arm	Siemens / Compact	Owned	6
C arm	Philips / VERADIUS NEO	Owned	< 1 year
Mammography	Hologic / Selenia Dimensions 3D Tomosynthesis	Owned	2
Bone Densitometry	Hologic / Discovery	Owned	8

# Summary of Major Equipment (cont.)

	Manufacturer / Model	Owned / Leased	Age of Equipment (years)
<b>RADIOLOGY &amp; IMAGING</b>			
CT	Siemens / SYMBIA –T	Owned	3
CT	Adac / Vertex Plus	Owned	15
CT	Adac / Transcam / Portable	Owned	17
MRI	Siemens/ Avanto	Owned	9
Ultrasound	GE / Logic E9	Owned x3	3
Ultrasound	Philips / HDI 5000	Owned	9
Ultrasound	Philips / HD 11	Owned x3	5
Ultrasound	GE / E6	Owned x2	1
Ultrasound	Sonosite	Owned x3	1
<b>CARDIOLOGY</b>			
Cath Lab	Philips / ALLURA XPER FFD20	Owned x2	5 and 7
Cath Lab	Philips / OPTIMUS CP	Owned	13
<b>ONCOLOGY</b>			
Radiation Therapy	Varian / Ximatron CV	Owned	5
Radiation therapy	Nomos / BAT SXI	Owned	12
<b>OTHER</b>			
Hyperbaric Chambers	Perry (2 chambers) / lease agreement through Paradigm	Owned	9

# Summary of Properties

Summary of Owned Properties					
Description	Address	Seismic	# of Stories	Year Built	Footage Owned
<b>HOSPITAL RELATED PROPERTIES</b>					
Hospital Patient Tower	3630 E Imperial Hwy Lynwood, CA 90262	Compliant	8 Floors, Basement	1998	302,858 & 100 Tunnel
Health Service Pavilion	3630 E Imperial Hwy Lynwood, CA 90262	Compliant	3 Stories, Basement	1992	143,928
Progressive Care Unit *	3630 E Imperial Hwy Lynwood, CA 90262	Compliant	2 Stories, Basement & Penthouse	1964	58,678
Family Life Center (Freestanding)	3630 E Imperial Hwy Lynwood, CA 90262	Compliant	2 Stories, Basement	1996	68,306
Power Plant	3630 E Imperial Hwy Lynwood, CA 90262	Compliant	2	1988	10,730
Parking Structure #1	3630 E Imperial Hwy Lynwood, CA 90262	Compliant	6	1988	148,608
<b>MOBS &amp; OTHER PROPERTIES</b>					
Huntington Park Medical Office Building	2700 E Slauson Ave. Huntington Park, CA 90255	N/A	2	1965	9,432
Maywood Medical Office Building	5931 Atlantic Blvd. Maywood, CA 90270	N/A	2	1976	6,045
Parking Lot	3663 Martin Luther King Jr. Blvd. Lynwood, CA 90262	N/A	N/A	2009	N/A

Note:

\* The Progressive Care Unit (PCU) is a two-story building exempt from SB 1953 seismic requirements. Less than 10% of acute care licensed beds are housed in the PCU. For SB 1953 purposes, psych beds and SNF beds are not considered acute

# Campus Map



**ST. FRANCIS  
MEDICAL CENTER**  
*our mission is life*

3630 East Imperial Highway  
Lynwood, CA 90262  
(310) 900-8900



### Health Services Pavilion

Admitting: 1<sup>st</sup> Floor  
Cardiology: Terrace Level  
Cashier: 1<sup>st</sup> Floor  
**Emergency Room: 1<sup>st</sup> Floor**  
ICU/CCU: 3<sup>rd</sup> Floor - Patient Rooms 3101-3336  
Outpatient Laboratory Services: 2<sup>nd</sup> Floor  
Nuclear Medicine: Terrace Level  
Radiation Oncology: Terrace Level  
Radiology: 1<sup>st</sup> Floor  
Rehabilitation Services: Terrace Level  
Surgery Center: 2<sup>nd</sup> Floor  
Women's Imaging Center: Terrace Level

### Patient Tower

Auditorium: 1<sup>st</sup> Floor  
Cafeteria: 1<sup>st</sup> Floor  
Chapel: 1<sup>st</sup> Floor  
Children's Counseling Center: 1<sup>st</sup> Floor  
Gift Shop: 1<sup>st</sup> Floor  
Health Information Services (Medical Records): 3<sup>rd</sup> Floor  
Human Resources: 1<sup>st</sup> Floor  
Patient Rooms:  
4<sup>th</sup> Floor: 4101-4332  
5<sup>th</sup> Floor: 5101-5330  
6<sup>th</sup> Floor: 6101-6330  
7<sup>th</sup> Floor: 7101-7330  
8<sup>th</sup> Floor: 8101-8330

### Family Life Center

Admitting: 2<sup>nd</sup> Floor  
Antepartum: 1<sup>st</sup> Floor, Patient Rooms 1020-1027  
Birth Certificate Office: 1<sup>st</sup> Floor  
Chapel: 1<sup>st</sup> Floor  
Labor & Delivery: 2<sup>nd</sup> Floor, Patient Rooms 2020-2039  
Neonatal ICU: 2<sup>nd</sup> Floor  
Newborn Nursery: 1<sup>st</sup> Floor  
Postpartum: 1<sup>st</sup> Floor, Patient Rooms 1028-1051

### Progressive Care Unit

Behavioral Health (1-South): 1<sup>st</sup> Floor  
Patient Rooms 100-149  
Skilled Nursing Facility: 2<sup>nd</sup> Floor  
Patient Rooms 250, 260-279  
2-East: 2<sup>nd</sup> Floor  
Patient Rooms 253-257 and 280-290

### Medical Plaza

Health Benefits Resource Center: 1<sup>st</sup> Floor, Suite 104  
Occupational Health Services Clinic: 1<sup>st</sup> Floor, Suite 103  
Patient Financial Services: 1<sup>st</sup> Floor, Suite 105  
Perinatal Diagnostic Center: 4<sup>th</sup> Floor, Suite 408  
Pre-Admission Testing Center: 3<sup>rd</sup> Floor, Suite 300  
Radiology: 3<sup>rd</sup> Floor, Suite 300  
Welcome Baby Program: 4<sup>th</sup> Floor, Suite 402  
Wound Care Center: 1<sup>st</sup> Floor, Suite 103

Member of Daughters of Charity Health System

Rev. September 2013

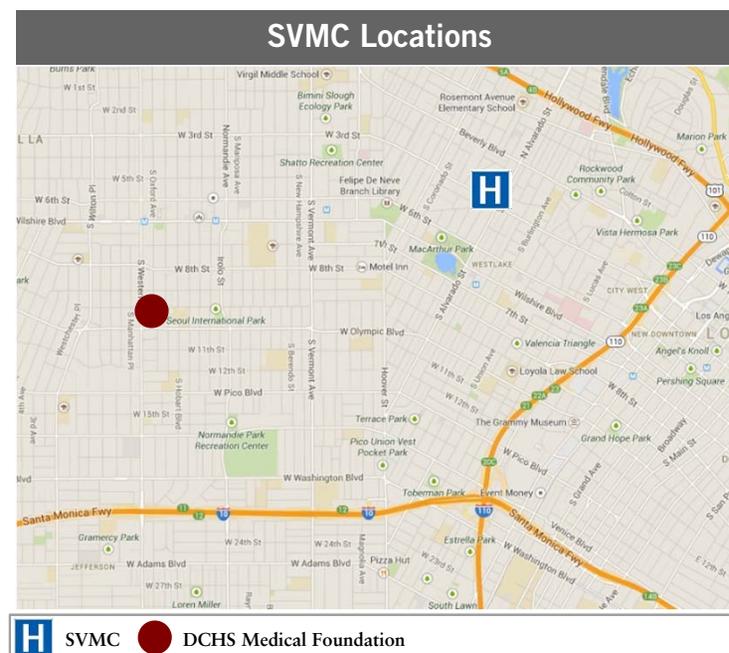


# **Overview of Operations**

## **St. Vincent Medical Center**

# Introduction

- SVMC is a surgical specialty hospital that serves 2.9 million residents in downtown Los Angeles and attracts patients nationally and internationally
  - The hospital was founded by the Daughters of Charity of St. Vincent de Paul in 1856 as the first hospital in Los Angeles
  - The hospital has a licensed capacity of 366 beds, consisting of 320 general acute care beds and 46 skilled nursing and rehabilitation beds
- SVMC offers comprehensive medical services, including acute, tertiary and primary care
  - SVMC's local communities and individuals nationally seek the hospital's high-quality services in orthopaedic and joint-replacement, kidney and pancreas transplant, spine care, cancer treatment, minimally invasive cardiovascular services, neurosurgery and the world-renowned House Ear Clinic
- SVMC has distinguished itself as an innovative specialty hospital and has received numerous awards recognizing these achievements
  - The hospital was the first to offer hemodialysis to kidney failure patients in 1962
  - SVMC performed the West Coast's first successful open-heart surgery in 1957
  - SVMC doctors were the first to use a surgical microscope to operate on the inner ear in 1960
- The hospital's transplant program has performed some of the most advanced procedures
  - SVMC's first heart transplant was performed in 1988
  - Pancreatic cell transplant at SVMC made headlines in 1993
  - In 1995, SVMC established a liver transplant program
- SVMC's primary service area includes the communities of Central Los Angeles
- For LTM December 2013, the hospital recorded more than 50,000 patient days and nearly 9,000 discharges



2131 West Third Street, Los Angeles, CA 90057  
[www.stvincentmedicalcenter.org](http://www.stvincentmedicalcenter.org)

# Overview of Key Services

- SVMC offers comprehensive medical services, including acute, tertiary and primary care
- The hospital also offers a wide range of services tailored to specific needs in Los Angeles, including dialysis, wound care, acute rehabilitation and skilled nursing, and specializes in the management of the Continuum of Care for patients with chronic disease
- Key services include:
  - Cancer Treatment Center
  - Cardiovascular Services
  - Emergency Services
  - Kidney and Pancreas Transplant
  - Neurology and Neurotology Services
  - Orthopaedics, Joint and Spine Care
  - St. Vincent Dialysis Center
- Clinics and specialty services include:
  - Acute Rehabilitation
  - Cancer Treatment Center
  - Cardiac Care Institute
  - House Ear Clinic
  - Joint Replacement Institute
  - Multi-Organ Transplant Center
  - St. Vincent Orthopaedic Institute
  - St. Vincent Spine Institute
  - Skilled Nursing Facilities
- In FY2013, SVMC provided more than \$17 million in community benefit programs and services to the community, plus more than \$29 million in care for the elderly

## Aerial View of SVMC



## Key Statistics (FY2013)

Available / Licensed Beds	366 / 366
Annual Discharges	9,213
Acute Average Length of Stay (Days)	4.8
Average Daily Census	106
Case Mix Index (CMI)	1.689
Medicare CMI	1.771
Productive Hours (Millions)	1.7
Productive FTEs (a)	796
Total Hours (Millions)	2.1
Total FTEs (a)	990
<b>Payor Mix</b>	
Medicare (b)	68%
Medi-Cal (b)	12%
HMO/PPO	16%
Self-Pay	0%
Other	4%

- Notes: Fiscal year ends June 30
- (a) Implied FTEs calculated based on working hours, assuming 52 weeks per year and 40 hours per FTE
  - (b) Includes managed care

## Select Awards and Certifications



- Recognized as one of the Top 50 Hospitals in the U.S. in 2012 and 2013 by Healthgrades
- Ranked as #5 Best Hospital LA Metropolitan Area in 2011-12 and A Top 10 Best Hospitals, 2010 – 2011 – U.S. News & World Report
- A Top 100 Best Orthopedic Programs in the Country, 2012 – Becker's Hospital Review
- Silver-Level Award, SVMC's Multi-Organ Transplant Center, 2012 - U.S. Department of Health and Human Services
- High Performing in Nephrology, Neurology & Neurosurgery, Orthopedics and Urology, 2013 – U.S. News & World Report

# Summary of Hospital Services

Summary of Hospital Services					
	<u>Inpatient</u>	<u>Outpatient</u>		<u>Inpatient</u>	<u>Outpatient</u>
Ambulatory Surgery Services	✓	✓	Infusion Therapy	✓	✓
Autopsy Service	✓		Kidney Transplant	✓	
Blood Bank	✓		Kidney / Pancreas Transplant	✓	
Blood Collection & Processing	✓	✓	Magnetic Resonance Imaging (MRI)	✓	✓
Cardiac Catheterization Lab	✓	✓	Medical / Surgical Intensive Care Unit	✓	
Cardiovascular Surgery	✓		Medical / Surgical Acute Care Services	✓	
Chemotherapy	✓	✓	Microbiologic Services	✓	
Clinical Laboratory	✓	✓	Nuclear Medicine	✓	✓
Clinical Pathology	✓		Occupational Therapy	✓	✓
Computerized Tomography (CT Scan)	✓	✓	Oncology Services	✓	✓
Coronary Care Unit	✓		Organ Bank	✓	
Diagnostic Radioisotope	✓	✓	Outpatient Clinic Services		✓
Electrocardiography	✓	✓	Outpatient Respiratory Therapy	✓	✓
Electroencephalography	✓	✓	Peripheral Vascular Lab	✓	✓
Electromyography	✓	✓	Pharmacy Services	✓	✓
Electrophysiology (EPS)	✓	✓	Physical Medicine (PT)	✓	✓
Gastrointestinal Laboratory	✓	✓	Positive Emission Tomography (PET)	✓	✓
Helipad	✓		Precut. Trans. Coronary Angio.	✓	
Hemodialysis	✓	✓	Pulmonary Therapy Services	✓	✓
Histocompatibility Laboratory	✓		Radioisotope Decontamination Room	✓	
Home Health Aid Services		✓	Respiratory Therapy	✓	
Home IV Therapy Services		✓	Skilled Nursing Unit	✓	
Home Medical Social Worker		✓	Speech Therapy	✓	
Home Nursing Care		✓	Standby Emergency Medicine		✓
Home Occupational Therapy		✓	Step-Down Unit	✓	
Home Speech Therapy		✓	Transitional Care Unit	✓	
Hospice	✓				

# Management Overview

Management Experience				
Name	Position	Years of Experience		Biography
		Industry	DCHS	
Cathy Fickes	President and CEO	35	8	<ul style="list-style-type: none"> <li>More than two decades in health administration and not-for-profit healthcare</li> <li>Previous experience with Cambio Health Solutions, where she held the CEO role in several health systems, including Daniel Freeman Hospitals in Los Angeles (interim CEO), Carraway Methodist Health System in Birmingham, AL (CEO) and St. Mary's Regional Medical Center in Reno, NV (Chief Implementation Officer)</li> <li>Has spent considerable time working with international healthcare organizations to provide medical services to the underserved population in Nicaragua</li> <li>Holds a master's degree in Healthcare Administration from the University of La Verne, a bachelor's degree in Business Administration from the University of Phoenix and an associate's degree in Nursing from San Francisco City College. She is a registered nurse in California</li> <li>Currently as a Member of the American Hospital Association, Regional Policy Board 9 and was named Healthcare Leadership CEO of the Year in 2013 by the Los Angeles Business Journal</li> </ul>
Mike Garko	CFO	42	17	<ul style="list-style-type: none"> <li>Most recently, Mr. Garko was CFO of Valley Health System Management Services and previously served as Vice President/CFO for SVMC for nine years</li> <li>Mr. Garko has more than 30 years of experience in finance and holds a bachelor's degree in Accounting from Duquesne University and a master's degree in Health Administration from La Verne University</li> </ul>
Judith (Judy) McCurdy	VP and CNE	36	6	<ul style="list-style-type: none"> <li>Ms. McCurdy has more than 36 years experience in nursing and healthcare, including significant experience in clinical services, financial management and medical staff relations</li> <li>Most recently, Ms. McCurdy was Vice President Patient Care Services/Chief Nursing Officer for Verdugo Hills Hospital in Glendale, CA</li> <li>Earned a Ph.D. in Clinical Psychology for the California School of Professional Psychology, a master's degree in Healthcare Administration from California State University, Long Beach, a master's degree in Nursing from the University of Los Angeles and a bachelor's degree in Nursing from the University of Iowa</li> </ul>
Gregory Schwarz	VP, Strategic Planning & Business Development	25	4	<ul style="list-style-type: none"> <li>Mr. Schwarz has more than 25 years of experience in care management, including significant experience in strategic planning and business development</li> <li>Prior to joining SVMC, Mr. Schwarz was employed with Brotman Medical Center, where he held the role of Vice President, Business Development</li> <li>Earned a master's degree in Business Administration from Pepperdine University and a bachelor's degree in Business Economics from the University of California</li> </ul>

# Key Considerations

## Strengths and Investment Highlights

- SVMC's superb reputation and high quality of care means the hospital serves patients from a large area, including more than 80 cities in Southern California, across the United States and around the world
  - Prominent position in the community due to the years of operation and breadth of services
  - Strong foothold within the Pacific Rim and Central American immigrant population
  - Provides specialty surgical services that have a high degree of value
  - Strategic location—proximity to downtown Los Angeles
  - Large contiguous 12.5-acre campus
- SVMC has been recognized by U.S. News & World Report as one of the Top 10 Best Hospitals, as well as being ranked fifth in the Los Angeles Metropolitan area
  - Becker's Hospital Review named SVMC one of 100 Best Orthopedic Programs in the country
  - Recognized nationally and internationally for kidney and pancreas transplant—93% Medicare mix
  - Significant knowledge and experience with managing chronic disease states, including end-stage renal disease
  - Association with a world-renowned House Ear Clinic located across the street in a building constructed on owned land and leased to the Institute
  - Advanced cardiac care program
- Well established services to senior populations (68%) and a growing commercial payor mix of 16%
  - Very strong knowledge base regarding managing capitation agreements and navigating managed care complexities
- In addition to the main campus that is seismically compliant through 2030, SVMC owns significant adjacent real estate

## Opportunities

### Near-Term

- Affiliation with an Academic Center
- Expanding services to include acoustic neuroma and Balance Center
- Exploring partnership with DaVita to further expand its renal care program
- Investing capital to establish an inpatient psychiatric program
  - SVMC already has open space to pursue this initiative
- Increased volumes driven by opening of full-service ER in July 2014
- Improve diagnostic turnaround times/reduce delayed admissions
- Continued development of strong primary care program

### Long-Term

- Create a long-term care unit
  - SVMC has a strong presence with the elderly population (68% Medicare mix)
- Expand neurosurgical services to include all skull-based non malignant tumors
- Expand transplant and orthopaedic services to Central California
- Opening a STEMI- and stroke-designated acute care center
- Physician recruitment
- Maximize referral potential

### Recently Completed

- Achieved silver status for kidney and pancreas transplant accreditation
- Launched cardiac, spine and orthopaedic services

### Ongoing

- Expected to complete ER ambulance receiving certification by July 2014
  - Necessary construction is underway and is approximately 40% complete

# Institutes of Excellence

Center / Services	Description
<p><b>Cancer Treatment Center</b></p> 	<ul style="list-style-type: none"> <li>■ SVMC’s Cancer Treatment Center is conveniently located on the hospital campus. Physicians, physician assistants, nurses and support staff are committed to helping each person combat the disease and maintain a good level of energy. The medical team works with patients and their family members to achieve the best possible outcomes and provides compassionate support for the physical, emotional and spiritual issues that surround a cancer diagnosis.</li> <li>■ Expert physicians and staff work as a multidisciplinary team, using state-of-the-art technology in conjunction with individualized treatment plans to provide the best possible outcomes for patients with many different types of cancer.</li> <li>■ For patients requiring radiation therapy, SVMC was the first community-based tertiary hospital in Southern California to offer IMRT. SVMC’s radiation oncologists use IMRT to deliver thousands of precisely shaped beams that target the tumor while sparing as much healthy tissue as possible. By varying the levels of the IMRT beam’s power, therapists can treat tumors located near critical organs.</li> </ul> <p><i>Radiation Therapy</i></p> <ul style="list-style-type: none"> <li>■ In addition to chemotherapy, physicians may advise a course of radiation therapy. SVMC’s comprehensive Radiotherapy Department offers a variety of options that give physicians and patients important cancer treatment choices.</li> </ul> <p><i>3-D Conformal Radiation Therapy (3-DCRT)</i></p> <ul style="list-style-type: none"> <li>■ Radiation oncologists use CT and/or MRI scans to precisely position radiation beams.</li> </ul> <p><i>Prostate Brachytherapy</i></p> <ul style="list-style-type: none"> <li>■ Radiation Oncologists perform prostate seed implant, or PSI, which carry low-dose radiation, which destroys cancer cells while sparing surrounding tissues.</li> </ul>
<p><b>St. Vincent Cardiac Care Institute</b></p> 	<ul style="list-style-type: none"> <li>■ In 1957, SVMC was the first hospital on the West Coast to perform successful open-heart surgery. In the decades since that achievement, the hospital has become a renowned center for cardiac care, providing comprehensive diagnosis and treatment services for everything from common problems to rare disorders. SVMC’s Cardiac Care Institute provides patients with comprehensive, integrated cardiovascular care, all from one location on the SVMC campus. Cardiologists, electrophysiologists and cardiothoracic surgeons work together to provide the full spectrum of adult cardiology care. Physicians perform all of the diagnostic testing with new, state-of-the-art equipment right at the institute. In addition, the Cardiac Catheterization Lab is also located at SVMC for patients needing minimally invasive intervention.</li> </ul>

# Institutes of Excellence (cont.)

Center / Services	Description
<p><b>St. Vincent Orthopaedic Institute</b></p> 	<ul style="list-style-type: none"> <li>In 2012, SVMC was named one of 100 best orthopaedic programs in the country by Becker’s Hospital Review. St. Vincent Orthopaedic Institute at SVMC has a state-of-the-art on-site imaging center for the orthopedists to immediately treat patients with non-surgical issues. Treatments performed in the institute range from casting of fractures to pain management of bone, joint and spinal problems. If surgery is necessary, SVMC’s operating rooms are equipped for orthopaedic surgeons to perform minimally-invasive, image-guided surgical procedures.</li> </ul>
<p><b>St. Vincent Spine Institute</b></p> 	<ul style="list-style-type: none"> <li>Spine specialists at St. Vincent Spine Institute take care of patients with all types of spinal problems, including malalignments, bulging disc, herniated disc, pinched nerve, spine scoliosis, spinal stenosis, spinal tumors and bone spurs. Spinal orthopedists and neurosurgeons at St. Vincent Spine Institute use a conservative approach to patient care. After initial diagnosis, physical therapy and pain management, clinical treatments are utilized before considering surgical options. When surgery is indicated, orthopedists use minimally invasive techniques with image-guided technology at SVMC to achieve the best outcomes with the fastest healing time.</li> </ul>
<p><b>Joint Replacement Institute</b></p> 	<ul style="list-style-type: none"> <li>The Joint Replacement Institute (JRI) at SVMC is a one-stop diagnosis and treatment center for people with chronic hip, knee or shoulder pain. The 9,000 square-foot JRI outpatient clinic includes well-appointed examination rooms, diagnostic image viewing stations and research offices. For more than 16 years, the JRI board-certified orthopaedic surgeons have operated on thousands of patients, trained numerous other surgeons, been widely published in scientific research journals, and lectured at conferences. The JRI team has gained a worldwide professional following. Patients are evaluated by specialist orthopaedic surgeons at the JRI, who specialize in the latest procedures that conserve as much of the natural bone as possible. Orthopedists and staff work closely with patients and their families to create individualized treatment plans.</li> </ul>
<p><b>House Ear Clinic (external)</b></p> 	<ul style="list-style-type: none"> <li>Proud partners of House Ear Clinic, SVMC is the nation’s premier surgical treatment facility featuring an expert neurotologist team and exclusive House Ear Clinic operating suites. House Ear Clinic surgeons are world-renowned in developing innovative surgical treatment options for patients with ear and auditory conditions. The team of neurotologists and neurosurgeons performs complex surgeries, including cochlear implants, auditory brainstem implants, stapedectomies, as well as removal of acoustic neuromas.</li> <li>The most complicated ear procedures in the world are performed at the Ear Surgery Center at SVMC. Patients come from all over the world to receive state-of-the-art surgery.</li> </ul>
<p><b>Acoustic Neuroma Center</b></p>	<ul style="list-style-type: none"> <li>The long-standing partnership of two of the nation's premier treatment facilities has created the House Ear Clinic Acoustic Neuroma Center at SVMC. The world-renowned program features House Ear Clinic expert neurotologist and neurosurgeon team, as well as exclusive operating suites and an Intensive Care Unit in a private wing.</li> </ul>

# Overview of Select Hospital Services

Center / Services	Description
<b>Multi-Organ Transplant Center</b>	<ul style="list-style-type: none"> <li>Among the best on the West Coast, SVMC specializes in kidney and pancreas transplantation. Since 1970, SVMC surgeons have performed more than 6,000 transplants, serving patients from the Los Angeles and Central California areas. The Multi-Organ Transplant Center provides patients with expert physicians and surgeons, as well as excellent healthcare through shorter wait times for kidney/pancreas transplantation. Shorter wait times are achieved with close monitoring of patients to ensure that they are ready for a transplant as soon as a match is found. In order to better serve the patients from the Central California Valley, SVMC has opened a clinic in Bakersfield, CA, for pre- and post-transplant appointments. SVMC's Multi-Organ Transplant Center received the Silver-Level Award from the U.S. Department of Health and Human Services in 2012.</li> </ul>
<b>St. Vincent Dialysis Center</b>	<ul style="list-style-type: none"> <li>The Dialysis Center works closely with the patients from the Multi-Organ Transplant Center, as well as patients who are not on the transplant list. Patients with end-stage renal disease come to the SVMC campus for hemodialysis treatment three times per week in a relaxing and friendly environment with caring, compassionate staff.</li> </ul>
<b>Asian Pacific Liver Center (Grant funded)</b>  <small>ST VINCENT MEDICAL CENTER</small>	<ul style="list-style-type: none"> <li>One of only two such comprehensive centers in California dedicated to hepatitis B, the Asian Pacific Liver Center (APLC) focuses on education, early detection and surveillance of chronic hepatitis B patients, treatment of hepatitis B and its complications and clinical research to advance knowledge about this disease. Since its inception in 2007, APLC has screened more than 18,000 high-risk Asian Pacific residents at free screening events held at churches, clinics, health fairs and consulate offices in Korean, Thai, Vietnamese, Chinese and Cambodian communities throughout Greater Los Angeles.</li> </ul>
<b>Internal Medicine</b>	<ul style="list-style-type: none"> <li>Reputed as a surgical specialty hospital, SVMC also provides comprehensive internal medicine care for adults, including neurology, pulmonology, nephrology, gastroenterology, urology, infectious diseases, geriatric and critical care medicine. U.S. News &amp; World Report has recognized the hospital's neurology &amp; neurosurgery, nephrology and urology services as high-performing. In addition, all of the orthopaedic programs at SVMC have been recognized as high-performing by U.S. News &amp; World Report in the most recent survey.</li> </ul>



# Overview of Select Hospital Services (cont.)

Center / Services	Description
<b>Surgical Services</b>	<ul style="list-style-type: none"> <li>■ SVMC is distinguished in the region for technologically advanced surgical innovation. Highly skilled in their areas of expertise, SVMC surgeons are passionate in their pursuit of optimal patient outcomes.</li> </ul>
<b>Diabetes Services (Grant funded)</b>	<ul style="list-style-type: none"> <li>■ SVMC’s diabetes services feature cholesterol and diabetes screenings, support groups and educational programs.</li> </ul>
<b>Gastroenterology Laboratory</b>	<ul style="list-style-type: none"> <li>■ A broad spectrum of diagnostic and therapeutic services is performed in the state-of-the-art Gastroenterology Laboratory, including upper endoscopy, small-bowel enteroscopy, endoscopic retrograde cholangiopancreatography, flexible sigmoidoscopy and colonoscopy.</li> </ul>
<b>Imaging &amp; Laboratory Services</b>	<ul style="list-style-type: none"> <li>■ Dedicated to providing high-quality and personalized service, the Imaging and Laboratory departments at SVMC are staffed by highly trained professionals and fully equipped with state-of-the-art technology. Physician radiology services are provided by California Advanced Imaging Medical Associates, a premier group of board-certified radiologists, and the nationally accredited Clinical Laboratory at SVMC is staffed by board-certified pathologists and highly skilled and experienced professional staff.</li> </ul>
<b>Rehabilitation Services</b>	<ul style="list-style-type: none"> <li>■ Helping patients restore or enhance functional abilities is the focus of SVMC’s comprehensive inpatient and outpatient rehabilitation programs and services. Acute rehab team members—including registered nurses, physical therapists, occupational therapists, speech therapists and recreational therapists—focus on a common goal: to help patients regain the strength, stamina and agility they need to live as independently as possible. Each patient’s time in the rehab unit involves hours of daily intensive therapy and support from multiple members of the staff.</li> </ul>
<b>Respiratory Services</b>	<ul style="list-style-type: none"> <li>■ A range of outpatient rehabilitation and support programs are offered year-round to support individuals with asthma, chronic obstructive pulmonary disease and other respiratory conditions in achieving and maintaining the highest-possible level of independence and functional capacity</li> </ul>
<b>Transitional Care Unit</b>	<ul style="list-style-type: none"> <li>■ The 27-bed Medi-Cal-certified and Joint Commission-accredited Transitional Care Unit at SVMC offers neurological and orthopaedic rehabilitation services from the hospital to home. A dedicated interdisciplinary healthcare team provides comprehensive, compassionate care that considers the whole person: mind, body and spirit.</li> <li>■ Transitional care is primarily defined by a patient’s medical condition and when the patient no longer requires acute care yet necessitates physical, speech, and occupational therapies, which require a higher level of care than a skilled nursing facility provides.</li> <li>■ Members of the interdisciplinary care team on the Subacute Unit include physician, nurses, nursing assistants, social workers, physical therapists, occupational therapists, speech therapists, activity coordinators, pharmacists and dieticians</li> </ul>

# Overview of Select Hospital Services (cont.)

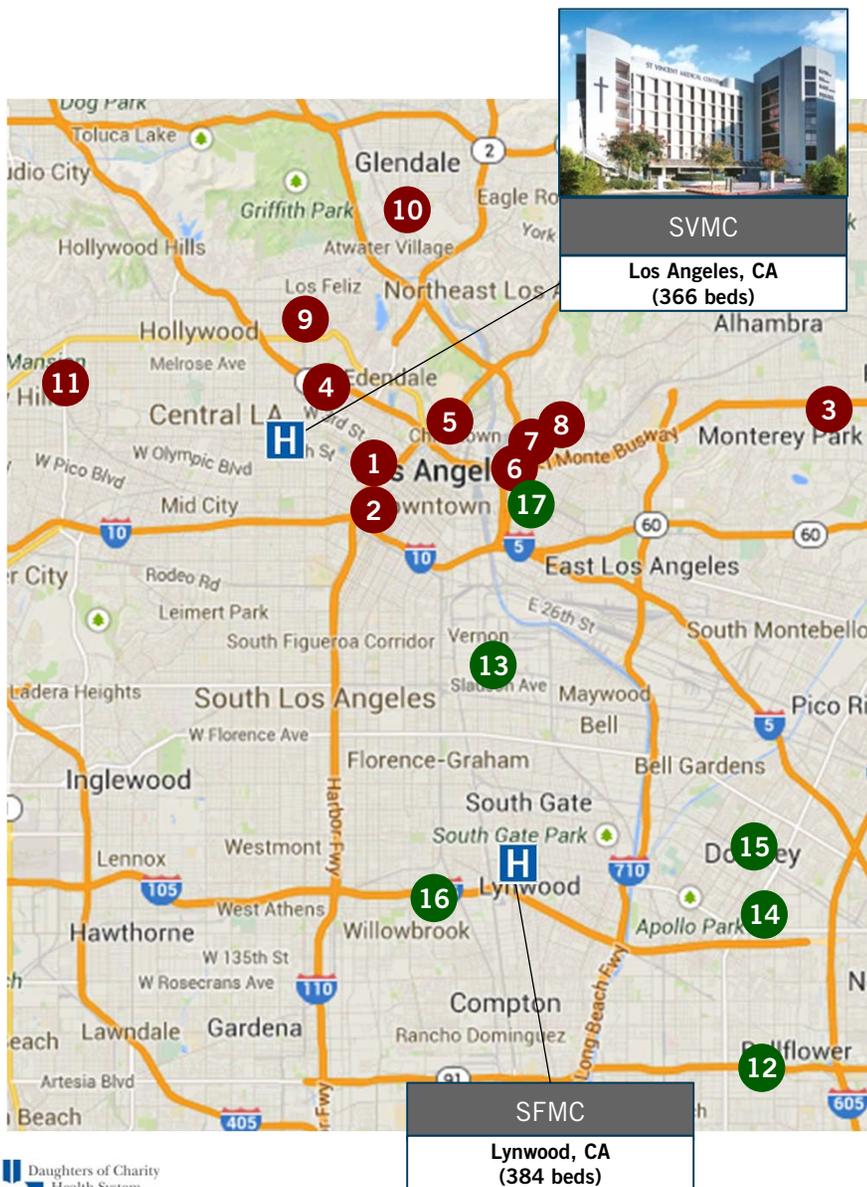
Center / Services	Description
<b>Health Benefits Resource Center (HBRC)</b> (Grant funded)	<ul style="list-style-type: none"> <li>The HBRC is a one-stop venue providing enrollment assistance, information and referrals for uninsured low-income residents. Annually this program helps more than 2,500 families gain access to public and private health insurance, social services and nutrition programs. The Center also educates residents about the new Covered California program and will launch a legal services program this year.</li> </ul>
<b>Casa de Amigos de San Vicente</b> (Grant funded)	<ul style="list-style-type: none"> <li>Established by SVMC in 1995, Casa de Amigos is a values-driven, family-focused community center offering free academic assistance, music, art and computer instruction, sports and recreational activities and mentoring for at-risk youth and their parents. Approximately 120 participants are served on a daily basis from the Latino communities neighboring the medical center. During the summer months, 100 children attend the Casa Day Camp. Services also include health education and screenings, insurance enrollment and social service referral assistance.</li> </ul>
<b>Multicultural Health Awareness and Prevention (MHAP) Center</b>	<ul style="list-style-type: none"> <li>The Multicultural Health Awareness and Prevention Center (MHAP) offers free bilingual health information, education and screening for at-risk populations, with a focus on breast and cervical cancer, diabetes and obesity and heart disease. The program targets vulnerable people in the Korean, Latino, Filipino and Thai communities. MHAP conducts an annual community health fair serving 1,500 residents, as well as four mini-health fairs, and participates in 20 additional community health fairs each year. MHAP also conducts educational conferences to heighten awareness among key community stakeholders about important health issues. Annually, MHAP Center reaches more than 90,000 people at senior centers, community clinics, health fairs, churches, schools, consulate offices and parks.</li> </ul>
<b>Radiology / Mammography</b>	<ul style="list-style-type: none"> <li>The radiology department offers general diagnostic X-ray exams, as well as mammogram screening. The mammography department is accredited by the American College of Radiology.</li> </ul>
<b>Clinical Laboratory</b>	<ul style="list-style-type: none"> <li>The Clinical Laboratory is accredited by The Joint Commission and is staffed by clinical laboratory scientists. Under the direction of a pathologist, proficiency testing occurs through the College of American Pathologists.</li> </ul>
<b>Spiritual Care Services</b>	<ul style="list-style-type: none"> <li>Spiritual Care Services provide emotional and spiritual care for every person coming to SMCC, regardless of their religious affiliation. Chaplains provide compassionate support during times of loneliness, anxiety and loss. They can assist residents and loved ones in periods of crisis through their ministry of presence, counseling and/or the referral process to appropriate resources within the hospital setting. Chaplains can also help sort through ethical or moral questions involving the resident's treatment by assisting with completion of an Advance Healthcare Directive for Healthcare and/or discussing Physician Orders for Life-Sustaining Treatment choices.</li> </ul>

# Overview of Select Hospital Services (cont.)

Center / Services	Description
<b>Community Diabetes Education Program (CDEP)</b>	<ul style="list-style-type: none"> <li>■ The Community Diabetes Education Program provides free bilingual and culturally competent diabetes education and screening to at-risk children and adults and assists both pre-diabetic and diabetes patients in the management and control of their chronic disease. Each year, this program assists 6,000 people and conducts more than 80 diabetes screening events.</li> </ul>
<b>Patient Transport Service</b>	<ul style="list-style-type: none"> <li>■ SVMC offers shuttle transportation for patients within a 15-mile radius. The free shuttle services provides transportation for patients to and from appointments.</li> </ul>
<b>Seton Guest Center</b>	<ul style="list-style-type: none"> <li>■ The Seton Guest Center provides rooms for patients and their families while they receive medical services at SVMC. Each room includes a small refrigerator, television and DVD player and can accommodate up to four people. A community kitchen, washer and dryer, Internet access, movies and books are also available. Seton Guest Center has recently been renovated. The Guest Center is located on campus and has 32 rooms available for family members traveling with patients.</li> </ul>

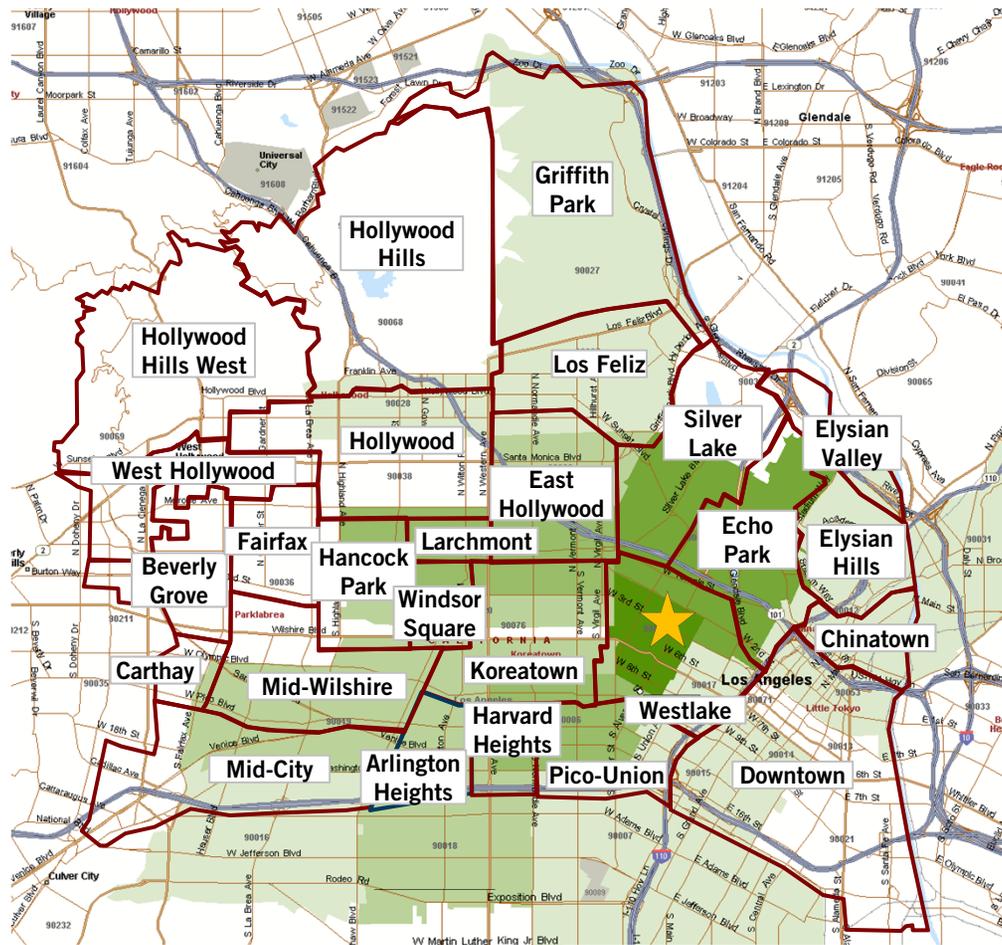


# Competitive Landscape – Los Angeles County



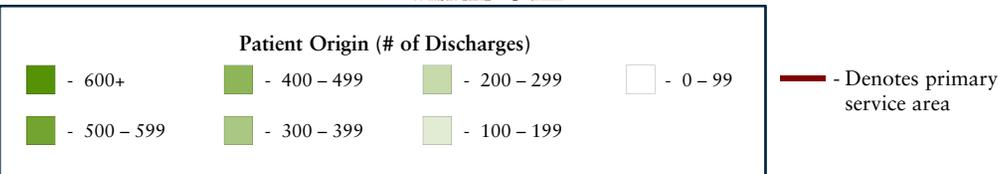
		Affiliation	Beds	Distance (mi)
<b>PRIMARY COMPETITION</b>				
1	Good Samaritan Hospital	Standalone	408	1
2	California Hospital Med Center	Dignity Health	318	3
3	Silver Lake Medical Center	Success Healthcare	235	1
4	Temple Community Hospital	Standalone	170	1
5	Pacific Alliance Medical Center	Standalone	142	3
6	White Memorial Medical Center	Adventist Health	353	4
7	LAC – USC Medical Center	County of Los Angeles	676	5
8	Keck USC Medical Center	USC	411	6
9	Hollywood Presbyterian	CA Hospital Association	434	3
10	Glendale Memorial	Dignity Health	334	5
11	Cedars – Sinai	UCLA, USC, WGU	947	6
<b>OTHER COMPETITION</b>				
12	Bellflower Medical Center	Standalone	117	10
13	Community Hospital of Huntington Park	Avanti Hospitals	81	5
14	Downey Regional	Western University of Health Sciences	181	5
15	Kaiser Downey	Kaiser Permanente	352	6
16	MLK Hospital	Standalone, opening in 2015	141	3
17	Promise Hospital of East Los Angeles	Promise Healthcare	36	12

# Primary Service Area



Service Area	Households	Total Population	Median Income	Per Capita Income
Mid-Wilshire	23,344	64,458	\$41,261	\$24,419
Hancock Park	18,646	36,865	\$72,264	\$53,066
Koreatown	15,044	37,681	\$32,086	\$18,688
Westlake	9,338	23,768	\$21,576	\$16,776
Pico-Union	11,944	40,920	\$22,047	\$11,093
Echo Park	24,956	67,869	\$44,901	\$24,600
Chinatown	19,892	62,430	\$51,437	\$22,087
SVMC	15,658	44,998	\$27,854	\$13,798
Hollywood	11,928	28,917	\$35,700	\$21,705

Source: U.S. Census Bureau



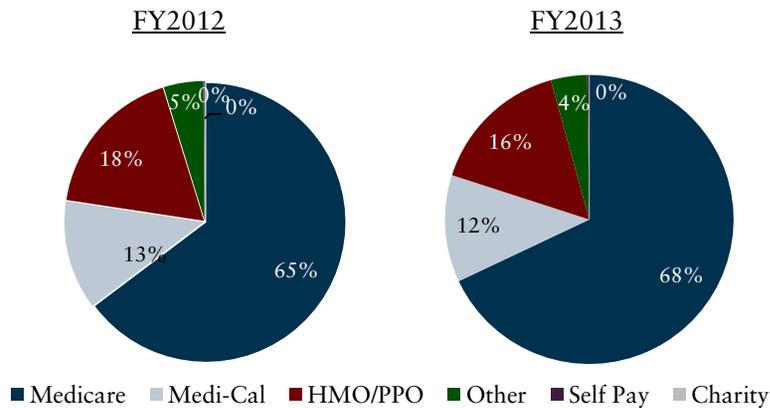
# Sources of Revenue

- Medicare patients accounted for 68% of total patient days in FY2013
- The hospital was a net payer to the provider fee program in FY2013
  - Medi-Cal patient days comprised approximately 13% and 12% of total patient days for FY2012 and FY2013, respectively
- Medicare and Self Pay had the highest average length of stay of 6.8 days in FY2013

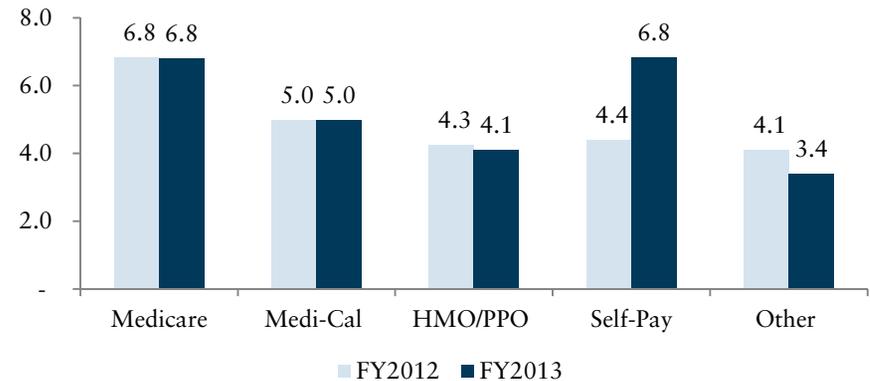
## Net Supplemental Funding (FY2011-13 YTD) (\$ millions)

	FY2011	FY2012	FY2013	LTM Dec-2013
Provider Fee - Medi-Cal	\$ 15	\$ 18	\$ 12	\$ 13
Provider Fee - Medi-Cal Managed Care	1	0	3	3
Provider Tax	(16)	(15)	(17)	(18)
Net Provider Fee	1	4	(2)	(2)
Meaningful Use	-	1	-	-
<b>Total</b>	<b>\$ 1</b>	<b>\$ 5</b>	<b>\$ (2)</b>	<b>\$ (2)</b>

## Patient Days by Payor (FY2012-13) \*



## Average Length of Stay by Payor (FY2012-13) \*



# Employee and Physician Overview

- SVMC has more than 1,160 employees (1,006 FTEs) and more than 480 affiliated physicians
  - Approximately 67%, or 783 employees, are covered by CBAs
  - SEIU has the largest union representation, with 419 members
- SVMC has 184 active physicians, with the three largest specialties—cardiology, internal medicine and nephrology—comprising approximately 33% of active doctors
- Physician partnerships consist of six outpatient clinics, co-management with House Ear Clinic, emergency department partnership with California Emergency Physicians (CEP) group, as well as 20 IPA/medical group ancillary contracts and DCHS Medical Foundation
- SVMC outsources several of its services
  - Sodexo manages and operates nutrition, housekeeping, plant operation and maintenance, audiovisual, patient transport, shuttle and mailroom services. Sodexo has more than 125 Associates dedicated to SVMC, who focus on the quality of life that healthcare demands.
  - SVMC’s biomedical provider is TriMedx, a comprehensive program that includes patient-based biomedical, imaging, laboratory and specialty equipment
- SVMC has installed QuadraMed as its Electronic Medical Record (EMR) and has met meaningful use

## Employee FTEs by Type (September 2013)

Employee Category	Count	FTEs
<i>Union</i>		
SEIU1	419	358
CNA	364	309
<i>Non-Union</i>		
Director	33	33
Manager	24	24
Supervisor	28	23
Administration	5	5
Other	293	255
<b>Total</b>	<b>1,166</b>	<b>1,006</b>

## Summary of Physicians by Specialty

Specialty	Count	% of Total
<i>Active Physicians</i>		
1. Cardiology	23	13%
2. Emergency Medicine	22	12%
3. Internal Medicine	20	11%
4. Nephrology	17	9%
5. Anesthesiology	13	7%
6. Gastroenterology	13	7%
7. Orthopedic Surgerv	11	6%
8. General Surgerv	9	5%
9. Urology	9	5%
10. Family Practice	8	4%
11. Other	39	21%
<b>Total Active</b>	<b>184</b>	<b>100%</b>
Non-Active (a)	297	
<b>Total</b>	<b>481</b>	

# Financial Performance Overview

- As of LTM December 2013 SVMC generated \$184 million in net patient revenue and total revenue of \$201 million
  - Primarily due to decline in reimbursement rates and decrease in the number of patient visits
- Salaries and benefits represented 51% of total revenue for LTM December 2013

## Summary of Financial Performance (FY ending June 30; \$ millions)

	FY2011A	FY2012A	FY2013A	LTM Dec-13
Patient Revenue	\$ 176	\$ 198	\$ 176	\$ 168
Supplemental Funding Receipts (a)	16	19	15	16
Other Revenue	15	15	16	17
Total Revenue	207	231	207	201
Salaries and Benefits	(95)	(97)	(100)	(102)
Supplies	(46)	(48)	(46)	(43)
Purchased Services and Other	(46)	(50)	(52)	(51)
Supplemental Funding Tax	(16)	(15)	(17)	(18)
Total Expenses (b)	(203)	(209)	(216)	(215)
<u>Allocated Shared Services (c)</u>				
Corporate	(5)	(5)	(5)	(6)
CBS	(0)	(1)	(1)	(1)
IT	(7)	(6)	(6)	(6)
Total Shared Services	(12)	(11)	(12)	(13)
EBIDA Before Adjustments	(7)	11	(21)	(26)
<u>EBIDA Adjustments:</u>				
Third-Party Settlements	(1)	(8)	3	3
Adjusted EBIDA	(8)	3	(18)	(23)
Adjusted EBIDA (w/o Shared Services)	4	14	(7)	(11)
Capital Expenditures	\$ 6	\$ 9	\$ 12	\$ 15

## Select Balance Sheet Items (\$ millions)

	6/30/2013	12/31/2013
<u>Current Assets</u>		
Patient Accounts Receivable, Net	\$ 24	\$ 23
Due From Government Agencies	5	1
Other Current Assets	13	11
Total Current Assets	42	35
<u>Current Liabilities</u>		
Accounts Payable	6	8
Due to Government Agencies	9	3
Accrued Liabilities	22	18
Total Current Liabilities	\$ 38	\$ 29

### Notes:

- (a) Includes Provider Fee and Meaningful Use proceeds
- (b) Excludes Depreciation, Amortization, Interest and Asset Impairment
- (c) LTM December 2013 represents shared services as of LTM November 2013



# Select Operating Statistics

## Key Operating Statistics

	FY2013	LTM Dec-2013
<u>Discharges</u>		
General Acute	8,156	7,579
Rehabilitation	440	410
TCU	617	632
Total	9,213	8,621
<u>Average Daily Census</u>		
Acute	106	101
SNF	24	24
Rehabilitation	15	14
Total	145	139
<u>Average Length of Stay (Days)</u>		
Acute	4.8	4.9
SNF	14.0	14.0
Rehabilitation	12.3	12.6
Total	5.7	5.9

## Summary of Patient Days by Unit

Unit	FY2013	LTM Dec-2013
ICU	3,417	3,468
ICU - Doheny	308	359
5th Floor	11,889	11,261
6th Floor	11,313	10,793
7th Floor South	4,333	4,850
Oncology - 7th Floor West	7,623	6,143
Rehabilitation Days	5,420	5,170
Total General Acute	44,303	42,044
TCU	8,643	8,771
Total	52,946	50,815

## Other Operating Statistics

	FY2013	LTM Dec-2013
<u>Emergency Services</u>		
IP Visits	4,727	4,351
OP Visits	10,504	10,928
Total	15,231	15,279
<u>Joint Replacement Institute Clinic</u>		
OP Visits	3,476	3,347
<u>Orthopedic Clinic</u>		
OP Visits	7,152	7,870
<u>Spine Clinic</u>		
OP Visits	2,187	2,839
<u>Cancer Treatment Center</u>		
Total Procedures (IP and OP)	13,445	13,934
<u>Short Stay Unit</u>		
Manual	7,269	8,743
<u>Surgery - Main</u>		
Total Minutes (IP and OP cases incl. Open Heart)	601,710	588,297
Total Cases (IP and OP cases incl. Open Heart)	4,006	3,949
<u>Surgery - Doheny</u>		
Total Minutes (Doheny IP and OP Cases)	223,289	229,043
Total Cases (Doheny IP and OP Cases)	1,410	1,362
<u>Cardiac Catheterization Services</u>		
Angioplasty (PTCA)	188	234
Stents	212	457
Angiogram	664	647
ICD Implants	76	108
Pacemakers	166	145
Other (Adult)	5,954	7,051
Total Procedures	7,260	8,642
<u>Cardiology Services</u>		
Total IP Procedures (incl. ICGs and Other)	11,969	10,702
Total OP Procedures (incl. ICGs and Other)	6,011	6,296
<u>Radiology - Diagnostic</u>		
Total Procedures (IP and OP)	35,563	32,546
<u>Therapy (Physical, Speech and Occupational)</u>		
Total Treatments	230,389	237,112
<u>St. Vincent Dialysis Center</u>		
OP Treatments (Chronic)	18,963	19,587

# Top 10 Product Lines and Physicians

## Top 10 Product Lines by Discharges (FY2013) (a)

Product Line	Cases	% of Total
1. General Medicine	1,717	19%
2. All Surgery	1,292	14%
3. Orthopedic Surgery	1,064	12%
4. Other Heart - Medical	906	10%
5. Gastroenterology	869	9%
6. Urology	721	8%
7. Pulmonary	698	8%
8. Hematology/Oncology	491	5%
9. Neurology	292	3%
10. Other Heart - Surgical	282	3%
Total Top 10	8,332	90%

## Top 10 Physicians by Discharges (FY2013) (a)

Physicians	Cases	% of Total
1. Physician A	678	7%
2. Physician B	656	7%
3. Physician C	512	6%
4. Physician D	398	4%
5. Physician E	372	4%
6. Physician F	351	4%
7. Physician G	338	4%
8. Physician H	299	3%
9. Physician I	240	3%
10. Physician J	200	2%
Total Top 10	4,044	44%

## Top 10 Product Lines by Gross Revenue (FY2013) (\$ millions) (b)

Product Line	Gross		Total	
	Revenue	% of Total	Payments	% of Total
1. All Surgery	\$ 199.7	24%	\$ 34.0	26%
2. General Medicine	142.0	17%	23.4	18%
3. Orthopedic Surgery	125.9	15%	23.6	18%
4. Pulmonary	49.5	6%	6.1	5%
5. Gastroenterology	47.9	6%	6.7	5%
6. Other Heart - Medical	47.9	6%	6.2	5%
7. Other Heart - Surgical	42.7	5%	5.7	4%
8. Urology	40.2	5%	6.7	5%
9. Hematology/Oncology	32.3	4%	4.8	4%
10. Neurology	17.4	2%	2.3	2%
Total Top 10	\$ 745.3	90%	\$ 119.5	91%

## Top 10 Physicians by Gross Revenue (FY2013) (\$ millions) (b)

Physicians	Gross		Total	
	Revenue	% of Total	Payments	% of Total
1. Physician A	\$ 57.5	7%	\$ 9.3	7%
2. Physician B	46.2	6%	7.0	5%
3. Physician C	45.6	6%	8.5	6%
4. Physician D	42.4	5%	5.8	4%
5. Physician E	32.8	4%	5.3	4%
6. Physician F	32.7	4%	4.8	4%
7. Physician G	24.2	3%	4.6	3%
8. Physician H	23.8	3%	2.5	2%
9. Physician I	23.4	3%	2.6	2%
10. Physician J	19.2	2%	2.2	2%
Total Top 10	\$ 347.9	42%	\$ 52.6	40%

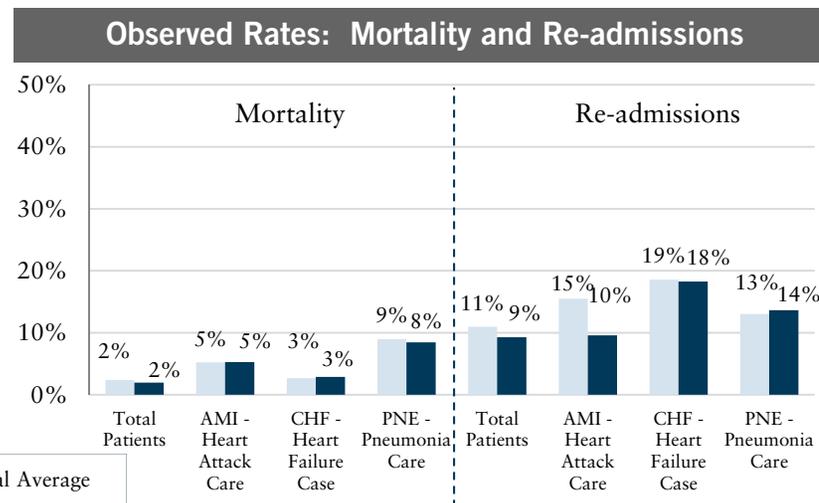
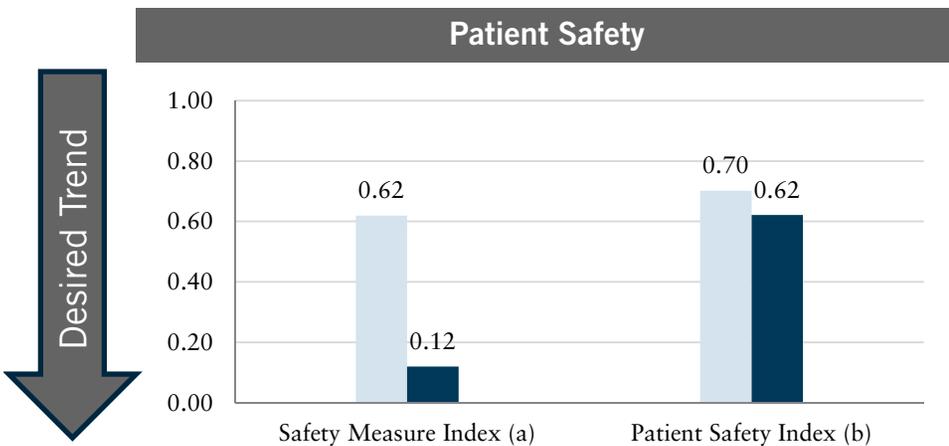
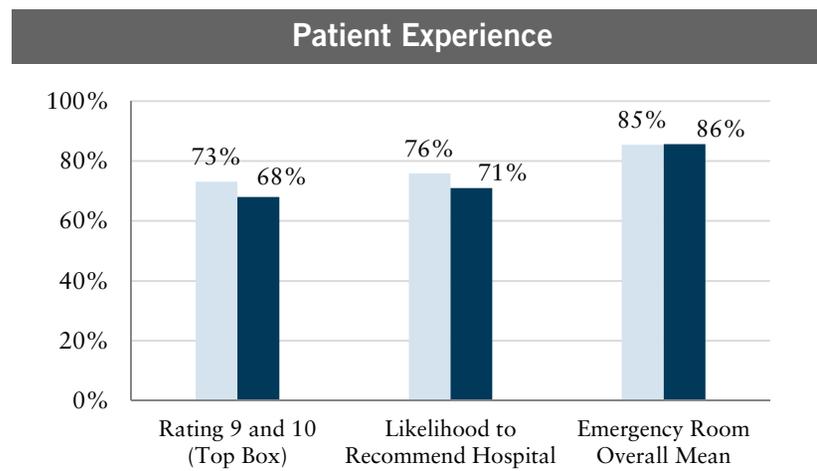
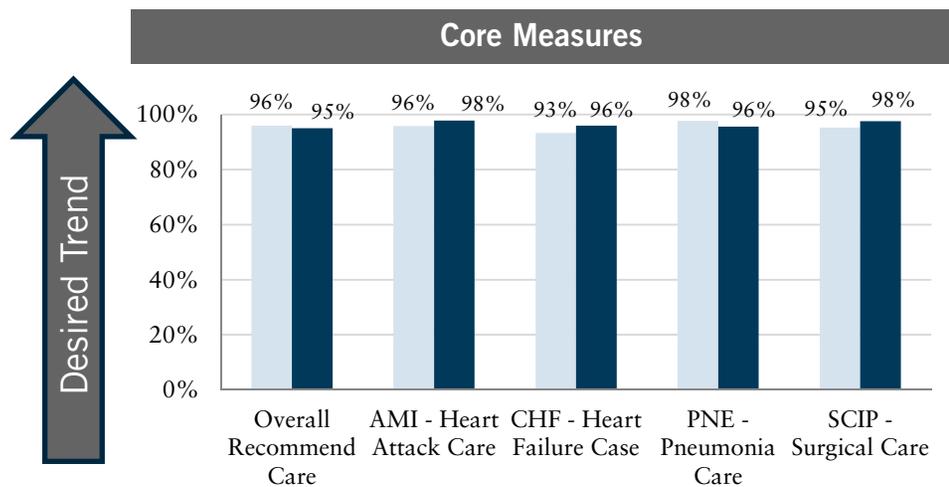
Notes: Fiscal year ends June 30

(a) Includes routine nursery discharges

(b) Total Payments include cash posted to individual patient accounts only, excluding Medicare cost report settlements, Medi-Cal disproportionate share payments, Trauma payments (Measure B funds), Provider Fee and Capitation Settlements

# Health, Safety and Quality Metrics

■ The charts below compare select SVMC quality and safety performance metrics to national averages



Source: Premier QA, Press Ganey HCAHPS and Quest

Notes:

- (a) Safety Measure Index (Quest Harm Composite) is the Occurrence of Harm captured by ICD9 Coded data. QUEST harm composite accounts for the deviation of the observed rate from the expected rate and then divides by a measure of dispersion (or standard deviation) indicating variation within the hospital's performance across the cohort.
- (b) Patient Safety Index (PSI90) composite measure select patient safety indicators: Pressure Ulcer, Iatrogenic Pneumothorax, Central Venous Catheter-Related Blood Stream Infections, Postop Hip Fracture, Postop PE or DVT, Postop Sepsis, Postop Wound Dehiscence and Accidental Puncture or Laceration

# Seismic Considerations

- SVMC has three buildings that are SPC-1 compliant: the main hospital, the Doheny wing and the central plant / parking garage. The Cath Lab Building is SPC-5, requiring no structural improvements.
  - In accordance with the provisions of SB499, SVMC submitted plans for Voluntary Seismic Improvements (VSI) to each of the SPC-1 buildings. The structural improvements in the three plans have been approved by the Office of Statewide Health Planning and Development (“OSHPD”). The ADA portions of the plans are currently under design and pending review by OSHPD. Total project cost for the three buildings is estimated at just under \$12 million. Completion of the proposed seismic improvements will meet current seismic compliance standards.
  - SVMC has requested an extension of the January 1, 2013 compliance deadline under the provisions of SB90. To date, SVMC has been granted an administrative delay until January 1, 2015 pending OSHPD’s evaluation of the request.
  - Notwithstanding the requested extension, SVMC plans to begin improvements on the central plant/ parking structure in late March 2014.

# Capital Expenditure Summary

- In the last three years, SVMC has made significant capital expenditures to enhance and upgrade the facility and its level of service
  - Purchased state-of-the-art interventional imaging system utilizing robotic technology, 64 slice CT scanner and upgraded patient beds
  - Completed construction of cardiac unit, renovated the IR room, restructured the lab and imaging facility and replaced the roof of Seton Hall
  - In addition, SVMC invested approximately \$10 million in software upgrades, including device integration and labor cost integration capabilities

## Summary of Major Near-Term CapEx Needs (\$ millions)

CapEx Need	Estimated		Description
	Cost	Timing	
Medical Equip.	\$0.8	Urgent	Audio-Visual System Replacement
Medical Equip.	0.3	Urgent	Stealth Medtronic System
Medical Equip.	0.3	Urgent	B. Braun Hemodialysis Machines – 20
Medical Equip.	0.3	Urgent	Replacement of Holding Area Patient Monitors
Medical Equip.	0.3	Urgent	G.E. Dash 4000 v6 Price Includes 1 yr Plus 1 Yr Extended Warranty
Medical Equip.	1.2	Routine	Endoscopic Video System Upgrade
Medical Equip., Construction / Renovation	2.5	Other Routine	Neptune suction, piping replacement (all floors incl. Doheny Building), breast tomosynthesis, anesthesia machines, Leica / Pentero microscope, Surgical Tables-Skytron, ventilators, Spine table-Jackson
Strategic	1.0	Regulatory	Transplant DB Software
Non-Med Supp	0.4	Regulatory	Automated Drug Management Systems (Box Picker Hardware & Software)
Construction / Renovation	0.1	Regulatory	Amsco 400 Series 60" Steam Sterilizer
Building Imp.	12.0	FY2014	Elevator Upgrade
<b>Total</b>	<b>\$19.1</b>		

## Summary of Recent CapEx (FY2011-13) (\$ millions)

	FY2011	FY2012	FY2013
<u>Building, Fixtures and Leasehold</u>			
1. Building Fixtures	\$ 0.5	\$ 0.4	\$ 0.3
2. Building Improvements	0.0	1.0	2.6
3. Leasehold Improvements	-	-	0.1
4. Furniture & Fixtures	0.2	0.2	0.1
Subtotal	0.7	1.6	3.2
5. Medical Equipment	3.5	2.2	3.9
<u>Software and IT</u>			
6. Software	0.4	0.4	9.9
7. Computer Equipment	0.3	0.3	0.1
8. Network Equipment	0.8	0.4	0.3
9. Telephone Equipment	-	0.2	-
Subtotal	1.4	1.2	10.3
<b>Total</b>	<b>\$ 5.6</b>	<b>\$ 5.0</b>	<b>\$ 17.4</b>

# Summary of Major Equipment

	Manufacturer / Model	Owned / Leased	Age of Equipment (years)
<b>CARDIOLOGY</b>			
Cath Lab	Philips, Integris 3000	Owned x2	
Cath Lab	Philips, FD20	Owned	
Cath Lab	Philips, FD10	Owned	
<b>RADIOLOGY &amp; IMAGING</b>			
PET / CT Scan	Siemens, Somatom Definition AS 64	Owned	1
PET / CT Scan	Siemens, Somatom Emotion 6	Owned	3
MRI	Siemens Magnetom Symphony Syngo MR	Owned	13
Mammography	Hologic Selenia	Owned	3
X-ray	Siemens, Polydorus 50	Owned x4	7
X-ray	Seimens, Polyphorus	Owned	20+
X-ray	GE, Precision RXI, Definium 8000	Owned	6
X-ray	Siemens, Gigantos	Owned	25+
X-ray (Ortho/Spine)	Carestream, DRX-Evolution	Owned	3
X-ray (Cysto)	Siemens, UroSkop	Owned	7

# Summary of Major Equipment (cont.)

	Manufacturer / Model	Owned / Leased	Age of Equipment (years)
<b>ULTRASOUND</b>			
Ultrasound	G.E. Logic9	Owned x3	6 and 7 (x2)
Radiology	ATL, HDI 1000	Owned	10+
C-Arm	OEC, 9800	Owned	8
C-Arm	OEC, 9900	Owned	6
C-Arm	OEC, 9900 Elite	Owned	3
C-Arm	Siemens, Arcadis 3D	Owned	5
Cardiology / Surgery	Philips, IE33	Owned x4	2, 3(x2) and 5
Surgery	HP, Sonos 4500	Owned x2	10+
APLC *	Siemens, G40	Owned x2	7
Angio/IR	Siemens, Artis Zeego	Owned	1
Nuclear Medicine	Siemens, E Cam	Owned x2	9
<b>ONCOLOGY</b>			
Radiation Therapy (LINAC, IMRT)	Varian, Clinac 600	Owned	12
Radiation Therapy (LINAC, IMRT)	Siemens, Mevatron 12	Owned	16

# Summary of Properties

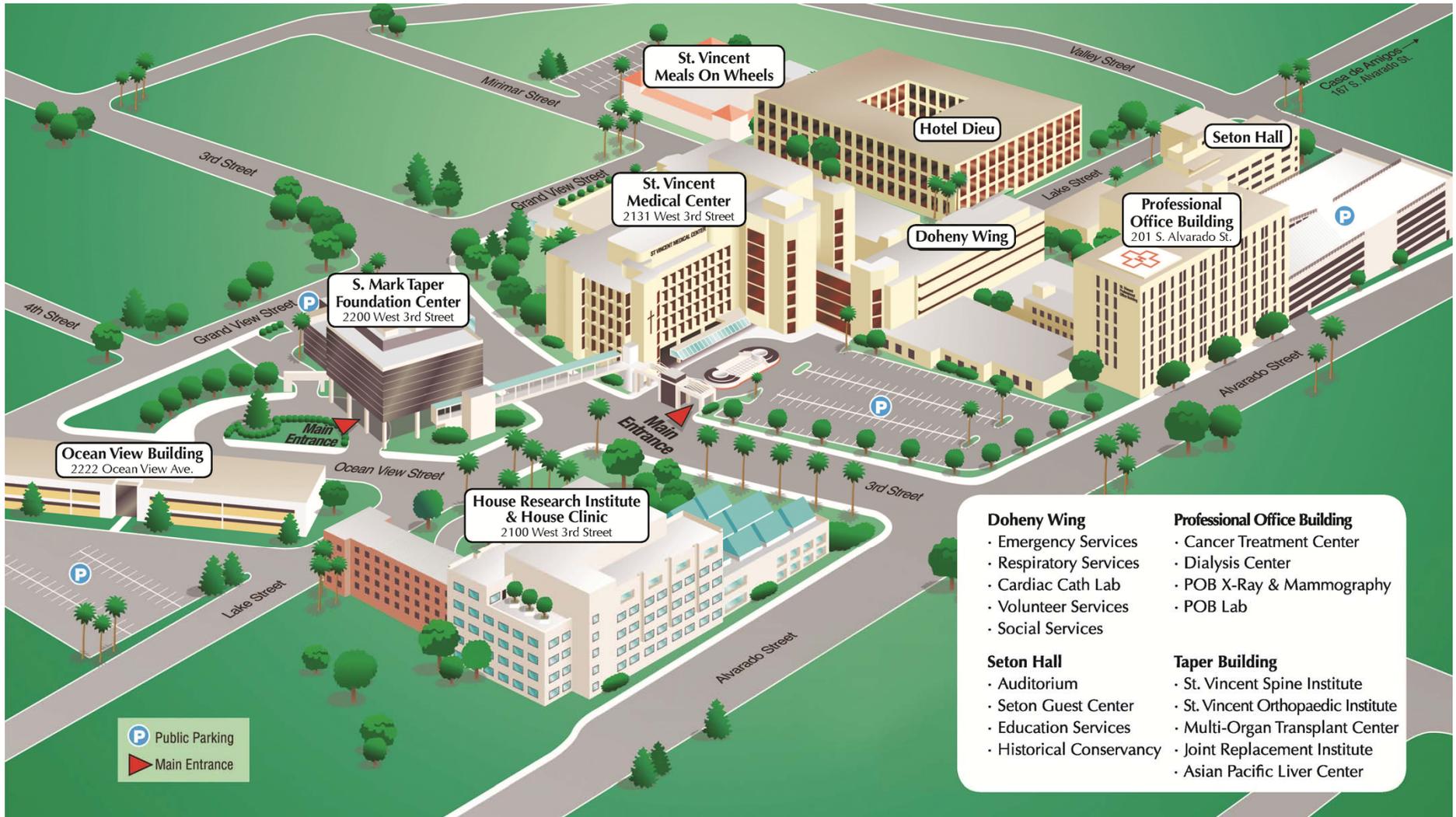
## Summary of Owned Properties

Description	Address	Seismic	# of Stories	Year Built	Footage Owned
<b>HOSPITAL RELATED PROPERTIES</b>					
Hospital	2131 W 3rd St. Los Angeles, CA 90057	Pending Extension Until 2020	9 Stories + Basement + Sub-Basement	1927, 1975, 1978,1985,1998, 1989	390,598
Central Plant	2131 W 3rd St, Los Angeles, CA 90057	Pending Extension Until 2020	1	1927	17,865
Stauffer Wing (Included in Hospital) Conference Rooms	2131 W 3rd St. Los Angeles, CA 90057	Pending Extension Until 2020	1	1975	~ 3,250
Doheny Building (Included in Hospital)	2131 W 3rd St. Los Angeles, CA 90057	Pending Extension Until 2020	5 + Base	1957	59,637
Cath Village (Included in Hospital)	2131 W 3rd St. Los Angeles, CA 90057	Compliant to 2030 and Beyond	1	1995	11,297
Annex / Boiler (Included in Hospital) - Part of No. 2 Central Plant	2131 W 3rd St. Los Angeles, CA 90057	Pending Extension Until 2020	N/A	1927	N/A
Parking Structure	2131 W 3rd St. Los Angeles, CA 90057	N/A	6	1977	164,160
Mark Taper a/k/a MTTC Building (Connected to Hospital via Sky Bridge)	2200 W 3rd St. Los Angeles, CA 90057	N/A	5 Stories for Building & 3 Stories for Parking	1995	47,926
Seton Hall Convent / Guest Lodge	262 & 272 S. Lake St. and 2120 Valley Los Angeles, CA 90057	N/A	5 Stories & Basement	1952	45,643
<b>MOBS &amp; OTHER PROPERTIES</b>					
St. Vincent Professional Office Building (POB)	199 & 201 S. Alvarado St. Los Angeles, CA 90057	N/A	8 Stories & Basement + Sub- Basement	1977	53,455
St. Vincent Professional Office Building (POB) Parking Structure	201 S. Alvarado St. Los Angeles, CA 90057	N/A	6	1977	164,155
Ocean View Pavilion	2222 Ocean View Ave. Los Angeles, CA 90057	N/A	2	1975	35,967
House Ear Clinic (Ground Lease)	2100 W 3rd St. Los Angeles, CA 90057	N/A	N/A	N/A	85,497

## Summary of Leased Properties

Description	Address	# of Stories	Year Built	Sq. Ft.	Occupied by DCHS
Physician office leased from Bakersfield Land & Cattle Company, LLC	8501 Camino Media, Suite, 100 Bakersfield, CA 93311	1	2005	1,481	2 days / Month

# Campus Map



Note: “St. Vincent Meals on Wheels” and “Hotel Dieu” are owned by an independent organization (not part of SVMC). House Research Institute & House Clinic are also owned independently but are subject to a ground lease with SVMC.

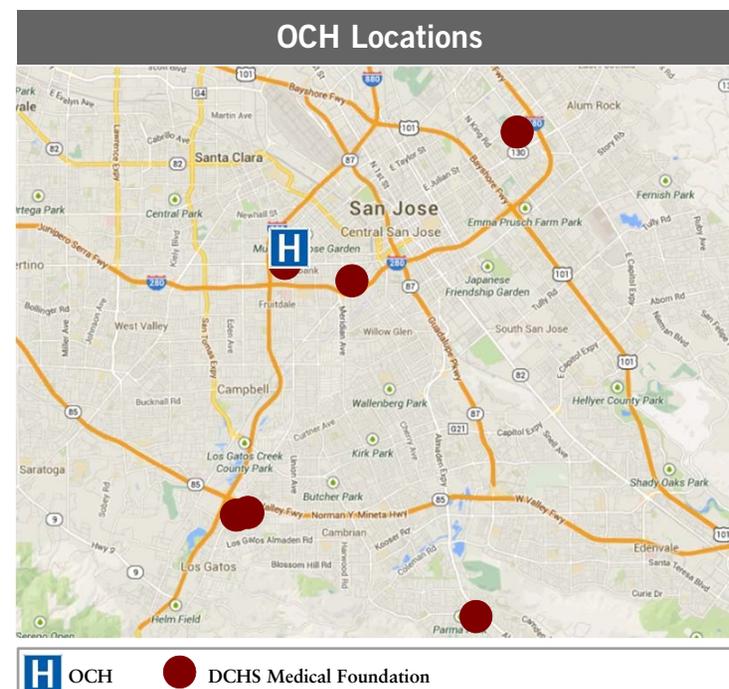


# Overview of Operations

## O'Connor Hospital

# Introduction

- OCH was founded in 1889 as the first hospital in Santa Clara County and is currently the only Catholic hospital in San Jose
- The hospital's 358-bed acute care facility offers a full range of care, including women's and children's services, cardiology and cardiac rehab, oncology, orthopedic services, vascular care, advanced medical imaging, emergency care, and a wound care clinic offering the latest in hyperbaric medicine
- U.S. News and World Report Best Hospital San Jose Metropolitan Area 2010-11 ranked OCH among the top hospitals in San Jose
  - OCH was awarded The Joint Commission Gold Seal of Approval as a Primary Stroke Center and is certified as a Center of Excellence for Hip Replacement and Knee Replacement
  - The hospital's Wound Care Center was one of the first in the nation certified by The Joint Commission as a Wound Care Center of Excellence, and the O'Connor Family Center is recognized as a "Best Birthing Center" by Bay Area Parent magazine
- OCH is also home to the only Family Medicine residency program in the local service area, affiliated with Stanford University
- OCH's PSA includes the communities of San Jose, Santa Clara and Campbell, and its secondary service area (SSA) covers the Northern California communities of Los Gatos, Saratoga, Milpitas, Cupertino, Sunnyvale and Morgan Hill



2105 Forest Avenue, San Jose, CA 95128  
[www.ocomor.dochs.org](http://www.ocomor.dochs.org)

# Overview of Key Services

- OCH offers a full range of IP and OP medical, surgical and specialty programs
- The hospital has the following specialty centers:
  - Cancer Care Center provides tumor registry and research, support services and treatment for cancer patients
  - ED features 21 beds with board-certified physicians and specialty-trained nurses
  - Heart Center was one of the first facilities to provide open-heart surgery in the Santa Clara Valley
- Key services include:
  - Cardiac Services
  - Emergency Services
  - Orthopedics and Joint Replacement
  - Stroke Program
  - Vascular Services
  - Women’s and Children’s Services
  - Wound Care Clinic (20 private rooms), including Hyperbaric Medicine
- Clinics & specialty services include:
  - Family Medicine Residency Program
  - Health Benefits Resource Center
  - Community Outreach and Education
- In 2013, OCH provided \$47 million in community benefit programs to the community in addition to more than \$22 million in care for the elderly

## Select Awards and Certifications



- Earned Get With The Guidelines 2013 Stroke Gold Plus Performance Award from the American Heart Association/American Stroke Association



- Designated as a Blue Distinction Center for Cardiac Care in 2013



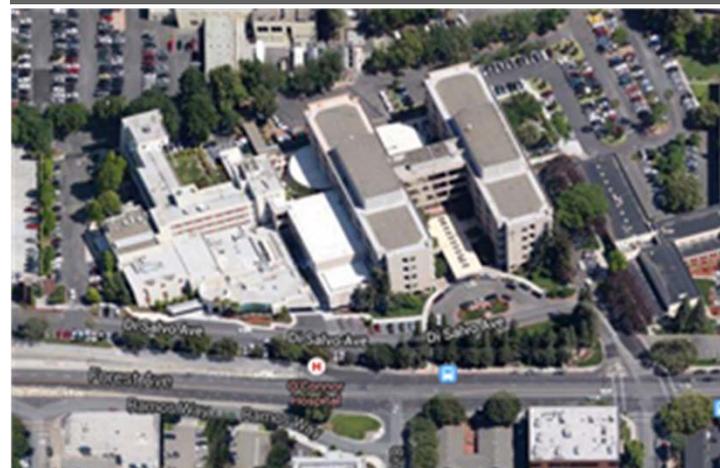
- Identified as a Blue Distinction Center+ for Knee and Hip Replacement in 2013



- “A” Rating for Hospital Safety, The Leapfrog Group Hospital Safety Score Program, 2013 Rating



## Aerial View of OCH



## Key Statistics (FY2013)

Available / Licensed Beds	281 / 358
Annual Discharges	11,751
Acute Average Length of Stay (Days)	3.8
Acute Average Daily Census	123
Case Mix Index (CMI)	1.324
Medicare CMI	1.771
Productive Hours (Millions)	2.0
Productive FTEs (a)	968
Total Hours (Millions)	2.6
Total FTEs (a)	1,249
<b>Payor Mix</b>	
Medicare (b)	47%
Medi-Cal (b)	24%
HMO/PPO	24%
Self-Pay	2%
Other	3%

Notes: Fiscal year ends June 30

(a) Implied FTEs calculated based on working hours, assuming 52 weeks per year and 40 hours per FTE

(b) Includes managed care

# Summary of Hospital Services

Summary of Hospital Services					
	<u>Inpatient</u>	<u>Outpatient</u>		<u>Inpatient</u>	<u>Outpatient</u>
Anatomical Pathology Laboratory Services	✓	✓	Immunology Laboratory Services	✓	✓
Anesthesia Surgical Services	✓	✓	Kidney Surgical Services	✓	✓
Birthing Obstetric Services	✓		Labor Room Service Obstetric Services	✓	✓
Blood Bank Renal Dialysis Service	✓	✓	Medical Intensive Care Services	✓	
Cardiac Catheterization Diagnostic Therapeutic Services	✓	✓	Neonatal Acute Care Services	✓	
Chemistry Laboratory Services	✓	✓	Neonatal Intensive Care Services	✓	
Clinical Pathology Laboratory Services	✓	✓	Neurosurgical Surgical Services	✓	✓
Combined Labor/Delivery Obstetric Services	✓		Newborn Nursery Care Services	✓	
Coronary Intensive Care Services	✓		Nuclear Medicine Diagnostic Therapeutic Services	✓	✓
Cytology Laboratory Services	✓	✓	Observation (Short Stay) Care Clinic Services		✓
Delivery Room Obstetric Services	✓		Occupational Therapy Services	✓	✓
Dental Surgical Services	✓	✓	Oncology Acute Care Services	✓	✓
Diagnostic Therapeutic Services	✓	✓	Open Heart Surgical Services	✓	
Dietetic Counseling Other Services	✓	✓	Ophthalmologic Surgical Services	✓	✓
Echocardiology Diagnostic Therapeutic Services	✓	✓	Orthopedic Acute Care Services	✓	✓
Electrocardiology Diagnostic Therapeutic Services	✓	✓	Orthopedic Emergency Services	✓	✓
Electroencephalography Diagnostic Therapeutic Services	✓	✓	Orthopedic Surgical Services	✓	✓
Emergency Room Services	✓	✓	Otolaryngologic Surgical Services	✓	✓
Endoscopy Diagnostic Therapeutic Services	✓	✓	Patient Representative Services	✓	✓
Extracorporeal Membrane Renal Dialysis	✓	✓	Pediatric Acute Care Services	✓	
Gastro-Intestinal Lab Diagnostic Therapeutic Services	✓	✓	Pediatric Intensive Care Services	✓	
General Surgical Services	✓	✓	Pediatric Surgical Services	✓	✓
Gynecological Surgical Services	✓	✓	Peripheral Vascular Lab Diagnostic Therapeutic Services	✓	✓
Hyperbaric Chamber Services		✓	Physical Therapy Diagnostic Services	✓	✓

# Summary of Hospital Services (cont.)

Summary of Hospital Services					
	<u>Inpatient</u>	<u>Outpatient</u>		<u>Inpatient</u>	<u>Outpatient</u>
Plastic Surgical Services	✓	✓	Social Work Services	✓	✓
Podiatry Surgical Services	✓	✓	Speech-Language Pathology Diagnostic Therapeutic Services	✓	✓
Post Partum Acute Care Services	✓	✓	Sportscare Medicine Diagnostic Services	✓	✓
Premature Newborn Nursery Care Services	✓		Stress Testing Diagnostic Therapeutic Services	✓	✓
Pulmonary Function Diagnostic Therapeutic Services	✓	✓	Surgical Acute Care Services	✓	✓
Pulmonary Intensive Care Services	✓		Surgical Intensive Care Services	✓	
Radiation Therapy Diagnostic Services	✓	✓	Thoracic Surgical Services	✓	✓
Respiratory Therapy Diagnostic Therapeutic Services	✓	✓	Urologic Surgical Services	✓	✓
Satellite Ambulatory Surgery Center Clinic Services		✓			



# Management Overview

## Management Experience

Name	Position	Years of Experience		Biography
		Industry	DCHS	
Jim Dover	President and CEO (OCH and SLRH)	30	5	<ul style="list-style-type: none"> <li>Nearly 30 years of experience working for a variety of Catholic health systems</li> <li>Previously served as the CEO of St. Anthony North Hospital, a member of Centura Health, in Westminster, CO, and President and CEO of Lourdes Health Network, a member of Ascension Health, in Pasco, WA</li> <li>Currently serves on the Board of Directors of the San Jose Silicon Valley Chamber of Commerce and is a Fellow of the American College of Healthcare Executives</li> </ul>
David Carroll	SVP, CFO	37	3	<ul style="list-style-type: none"> <li>Mr. Carroll has 37 years of healthcare finance experience</li> <li>Previously worked with Tatum Partners, providing interim CFO services to a number of different organizations across the U.S., CFO at Miami Children's Hospital, CEO and owner of Creative Healthcare Concepts, CFO/Treasurer for Genesis Health System and CFO for Hotel Dieu Hospital in El Paso, TX</li> </ul>
George Block, M.D.	CMO	25	6	<ul style="list-style-type: none"> <li>Board certified in both pulmonary diseases and internal medicine</li> <li>Has served as a resource to the medical staff and as a liaison between the medical staff and OCH and has overseen all of OCH's quality initiatives and case management activities</li> <li>Received his medical doctorate at Ohio State University, completed his internal medicine residency at Norwalk Hospital (affiliated with Yale University) and completed his pulmonary fellowship at the University of British Columbia Hospitals in Vancouver</li> </ul>
Dawn Goeringer, MSN, RN	SVP / CNE and NE	30	N/A (effective February 24, 2014)	<ul style="list-style-type: none"> <li>Most recently served as CNO at Kaiser Permanente in San Jose, where she was trained in LEAN methodologies and improved quality outcomes by creating a professional practice structure to align with organizational goals</li> <li>In previous positions, she increased patient satisfaction scores using Studer rounding principles and facilitated the expansion of an EMR in perinatal services</li> <li>Ms. Goeringer received her Bachelor of Science degree in nursing from the University of Delaware in Newark and her Master of Science degree in nursing from Widener University in Chester, PA. She also has been an adjunct faculty member in the health services management graduate program at the University of LaVerne in Los Angeles.</li> <li>She received the Nurse Leader of the Year award in 1998 from USC University Hospital in Los Angeles and Tenet Woman of the Year in 1996 from YWCA in Los Angeles</li> </ul>

# Key Considerations

## Strengths and Investment Highlights

- The only Catholic not-for-profit hospital in the San Jose market with exceptional quality of care and recognition
- OCH is a market leader in its geography, as evidenced by numerous accolades and the high value of services it provides
  - Ranked among the top hospitals in San Jose by U.S. News and World Report
  - Certified Primary Stroke Center
  - Leading programs, including hip and knee replacement, wound care and family center
- Volume growth in neurology
- Medical office building with available capacity
- Available adjacent land for expansion and/or development of the campus
- OCH's campus is strategically located in San Jose County at the intersection of I-280 and I-880, only minutes from prestigious Silicon Valley

## Opportunities

### Near-Term

- Expand physician network through collaboration/partnership with DCHS Medical Foundation
- Partnership with local, large employers and commercial payors through commercial accountable care organizations (“ACOs”) to capture greater share of non-government business

### Long-Term

- Expand capacity for high-acuity programs

### Recently Completed

- Joint venture with physicians on outpatient surgery center
- Physician alignment through partnership with DCHS Medical Foundation

### Ongoing

- A significant opportunity to participate in the delivery of inpatient and outpatient hospital care in a major metropolitan market
- A relationship with a growing DCHS Medical Foundation and the care continuum platform to support population management and value-based care delivery capabilities across a wide geographic area
- Physician recruitment
- Maximize referral potential
- Increase and capture greater share of commercial/non-governmental patient population through partnerships with DCHS Medical Foundation and other opportunities with large local tech companies and commercial payors
- Expand outpatient/ambulatory care access and services

# Institutes of Excellence

Center / Services	Description
<b>Orthopedics &amp; Joint Replacement (incl. arthritis)</b>	<ul style="list-style-type: none"> <li>■ Orthopedic patients at OCH benefit from excellent and compassionate care. Board certified physicians and staff use cutting-edge technology to provide rehabilitative services that help restore quality of life for patients in some of the direst situations.</li> <li>■ OCH met the rigorous guidelines set by The Joint Commission and received Center of Excellence designation in Hip Replacement and Knee Replacement by Blue Cross/Blue Shield Association.</li> <li>■ The program’s physician specialists, nurses and therapists care for patients who are experiencing orthopedic problems related to bones and joints, such as hips and knees. They also provide expert treatment for patients suffering from spinal injuries or neurological and brain disorders, including tumors and aneurysms. Physical therapists in the unit help patients regain the ability to move and function.</li> <li>■ Continuum of care is the central focus at OCH for arthritis patients and those needing joint replacement surgery. A team of orthopedic surgeons, nurses, therapists, nutritionists and case managers ensure patients have the proper education and support to manage symptoms and, if needed, prepare for and recover from surgery with comfort. The hospital offers free arthritis educational information, in addition to a variety of community health and preoperative classes.</li> </ul>
<b>Stroke Program</b>	<ul style="list-style-type: none"> <li>■ OCH’s Stroke Program is certified as an Advanced Primary Stroke Center by The Joint Commission, the foremost accrediting body in healthcare in the United States. Stroke certification is awarded to centers that pass a rigorous on-site review and a thorough examination of the program and patient care. The certification recognizes the Stroke Center’s commitment to following national standards and guidelines that can significantly improve outcomes for stroke patients.</li> <li>■ The Stroke Program at OCH is dedicated to preventing, diagnosing and treating strokes, offering expertise and leading-edge technology. Inpatient management is led by a fellowship-trained and board-certified stroke nurse practitioner, one of only two in Northern California. The Stroke Program’s objective is to decrease the risks for stroke, to help improve stroke patients’ quality of life and decrease disability from stroke.</li> </ul>
<b>Wound Care Clinic</b>	<ul style="list-style-type: none"> <li>■ The OCH Wound Care Clinic, a Joint Commission Certified Center of Excellence for Wound Care, provides comprehensive wound management to patients suffering from chronic, non-healing wounds. OCH utilizes the most advanced surgical and medical treatments available, including hyperbaric oxygen therapy.</li> <li>■ The Wound Care Clinic offers comprehensive, integrated care, offering 20 private treatment rooms and state-of-the-art equipment. OCH’s multidisciplinary team of physicians includes vascular surgeons, general surgeons, podiatrists, internists, a plastic surgeon, an orthopedic surgeon, and an infectious disease specialist who work together to determine why the wound is not healing and develop a plan of care to heal the wound as quickly as possible. Many difficult chronic wounds have been healed successfully at the OCH Wound Care Clinic, which has a successful healing rate of more than 90%.</li> </ul>

# Overview of Select Hospital Services

Center / Services	Description
<b>Cancer Care Center</b>	<ul style="list-style-type: none"> <li>■ Established in 1990, the Cancer Care Center at OCH has been providing comfort and care for its patients for decades. An accredited American College of Surgeons facility, the center is highly regarded by area physicians and the American Cancer Society for its comprehensive services and commitment to quality care.</li> <li>■ The center’s comprehensive cancer diagnosis and cancer treatment services include: clinical labs, radiology services, nuclear medicine specialists, radiation and inpatient care.</li> <li>■ OCH is one of only a few hospitals in the area that provide Endoscopic Ultrasound (“EUS”), a minimally invasive state-of-the-art alternative to exploratory surgery. Using EUS, physicians can accurately diagnose and stage tumors of the GI tract and pancreas without multiple tests or surgery.</li> </ul>
<b>Critical Care Unit</b>	<ul style="list-style-type: none"> <li>■ OCH features a 22-bed unit with specialized diagnostic and monitoring equipment available to provide advanced observation and intervention.</li> </ul>
<b>Emergency Services</b>	<ul style="list-style-type: none"> <li>■ OCH’s state-of-the-art emergency department includes 21 beds and two triage beds. Specialized care services include two major treatment rooms, two emergency gynecology/pediatric rooms and six chest pain rooms with special monitoring equipment. Additionally, there are: a dedicated ENT room, six urgent care rooms, a physician’s sleep room, a lab to allow for various tests “on the spot,” and two negative pressure rooms for patients who might have TB or other communicable diseases. Other amenities include a comfortable waiting area and a new nursing station and communications center.</li> </ul>
<b>Family Center</b>	<ul style="list-style-type: none"> <li>■ OCH recognizes the special healthcare needs of women and children, and the hospital delivers more than 3,000 babies each year. The hospital’s birthing and maternity suites combine the comforts of home with advanced technology and qualified, supportive nursing staff and physicians.</li> <li>■ OCH was voted a 2011 Family Favorite “Best Birth Center” by readers of Bay Area Parent Magazine.</li> </ul>
<b>Family Medicine Residency</b>	<ul style="list-style-type: none"> <li>■ The San Jose-OCH Family Medicine Residency Program is an “8-8-8” residency program, meaning it is comprised of eight residents in each of their three years of training—one year of internship followed by two additional years of residency. Residents are trained to become community physicians skilled at caring for all age groups of patients, from newborn to the elderly. Residents are also trained to deliver babies, assist surgeons, and care for patients admitted to the hospital. Residents are recruited from medical schools all over the United States, and the eight residents selected each year are selected from a pool of several hundred qualified applicants.</li> </ul>

# Overview of Select Hospital Services (cont.)

Center / Services	Description
<b>Heart Care</b>	<ul style="list-style-type: none"> <li>■ As one of the first facilities to provide open-heart surgery in the Santa Clara Valley, OCH has been a leader in the field since the 1970s.</li> <li>■ During the past 30 years, OCH has made dramatic advances into the complementary fields of cardiology and electrophysiology, performing the highest volume of angioplasty procedures of any facility in the area and pioneering the use of radiofrequency ablation in the Santa Clara Valley.</li> <li>■ OCH's exceptional cardiovascular physicians work closely with the Heart Center's well-trained nursing staff, many of whom are certified in critical care and board-certified emergency medicine physicians.</li> </ul>
<b>Imaging Services</b>	<ul style="list-style-type: none"> <li>■ The Imaging Services department plays a key role in OCH's standing as a leading hospital in Santa Clara County. The department, equipped with state-of-the-art medical imaging equipment, is staffed by expertly trained medical professionals committed to providing excellent and compassionate care.</li> <li>■ Working in partnership with OCH to deliver imaging services are a dedicated group of specialty-trained and board-certified physicians and registered nurses. These clinicians have extensive experience in routine medical imaging and training in neurological imaging, nuclear medicine imaging, body and musculo-skeletal imaging and imaging guided procedures. OCH radiologists work closely with patients and primary care physicians, providing concise and accurate image interpretation to expedite disease diagnosis and follow patients' care.</li> </ul>
<b>No One Dies Alone</b>	<ul style="list-style-type: none"> <li>■ The OCH's No One Dies Alone program was created to provide a reassuring presence to terminally ill patients that are in the dying process and have no family/visitors, or whose family needs a respite from sitting vigil. With the support of the nursing staff, OCH volunteer Compassionate Companions offer patients the most valuable of human gifts: a dignified death.</li> </ul>
<b>Palliative Care</b>	<ul style="list-style-type: none"> <li>■ A professionally trained team of physicians, nurse practitioners, nurses, social workers and chaplains stand with patients as they seek the answers to some of life's toughest questions.</li> </ul>
<b>Parish Nursing</b>	<ul style="list-style-type: none"> <li>■ Parish nurses are registered nurses on staff in local churches, performing independent, professional nursing practice in the provision of faith-based, whole-person focused, community health nursing services. These services are performed at the church or during home/nursing home/hospital visits.</li> </ul>
<b>Progressive Care Unit</b>	<ul style="list-style-type: none"> <li>■ The PCU is considered an intermediate critical care unit and part of the Critical Care Department at OCH. Bed capacity is 24, with each bed capable of bedside or telemetry monitoring. The unit is staffed with professional registered nurses, and licensed vocational nurses have all received specialized training and are ACLS certified.</li> </ul>

# Overview of Select Hospital Services (cont.)

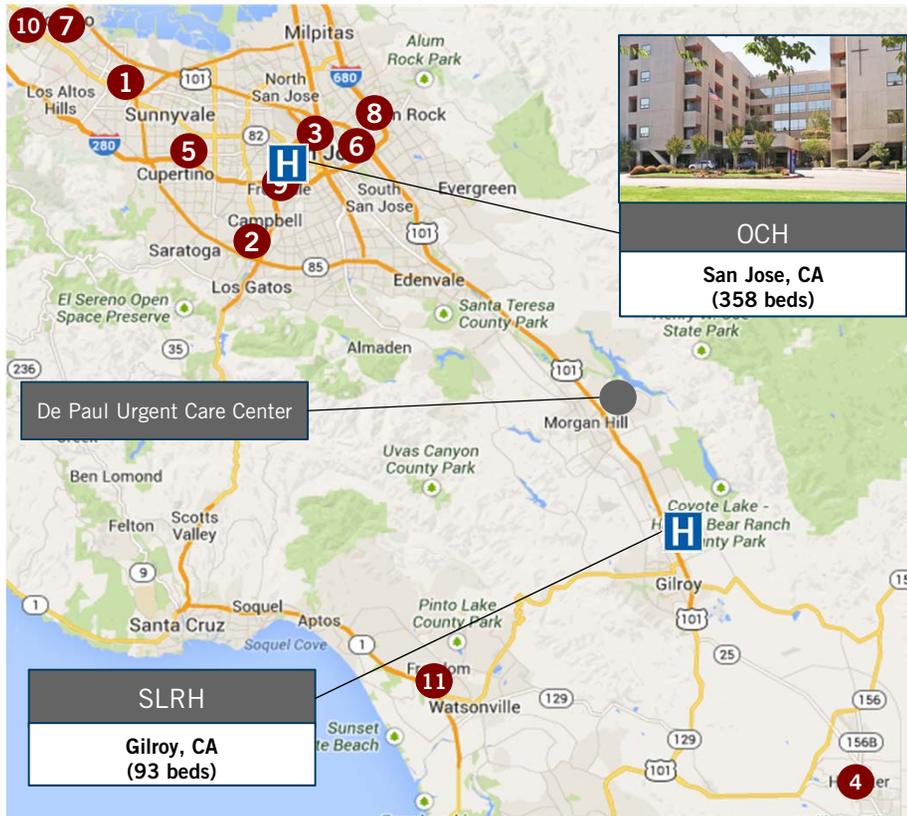
Center / Services	Description
<b>Radiation Therapy</b>	<ul style="list-style-type: none"> <li>■ A team of highly skilled healthcare professionals work with referring physicians to provide patients with integrated, excellent care. All individuals who prescribe and administer radiation therapy have outstanding clinical credentials. OCH takes pride in the services it provides to its patients and goes the extra step to make them feel special. OCH has two board-certified Radiation Oncologists who partner with nurses, therapists and other professionals.</li> </ul>
<b>Rehabilitation and Sports Therapy</b>	<ul style="list-style-type: none"> <li>■ OCH's team of Physical Therapists is trained to evaluate and treat both acute and chronic injuries. The hospital treats a wide variety of patients, from pediatric to the older adult, and uses the latest and most advanced equipment and techniques to help detect and treat factors contributing to patients' injuries.</li> </ul>
<b>Social Services</b>	<ul style="list-style-type: none"> <li>■ OCH's social services professionals help patients, family members and significant others cope with the social, psychological, cultural and medical issues resulting from an illness. They assure that patients' medically related emotional and social needs are met and maintained throughout treatment.</li> </ul>
<b>Spiritual Care</b>	<ul style="list-style-type: none"> <li>■ OCH provides spiritual care services to promote optimal spiritual health for staff, patients and families</li> </ul>
<b>Sports Medicine</b>	<ul style="list-style-type: none"> <li>■ OCH's Rehabilitation and Sports Therapy Clinic has a team of talented physical therapists and certified strength and conditioning specialists</li> </ul>
<b>Sports Medicine Fellowship Program</b>	<ul style="list-style-type: none"> <li>■ The Family Medicine Residency Program offers a Certificate of Added Qualification eligible fellowship in sports medicine to two candidates per year—one graduate from a primary care residency program and one graduate from an emergency medicine residency program. The fellows, as part of training, supervise residents in the O'Connor Family Health Center, teach residents in the sports medicine clinics of the program, and lecture to residents during conferences.</li> </ul>
<b>Subacute Care Program</b>	<ul style="list-style-type: none"> <li>■ The Subacute Care Program at OCH is a 24-bed licensed skilled nursing unit that provides specialized nursing and supportive inpatient medical care for the medically complex patient who has had an acute illness, injury or the exacerbation of a chronic disease and requires ongoing skilled clinical care</li> <li>■ The Subacute Care Program is an interdisciplinary approach to care by specially-trained nurses, physicians, respiratory therapists, social services and rehabilitation therapy staff to provide quality, compassionate and specialized care to medically complex residents</li> </ul>

# Overview of Select Hospital Services (cont.)

Center / Services	Description
<b>Vascular Center</b>	<ul style="list-style-type: none"><li>■ The OCH Vascular Center is focused on quality patient care, research and teaching. The endovascular program emphasizes early detection, minimally invasive procedures when possible, and prevention, with positive patient outcomes. The state-of-the-art Endovascular Suite utilizes cutting-edge technology with a flat panel detector for endovascular procedures and anesthesia presence for safe patient monitoring.</li><li>■ OCH's Vascular Center and Endovascular Suite have combined state-of-the-art technology and a complete evaluation of the patient to provide quality care and treatment of vascular disease, expanding the level of care and service OCH provides through its endovascular program.</li></ul>

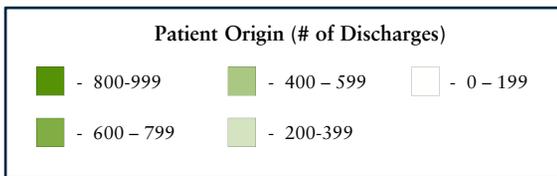
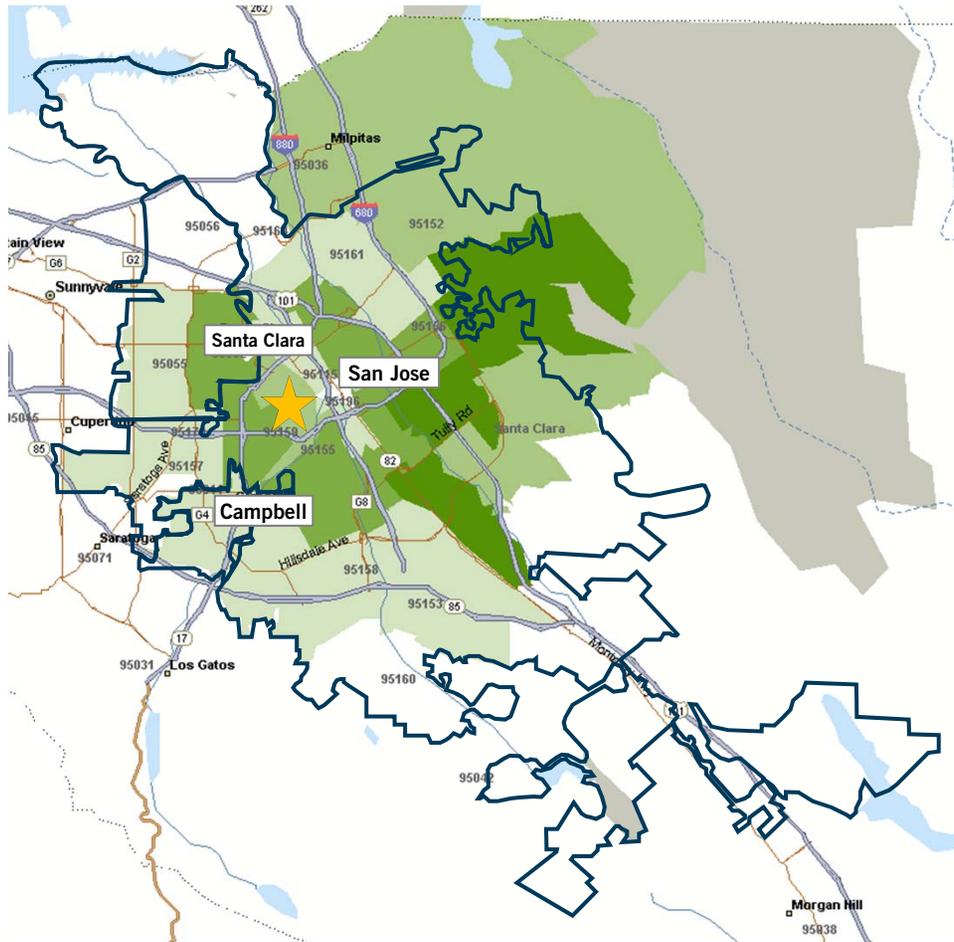


# Competitive Landscape – Santa Clara County



	Affiliation	Beds	Distance (mi)	
<b>PRIMARY COMPETITION</b>				
1	El Camino Hospital – Mountain View	El Camino Hospital	300	13
2	El Camino Hospital – Los Gatos	El Camino Hospital	143	13
3	Good Samaritan Hospital – San Jose	HCA	349	7
4	Hazel Hawkins Memorial Hospital	Standalone	113	53
5	Kaiser Foundation Hospital – Santa Clara	Kaiser Permanente	327	6
6	Kaiser Foundation Hospital – San Jose	Kaiser Permanente	217	13
7	Lucile Salter Packard Children's Hospital at Stanford	Stanford University	302	20
8	Regional Medical Center of San Jose	HCA	216	8
9	Santa Clara Valley Medical Center	County of Santa Clara	574	2
10	Stanford University Hospital	Stanford University	613	22
11	Watsonville Community Hospital	Standalone	106	42

# Primary Service Area



- Denotes primary service area

Service Area	Households	Total Population	Median Income	Per Capita Income
Campbell	16,641	40,272	\$84,692	\$45,407
San Jose	317,021	982,765	\$81,349	\$33,807
Santa Clara	44,354	119,311	\$92,198	\$39,622

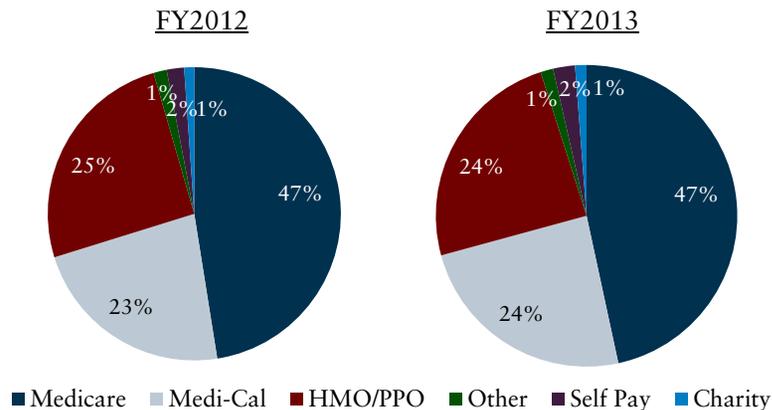
# Sources of Revenue

- OCH relies on government programs for reimbursement of services, with Medicare and Medi-Cal participants accounting for approximately 47% and 23% of patient days in FY2012, and approximately 47% and 24% in FY2013, respectively
  - Medicare and Medi-Cal participants accounted for more than 70% of all patient days over the past two years
- OCH is a net receiver of supplemental funding under the Provider Fee and Meaningful Use government programs
  - In FY2013, OCH received \$9 million, up from \$3 million in FY2012

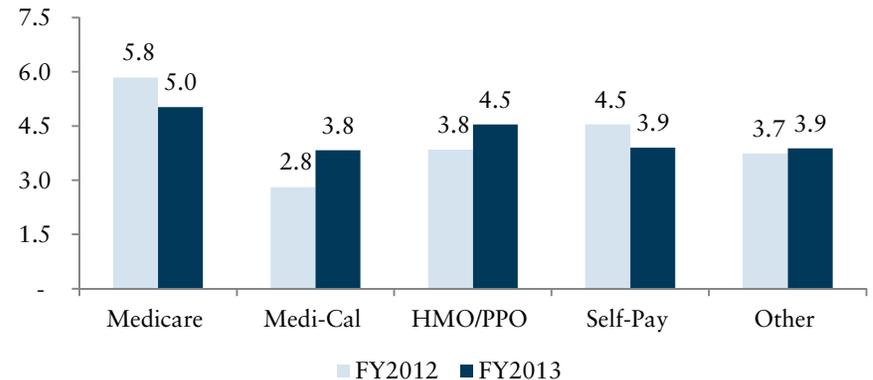
## Net Supplemental Funding (FY2011–13 YTD) (\$ millions)

	FY2011	FY2012	FY2013	LTM Dec-2013
Provider Fee - Medi-Cal	\$ 10	\$ 14	\$ 10	\$ 11
Provider Fee - Medi-Cal Managed Care	6	2	14	14
Provider Tax	(15)	(14)	(17)	(18)
Net Provider Fee	0	1	7	7
Meaningful Use	-	1	2	1
<b>Total</b>	<b>\$ 0</b>	<b>\$ 3</b>	<b>\$ 9</b>	<b>\$ 8</b>

## Patient Days by Payor (FY2012-13) \*



## Average Length of Stay by Payor (FY2012-13) \*



# Employee and Physician Overview

- OCH has more than 1,960 employees (1,105 FTEs) and more than 580 affiliated physicians
  - Approximately 73%, or 1,427 employees, are covered by CBAs
    - CNA has the largest union representation, with 750 members
- OCH has 488 active physicians, with the three largest specialties—internal medicine, pediatrics<sup>(a)</sup> and family practice—comprised of approximately 30% of active doctors
  - OCH is pursuing a physician alignment strategy through its strong partnership with DCHS Medical Foundation to address the growing concerns of physicians who seek financial stability and opportunities for growth
  - It is also pursuing an aggressive physician recruitment strategy to enhance and expand services to meet the growing healthcare needs of the community and exploring commercial ACO opportunities with large commercial payers and local employer groups
- With the exception of the following, all other services are provided and managed in-house:
  - BioMed/Engineering (TriMedx)
  - IT Services (Dell)
  - Property Management (Cassidy Turley-MOBs only)
  - Subacute Program (Vital Care)

## Employee FTEs by Type (September 2013)

Employee Category	Count	FTEs
<b><i>Union</i></b>		
CNA	750	390
SEIU Local 250	496	289
SEIU Local 250 Technical	137	64
Local 39 Engineers	17	17
Licensed Vocational Nurses	27	17
<b><i>Non-Union</i></b>		
Director	31	31
Manager	29	28
Supervisor	23	16
X-Ray Agreement	18	4
Administration	5	5
Foundation	2	2
Other	430	242
<b>Total</b>	<b>1,965</b>	<b>1,105</b>

## Summary of Physicians by Specialty

Specialty	Count	% of Total
<b><i>Active Physicians</i></b>		
1. Internal Medicine	57	12%
2. Pediatrics	48	10%
3. Family Practice	41	8%
4. Cardiology	38	8%
5. Obstetrics/Gynecology	36	7%
6. Orthopedic Surgery	21	4%
7. Anesthesiology	19	4%
8. Teleradiology	18	4%
9. General Surgery	18	4%
10. Emergency Medicine	14	3%
11. Other	178	36%
<b>Total Active</b>	<b>488</b>	<b>100%</b>
Non-Active (b)	94	
<b>Total</b>	<b>582</b>	

Notes:

- (a) The pediatrics practice was transferred to DCHS Medical Foundation as of July 2013
- (b) Includes administrative, provisional, courtesy, temporary and other medical staff

# Financial Performance Overview

- Net patient revenue is projected to marginally decline due to a reduction in reimbursement rates
- OCH received ~\$8 million in net supplemental funding in LTM December 2013
- Salary and benefits have remained stable, slightly decreasing from FY2011 to LTM December 2013; ~\$192 million vs. ~\$191 million, respectively

## Summary of Financial Performance (FY ending June 30; \$ millions)

	FY2011A	FY2012A	FY2013A	LTM Dec-13
Patient Revenue	\$ 266	\$ 255	\$ 260	\$ 258
Supplemental Funding Receipts (a)	16	17	27	26
Other Revenue	9	7	9	10
<b>Total Revenue</b>	<b>290</b>	<b>279</b>	<b>295</b>	<b>293</b>
Salaries and Benefits	(192)	(182)	(189)	(191)
Supplies	(41)	(38)	(41)	(43)
Purchased Services and Other	(30)	(29)	(31)	(34)
Supplemental Funding Tax	(15)	(14)	(17)	(18)
<b>Total Expenses (b)</b>	<b>(278)</b>	<b>(264)</b>	<b>(278)</b>	<b>(285)</b>
<b>Allocated Shared Services (c)</b>				
Corporate	(5)	(6)	(8)	(8)
CBS	(9)	(7)	(7)	(6)
IT	(6)	(8)	(9)	(9)
<b>Total Shared Services</b>	<b>(20)</b>	<b>(21)</b>	<b>(23)</b>	<b>(24)</b>
<b>EBIDA Before Adjustments</b>	<b>(8)</b>	<b>(5)</b>	<b>(6)</b>	<b>(15)</b>
<b>EBIDA Adjustments:</b>				
Third-Party Settlements	(1)	(4)	(7)	(8)
<b>Adjusted EBIDA</b>	<b>(10)</b>	<b>(9)</b>	<b>(12)</b>	<b>(23)</b>
<b>Adjusted EBIDA (w/o Shared Services)</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>1</b>
<b>Capital Expenditures</b>	<b>\$ 13</b>	<b>\$ 5</b>	<b>\$ 6</b>	<b>\$ 6</b>

## Select Balance Sheet Items (\$ millions)

	6/30/2013	12/31/2013
<b>Current Assets</b>		
Patient Accounts Receivable, Net	\$ 34	\$ 35
Due From Government Agencies	3	-
Other Current Assets	14	8
<b>Total Current Assets</b>	<b>51</b>	<b>42</b>
<b>Current Liabilities</b>		
Accounts Payable	5	8
Due to Government Agencies	1	(3)
Accrued Liabilities	27	20
<b>Total Current Liabilities</b>	<b>\$ 33</b>	<b>\$ 25</b>

### Notes:

- 
 (a) Includes Provider Fee payments and meaningful use  
 (b) Excludes Depreciation, Amortization, Interest and Asset Impairment  
 (c) LTM December 2013 represents shared services as of LTM November 2013

# Select Operating Statistics

## Key Operating Statistics

	FY2013	LTM Dec-2013
<u>Discharges</u>		
General Acute	8,530	8,592
Obstetrics	3,195	3,023
Subacute	26	27
Total	11,751	11,642
<u>Average Daily Census</u>		
Acute	123	123
Subacute	20	20
Total	143	143
<u>Average Length of Stay (Days)</u>		
Acute	3.8	3.8
Subacute	277.8	187.9
Total	4.4	4.5

## Summary of Patient Days by Unit

Unit	FY2013	LTM Dec-2013
Intensive Care Unit	4,848	4,570
NICU and PICU	1,661	1,682
Oncology	10,423	10,304
Ortho	9,058	9,350
Med/Surg	9,252	9,238
Pedi	1,402	1,600
CDU	113	128
Obstetrics	8,195	7,831
Subacute	7,223	7,445
Total	52,175	52,148

## Other Operating Statistics

	FY2013	LTM Dec-2013
<u>Emergency Services</u>		
IP Visits	6,692	6,696
OP Visits	50,303	51,769
Total	56,995	58,465
<u>Wound Care</u>		
Total Visits	8,043	8,570
<u>Surgery (IP and OP)</u>		
Total Minutes	652,919	645,235
Total Cases (excl. Open Heart)	6,527	6,601
<u>Cardiac Catheterization Lab</u>		
IP Procedures	943	1,083
OP Procedures	1,062	1,305
Total	2,005	2,388
<u>Cardiology Services</u>		
IP EKG Procedures	12,891	12,871
OP EKG Procedures	14,809	15,510
Total	27,700	28,381
<u>Radiology</u>		
Total Exams (IP and OP)	42,688	41,735
<u>Radiation Therapy</u>		
Total Procedures (IP and OP)	8,335	7,153
<u>Dialysis</u>		
IP Procedures	1,999	1,764
OP Procedures	197	203
Total	2,196	1,967

# Top 10 Product Lines and Physicians

## Top 10 Product Lines by Discharges (FY2013) (a)

Product Line	Cases	% of Total
1. OB/GYN	5,017	34%
2. NICU	1,753	12%
3. All Surgery	1,153	8%
4. General Medicine	990	7%
5. Gastroenterology	898	6%
6. Pulmonary	865	6%
7. Other Heart - Medical	708	5%
8. Peds Only	675	5%
9. Orthopedic Surgery	651	4%
10. Urology	461	3%
Total Top 10	13,171	89%

## Top 10 Physicians by Discharges (FY2013) (a)

Physicians	Cases	% of Total
1. Physician A	567	4%
2. Physician B	565	4%
3. Physician C	486	3%
4. Physician D	402	3%
5. Physician E	319	2%
6. Physician F	312	2%
7. Physician G	286	2%
8. Physician H	253	2%
9. Physician I	249	2%
10. Physician J	237	2%
Total Top 10	3,676	25%

## Top 10 Product Lines by Gross Revenue (FY2013) (\$ millions) (b)

Product Line	Gross		Total	
	Revenue	% of Total	Payments	% of Total
1. All Surgery	\$ 198.0	21%	\$ 36.1	23%
2. OB/GYN	138.7	15%	23.1	15%
3. Pulmonary	95.1	10%	14.8	9%
4. General Medicine	91.4	10%	14.9	9%
5. Orthopedic Surgery	75.8	8%	14.7	9%
6. Gastroenterology	49.1	5%	8.6	5%
7. Other Heart - Medical	48.5	5%	7.1	4%
8. NICU	32.0	3%	5.0	3%
9. Urology	26.4	3%	4.4	3%
10. Peds Only	18.9	2%	3.1	2%
Total Top 10	\$ 773.8	83%	\$ 131.6	83%

## Top 10 Physicians by Gross Revenue (FY2013) (\$ millions) (b)

Physicians	Gross		Total	
	Revenue	% of Total	Payments	% of Total
1. Physician A	\$ 45.0	5%	\$ 6.1	4%
2. Physician B	44.6	5%	7.5	5%
3. Physician C	24.1	3%	4.4	3%
4. Physician D	22.6	2%	4.4	3%
5. Physician E	22.4	2%	4.3	3%
6. Physician F	20.2	2%	3.8	2%
7. Physician G	18.7	2%	2.7	2%
8. Physician H	18.3	2%	2.4	2%
9. Physician I	16.6	2%	2.7	2%
10. Physician J	16.6	2%	3.0	2%
Total Top 10	\$ 248.9	27%	\$ 41.3	26%

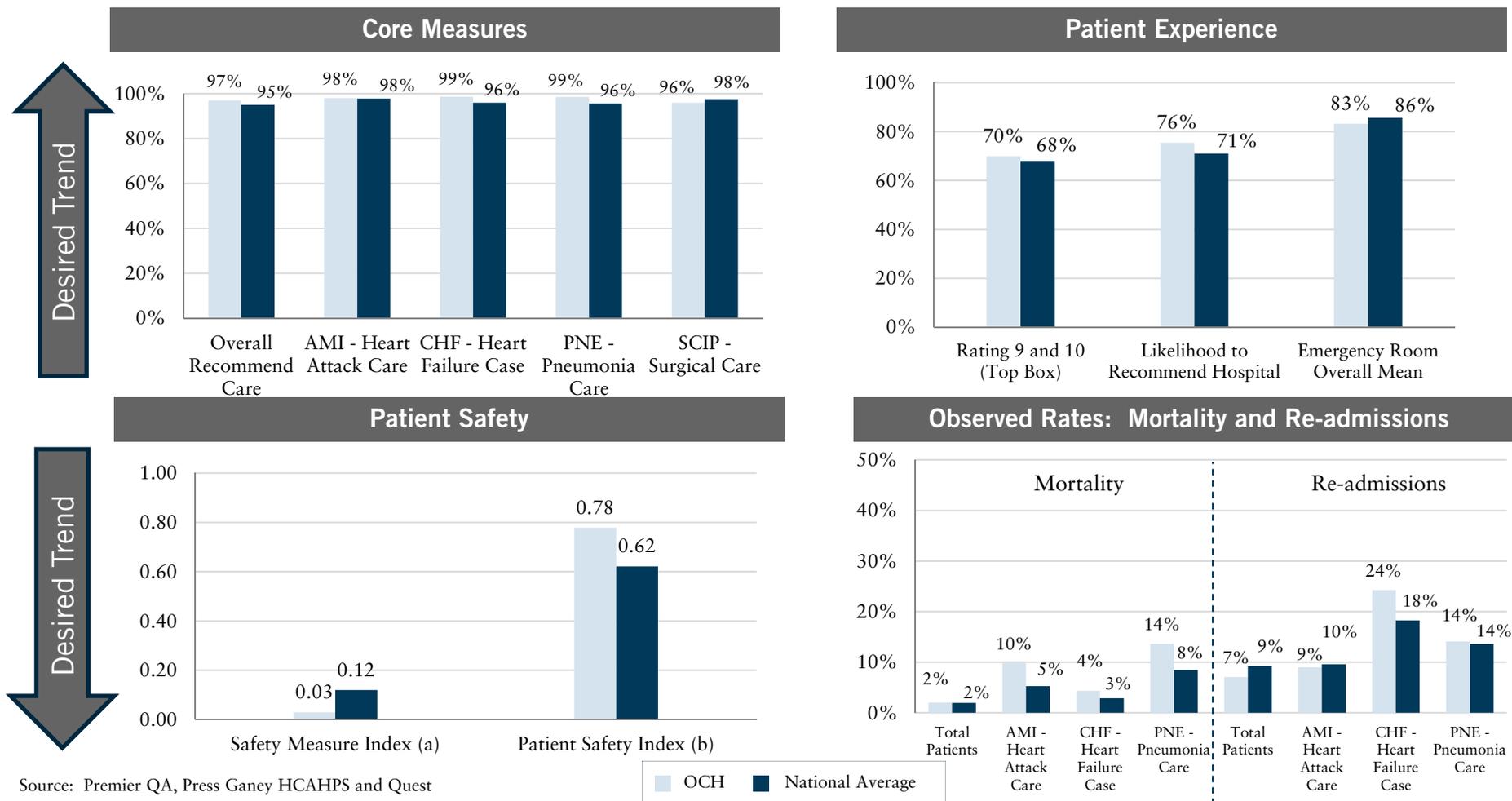
Notes: Fiscal year ends June 30

(a) Includes routine nursery discharges

(b) Total Payments include cash posted to individual patient accounts only, excluding Medicare cost report settlements, Medi-Cal disproportionate share payments, Trauma payments (Measure B funds), Provider Fee and Capitation Settlements

# Health, Safety and Quality Metrics

■ The charts below compare select OCH quality and safety performance metrics to national averages



Source: Premier QA, Press Ganey HCAHPS and Quest

Notes:

- (a) Safety Measure Index (Quest Harm Composite) is the Occurrence of Harm captured by ICD9 Coded data. QUEST harm composite accounts for the deviation of the observed rate from the expected rate and then divides by a measure of dispersion (or standard deviation) indicating variation within the hospital's performance across the cohort.
- (b) Patient Safety Index (PSI90) composite measure select patient safety indicators: Pressure Ulcer, Iatrogenic Pneumothorax, Central Venous Catheter-Related Blood Stream Infections, Postop Hip Fracture, Postop PE or DVT, Postop Sepsis, Postop Wound Dehiscence and Accidental Puncture or Laceration

# Capital Expenditure Summary

- OCH received approval from OSHPD in late 2013 to extend seismic compliance through June 2019 for its remaining seismic compliance work
  - The cost for the seismic improvements is anticipated to be approximately \$10-15 million, subject to timing and options selected. It is also anticipated that there will be additional costs for the relocation of approximately 70 FTEs in order to partially demolish one of the buildings.
  - OCH has allocated more than \$2.3 million in FY2014 to comply with seismic requirements and to address its major seismic concern, the 1953 building that is proposed to be partially demolished with the administrative staff relocated to the adjacent MOB
- A summary of the recent investments and near-term capital needs are highlighted in the tables below:
  - Invested approximately \$13 million in software and infrastructure upgrades in FY2011 and FY2012, \$10 and \$3 million, respectively
  - Completed renovations of radiology and diagnosis facility and construction of ASU in FY2011 for approximately \$1 million, as well as upgraded to E-Lab in FY2013 for approximately \$1 million
  - Purchased new medical equipment, including a patient monitoring system, immunoassay analyzer and surgical imaging equipment for approximately \$1.3 million in FY2012

**Summary of Major Near-Term CapEx Needs (\$ millions)**

CapEx Need	Estimated		Description
	Cost	Timing (FY)	
Patient Area	\$4.4	2015-16	Patient area refresh
Exterior	3.7	2015-16	Exterior building seal
Elevator	1.6	2015-16	Elevator controls upgrade
Roof	0.5	2015-16	Roof Replacement (1981 Roof)
Electrical	0.5	2015-16	Cooling Tower replacement
Roof (Other)	0.5	2015-16	Roof Replacement (1969 Building, loading dock, 5th fl. 1981 and penthouses)
Electrical (Other)	0.5	2015-16	ATS electrical switch upgrade DATS4, Control air compressor replacement, Energy mgmt controls upgrade – CSI, Generator cabling to 69 replacement
Exterior (Other)	0.2	2015-16	Pave / patch / reseal / re-stripe parking lots
Fire Safety	0.1	2015-16	Fire main isolation valves replacement
<b>Total</b>	<b>\$11.8</b>		

**Summary of Recent CapEx (FY2011-13) (\$ millions)**

	FY2011	FY2012	FY2013
<u>Building, Fixtures and Leasehold</u>			
1. Building Fixtures	\$ 0.5	\$ 0.2	\$ 0.1
2. Building Improvements	3.0	0.4	1.1
3. Furniture & Fixtures	0.4	0.0	-
Subtotal	3.9	0.7	1.2
4. Medical Equipment	1.4	1.9	2.3
<u>Software and IT</u>			
5. Software	10.3	3.8	1.1
6. Computer Equipment	0.5	0.2	0.0
7. Network Equipment	1.2	0.6	0.6
8. Telephone Equipment	0.2	0.1	-
Subtotal	12.2	4.6	1.7
<b>Total</b>	<b>\$ 17.4</b>	<b>\$ 7.2</b>	<b>\$ 5.2</b>

# Summary of Major Equipment

	Manufacturer / Model	Owned / Leased	Age of Equipment (years)
<b>CARDIOLOGY</b>			
Cath Lab	Phillips-Allura Xper FD20	Owned	6
Cath Lab	Phillips-Allura Xper FD20	Leased	2
<b>RADIOLOGY &amp; IMAGING</b>			
CT Scan	Siemens-Somatom 16	Owned	10
CT Scan	Seimens-Somatom 64	Owned	7
MRI	Siemens-Magnetom Avanto	Owned	10
Mammography	Hologic-Lorad Selenia	Owned	3
Ultrasound	Siemens-Antares	Owned	1
Angio	Siemens-Angio Star Plus	Owned	14
Operating Room	Siemens-Axiom Artis dTA	Owned	7
<b>ONCOLOGY</b>			
Radiation Therapy (LINAC, IMRT)	Varian-Clinac w/MLC	Owned	25 but upgraded 14 years ago
Radiation Therapy (LINAC)	Varian-Clinac	Owned	25 but upgraded 14 years ago
<b>OTHER</b>			
Hyperbaric Chamber	Sechrist Industries - 3600 H	Owned x2	5

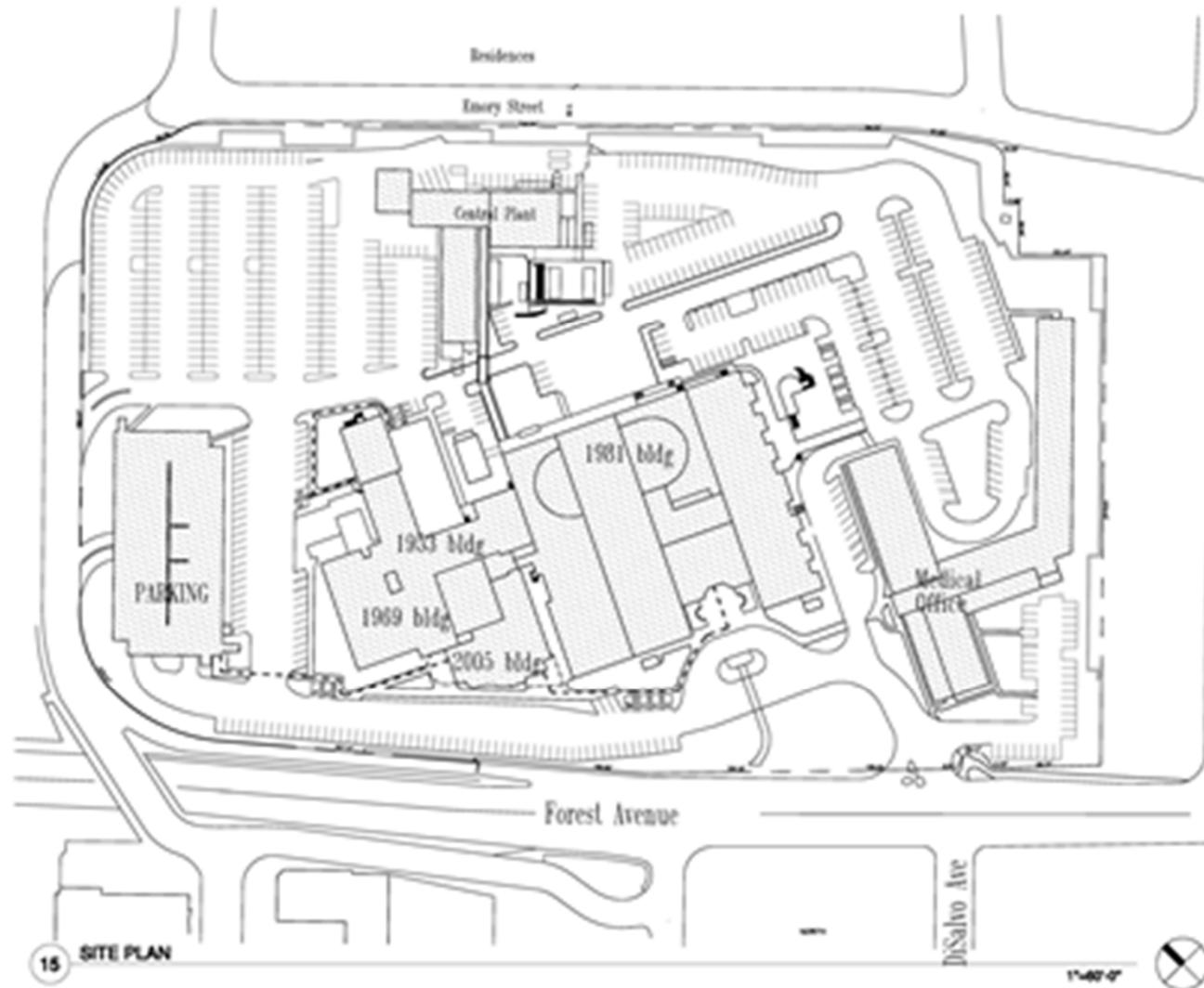
# Summary of Properties

Summary of Owned Properties					
Description	Address	Seismic	# of Stories	Year Built	Footage Owned
<b>HOSPITAL RELATED PROPERTIES</b>					
Acute Care Hospital (1953)	2105 Forest Ave. San Jose, CA 95128	OSHPD approved Extension Until June 2019	5 with Lower Level	1953	140,287
Acute Care Hospital With 2005 ED Addition (1969)	2105 Forest Ave. San Jose, CA 95128	Compliant through 2030	2 with Lower Level	1969	included in above
Acute Care Hospital With 2005 ED Addition (1981)	2105 Forest Ave. San Jose, CA 95128	Compliant through 2030	5 with Lower Level	1981	329,522
Central Plant Building (Newer and Older Sections)	2105 Forest Ave. San Jose, CA 95128	Newer part compliant past 2030, older part compliant through June 2019.	1	1953, 1981	18,300
Acute Care Hospital w 2005 ED Addition (2005)	2105 Forest Ave. San Jose, CA 95128	Compliant through 2030	1 with Partial Basement	2005	10,751
Parking Garage and Two Lots (Surrounds Building)	2105 Forest Ave. San Jose, CA 95128	N/A	4	1979	130,000 Garage / 350 Spaces
<b>MOBS &amp; OTHER PROPERTIES</b>					
Medical Office Building	2101 Forest Ave. San Jose, CA 95128	N/A	2 with Partial Basement	1960	55,585
Clarmar Building	2030 Forest Ave. San Jose, CA 95128	N/A	2	1960 (Rebuilt 1992)	11,200
Barclay Building Medical Office Condo	2039 Forest Ave., Units B2 and 204 San Jose, CA 95128	N/A	3	1960 (Rehab in 1980s)	2,038
45% JV Interest in Health Center One Office Building	455 O'Connor Dr. San Jose, CA 95128	N/A	3 with Below Parking	1996	52,000

# Summary of Properties (cont.)

Summary of Leased Properties					
Description (a)	Address	# of Stories	Year Built	Sq. Ft.	Occupied by DCHS
O'Connor Hospital – Blood Lab	455 O'Connor Dr., Suite 100 San Jose, CA	3	1996	1,164	Occupied by OCH
O'Connor Hospital – Admin Office	455 O'Connor Dr., Suite 250 San Jose, CA	3	1996	1,539	Occupied by OCH
Sleep Medicine (managed sublease)	455 O'Connor Dr., Suite 110 San Jose, CA	3	1996	2,367	0%
Aesthetic & Refractive Surgery (managed sublease)	455 O'Connor Dr., Suite 180S San Jose, CA	3	1996	1,776	0%
Savco Pharmacy (managed sublease)	455 O'Connor Dr., Suite 190 San Jose, CA	3	1996	1,316	0%
Indian Health (managed sublease)	455 O'Connor Dr., Suite 240 San Jose, CA	3	1996	6,516	0%
Dr. Sang Lee (managed sublease)	455 O'Connor Dr., Suite 280 San Jose, CA	3	1996	1,750	0%
American Laser Centers (managed sublease)	455 O'Connor Dr., Suite 330 San Jose, CA	3	1996	1,471	0%
South Bay Endoscopy Center (managed sublease)	455 O'Connor Dr., Suite 340 San Jose, CA	3	1996	827	0%
Al Hurwitz & JS Raju (managed sublease)	455 O'Connor Dr., Suite 350 San Jose, CA	3	1996	2,064	0%
Vacant – Cluck's FROR-OCH Master (managed sublease)	455 O'Connor Dr., Suite 380 San Jose, CA	3	1996	745	0%
Mama Baby OB-GYN, Inc. (managed sublease)	455 O'Connor Dr., Suite 390 San Jose, CA	3	1996	1,416	0%
Entire First Floor – subleased to Dr. Rosanelli, Lab Corp	50 E. Hamilton Ave., Suite 100 Campbell, CA	2	1993	10,000	0%
Future Lease of SB Oncology Space	50 E. Hamilton Ave., Suite 200 Campbell, CA	2	1993	7,902	0%
OCH Master Sublessor – Wound Care Center	125 Ciro Ave., Suite 201 San Jose, CA	2	2006	13,297	Occupied by DCHS

# Campus Map – Aerial View





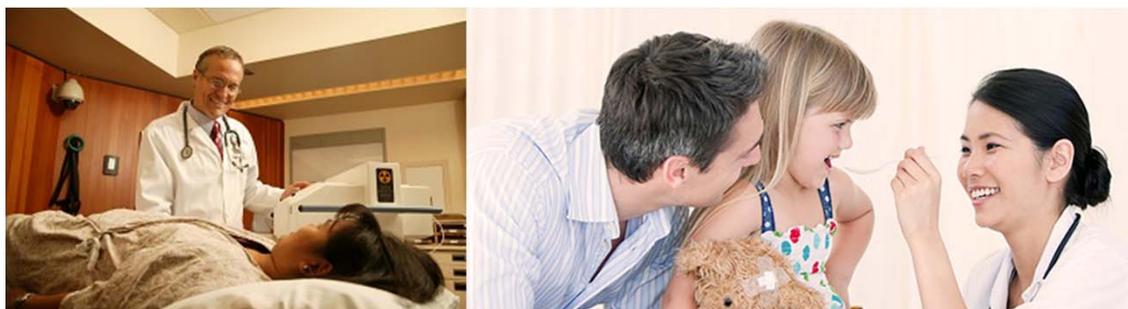
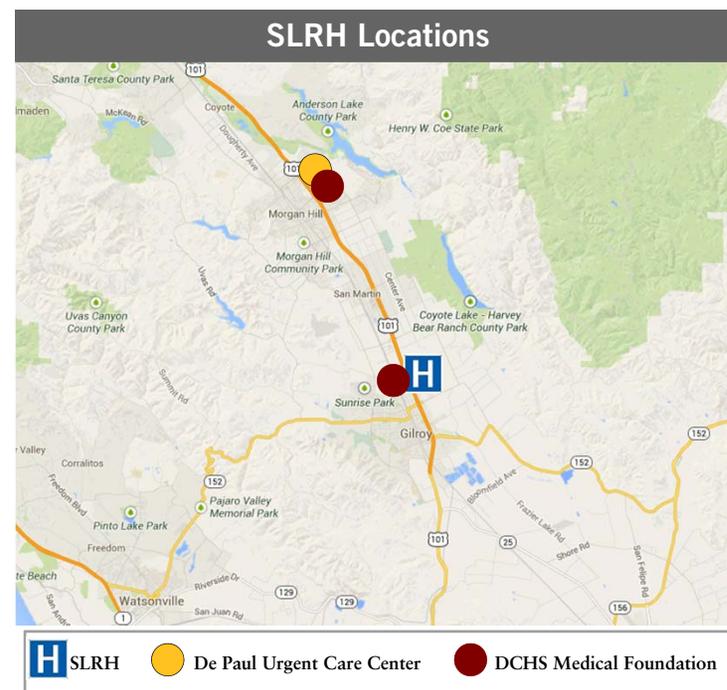
# **Overview of Operations**

## **Saint Louis Regional Hospital**



# Introduction

- SLRH is a community acute care hospital located in Gilroy, CA offering a wide range of services in a 200,000 square-foot campus to residents in both Santa Clara and San Benito counties
  - The hospital has a licensed capacity of 93 beds, of which 72 are general acute care beds and 21 are skilled nursing beds
  - SLRH and its predecessors have been providing services in the area since 1929
  - In order to serve growing communities in southern Santa Clara County, the hospital relocated to its current location in Gilroy, CA in December 1999
- SLRH's primary service area is Southern Santa Clara County and Northern San Benito County, including the communities of Gilroy, Morgan Hill, San Martin and Hollister
- SLRH has a vacant hospital in Morgan Hill along with a medical office building that houses its urgent care center, outpatient diagnostic services and is home to a number of community physicians who practice in South Santa Clara County



9400 No Name Uno, Gilroy, CA 95020  
[www.saintlouis.dochs.org](http://www.saintlouis.dochs.org)

# Overview of Key Services

- SLRH provides surgical services, general medicine, maternal and child health services and emergency services
- Other services include diagnostic imaging, cardiopulmonary, nuclear medicine, dialysis, physical medicine, critical/intensive care, telemetry and wound care, which offers the latest in hyperbaric medicine
- Key services include:
  - Critical Care
  - Diagnostic Imaging
  - Emergency Services
  - Medical/Surgical
  - Maternal Child Health Services
  - Nuclear Medicine
  - Orthopedic and Sports Medicine
  - Minimally Invasive Surgery
  - Stroke Care
- Clinics & specialty services include:
  - Breast Care Center
  - Cardiopulmonary Rehab
  - Community Health and Diabetes Education
  - De Paul Urgent Care Center
  - Health Benefits Resource Center
  - Wound Care and Hyperbaric Medicine
- SLRH strives to be the center for health and healing in the community, offering diabetes education classes in both Spanish and English, an outpatient nutritional counseling program and many other classes and support groups
- In FY2013, SLRH provided more than \$13 million in community benefit programs and services to the community

## Select Awards and Certifications



- Three-year term of accreditation from the American College of Radiology (ACR)



- Winner of Making Medicine Mercury Free Award



- Certified Primary Stroke Center by the Joint Commission



## Aerial View of SLRH



## Key Statistics (FY2013)

Available / Licensed Beds	93 / 93
Annual Discharges	3,021
Acute Average Length of Stay (Days)	3.6
Acute Average Daily Census	30
Case Mix Index (CMI)	1.259
Medicare CMI	1.515
Productive Hours (Millions)	0.6
Productive FTEs (a)	287
Total Hours (Millions)	0.8
Total FTEs (a)	384
<u>Payor Mix</u>	
Medicare (b)	44%
Medi-Cal (b)	21%
HMO/PPO	26%
Self-Pay	4%
Other	5%

Notes: Fiscal year ends June 30

(a) Implied FTEs calculated based on working hours, assuming 52 weeks

per year and 40 hours per FTE

(b) Includes managed care

# Summary of Hospital Services

Summary of Hospital Services					
	<u>Inpatient</u>	<u>Outpatient</u>		<u>Inpatient</u>	<u>Outpatient</u>
Basic OP Radiology (located at DePaul Campus)		✓	IP & Ambulatory Surgery	✓	✓
Breast Care Service (Mammography, Bone Density & Biopsy)		✓	IP Dialysis	✓	
Cardio-Pulmonary	✓	✓	Laboratory & Pathology	✓	✓
Cardiovascular Services (EKG Testing)	✓	✓	Mother/Baby (Basic Nursery)	✓	
Coronary Care	✓		Neurodiagnostic (EEG Testing)		✓
Diagnostic Imaging (Including MRI, Ultrasound, CT, General Radiology)	✓	✓	Nuclear Medicine	✓	✓
Emergency Medicine	✓	✓	Rehab Services (Physical Therapy, Occupational Therapy, Speech Therapy)	✓	✓
Endoscopy	✓	✓	Stroke	✓	
General Acute Care (Medical Surgical & Pediatrics)	✓		Urgent Care (located at DePaul Campus)		✓
Intensive Care	✓		Wound Care & Hyperbaric Oxygen Treatment Services		✓



# Management Overview

Management Experience				
Name	Position	Years of Experience		Biography
		Industry	DCHS	
Jim Dover	President and CEO (OCH and SLRH)	30	5	<ul style="list-style-type: none"> <li>Nearly 30 years of experience working for a variety of Catholic health systems</li> <li>Previously served as the CEO of St. Anthony North Hospital, a member of Centura Health, in Westminster, CO, and President and CEO of Lourdes Health Network, a member of Ascension Health, in Pasco, WA</li> <li>Currently serves on the Board of Directors of the San Jose Silicon Valley Chamber of Commerce and is a Fellow of the American College of Healthcare Executives</li> </ul>
Carol Furgurson	CAO	28	15	<ul style="list-style-type: none"> <li>Ms. Furgurson was selected as the Vice President/Chief Operating Officer of SLRH in April 2008 and was promoted to Chief Administrative Officer in April 2013</li> <li>During the past five years, she has been responsible for ancillary and support services, including diagnostic imaging, breast care center, nuclear medicine, lab, pathology, pharmacy, wound care &amp; hyperbaric oxygen treatment, engineering, biomedical services, facilities, health &amp; safety management, security, environmental services, food &amp; nutritional services, strategic planning, medical office building management, rehab services, admitting/patient registration, and telecommunications at the Gilroy and Morgan Hill campuses</li> </ul>
Lori Katterhagen	CNE	20	5	<ul style="list-style-type: none"> <li>Ms. Katterhagen has 20 years of experience as a Chief Nurse Executive and was selected as the Chief Nurse Executive for SLRH in February 2014</li> <li>Prior to joining SLRH, Ms. Katterhagen served as Director of the Medical/Surgical/Pediatric unit</li> <li>She has extensive experience in healthcare core measures and value-based purchasing, coordinating care between multiple departments, emphasizing evidence-based practices and improving education, certification and increasing accountability of medical staff</li> <li>She completed her Doctorate in Nursing Program from the University of San Francisco and earned her bachelor's and master's degrees in Nursing from San Jose State University</li> </ul>

# Key Considerations

## Strengths and Investment Highlights

- As the only acute care hospital in the South Santa Clara County, SLRH has a vital market presence in the community
- The hospital is home to one of the busiest emergency departments per bed in the county and features a CALSTAR emergency hospital air ambulance transport on the premises (which with enhanced services allowing to accept higher acuity patients could provide incremental admissions)
- SLRH is well known in the community for providing high-quality care in a multitude of areas, including maternal and child health, orthopedic and joint replacement, wound care and minimally invasive surgery
  - Additionally, SLRH is one of the first hospitals in California to offer the Bronchial Thermoplasty treatment for severe asthma
  - SLRH is also a certified Primary Stroke Center—the only designated center in South Santa Clara County
- SLRH's DePaul Urgent Care Center in nearby Morgan Hill is a walk-in, one-stop-shop for quality care with extended business hours, including weekends

## Opportunities

### Near-Term

- Physician recruitment
- Maximize referral potential
- Opportunity to expand relationships with OCH
- Growing community in Gilroy and Morgan Hill

### Long-Term

- Develop organized physician delivery network, enhancing specialty services that capture a greater share of South Santa Clara County's growing patient population
  - SLRH would serve as the sole hospital provider and minimize leakage to other hospital providers in northern and southern communities more than 20 miles away

### Recently Completed

- Transition to a Medi-Cal cost reimbursement arrangement from the per diem arrangement terminated on June 1, 2013

### Ongoing

- Complete transition from the Medi-Cal FFS program to DRG reimbursement system through 2017
- Investigating options to appropriately address unnecessary emergency room visits, such as:
  - Fast-track approach to triage and redirect patients to appropriate care settings
  - Develop an urgent care service either with the Federally Qualified Health Center or the DCHS Medical Foundation

# Overview of Select Hospital Services

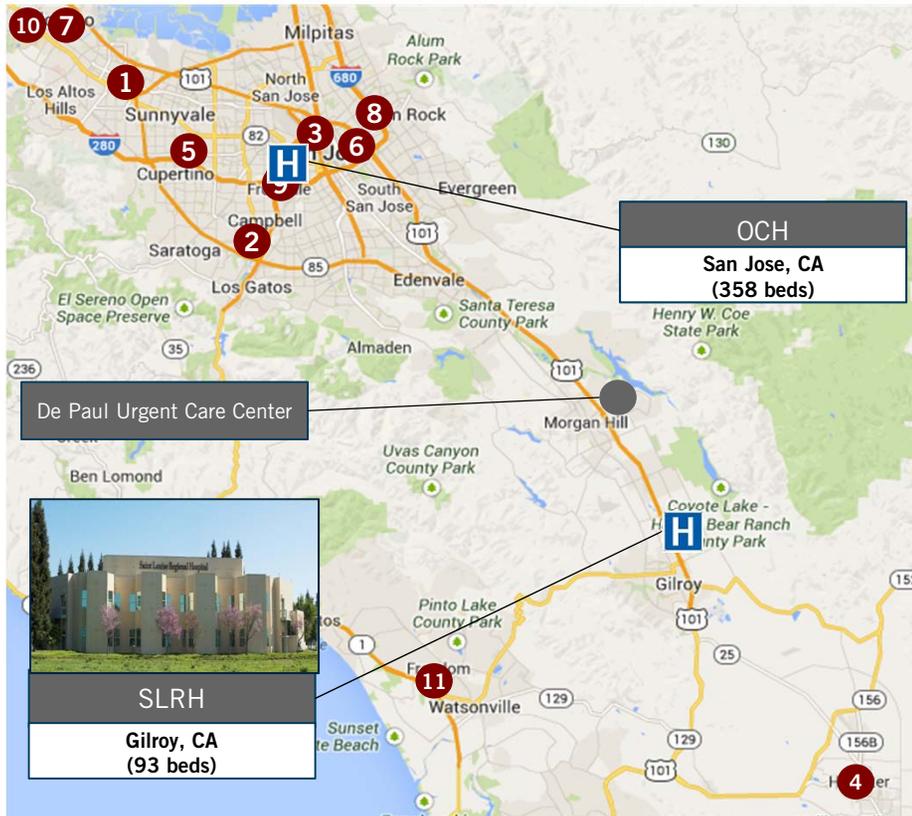
Center / Services	Description
<b>Breast Care Center</b>	<ul style="list-style-type: none"> <li>■ Breast Care Center offers a wide variety of comprehensive diagnostic services in a warm, friendly outpatient setting.</li> <li>■ The staff at the Breast Care Center is dedicated to helping women make regular breast care as easy, convenient and pleasant as possible. The caring experts are committed to providing the very best care in a private suite located on the SLRH campus. The goal is to offer the widest possible range of breast healthcare services and to deliver the services with compassion and sensitivity.</li> <li>■ The Breast Care Center also works closely with the American Cancer Society to teach effective breast self-evaluation, as well as stress. the importance of regularly scheduled breast examinations by a physician.</li> </ul>
<b>DePaul Urgent Care Center</b>	<ul style="list-style-type: none"> <li>■ The DePaul Urgent Care Center, located in the DePaul Health Center, offers in-house labs, short wait times and a convenient location</li> </ul>
<b>Diagnostic Imaging</b>	<ul style="list-style-type: none"> <li>■ Imaging services include MRI, computerized tomography, ultrasound and other services.</li> </ul>
<b>Emergency Services</b>	<ul style="list-style-type: none"> <li>■ SLRH has a state-of-the-art emergency room that can treat emergent through non-urgent care with emergency physicians available 24 hours a day, seven days a week. SLRH provides ongoing training and support and is equipped with state-of-the-art equipment. If SLRH cannot provide the care a patient needs, the patient will be stabilized and transported to a facility that can help treat the patient.</li> </ul>
<b>Maternal Child Health Services</b>	<ul style="list-style-type: none"> <li>■ A highly qualified team of experienced nurses and board-certified physicians are always ready with advanced technology, a supporting word and a special touch. Services are offered in a private, family-oriented birthing experience in comfortable, newly remodeled spacious suites, keeping mom and baby together. The labor and delivery department is a secured department.</li> </ul>
<b>Nutrition Counseling</b>	<ul style="list-style-type: none"> <li>■ SLRH offers outpatient nutrition counseling provided by a registered dietitian for a variety of issues</li> </ul>
<b>Oncology Services</b>	<ul style="list-style-type: none"> <li>■ Oncology services are the collaboration of providers who coordinated and integrate medical, surgical and radiation oncology. A multidisciplinary team of medical experts meets regularly to discuss cancer cases and generate a cohesive care plan for each patient.</li> </ul>
<b>Orthopedics Department</b>	<ul style="list-style-type: none"> <li>■ Specializing in Sports Medicine and Adult Reconstruction (joint replacement surgery), the orthopedics team utilizes a comprehensive treatment approach to keep patients moving and strong. The program is supported by Santa Clara County's leading physicians, who collaborate to develop customized strategies that can help patients to avoid neck and back pain, future injury and experience accelerated healing and return to activity.</li> <li>■ In addition, the Orthopedic Surgery division at SLRH offers a wide range of musculoskeletal care, including expert treatment and pain management for the entire body from shoulder to foot</li> </ul>
<b>Pulmonary Rehabilitation</b>	<ul style="list-style-type: none"> <li>■ The pulmonary rehabilitation program is run by a team of medical professionals who are specially trained to treat people with lung disease. The team helps patients learn about their condition and gain management skills.</li> </ul>
<b>Spiritual Care Services</b>	<ul style="list-style-type: none"> <li>■ SLRH is committed to caring for the whole person—body, mind and spirit—and the Spiritual Care Team provides spiritual and emotional support to patients, families and friends</li> </ul>

# Overview of Select Hospital Services (cont.)

Center / Services	Description
<b>Stroke Services</b>	<ul style="list-style-type: none"> <li>■ In 2010, SLRH launched a stroke care program that was the first in the Bay Area to implement a telemedicine program, which extends the level of care the hospital is currently able to provide stroke patients.</li> <li>■ With a high-quality, reliable telemedicine infrastructure, the telemedicine program provides more than 40 board-certified, emergency neurologists from large, state-of-the-art teaching institutions. These neurologists evaluate patients in real time via SLRH.</li> <li>■ The program provides 24-hour coverage for the ED, ICU, medical/surgical floor and hospitalists. The response time is significantly faster than having the usual on-site, on-call neurologists.</li> </ul>
<b>Surgical Services</b>	<ul style="list-style-type: none"> <li>■ The surgery department at SLRH schedules inpatient and outpatient surgeries five days a week in three modern operating suites. Highly skilled surgeons and nursing staff are also available should the need arise for an unscheduled emergency procedure. The hospital is prepared to handle a wide variety of surgical conditions utilizing advanced surgical techniques and therapies. Many surgeries are now done using the minimally invasive laparoscopy, which results in shorter recovery times and much less time spent in the hospital.</li> </ul>
<b>Wound Care and Hyperbaric Medicine</b>	<ul style="list-style-type: none"> <li>■ SLRH's staff is trained to provide a specialized, comprehensive course of treatment to assist in healing problem wounds. Hyperbaric Oxygen Therapy is also available as an adjunctive therapy.</li> </ul>

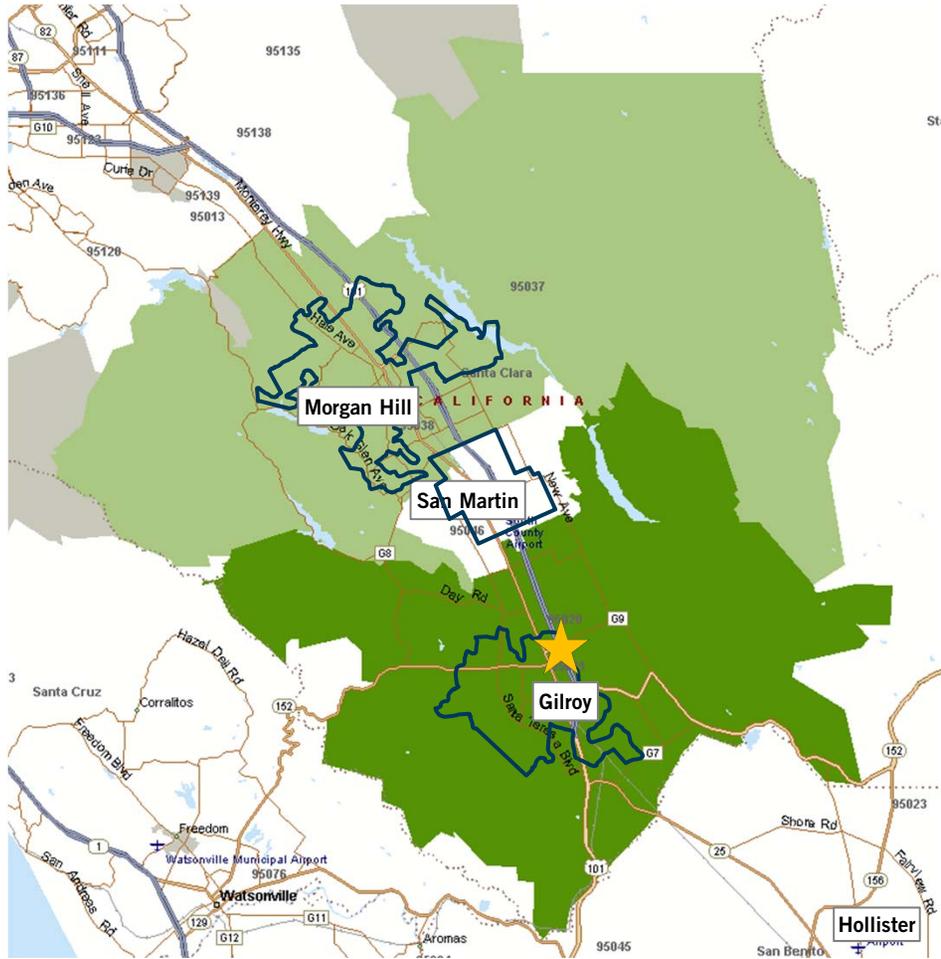


# Competitive Landscape – Santa Clara County



	Affiliation	Beds	Distance (mi)	
<b>PRIMARY COMPETITION</b>				
1	El Camino Hospital – Mountain View	El Camino Hospital	300	42
2	El Camino Hospital – Los Gatos	El Camino Hospital	143	42
3	Good Samaritan Hospital – San Jose	HCA	349	29
4	Hazel Hawkins Memorial Hospital	Standalone	113	20
5	Kaiser Foundation Hospital – Santa Clara	Kaiser Permanente	327	40
6	Kaiser Foundation Hospital – San Jose	Kaiser Permanente	217	22
7	Lucile Salter Packard Children’s Hospital at Stanford	Stanford University	302	50
8	Regional Medical Center of San Jose	HCA	216	30
9	Santa Clara Valley Medical Center	County of Santa Clara	574	32
10	Stanford University Hospital	Stanford University	613	50
11	Watsonville Community Hospital	Standalone	106	22

# Primary Service Area



Service Area	Households	Total Population	Median Income	Per Capita Income
Gilroy	15,168	50,660	\$78,842	\$28,629
Hollister	10,679	36,096	\$60,750	\$22,349
Morgan Hill	12,967	39,420	\$94,300	\$40,357
San Martin	2,142	7,027	\$86,172	\$34,506

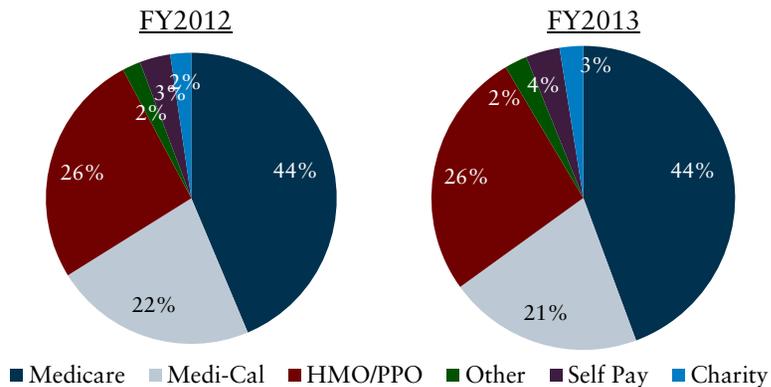
# Sources of Revenue

- SLRH is a net receiver of supplemental funding under the Provider Fee and Meaningful Use government programs
- Reimbursement of services with Medicare and Medi-Cal participants accounted for approximately 44% and 22% of patient days in FY2012, and approximately 44% and 21% in FY2013, respectively
  - Medicare and Medi-Cal participants accounted for more than 65% of all patient days over the past two fiscal years

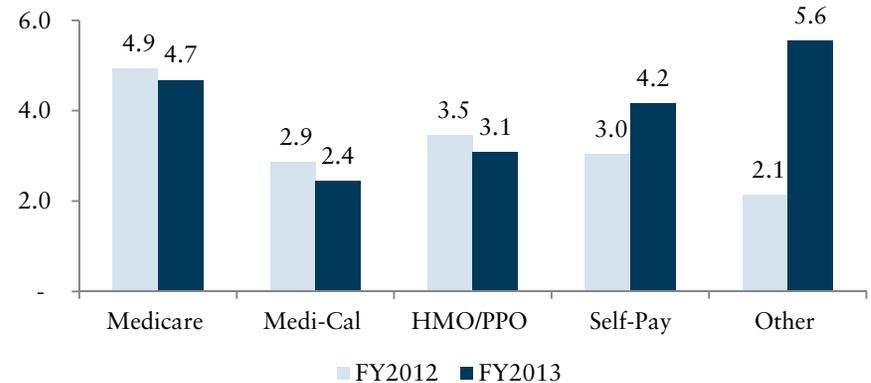
## Net Supplemental Funding (FY2011–13 YTD) (\$ millions)

	FY2011	FY2012	FY2013	LTM Dec-2013
Provider Fee - Medi-Cal	\$ 4	\$ 5	\$ 3	\$ 4
Provider Fee - Medi-Cal Managed Care	1	0	3	3
Provider Tax	(3)	(3)	(4)	(4)
Net Provider Fee	2	2	2	2
Meaningful Use	-	1	-	2
<b>Total</b>	<b>\$ 2</b>	<b>\$ 2</b>	<b>\$ 2</b>	<b>\$ 4</b>

## Patient Days by Payor (FY2012-13) \*



## Average Length of Stay by Payor (FY2012-13) \*



# Employee and Physician Overview

- SLRH has more than 700 employees (346 FTEs) and more than 200 affiliated physicians
  - Approximately 79%, or 562 employees, are covered by CBAs
    - SEIU has the largest union representation with 274 members
- SLRH has 96 active physicians, with the three largest specialties—emergency medicine, family practice and internal medicine—comprising approximately 27% of active doctors
- By partnering with DCHS Medical Foundation, SLRH is pursuing a physician alignment/integration strategy to create an organized physician network to better keep pace with its competitors, including Kaiser Permanente and Santa Clara County
- All support services are provided in-house, except for the following:
  - BioMed/Engineering (TriMedx)
  - Security (HSS)
  - Property Management (Cassidy Turley – MOB only)
  - Laundry & Linen (Oceanside Laundry, LLC)
  - IT Services (Dell)

## Employee FTEs by Type (September 2013)

Employee Category	Count	FTEs
<i>Union</i>		
SEIU Local 250	274	129
CA Nurses Association Union	269	112
Local 39 Engineers	11	9
Licensed Vocational Nurse	8	6
<i>Non-Union</i>		
Director	14	14
Manager	10	10
Other	123	66
<b>Total</b>	<b>709</b>	<b>346</b>

## Summary of Physicians by Specialty

Specialty	Count	% of Total
<i>Active Physicians</i>		
1. Emergency Medicine	11	11%
2. Family Practice	8	8%
3. Internal Medicine	8	8%
4. Obstetrics/Gynecology	8	8%
5. General Surgery	6	6%
6. Pediatrics	6	6%
7. Anesthesiology	5	5%
8. Cardiology	4	4%
9. Nephrology	4	4%
10. Orthopedic Surgery	4	4%
11. Other	32	33%
<b>Total Active</b>	<b>96</b>	<b>100%</b>
Non-Active (a)	110	
<b>Total</b>	<b>206</b>	

# Financial Performance Overview

- SLRH received ~\$4 million in net supplemental funding in LTM December 2013
- Salary and benefits have remained stable, from FY2011 to LTM December 2013; ~\$56 million vs. ~\$57 million, respectively

## Summary of Financial Performance (FY ending June 30; \$ millions)

	FY2011A	FY2012A	FY2013A	LTM Dec-13
Patient Revenue	\$ 84	\$ 80	\$ 72	\$ 74
Supplemental Funding Receipts (a)	5	6	6	8
Other Revenue	2	1	2	2
<b>Total Revenue</b>	<b>91</b>	<b>87</b>	<b>80</b>	<b>84</b>
Salaries and Benefits	(56)	(55)	(57)	(57)
Supplies	(10)	(8)	(7)	(8)
Purchased Services and Other	(12)	(12)	(12)	(12)
Supplemental Funding Tax	(3)	(3)	(4)	(4)
<b>Total Expenses (b)</b>	<b>(81)</b>	<b>(79)</b>	<b>(81)</b>	<b>(81)</b>
<b>Allocated Shared Services (c)</b>				
Corporate	(2)	(2)	(2)	(2)
CBS	(3)	(2)	(2)	(2)
IT	(2)	(3)	(3)	(3)
<b>Total Shared Services</b>	<b>(6)</b>	<b>(7)</b>	<b>(7)</b>	<b>(7)</b>
<b>EBIDA Before Adjustments</b>	<b>4</b>	<b>1</b>	<b>(7)</b>	<b>(4)</b>
<b>EBIDA Adjustments:</b>				
Third-Party Settlements	0	(0)	(0)	(0)
<b>Adjusted EBIDA</b>	<b>4</b>	<b>1</b>	<b>(8)</b>	<b>(5)</b>
<b>Adjusted EBIDA (w/o Shared Services)</b>	<b>10</b>	<b>8</b>	<b>(1)</b>	<b>3</b>
<b>Capital Expenditures</b>	<b>\$ 1</b>	<b>\$ 5</b>	<b>\$ 6</b>	<b>\$ 5</b>

## Select Balance Sheet Items (\$ millions)

	6/30/13	12/31/13
<b>Current Assets</b>		
Patient Accounts Receivable, Net	\$ 10	\$ 10
Due From Government Agencies	0	-
Other Current Assets	5	2
<b>Total Current Assets</b>	<b>15</b>	<b>12</b>
<b>Current Liabilities</b>		
Accounts Payable	1	2
Due to Government Agencies	4	1
Accrued Liabilities	8	6
<b>Total Current Liabilities</b>	<b>\$ 13</b>	<b>\$ 8</b>

### Notes:

- Includes Provider Fee payments and meaningful use
- Excludes Depreciation, Amortization, Interest and Asset Impairment
- LTM December 2013 represents shared services as of LTM November 2013

# Select Operating Statistics

## Key Operating Statistics

	FY2013	LTM Dec-2013
<u>Discharges</u>		
ICU	191	219
Med/Surg 4 East	2,143	2,106
OB/GYN	687	687
Total	3,021	3,012
<u>Referred Outpatients</u>		
SLRH Referred Outpatients (excl. De Paul)	49,207	47,114
De Paul Referred Outpatients	7,372	7,935
Total	56,579	55,049
<u>Average Daily Census</u>		
Total (Acute)	30	29
<u>Average Length of Stay (Days)</u>		
Total (Acute)	3.6	3.5

## Summary of Patient Days by Unit

Unit	FY2013	LTM Dec-2013
ICU	1,728	1,606
Med/Surg	7,983	7,601
OB/GYN	1,315	1,335
Total	11,026	10,542

## Other Operating Statistics

	FY2013	LTM Dec-2013
<u>Emergency Services</u>		
IP Visits	1,934	2,059
OP Visits	24,354	24,320
Total	26,288	26,379
<u>Wound Care</u>		
Total Visits	2,291	2,360
<u>Surgery</u>		
Total Minutes (IP and OP)	193,236	199,365
Total IP Cases	794	856
Total OP Cases	1,677	1,641
<u>Radiology (IP and OP)</u>		
Total Exams (X-ray, Ultrasound, Mammo)	25,437	25,260
Total Exams (CT Scanner RVU)	8,004	8,066
<u>Nuclear Medicine</u>		
IP Procedures	30	20
OP Procedures	223	209
Total	253	229
<u>MRI</u>		
IP Procedures	265	329
OP Procedures	1,055	1,154
Total	1,320	1,483
<u>Dialysis</u>		
IP Procedures	277	236
OP Procedures	8	8
Total	285	244
<u>Therapy (Physical, Speech and Occupational)</u>		
Total Treatments	28,014	29,304
<u>Urgent Care Center</u>		
OP Visits	6,412	6,841

# Top 10 Product Lines and Physicians

## Top 10 Product Lines by Discharges (FY2013) (a)

Product Line	Cases	% of Total
1. OB/GYN	1,243	35%
2. Pulmonary	391	11%
3. All Surgery	325	9%
4. General Medicine	299	8%
5. Other Heart - Medical	297	8%
6. Gastroenterology	283	8%
7. Orthopedic Surgery	143	4%
8. Neurology	125	4%
9. Urology	118	3%
10. Endocrinology	97	3%
<b>Total Top 10</b>	<b>3,321</b>	<b>93%</b>

## Top 10 Physicians by Discharges (FY2013) (a)

Physicians	Cases	% of Total
1. Physician A	393	11%
2. Physician B	289	8%
3. Physician C	167	5%
4. Physician D	150	4%
5. Physician E	140	4%
6. Physician F	139	4%
7. Physician G	127	4%
8. Physician H	122	3%
9. Physician I	115	3%
10. Physician J	113	3%
<b>Total Top 10</b>	<b>1,755</b>	<b>49%</b>

## Top 10 Product Lines by Gross Revenue (FY2013) (\$ millions) (b)

Product Line	Gross		Total	
	Revenue	% of Total	Payments	% of Total
1. All Surgery	\$ 44.1	20%	\$ 8.6	3%
2. Pulmonary	31.2	14%	4.6	2%
3. General Medicine	28.5	13%	4.5	2%
4. OB/GYN	24.0	11%	4.7	2%
5. Other Heart - Medical	20.5	9%	2.6	1%
6. Orthopedic Surgery	17.1	8%	3.1	1%
7. Gastroenterology	15.4	7%	2.8	1%
8. Neurology	8.7	4%	1.2	0%
9. Urology	7.2	3%	1.0	0%
10. Endocrinology	4.6	2%	0.6	0%
<b>Total Top 10</b>	<b>\$ 201.4</b>	<b>92%</b>	<b>\$ 33.7</b>	<b>14%</b>

## Top 10 Physicians by Gross Revenue (FY2013) (\$ millions) (b)

Physicians	Gross		Total	
	Revenue	% of Total	Payments	% of Total
1. Physician A	\$ 32.4	15%	\$ 4.9	13%
2. Physician B	28.6	13%	4.4	12%
3. Physician C	17.2	8%	2.8	8%
4. Physician D	11.4	5%	1.8	5%
5. Physician E	9.4	4%	1.6	4%
6. Physician F	7.1	3%	1.4	4%
7. Physician G	7.0	3%	1.4	4%
8. Physician H	6.6	3%	1.2	3%
9. Physician I	6.0	3%	1.1	3%
10. Physician J	5.9	3%	1.0	3%
<b>Total Top 10</b>	<b>\$ 131.5</b>	<b>60%</b>	<b>\$ 21.5</b>	<b>59%</b>

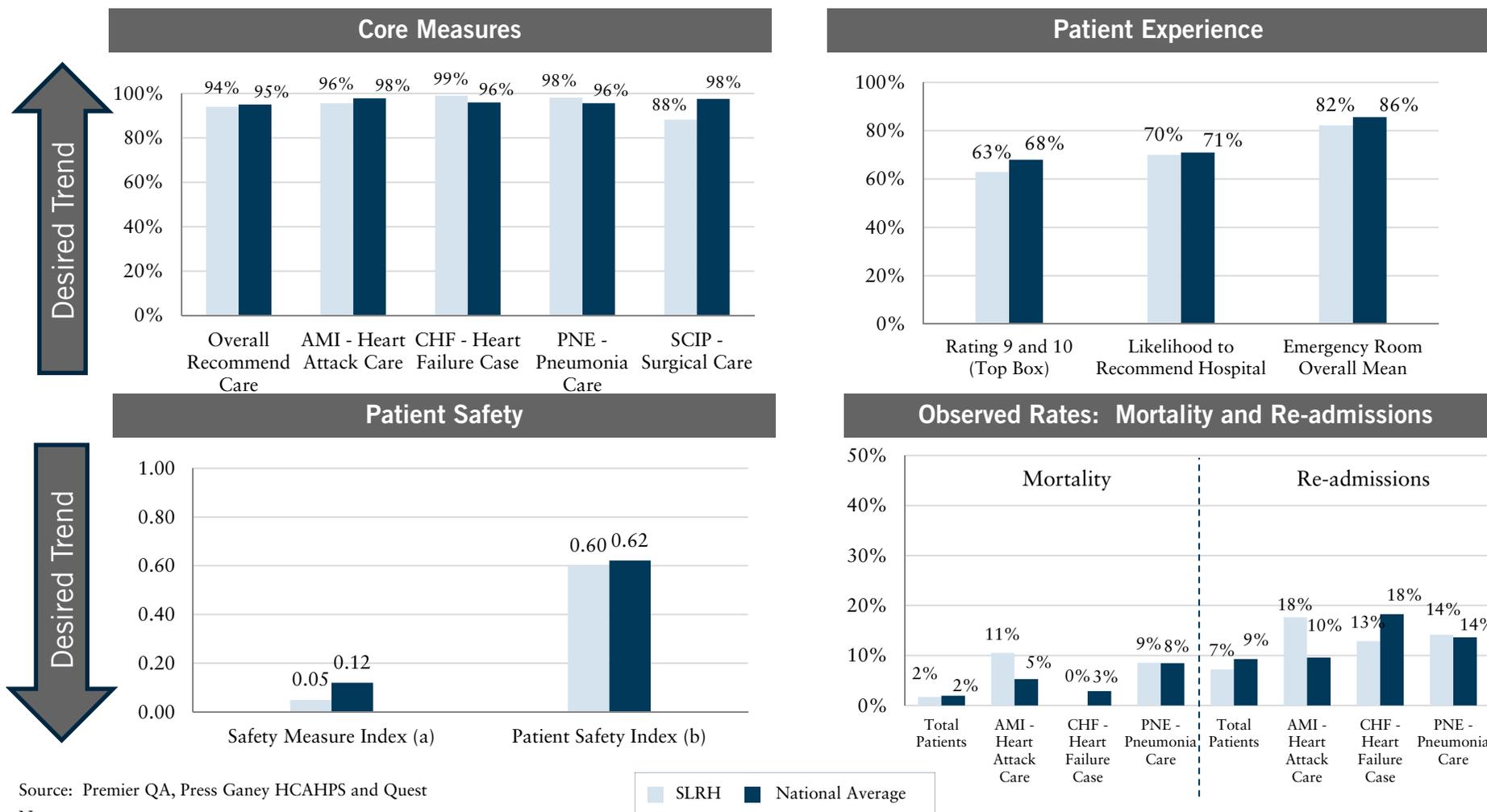
Notes: Fiscal year ends June 30

(a) Includes routine nursery discharges

(b) Total Payments include cash posted to individual patient accounts only, excluding Medicare cost report settlements, Medi-Cal disproportionate share payments, Trauma payments (Measure B funds), Provider Fee and Capitation Settlements

# Health, Safety and Quality Metrics

■ The charts below compare select SLRH quality and safety performance metrics to national averages



Source: Premier QA, Press Ganey HCAHPS and Quest

Notes:

- (a) Safety Measure Index (Quest Harm Composite) is the Occurrence of Harm captured by ICD9 Coded data. QUEST harm composite accounts for the deviation of the observed rate from the expected rate and then divides by a measure of dispersion (or standard deviation) indicating variation within the hospital's performance across the cohort.
- (b) Patient Safety Index (PSI90) composite measure select patient safety indicators: Pressure Ulcer, Iatrogenic Pneumothorax, Central Venous Catheter-Related Blood Stream Infections, Postop Hip Fracture, Postop PE or DVT, Postop Sepsis, Postop Wound Dehiscence and Accidental Puncture or Laceration

# Capital Expenditure Summary

- SLRH is in compliance with all current seismic standards
- A summary of the recent investments and near-term capital needs are highlighted in the tables below:

Summary of Major Near-Term CapEx Needs (\$ millions)			
CapEx Need	Estimated		Description
	Cost	Timing (FY)	
ER Capacity Expansion-Initial Phases	\$0.3	2015	To expand the existing ER and its configuration to be able to accept and treat higher demands
Replace Imaging Equipment	0.8	2015	To replace outdated imaging equipment (i.e., mammography unit)
<b>Total</b>	<b>\$1.0</b>		

Summary of Recent CapEx (FY2011-13) (\$ millions)			
	FY2011	FY2012	FY2013
<u>Software and IT</u>			
1. Software	\$ -	\$ 2.5	\$ 6.3

# Summary of Major Equipment

	Manufacturer / Model	Owned / Leased	Age of Equipment (years)
<b>RADIOLOGY &amp; IMAGING</b>			
PET / CT Scan	Simens / Somatom 64	Owned	8
MRI	GE / SIGNA	Leased	8
Nuc Med Camera	ADAC / Vertex 60	Owned	10
Rad / Fluro Room	Philips / Diagnost 66	Owned	25
Rad / Fluro Room	GE / Precision 500D	Owned	5
Rad Room	Simens / Multix	Owned	7
Portable X-ray	Shimadzu / Mobile art MUX-100H	Owned x2	8
Ultrasound	Philips / HD5000	Owned	11
Ultrasound	Philips / Envisor	Owned	10
Ultrasound	Zonare	Ownedx3	1-5
X-Ray C-Arm	OEC (GE) / 9800 Plus	Owned	11
X-Ray C-Arm	OEC (GE) / 6800	Owned	11
X-Ray C-Arm	Philips / Pulsera	Owned	6

## Summary of Major Equipment (cont.)

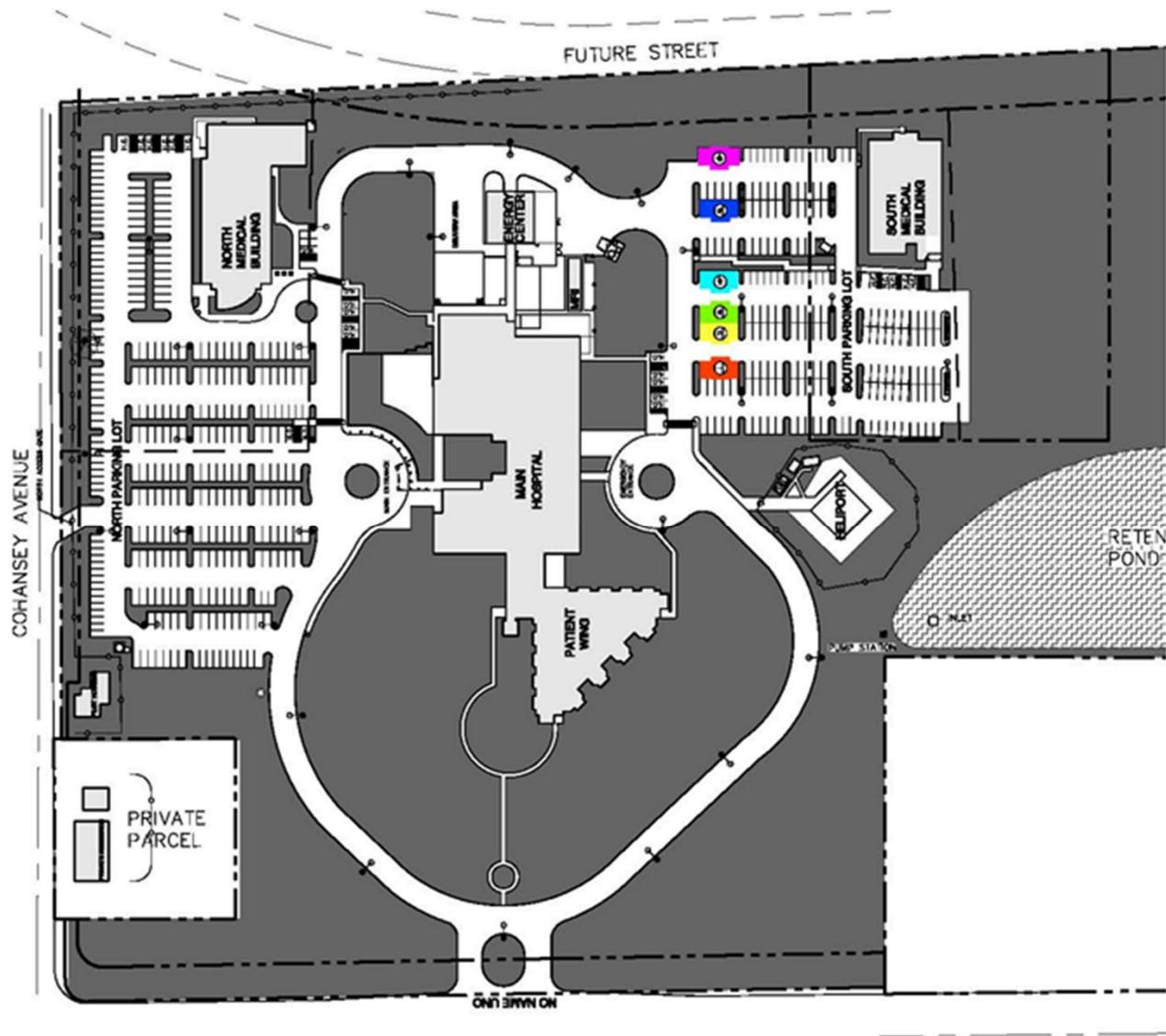
	Manufacturer / Model	Owned / Leased	Age of Equipment (years)
<b>OTHER</b>			
Anesthesia Machines	GE / Avance	Owned x4	6
Patient Monitors	Philips / MP50	Owned x8	8
Patient Monitors	Philips / MP70	Owned x12	4-8
Patient Monitors	Philips / MP30	Owned x4	8
Patient Monitors	Datascope / Passport XG	Owned x5	25
Telemetry System	Philips / 16 channels	Owned	25
Ventilators	Coviden	Owned x8	13
Bipaps	Philips / V60	Owned x3	5
Bipaps	Repironics / Vision	Owned x3	14
IV pumps	Baxter / Spectrum	Owned x75	4
Defibrillators	Zoll	Owned x14	7
OR Tables	Steris / 3080	Owned x4	11
Blanket Warmers	Steris / M70-WCEL	Owned x9	25
Fetal Monitors	Philips / Avalon FM50	Owned x7	4
Infant Radiant Warmers	Draeger / Resuscitaire	Owned x6	8

# Summary of Properties

Summary of Owned Properties					
Description	Address	Seismic	# of Stories	Year Built	Footage Owned
<b>HOSPITAL RELATED PROPERTIES</b>					
Hospital (Including Helipad)	9400 No Name Uno Gilroy, CA 95020	Compliant	2	1986	98,225
Single Dwelling- Vacant House	705 Las Animas Ave. Gilroy, CA 95020	N/A	1	N/A	1,200
<b>MOBS &amp; OTHER PROPERTIES</b>					
Medical Office Building *	18550 Saint Louise Dr. Morgan Hill, CA 95037	N/A	2	1989	25,840
Previous Hospital Facility (Vacant) *	18500 Saint Louise Dr. Morgan Hill, CA 95037	N/A	2	1989	87,954

Summary of Leased Properties					
Description	Address	# of Stories	Year Built	Sq. Ft.	Occupied by DCHS
Asuza Housing Partners / North MOB	9460 No Name Uno Suite 120 Gilroy, CA 95020	2	N/A	1,480	HR Department
Asuza Housing Partners / North MOB	9460 No Name Uno Suite 135 Gilroy, CA 95020	2	N/A	1,317	HBRC
Asuza Housing Partners / North MOB	9460 No Name Uno Suite 220 Gilroy, CA 95020	2	N/A	943	EH
Asuza Housing Partners / North MOB	9460 No Name Uno Suite 225 Gilroy, CA 95020	2	N/A	1382	Breast Care
South Valley Medical Plaza / South MOB	9360 No Name Uno Gilroy, CA 95020	2	N/A	2069	IT
Trailer	590 Cohansey Ave. Gilroy, CA 95020	1	N/A	1200	Community Health Services

# Campus Map





# Overview of Operations

## Seton Medical Center

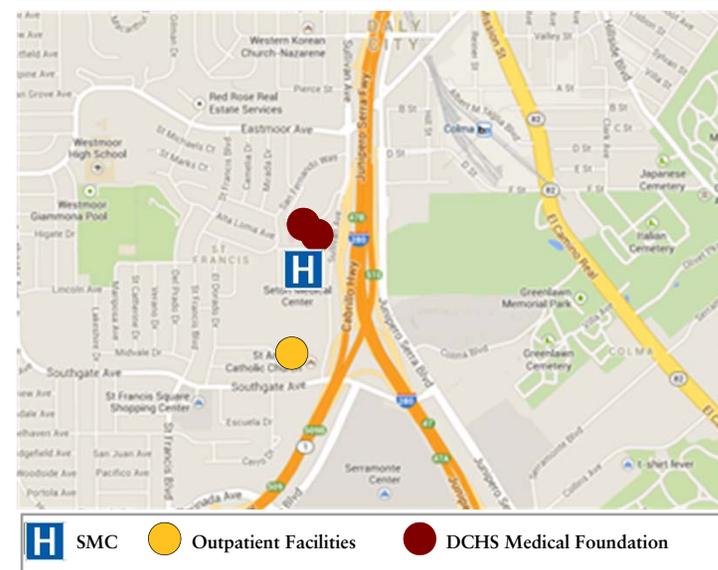


# Introduction

- SMC is an acute care hospital located in Daly City, CA, with a licensed capacity of 357 beds, of which 274 are general acute care beds and 83 are sub-acute and skilled nursing beds
- Founded as Mary's Help Hospital in 1893, SMC serves the people of San Francisco and San Mateo Counties with a comprehensive range of inpatient and outpatient healthcare services
- SMC offers a full range of medical specialty services, such as orthopedics, joint replacement, cancer care, women's health and wound care
- In keeping with the DCHS mission to provide quality, accessible healthcare services to the community, SMC's St. Elizabeth Ann Seton New Life Center's program offers a comprehensive perinatal program to low-income women
- The San Francisco Heart & Vascular Institute, a Center of Excellence at SMC, has been recognized by major insurance carriers for expertise and institutional commitment in providing integrated cardiac care that meets high standards
- Other centers of excellence include the San Francisco Spine Institute and the San Francisco Center for Advanced Wound Care, each with clinical outcomes among the best in the nation
- SMC ranked #5 in U.S. News and World Report Best Hospital San Francisco Metropolitan Area 2010-11 with three high-performing specialties: gynecology; kidney disorders; and orthopedics and joint replacement
- SMC strives to be the center for health and healing in the community, offering education classes (asthma, diabetes and prenatal), fitness classes and many other classes and support groups
- The hospital has strong relationships with a number of physician groups, including Brown & Toland
- SMC's campus is strategically located in Northern San Mateo county at the intersection of CA-1 and I-280, less than 10 miles from the center of downtown San Francisco
  - Its primary service area includes the Northern California communities of Daly City, Colma, South San Francisco, Pacifica, San Bruno and San Francisco



## SMC Locations



1900 Sullivan Ave, Daly City, CA 94015  
[www.seton.dochs.org](http://www.seton.dochs.org)

# Overview of Key Services

- SMC provides a full range of medical specialty services, including cardiovascular, oncology, orthopedics, joint replacement, spine care, women’s health and wound care
- Key services include:
  - Cardiovascular Services
  - Cancer Care / Oncology
  - Diabetes Services
  - Emergency Services
  - Imaging & Laboratory Services
  - Orthopedics and Joint Replacement
  - Palliative Care
  - Rehabilitation Services
  - Spine Care
  - Spiritual Care
  - Stroke Care
  - Surgical Services
  - Women’s Health
  - Wound Care
- Clinics & specialty services include:
  - Breast Health Center
  - Campus Diagnostic Imaging
  - Health Benefits Resource Center (HBRC)
  - Physical Rehabilitation Center
  - RotaCare Clinic
  - San Francisco Heart and Vascular Institute
  - Seton Express Care
  - Seton Spine Institute
  - Seton Orthopedic Institute
  - Seton New Life Center
- In FY2013, SMC and SMCC together provided more than \$27 million in community benefit programs and services to the community, as well as more than \$47 million in care for the elderly

## Select Awards and Certifications



- Recognized as a Top 5 Bay Area Hospital in 2011-12 by U.S. News and World Report



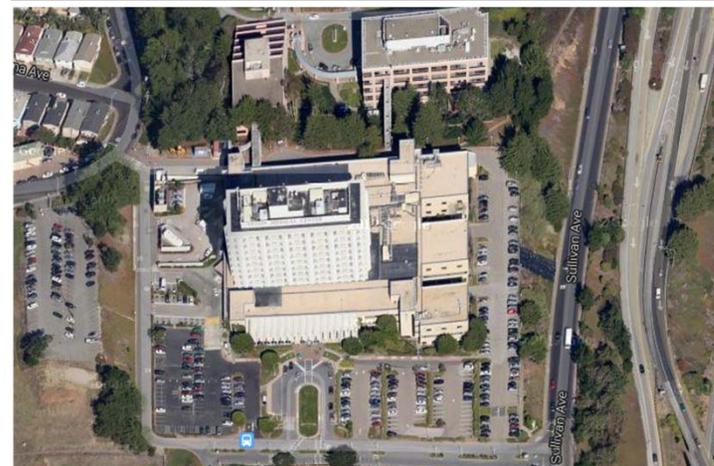
- Earned the Gold Plus Performance Achievement Award from the American Heart Association/American Stroke Association in 2013



- Outstanding Leadership Award for Achievements in Eliminating Ventilator-Associated Pneumonia (VAP) from the U.S. Department of Health & Human Services



## Aerial View of SMC Campus



## Key Statistics (FY2013)

Available / Licensed Beds	307 / 357
Annual Discharges	7,125
Acute Average Length of Stay (Days)	4.8
Acute Average Daily Census	92
Case Mix Index (CMI)	1.666
Medicare CMI	1.814
Productive Hours (Millions)	1.7
Productive FTEs (a)	823
Total Hours (Millions)	2.2
Total FTEs (a)	1,062
<b>Payor Mix</b>	
Medicare (b)	55%
Medi-Cal (b)	15%
HMO/PPO	23%
Self-Pay	1%
Other	5%

Notes: Fiscal year ends June 30

(a) Implied FTEs calculated based on working hours, assuming 52 weeks per year and 40 hours per FTE

(b) Includes managed care

# Summary of Hospital Services

Summary of Medical Services					
	<u>Inpatient</u>	<u>Outpatient</u>		<u>Inpatient</u>	<u>Outpatient</u>
Cancer Center/Oncology	✓	✓	Occupational Health		✓
Cardiac Catheterization Lab	✓		Operating Room	✓	✓
Cardiac Surgery	✓		Ophthalmology		✓
Cardiac Unit/Cardiology	✓		Oral Maxillofacial Surgery	✓	✓
CT Scanner	✓	✓	Orthopedic	✓	✓
EEG/EKG/EMG Lab	✓	✓	Otolaryngology	✓	
Emergency Room		✓	Outpatient Surgery		✓
Endocrinology	✓		Pain Management	✓	
Gastroenterology	✓	✓	Palliative Care	✓	✓
General Medical	✓		Plastic Surgery	✓	✓
General Surgical	✓	✓	Podiatry		✓
GI or Endoscopy Lab	✓	✓	Post Anesthesia Care Unit (PACU)	✓	✓
Gynecology	✓		Prenatal Care – New Life Center		✓
Hematology	✓		Pulmonary Function Lab	✓	✓
Hemodialysis	✓		Radiation Oncology	✓	✓
Imaging/Radiology	✓	✓	Rehabilitation	✓	✓
Infectious Diseases	✓		Respiratory Care (Ventilator)	✓	
Infusion Therapy	✓	✓	Rheumatology	✓	
Internal Medicine	✓		Social Services	✓	✓
Intensive Care Unit	✓		Spiritual Care	✓	✓
Labor & Delivery	✓		Telemetry	✓	
Lithotripsy	✓	✓	Therapeutic Nuclear Medicine	✓	✓
Long Term Care/SNF	✓		Thoracic Surgery	✓	
Magnetic Resonance Imaging	✓	✓	Ultrasound	✓	✓
Nephrology	✓		Urgent Care/Emergency Medicine		✓
Nuclear Medicine	✓	✓	Urology	✓	
Nursery	✓		Vascular Surgery	✓	
Obstetrics	✓		Wound Care	✓	✓

# Management Overview

Management Experience				
Name	Position	Years of Experience		Biography
		Industry	DCHS	
Joanne Allen	CEO (SMC and SMCC)	25	17	<ul style="list-style-type: none"> <li>More than two decades of healthcare leadership experience. Previous experience SLRH (President and CEO) and OCH (Chief Operating Officer/Chief Strategic Officer)</li> <li>Served as Chair and Board Member of the California Hospital Association CEO Council, and was recognized in 2011 as a “healthcare hero” and in 2012 as a “woman of influence” by the Silicon Valley/San Jose Business Journal</li> </ul>
Anthony Rispoli	Interim CFO (SMC and SMCC)	35	1	<ul style="list-style-type: none"> <li>Previous experience includes engagements with several large organizations, such as Christus Health, ProMedica and Mercy Health Partners</li> <li>Most recently served as interim CFO at Mount St. Mary’s Hospital and Health Center, an Ascension health ministry based in Lewiston, NY</li> </ul>
Irwin Shelub, M.D.	CMO (SMC and SMCC)	35	2	<ul style="list-style-type: none"> <li>Previously served as the President of the Medical Staff and Medical Director of the Intensive Care Unit at SMC and as the Medical Director for the Daly City Hospitalist Medical Group</li> <li>Received his Bachelor of Arts degree from the University of California, Berkeley and earned his medical degree from the Baylor College of Medicine in Houston, TX. Dr. Shelub completed his clinical training in pulmonary medicine at the University of Colorado at Denver and served as chief resident at the University of California at Davis</li> <li>Dr. Shelub is board certified in internal medicine and pulmonary medicine</li> </ul>
Beverly Fick, RN	CNE (SMC and SMCC)	32	3	<ul style="list-style-type: none"> <li>A healthcare leader and licensed registered nurse with more than 30 years of clinical and administrative experience in acute healthcare organizations</li> <li>Joined SMC in 2011 as the Administrative Director of Nursing Operations/Nurse Manager for Subacute and Interval Care Center</li> <li>Previously worked in psychiatric nursing for the University of New Mexico Hospital and also established a consulting company, where she assisted with strategic planning, management and personnel development, and conflict resolution</li> </ul>

# Key Considerations

## Strengths and Investment Considerations

- SMC is a high-quality provider with an outstanding reputation in its community
  - The San Francisco Heart & Vascular Institute, a Center of Excellence at SMC, has been recognized by major insurance carriers for expertise and institutional commitment in providing integrated cardiac care that meets high standards
  - Other centers of excellence at SMC include the San Francisco Spine Institute and the San Francisco Center for Advanced Wound Care, each with clinical outcomes among the best in the nation
  - SMC's St. Elizabeth Ann Seton New Life Center's program offers a comprehensive perinatal program to low-income women
  - Full-service community hospital with strong services, including cardiac care, spine care, cath lab, 24-hour interventional radiology, STEMI program, strong hospitalist program, orthopedics and joint replacement
- Strong relationship with the County and Health Plan of San Mateo (HPSM)
  - Strategic alignment with the HPSM and San Mateo County, evidenced by the allocation of sales tax revenue (Measure A)
  - An estimated \$135 million may be available to the new owners of SMC over the remaining nine years of the Ballot Measure
  - HPSM relies upon SMC and SMCC to provide healthcare services for its health plan patients and Medicare/Medi-Cal population
  - HBRC provides comprehensive services, including a Covered California enrollment center
- Optimal location with convenient access to both public transportation and the interstate
  - SMC's campus is strategically located in Northern San Mateo county at the intersection of CA-1 and I-280, less than 10 miles from the center of downtown San Francisco
  - 33-acre contiguous campus with development opportunity
  - Availability of free parking for patients and visitors
- High-volume ED—approximately 66% of SMCs admissions are sourced through the ED

## Opportunities

### Near-Term

- Physician recruitment
- Maximize referral potential
- Expand capacity for high-acuity and post-acute programs

### Long-Term

- SMC has been working on a long-term plan to address the seismic challenges of the primary patient tower. The current plan contemplates the development of an acute and post-acute campus on SMC's 33-acre site

### Ongoing

- Measure A allocation of \$11.5 million for the nine-month period between October 2013 and June 2014
- \$135 million in Measure A funding (\$15 million per annum) over the remaining nine years of the ballot measure
- Opening gero-psychiatric unit on the eighth floor
- Re-opening skilled nursing unit on the seventh floor
- Enhanced wound care service line to include hyperbaric medicine
- Increase occupancy of medical office buildings
- Intensivist program

# Overview of Select Hospital Services

Center / Services	Description
<b>Cancer Care</b>	<ul style="list-style-type: none"> <li>■ Nationally accredited as a comprehensive community care program, SMC's Cancer Care Center provides advanced screening, diagnosis and treatment services to patients in the comfort and convenience of their own community</li> <li>■ Expert physicians and staff work as a multidisciplinary team, using state-of-the-art technology in conjunction with individualized treatment plans to provide the best possible outcomes for patients with many different types of cancer</li> <li>■ For patients requiring radiation therapy, the Cancer Care Center at SMC houses two state-of-the-art linear accelerators, which employ sophisticated 3-D treatment planning software and intensity-modulated radiation therapy to deliver precise radiation doses and effectively destroy tumor cells while preserving surrounding tissue</li> <li>■ SMC has a dedicated, 30-bed inpatient oncology unit that is staffed by chemotherapy-certified nurses who are focused on meeting the unique needs of cancer patients and their families</li> <li>■ Located within the Outpatient Surgery Center, the Infusion Center provides comprehensive care for patients requiring intravenous treatment, including chemotherapy. The comfortable, patient-centered Infusion Center is staffed by registered nurses who are certified in chemotherapy and are dedicated to treating patients holistically, addressing each person's physiological, psychological and emotional needs in a caring environment.</li> <li>■ Additional services offered in the Cancer Care Center at SMC include:               <ul style="list-style-type: none"> <li style="width: 50%;">● Clinical nutrition counseling</li> <li style="width: 50%;">● Educational programs</li> <li style="width: 50%;">● Physical and occupational therapy</li> <li style="width: 50%;">● Psychological counseling</li> <li style="width: 50%;">● Pain management</li> <li style="width: 50%;">● Support groups/social services/spiritual care</li> <li style="width: 50%;">● Palliative care consultation</li> <li style="width: 50%;">● Transportation assistance</li> </ul> </li> <li>■ As part of accreditation by the American College of Surgeons Commission on Cancer, SMC physicians participate in weekly tumor boards with other medical, surgical and radiation oncologists</li> </ul>
<b>Cardiovascular Care</b>	<ul style="list-style-type: none"> <li>■ The internationally renowned San Francisco Heart &amp; Vascular Institute at SMC has pioneered advances in cardiovascular care for decades</li> <li>■ Patients with heart disease are offered the full spectrum of advanced diagnostic and treatment services, including minimally invasive interventions and a comprehensive cardiac rehabilitation program that quickly returns patients to an active lifestyle</li> </ul>

# Overview of Select Hospital Services (cont.)

Center / Services	Description
<b>Emergency &amp; Stroke Care</b>	<ul style="list-style-type: none"> <li>■ SMC has been designated a Primary Stroke Center by the Joint Commission.</li> <li>■ SMC's stroke program has earned the Gold Plus Performance Achievement Award from the American Heart Association/American Stroke Association for exemplary care of stroke patients.</li> <li>■ The award recognizes SMC's continuing success in adhering to scientifically proven care of stroke patients and compliance with rigorous quality measures to raise patient survival rates.</li> </ul>
<b>Orthopedics &amp; Spine Care</b>	<ul style="list-style-type: none"> <li>■ SMC has been ranked by U.S. News &amp; World Report among the top hospitals in the San Francisco Metropolitan Area for specialty care in orthopedics. The Seton Orthopedic Institute provides the full spectrum of care, including expertise in knee replacement and hip replacement. The San Francisco Spine Institute at Seton is recognized for excellence in the treatment of back and neck pain.</li> <li>■ The Seton Orthopedic Institute specializes in care of individuals experiencing a loss of mobility or pain associated with illness or injury to the knee, hip and shoulder. The Institute provides the full spectrum of care—from conservative management of early symptoms of joint discomfort to minimally invasive.</li> <li>■ The Orthopedic Outpatient Center opened in 2012 surgery to complete joint replacement and conveniently located within the Seton Orthopedic Institute. The Orthopedic Outpatient Center is staffed by board-certified physicians specializing in the diagnosis and treatment of orthopedic conditions and a dedicated nurse coordinator who provides personalized attention and support throughout the care of each patient.</li> <li>■ The San Francisco Spine Institute is internationally renowned for its research and clinical care of patients with all types of spinal conditions. The Institute is staffed by SpineCare Medical Group, a multidisciplinary group of spine specialists who provide traditional and leading-edge diagnosis and treatment of patients.</li> </ul>
<b>Surgical Services</b>	<ul style="list-style-type: none"> <li>■ SMC is distinguished in the region for technologically advanced surgical innovation. Highly skilled in their areas of expertise, SMC surgeons are passionate in pursuit of optimal patient outcomes.</li> </ul>
<b>Women's Services</b>	<ul style="list-style-type: none"> <li>■ SMC offers a broad spectrum of programs and services expressly for women. The Seton Birthing Center and other women and newborn services, which are housed in newly remodeled facilities on the hospital's third floor, are designed to make childbirth a memorable experience for the entire family. In an attractive office building adjacent to the hospital, women are provided comprehensive breast health services and bone density screening in a single, convenient location.</li> </ul>

# Overview of Select Hospital Services (cont.)

Center / Services	Description
<b>Diabetes Services</b>	<ul style="list-style-type: none"> <li>■ SMC's diabetes services feature cholesterol and diabetes screenings, support groups and educational programs</li> </ul>
<b>Gastroenterology Laboratories</b>	<ul style="list-style-type: none"> <li>■ A broad spectrum of diagnostic and therapeutic services is performed in the state-of-the-art Gastroenterology Laboratory, including upper endoscopy, small-bowel enteroscopy, endoscopic retrograde cholangiopancreatography, flexible sigmoidoscopy and colonoscopy</li> </ul>
<b>Imaging &amp; Laboratory Services</b>	<ul style="list-style-type: none"> <li>■ Dedicated to providing high-quality and personalized service, the Imaging and Laboratory departments at SMC are staffed by highly trained professionals and fully equipped with state-of-the-art technology. Physician radiology services are provided by California Advanced Imaging Medical Associates, a premier group of board-certified radiologists, and the nationally accredited Clinical Laboratory at SMC is staffed by board-certified pathologists and highly skilled and experienced professional staff.</li> </ul>
<b>Rehabilitation Services</b>	<ul style="list-style-type: none"> <li>■ Helping patients restore or enhance functional abilities is the focus of SMC's comprehensive inpatient and outpatient rehabilitation programs and services. Individualized care is provided in fully equipped, state-of-the-art facilities at the hospital and nearby Physical Rehabilitation Center. Licensed rehabilitation professionals work with other specially trained healthcare providers to customize treatment to meet the unique needs of each patient.</li> </ul>
<b>Respiratory Services</b>	<ul style="list-style-type: none"> <li>■ A range of outpatient rehabilitation and support programs are offered year-round to support individuals with asthma, chronic obstructive pulmonary disease and other respiratory conditions in achieving and maintaining the highest-possible level of independence and functional capacity.</li> </ul>
<b>Sub-acute Unit</b>	<ul style="list-style-type: none"> <li>■ The 44-bed Medi-Cal-certified and Joint Commission-accredited Sub-acute Unit at SMC offers long-term care to medically stable residents 18 years and older in a warm, caring and spiritually fulfilling environment.</li> <li>■ A dedicated interdisciplinary healthcare team provides comprehensive, compassionate care that considers the whole person: mind, body and spirit.</li> <li>■ Sub-acute care is primarily defined by a patient's medical condition, and when the patient no longer requires acute care yet, necessitates the use of a tracheotomy, gastrostomy (feeding) tube, and in some cases a ventilator. In these cases, patients require a higher level of care than a skilled nursing facility provides.</li> <li>■ Members of the interdisciplinary care team on the Sub-acute Unit include physician, nurses, nursing assistants, social workers, physical therapists, occupational therapists, speech therapists, activity coordinators, pharmacists, dieticians, dentists and podiatrists</li> </ul>

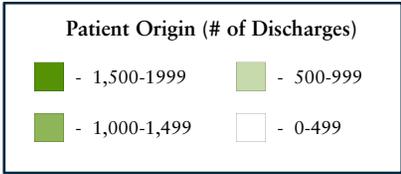


# Competitive Landscape – San Mateo County



	Affiliation	Beds	Distance (mi)	
<b>PRIMARY COMPETITION</b>				
1	California Pacific Medical Center – Pacific Campus	Sutter Health	785	10
2	Kaiser Foundation Hospital – Redwood City	Kaiser Permanente	213	23
3	Kaiser Foundation Hospital – South San Francisco	Kaiser Permanente	120	19
4	Kaiser – San Francisco	Kaiser Permanente	215	10
5	Lucile Salter Packard Children’s Hospital at Stanford	Stanford University	302	29
6	Mills – Peninsula Medical Center	Sutter Health	241	11
7	San Francisco General Hospital	UCSF	460	8
8	San Mateo Medical Center	San Mateo County	509	18
9	Sequoia Hospital	Dignity Health	330	23
10	Stanford University Hospital	Stanford University	613	29
11	UCSF Medical Center	UCSF	722	7

# Primary Service Area



- Denotes primary service area

Service Area	Households	Total Population	Median Income	Per Capita Income
Burlingame	13,124	29,660	\$77,661	\$51,209
Daly City	31,807	103,690	\$72,762	\$28,498
Half Moon Bay	4,364	11,653	\$98,914	\$50,098
Pacifica	14,357	38,189	\$96,014	\$43,089
San Bruno	15,277	42,165	\$78,521	\$35,200
San Francisco	357,516	825,863	\$73,802	\$47,278
San Mateo	38,632	99,670	\$87,662	\$45,142
South San Francisco	22,219	65,547	\$73,568	\$31,466

# Sources of Revenue

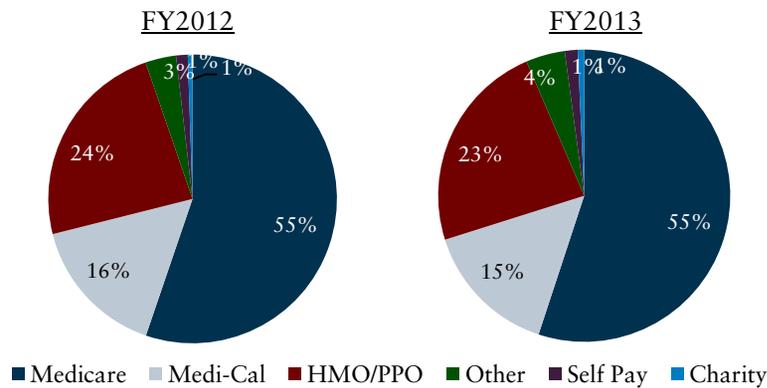
- SMC relies on government programs for reimbursement of services with Medicare and Medi-Cal participants that accounted for approximately 55% and 16% of patient days in FY2012, and approximately 55% and 15% in FY2013, respectively
- On July 23, 2013, the San Mateo County Supervisors approved the initial allocation of Measure A funding of \$12 million to SMC (nine-month period between October 2013 and June 2014)
  - \$2 million was allocated for seismic compliance work
  - \$500,000 has been dedicated to fund a strategic plan for the hospitals to be conducted in collaboration with the County by February 2014
  - As originally contemplated, a long-term allocation of Measure A funding would amount to approximately \$135 million, or \$15 million per annum, over the next nine years

## Net Supplemental Funding (FY2011–13 YTD) (\$ millions) \*

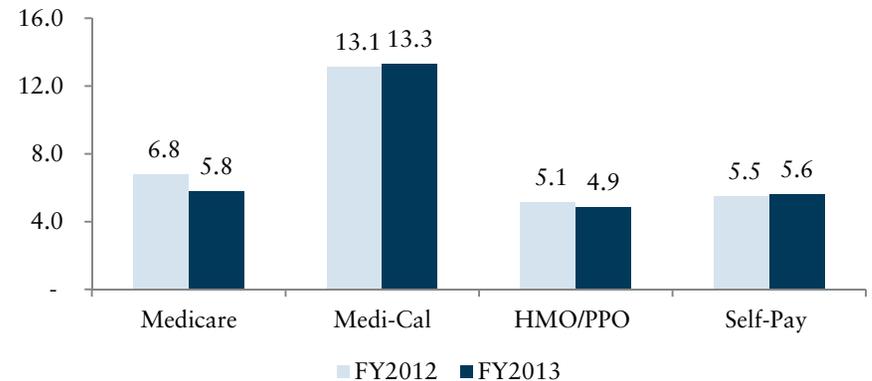
	FY2011	FY2012	FY2013	LTM Dec-2013
Provider Fee - Medi-Cal	\$ 10	\$ 11	\$ 8	\$ 8
Provider Fee - Medi-Cal Managed Care	4	1	13	13
Provider Tax	(14)	(13)	(16)	(16)
Net Provider Fee	(0)	(1)	5	5
Meaningful Use	-	1	-	2
Measure A	-	-	-	4
<b>Total</b>	<b>\$ (0)</b>	<b>\$ 0</b>	<b>\$ 5</b>	<b>\$ 11</b>

\* Represents total SMC and SMCC funding

## Patient Days by Payor (FY2012-13) \*



## Average Length of Stay by Payor (FY2012-13) \*



# Government Supplemental Funding – Measure A

- SMC and SMCC play an important role serving both the acute care and long-term care needs of the Medi-Cal and underinsured population in San Mateo County
  - SMC is considered the “safety net” hospital for HPSM members
- The hospitals are proud of the relationship that they maintain with both the County itself and its Medi-Cal insurance program, Health Plan of San Mateo. The strength of that relationship was demonstrated in a very tangible way by the passage of San Mateo County Ballot Measure A in 2012.
- Program – San Mateo County Ballot Measure A
  - SMC is represented on the HPSM Commissioner’s Board of Directors
  - The program was passed (~66% voter approval rate) in 2012 and was funded with an additional 0.5% sales tax in San Mateo County for the next 10 years
  - Estimated funding of \$45-\$60 million per year to be used to fund a variety of social service and infrastructure needs in San Mateo County
  - SMC was a major sponsor of the ballot initiative and specifically named as an intended recipient of the funds
  - In July 2013, the San Mateo County Supervisors approved the initial allocation of funding to SMC
  - \$11.5 million provided for the nine months between October 2013 and June 2014, including \$2 million for seismic compliance work and \$500,000 to fund a strategic plan to be conducted in collaboration with the County by February 2014
  - The County Board of Supervisors will consider a long-term funding agreement with the new owners of SMC (estimated \$135 million—\$ 15 million per year—for the remaining nine years of the Ballot Measure) so long as certain conditions are met
  - The County is also evaluating a potential use of intergovernmental transfers to provide additional funding to SMC
- Eligibility requirements—certain designated hospitals providing high-acuity care to the San Mateo County’s Medi-Cal and underinsured population
- In FY2014, expects funding of at least \$12 million (\$3.6 million already received as of December 2013)
- The County Supervisors are currently considering the funding for FY2015 (starting July 1, 2014)

# Employee and Physician Overview

- SMC has more than 1,350 employees (928 FTEs) and more than 410 affiliated physicians
  - Approximately 81%, or 1,098 employees, are covered by CBAs
    - SEIU has the largest union representation, with 569 members
- SMC has 241 active physicians, with the three largest specialties—internal medicine, cardiology and orthopedics—comprising approximately 28% of active doctors
- SMC has relationships with major IPAs, including Brown & Toland, Hill-Physicians and Chinese Health Plan
- All services, including dietary, environmental services and facilities, are provided in-house by SMC employees, with the exception of bio-engineering, which is contracted with TriMedEx

## Employee FTEs by Type (September 2013)

Employee Category	Count	FTEs
<i>Union</i>		
SEIU Local 250	569	413
CNA	475	293
Local 39 Engineers	21	21
Local 20	33	16
<i>Non-Union</i>		
Manager	26	23
Director	16	16
Supervisor	14	13
Administration	5	5
Other	196	128
<b>Total</b>	<b>1,355</b>	<b>928</b>

## Summary of Physicians by Specialty

Specialty	Count	% of Total
<i>Active Physicians</i>		
1. Internal Medicine	31	13%
2. Cardiology	20	8%
3. Orthopedic Surgerv	16	7%
4. Family Practice	15	6%
5. Pediatrics	14	6%
6. Emergency Medicine	13	5%
7. Podiatry	11	5%
8. Anesthesiology	11	5%
9. Oral & Maxillofacial Surgerv	10	4%
10. Obstetrics/Gynecology	9	4%
11. Other	91	38%
<b>Total Active</b>	<b>241</b>	<b>100%</b>
Non-Active (a)	173	
<b>Total</b>	<b>414</b>	

# Financial Performance Overview

- SMC received ~\$11 million in net supplemental funding in LTM December 2013
- Salary and benefits have decreased significantly from FY2011 to LTM December 2013; ~\$171 million vs. ~\$157 million, respectively

## Summary of Financial Performance (FY ending June 30; \$ millions)

	FY2011A	FY2012A	FY2013A	LTM Dec-13
Patient Revenue	\$ 255	\$ 230	\$ 224	\$ 222
Supplemental Funding Receipts (a)	13	13	21	27
Other Revenue	10	8	7	10
Total Revenue	278	251	252	259
Salaries and Benefits	(171)	(156)	(160)	(157)
Supplies	(39)	(34)	(36)	(38)
Purchased Services and Other	(38)	(31)	(32)	(30)
Supplemental Funding Tax	(14)	(13)	(16)	(16)
Total Expenses (b)	(262)	(234)	(244)	(242)
<u>Allocated Shared Services (c)</u>				
Corporate	(1)	(6)	(8)	(8)
CBS	(8)	(6)	(6)	(6)
IT	(6)	(8)	(8)	(8)
Total Shared Services	(15)	(20)	(22)	(22)
EBIDA Before Adjustments	(0)	(3)	(13)	(4)
<u>EBIDA Adjustments:</u>				
Third-Party Settlements	(1)	(2)	(1)	(2)
Estimated Litigation Cost	(1)	-	-	-
Total Adjustments	(2)	(2)	(1)	(2)
Adjusted EBIDA	(2)	(5)	(14)	(6)
Adjusted EBIDA (w/o Shared Services)	13	14	7	16
Capital Expenditures	\$ 14	\$ 10	\$ 10	\$ 22

## Select Balance Sheet Items (\$ millions)

	6/30/13	12/31/13
<u>Current Assets</u>		
Patient Accounts Receivable, Net	\$ 32	\$ 32
Due From Government Agencies	1	-
Other Current Assets	11	6
Total Current Assets	44	38
<u>Current Liabilities</u>		
Accounts Payable	5	7
Due to Government Agencies	2	(1)
Accrued Liabilities	23	22
Total Current Liabilities	\$ 31	\$ 28

### Notes:

- Includes Provider Fee, Meaningful Use and Measure A payments
- Excludes Depreciation, Amortization, Interest and Asset Impairment
- LTM December 2013 represents shared services as of LTM November 2013

# Select Operating Statistics

## Key Operating Statistics

	FY2013	LTM Dec-2013
<u>Discharges</u>		
General Acute	6,454	6,324
OB (Acute)	626	625
Neuro Care	45	39
Total	7,125	6,988
<u>Average Daily Census</u>		
Acute	92	93
Neuro	38	37
Total	130	131
<u>Average Length of Stay (Days)</u>		
Acute	4.8	4.9
Neuro	306.5	427.3
Total	6.7	6.8

## Summary of Patient Days by Unit

Unit	FY2013	LTM Dec-2013
Intensive Care Unit (II)	3,285	3,804
Coronary Care Unit (1st)	2,334	1,510
NICU (3rd)	349	322
Medical Acute	5,895	3,067
Surgical Acute (7th)	6,074	7,795
Transitional Acute (5th)	6,695	7,444
Other Medical Surgical Acute (6th)	7,230	8,294
Obstetrics Acute (3rd) Gyn	75	50
Obstetrics Acute (3rd) OB	1,675	1,633
ICC	75	188
Neuro Care (4th)	13,792	13,575
Total	47,479	47,682

## Other Operating Statistics

	FY2013	LTM Dec-2013
<u>Emergency Services</u>		
IP Visits	5,050	5,018
OP Visits	21,369	21,640
Total	26,419	26,658
<u>Surgery</u>		
Total Minutes (IP and OP)	351,656	347,023
Total IP Cases	1,832	1,891
Total OP Cases	1,412	1,271
<u>Cardiac Catheterization Services</u>		
IP Procedures	1,631	1,681
OP Procedures	1,627	1,541
Total	3,258	3,222
<u>Cardiac Rehabilitation</u>		
OP Treatments RVUs	54,968	50,496
OP Visits	14,561	13,231
<u>Radiology</u>		
IP Procedures	24,246	25,619
OP Procedures	24,638	25,428
Total	48,884	51,047
<u>Pulmonary Services</u>		
Total Rehabilitation Treatments	16,210	16,126
Total Function Services	2,786	3,257
<u>Gastro-Intestinal Services</u>		
IP Procedures	616	535
OP Procedures	1,552	1,418
Total	2,168	1,953
<u>Therapy (Physical, Speech and Occupational)</u>		
Total Treatments	69,062	68,831

# Top 10 Product Lines and Physicians

## Top 10 Product Lines by Discharges (FY2013) (a)

Product Line	Cases	% of Total
1. OB/GYN	1,174	16%
2. General Medicine	854	11%
3. All Surgery	787	10%
4. Other Heart - Medical	781	10%
5. Pulmonary	709	9%
6. Gastroenterology	655	9%
7. Orthopedic Surgery	628	8%
8. Neurology	421	6%
9. Urology	375	5%
10. Hematology/Oncology	289	4%
Total Top 10	6,673	88%

## Top 10 Physicians by Discharges (FY2013) (a)

Physicians	Cases	% of Total
1. Physician A	835	11%
2. Physician B	558	7%
3. Physician C	381	5%
4. Physician D	357	5%
5. Physician E	314	4%
6. Physician F	266	4%
7. Physician G	262	3%
8. Physician H	201	3%
9. Physician I	198	3%
10. Physician J	171	2%
Total Top 10	3,543	47%

## Top 10 Product Lines by Gross Revenue (FY2013) (\$ millions) (b)

Product Line	Gross		Total	
	Revenue	% of Total	Payments	% of Total
1. All Surgery	\$ 157.0	19%	\$ 26.9	21%
2. Orthopedic Surgery	129.7	16%	22.1	17%
3. General Medicine	101.7	12%	15.1	12%
4. Pulmonary	71.1	9%	10.6	8%
5. Other Heart - Medical	63.5	8%	9.0	7%
6. Gastroenterology	51.1	6%	8.4	6%
7. OB/GYN	39.2	5%	5.4	4%
8. Neurology	35.6	4%	5.0	4%
9. Hematology/Oncology	26.0	3%	4.2	3%
10. Urology	25.9	3%	3.7	3%
Total Top 10	\$ 700.8	85%	\$ 110.3	85%

## Top 10 Physicians by Gross Revenue (FY2013) (\$ millions) (b)

Physicians	Gross		Total	
	Revenue	% of Total	Payments	% of Total
1. Physician A	\$ 102.2	12%	\$ 15.5	12%
2. Physician B	75.2	9%	10.8	8%
3. Physician C	44.2	5%	6.9	5%
4. Physician D	43.7	5%	6.9	5%
5. Physician E	30.7	4%	4.7	4%
6. Physician F	30.3	4%	4.8	4%
7. Physician G	29.9	4%	4.5	3%
8. Physician H	25.2	3%	3.9	3%
9. Physician I	19.9	2%	3.6	3%
10. Physician J	19.8	2%	3.3	3%
Total Top 10	\$ 421.3	51%	\$ 64.8	50%

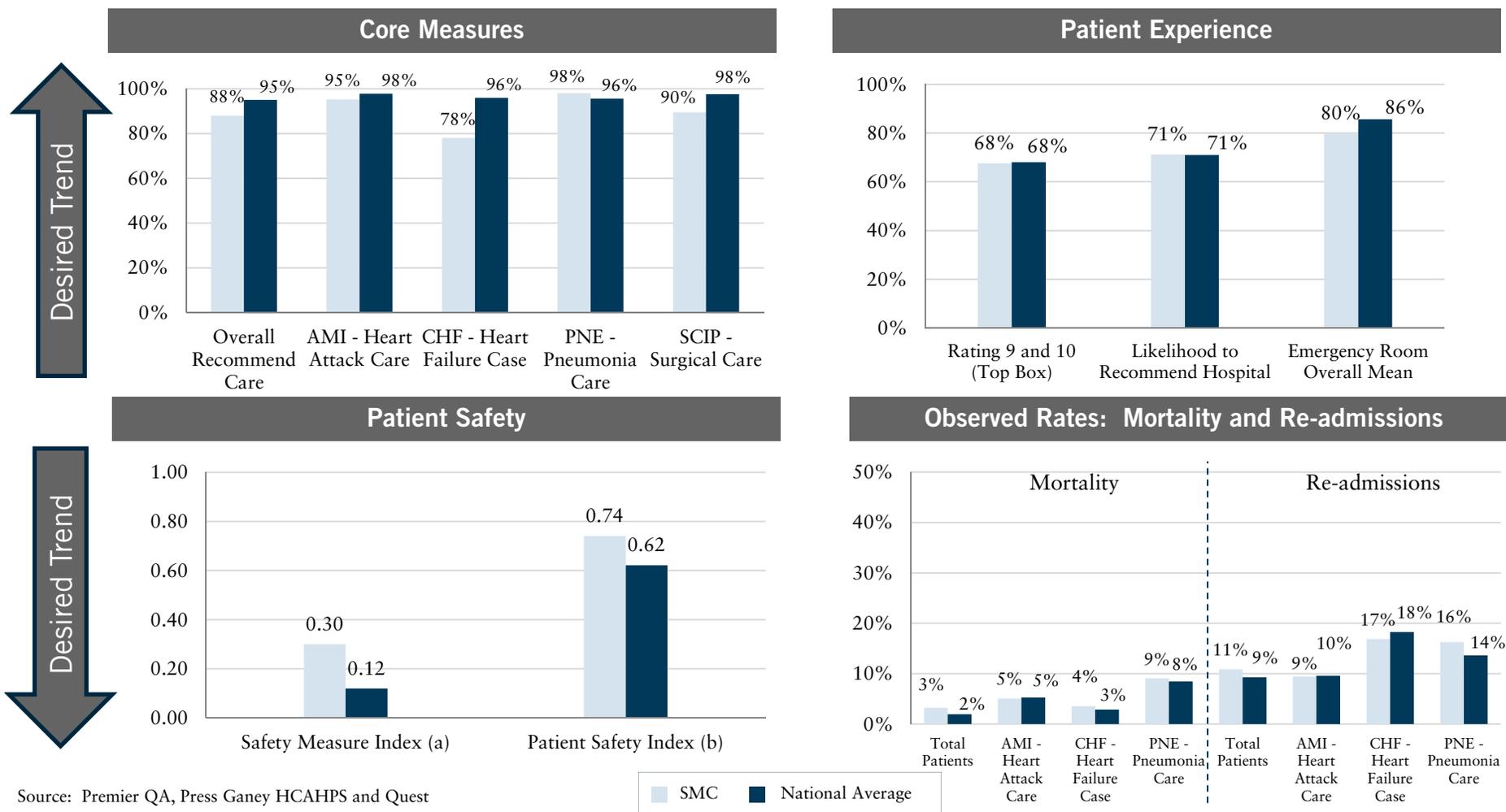
Notes: Fiscal year ends June 30

(a) Includes routine nursery discharges

(b) Total Payments include cash posted to individual patient accounts only, excluding Medicare cost report settlements, Medi-Cal disproportionate share payments, Trauma payments (Measure B funds), Provider Fee and Capitation Settlements

# Health, Safety and Quality Metrics

■ The charts below compare select SMC quality and safety performance metrics to national averages



Source: Premier QA, Press Ganey HCAHPS and Quest

Notes:

- (a) Safety Measure Index (Quest Harm Composite) is the Occurrence of Harm captured by ICD9 Coded data. QUEST harm composite accounts for the deviation of the observed rate from the expected rate and then divides by a measure of dispersion (or standard deviation) indicating variation within the hospital's performance across the cohort.
- (b) Patient Safety Index (PSI90) composite measure select patient safety indicators: Pressure Ulcer, Iatrogenic Pneumothorax, Central Venous Catheter-Related Blood Stream Infections, Postop Hip Fracture, Postop PE or DVT, Postop Sepsis, Postop Wound Dehiscence and Accidental Puncture or Laceration

# Seismic Considerations – Overview of Master Plan

## ■ Background

- In November 2009, Jensen+ Partners presented a master plan for SMC (“Master Plan”) that recommended a strategy of limited new construction and renovation of existing facilities in order to comply with SB306 (please see appendix for detail on legislation). The 2009 Master Plan notably included the construction of a new inpatient tower of 192 beds to relocate all acute care out of the seismically deficient 1963 tower. It also included a strategy for further campus development.
- In July 2013, the SMC and DCHS reengaged Jensen+ Partners to update and revise the 2009 Master Plan to reflect more recent trends in patient usage/census and to account for the economic climate. The goal was to conduct a tightly focused revision under the SB90 guidelines, which require that all inpatient acute care services not be housed in SPC-1 structures after January 1, 2020.
- From a physical planning standpoint, the situation assessment confirmed that the proposed location for a replacement hospital in the 2009 Master Plan is still ideal for the acute care programs of the 2014 Master Plan revision. Further analysis revealed the existence of multiple opportunity zones around the campus, which each constitute a viable area for future development. Strategic development of these locations will be key to optimizing the existing campus to meet community needs.

## ■ Recommendations

- The Master Plan revision includes recommendations for the new, acute care hospital and a strategic plan for the development of the SMC campus beyond the current mandates and initiatives.
- The recommendations for the new, acute care hospital include the following key elements:
  - Maintain the previously proposed location for the new hospital
  - Transition existing inpatient, acute care services in the 1963/1978 structures to outpatient and supplemental support services
  - Construct a new, acute care facility that supports 104 acute care beds, including 84 general acute, eight perinatal and 12 critical care; make a concordant change to Seton's list of licensed services
- The recommendations for the SMC campus include the following key elements:
  - Optimize the potential of the SMC site as a continuing care community
  - Provide a combination of LTAC, acute rehab, SNF, memory care, hospice, assisted living, senior housing and commercial space in new structures on the upper and lower campus
  - Create new parking structures to support traffic to the SMC
- Cost Summary – The total construction cost for the 104 bed hospital is estimated at approximately \$157 million. The total project budget for the replacement acute care hospital is projected approximately \$209 million with parking and central utility plant. This estimate (\$209 million) only includes elements necessary for compliance with SB90, and as such, does not account for future campus development.

# Capital Expenditure Summary

- A summary of the recent investments and near-term capital needs are highlighted in the tables below:
  - Contributed approximately \$8 million in software upgrades, including medical device integration and security in FY2013
  - Purchased new infusion system devices for approximately \$1.3 million in FY2012

Summary of Major Near-Term CapEx Needs (\$ millions)			
CapEx Need	Estimated		Description
	Cost	Timing	
Infrastructure	\$3.2	Beyond FY2015	Hospital Facilities
Infrastructure / IT	5.8	Beyond FY2015	Tenant Facilities & IT
Equipment	3.9	Beyond FY2015	Medical Equipment
<b>Total</b>	<b>\$12.9</b>		

Summary of Recent CapEx (FY2011-13) (\$ millions)				
	FY2011	FY2012	FY2013	
<u>Building, Fixtures and Leasehold</u>				
1. Building Fixtures	\$ 0.1	\$ 0.1	\$	0.0
2. Building Improvements	0.1	5.1		0.5
3. Furniture & Fixtures	0.0	0.1		0.0
Subtotal	0.2	5.3		0.5
4. Medical Equipment	0.7	2.5		0.0
<u>Software and IT</u>				
5. Software	1.0	0.3		8.1
6. Computer Equipment	0.2	0.1		0.1
7. Network Equipment	0.2	0.4		1.6
8. Telephone Equipment	-	0.0		0.2
Subtotal	1.4	0.8		10.0
9. Vehicles	-	-		0.1
<b>Total</b>	<b>\$ 2.4</b>	<b>\$ 8.6</b>	<b>\$</b>	<b>10.6</b>

# Summary of Major Equipment

	Manufacturer / Model	Owned / Leased	Age of Equipment (years)
<b>RADIOLOGY &amp; IMAGING</b>			
CT	Shimadzu UD150B-10	Owned x3	18
CT	GE Advantx (MOB)	Owned	22
CT	GE Proteus	Owned	6
CT	GE Digital Discovery (MOB)	Owned	6
CT	GE 9900	Owned x2	New
CT	GE 9800 MOB (x1)	Owned x2	5
PET / CT Scan	GE CTI	Owned x2	16
PET / CT Scan	Siemens Somatom Sensation 16	Owned	11
MRI	GE Signa 105	Owned	18
MRI	Siemens Trio	Owned	6
Mammography	Hologic Stereotatic	Owned	8
Mammography	Hologic Digital	Owned	8
X-Ray Imaging	Hologic Bone Densitometer (MOB)	Owned	8
Ultrasound	GE Logic S8	Owned	11
Ultrasound	Siemens SC2000	Owned x2	1 & 5
Ultrasound	Siemens S2000	Owned x2	5
Angio	Siemens Axiom Artis FA	Owned	10
Nuclear Medicine	Philips Axis	Owned x2	12
Nuclear Medicine	GE Millennium	Owned	10
Nuclear Medicine	GE Starcam	Owned	14

## Summary of Major Equipment (cont.)

	Manufacturer / Model	Owned / Leased	Age of Equipment (years)
<b>CARDIOLOGY</b>			
Cath Lab	Philips Allura	Owned	7
Cath Lab	Philips H5000F	Owned	15
Cath Lab	Philips H5000	Owned	15
<b>ONCOLOGY</b>			
Radiation Therapy (LINAC, IMRT)	Clinac 21 iX with ML	Leased (Varian)	9
Radiation Therapy (LINAC, IMRT)	Clinac 600C	Leased (Varian)	18

# Summary of Properties

## Summary of Owned Properties

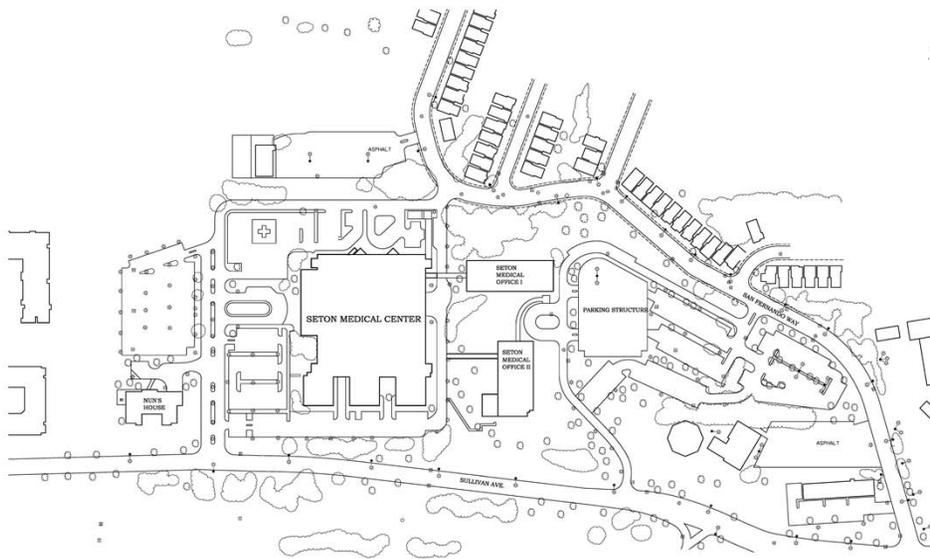
Description	Address	Seismic	# of Stories	Year Built	Footage Owned
<b>HOSPITAL RELATED PROPERTIES</b>					
Hospital / CT / Linear Accelerator	1900 Sullivan Ave. Daly City, CA 94015	Pending Extension Until 2020	11	1963, 1969, 1979, 2006	402,031
Employee Open Air Parking Lot	Adjacent to Parking Lot F Triangle of Hospital	N/A	N/A	N/A	N/A
Green Space / Hill	Between Parking Lot F and Hospital Daly City, CA	N/A	N/A	N/A	N/A
<b>MOBS &amp; OTHER PROPERTIES</b>					
Serramonte Medical Center	1500 Southgate Ave. Daly City, CA 94015	N/A	2	1973	34,508
SMOC #1 Medical Office Building	1800 Sullivan Ave. Daly City, CA 94015	N/A	6	1968	55,801
SMOC #2 Medical Office Building	1850 Sullivan Ave. Daly City, CA 94015	N/A	5	1987	84,908
Open Air Parking Lot	1800 Sullivan Ave. Daly City, CA 94015	N/A	N/A	N/A	3.4 acres
Parking Lot "H" Open Air	1800 Sullivan Ave. Daly City, CA 94015	N/A	N/A	N/A	N/A
Parking Lot "I" Open Air	1800 Sullivan Ave. Daly City, CA 94015	N/A	N/A	N/A	0.032 acres
Parking Structure 4 Tier	1800 Sullivan Ave. Daly City, CA 94015	N/A	4	1987	135,488 / 547 spaces
Two Physician Parking Lots (Open Air)	1850 Sullivan Ave. Daly City, CA 94015	N/A	N/A	N/A	1.9 acres + 0.1 acres

## Summary of Leased Properties

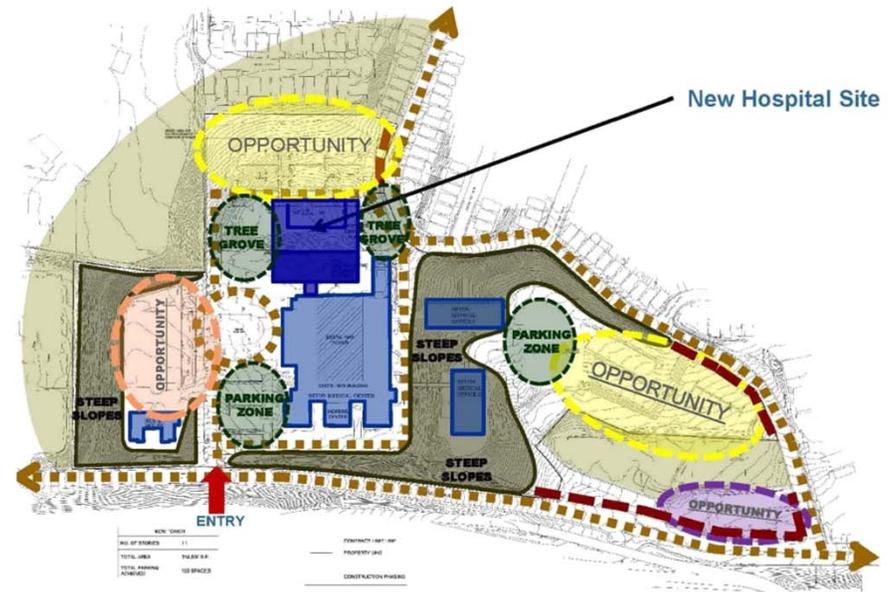
Description	Address	# of Stories	Year Built	Sq. Ft.	Occupied by DCHS
Outpatient Rehabilitation / Vacant Space	45 Southgate	2	1953	13,111	50%
Diagnostic Imaging (One Office Suite)	901 Campus Dr.	3	1980	1,710	50%
Warehouse	251 Michelle Court / South SF	1	1979	13,400	100%

# Campus Map

Current Campus



Potential Redeveloped Campus



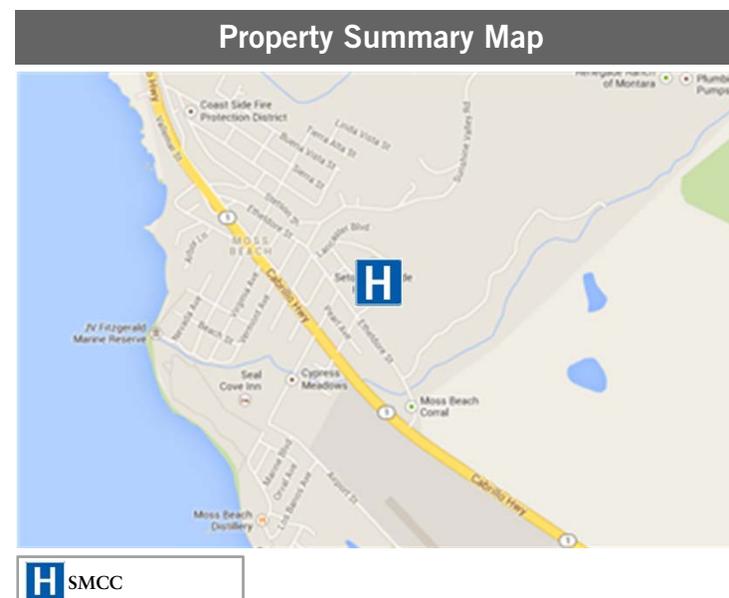


# Overview of Operations

## Seton Medical Center – Coastside

# Introduction

- SMCC is an accredited rural hospital providing emergency services, skilled nursing care and outpatient ancillary services
  - The facility has a licensed capacity of 121 beds, of which five are acute/emergency department beds and 116 are skilled nursing beds
  - The skilled nursing facility offers specialty care in post-acute, psychiatric and juvenile services, among others
  - SMCC and its predecessors have been providing services in the area since 1970
- SMCC operates a 24-hour standby emergency department, the only such facility on the Pacific Coast from Daly City to Santa Cruz
- SMCC offers several inpatient and outpatient programs, including physical, occupational and speech therapies, radiology/mammography, laboratory, spiritual care, community outreach and emergency services
- In addition, SMCC is a subsidiary of SMC and operates under its license. SMCC receives administrative, information technology and other ancillary support services from SMC.
- SMCC's primary service area is the Half Moon Bay area communities in San Mateo County, but also extends to the communities along the 55-mile coastal stretch between Daly City and Santa Cruz as the only 24-hour emergency department



600 Marine Blvd., Moss Beach, CA 94038  
[www.setoncoastside.org](http://www.setoncoastside.org)

# Overview of Key Services

- SMCC strives to be the center for health and healing in the community, offering various health and education classes and many other classes and support groups
- Key services, clinics and specialty services include:
  - Skilled Nursing Facility
  - Coastside Community Outreach Programs
  - Emergency Services
  - Health Insurance Assistance
  - Outpatient – Ancillary Services
  - RotaCare Clinic
  - Spiritual Care Services
- In FY2013, SMC and SMCC together provided more than \$27 million in community benefit programs and services to the community, as well as more than \$47 million in care for the elderly

## Select Awards and Certifications



- Accredited by the Joint Commission and the California Department of Health Services
- Staffed by additional healthcare members, including a resident advocate and financial counselors for insurance assistance



- Winner of the Waste Reduction Award Program

## Aerial View of SMCC



## Key Statistics (FY2013)

Available / Licensed Beds	121 / 121
Average Daily Census	106
Case Mix Index (CMI)	1.330
Medicare CMI	1.373
Productive Hours (Millions)	0.2
Productive FTEs (a)	114
Total Hours (Millions)	0.3
Total FTEs (a)	147
<u>Payor Mix</u>	
Medicare (b)	16%
Medi-Cal (b)	49%
HMO/PPO	22%
Self-Pay	5%
Other	8%

Notes: Fiscal year ends June 30

- (a) Implied FTEs calculated based on working hours, assuming 52 weeks per year and 40 hours per FTE
- (b) Includes managed care

# Summary of Hospital Services

Summary of Hospital Services					
	<u>Inpatient</u>	<u>Outpatient</u>		<u>Inpatient</u>	<u>Outpatient</u>
Clinical Laboratory		✓	Rehabilitation Therapy		✓
Emergency Services & Acute Care Unit	✓		Skilled Nursing Facility		✓
Radiology/Mammography		✓	Spiritual Care Services		✓



# Management Overview

Management Experience				
Name	Position	Years of Experience		Biography
		Industry	DCHS	
Joanne Allen	CEO (SMC and SMCC)	25	17	<ul style="list-style-type: none"> <li>More than two decades of healthcare leadership experience. Previous experience SLRH (President and CEO) and OCH (Chief Operating Officer/Chief Strategic Officer)</li> <li>Served as Chair and Board Member of the California Hospital Association CEO Council, and was recognized in 2011 as a “healthcare hero” and in 2012 as a “woman of influence” by the Silicon Valley/San Jose Business Journal</li> </ul>
Anthony Rispoli	Interim CFO (SMC and SMCC)	35	1	<ul style="list-style-type: none"> <li>Previous experience includes engagements with several large organizations, such as Christus Health, ProMedica and Mercy Health Partners</li> <li>Most recently served as interim CFO at Mount St. Mary’s Hospital and Health Center, an Ascension health ministry based in Lewiston, NY</li> </ul>
Irwin Shelub, M.D.	CMO (SMC and SMCC)	35	2	<ul style="list-style-type: none"> <li>Previously served as the President of the Medical Staff and Medical Director of the Intensive Care Unit at SMC and as the Medical Director for the Daly City Hospitalist Medical Group</li> <li>Received his Bachelor of Arts degree from the University of California, Berkeley and earned his medical degree from the Baylor College of Medicine in Houston, TX. Dr. Shelub completed his clinical training in pulmonary medicine at the University of Colorado at Denver. He served as chief resident at the University of California at Davis. Dr. Shelub is board certified in internal medicine and pulmonary medicine</li> </ul>
Beverly Fick, RN	CNE (SMC and SMCC)	32	3	<ul style="list-style-type: none"> <li>A healthcare leader and licensed registered nurse with more than 30 years of clinical and administrative experience in acute healthcare organizations</li> <li>Joined SMC in 2011 as the Administrative Director of Nursing Operations/Nurse Manager for Subacute and Interval Care Center</li> <li>Previously worked in psychiatric nursing for the University of New Mexico Hospital and also established a consulting company, where she assisted with strategic planning, management and personnel development, and conflict resolution</li> </ul>

# Key Considerations

## Strengths and Investment Considerations

- Strong Relationship with County and HPSM
  - Measure A – sales tax revenue allocation for SMCC
- SMCC is the only 24-hour standby Emergency Department (five beds) on the Pacific Coast from Daly City to Santa Cruz
- Critical to community to ensure access to healthcare, serving a significant need
- One of few standalone SNFs in the region that accepts Medi-Cal
- Little competition; no alternative SNF placement opportunities in the County

## Opportunities

### Near-Term

- Maximize referral potential
- Expand capacity for high-acuity programs; focus on ultra and very high RUG patients
- Medicare expansion for SNF beds
- Outsource management

### Ongoing

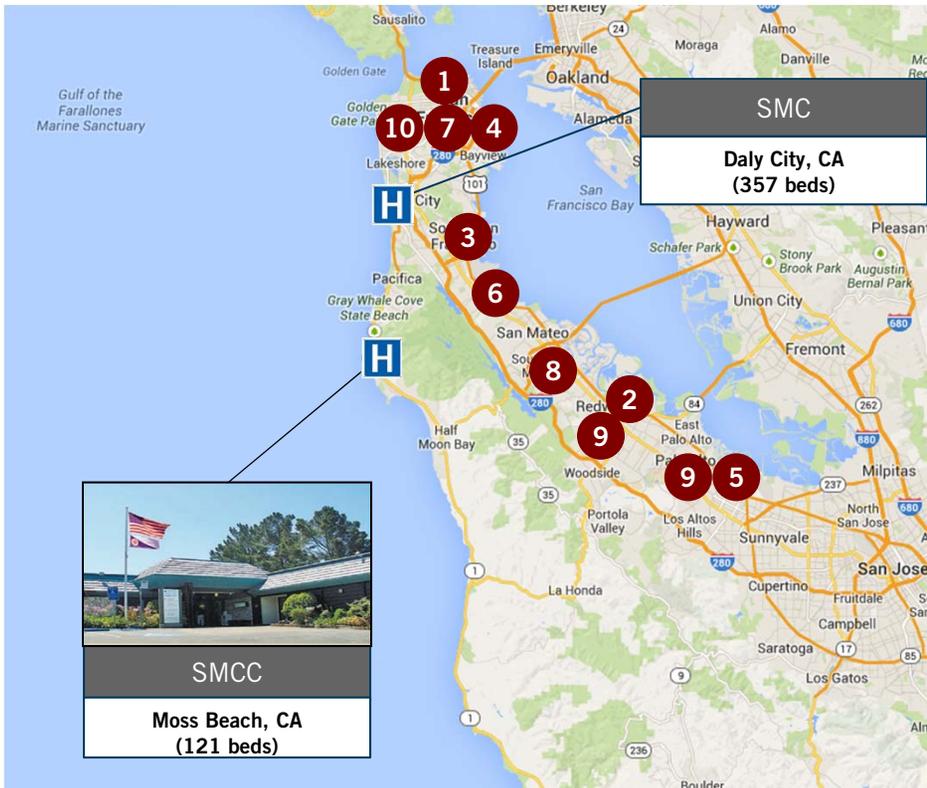
- Measure A funding estimated to be approximately \$15 million per annum, a portion of which may be allocated to SMCC to support its operations
- Open the fast track in the emergency room in 2014
- Improve payor mix and enhance facility programming



# Overview of Select Hospital Services

Center / Services	Description
<b>Skilled Nursing Facility</b>	<ul style="list-style-type: none"> <li>SMCC offers skilled nursing care to 116 inpatient residents year-round. A dedicated staff of interdisciplinary professionals provide excellent, comprehensive healthcare. SMCC prides itself in offering a warm, caring and nurturing nursing facility.</li> </ul>
<b>Emergency Services &amp; Acute Care Unit</b>	<ul style="list-style-type: none"> <li>SMCC operates a well-equipped and staffed 24-hour Emergency Department. In addition to providing this invaluable service to coastal residents, the hospital offers radiology/mammography, clinical laboratory services, rehabilitation therapy, physical, occupational and speech therapy.</li> <li>As the only 24-hour standby Emergency Department on the Pacific Coast from Daly City to Santa Cruz, SMCC is highly valued by the community it serves. The emergency room consists of a five-bed department that is staffed 24 hours a day, with a physician qualified in emergency medicine and a registered nurse. If needed, SMCC has the capability to transfer its critically ill patients to a tertiary facility via air or ground.</li> </ul>
<b>Rehabilitation Therapy</b>	<ul style="list-style-type: none"> <li>SMCC's rehabilitation team provides physical therapy, occupational therapy and speech therapy by licensed therapists and assistants. SMCC's goal is for all residents to function at the highest level. To meet this end, hospital physicians assess the resident's needs for adaptive equipment, individualized exercise programs or communication skills. Outpatient rehabilitation services are also provided for the community, with a prescription from a physician.</li> </ul>
<b>Radiology / Mammography</b>	<ul style="list-style-type: none"> <li>The SMCC radiology department offers general diagnostic X-ray exams, as well as screening mammograms. The mammography department is accredited by the American College of Radiology.</li> </ul>
<b>Clinical Laboratory</b>	<ul style="list-style-type: none"> <li>The Clinical Laboratory is accredited by The Joint Commission and is staffed by clinical laboratory scientists. Under the direction of a pathologist, proficiency testing occurs through the College of American Pathologists.</li> </ul>
<b>Spiritual Care Services</b>	<ul style="list-style-type: none"> <li>Spiritual Care Services provide emotional and spiritual care for every person coming to SMCC, regardless of religious affiliation. Chaplains provide compassionate support during times of loneliness, anxiety and loss. They can assist residents and loved ones in periods of crisis through their ministry of presence, counseling and/or referral process to appropriate resources within the hospital setting. Chaplains can also help sort through ethical or moral questions involving the resident's treatment by assisting with completion of an Advance Healthcare Directive for Healthcare and/or discussing Physician Orders for Life-Sustaining Treatment choices.</li> </ul>

# Competitive Landscape – San Mateo County



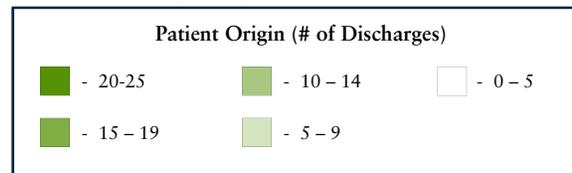
Top Competitors	Beds	Distance (mi)
1 Linda Mar Care Center – Pacifica	59	5.4
2 Mills– Peninsula Skilled Nursing – Burlingame	62	10.5
3 A&C Convalescent Hospital of Millbrae – Millbrae	138	10.6
4 Peninsula Medical Center D/P SNF – Burlingame	75	10.6
5 Pacifica Nursing and Rehab Center – Pacifica	68	10.8
6 San Bruno Skilled Nursing Hospital – San Bruno	45	11.1
7 St. Francis Convalescent Pavilion – Daly City	239	13.0
8 St. Francis Heights Convalescent Hospital – Daly City	102	13.0
9 Brookside Skilled Nursing Hospital – San Mateo	99	14.2
10 San Mateo Medical Center D/P SNF – San Mateo	375	14.6

# Primary Service Area



Service Area	Households	Total Population	Median Income	Per Capita Income
Burlingame	13,124	29,660	\$77,661	\$51,209
Daly City	31,807	103,690	\$72,762	\$28,498
Half Moon Bay	4,364	11,653	\$98,914	\$50,098
Pacifica	14,357	38,189	\$96,014	\$43,089
San Bruno	15,277	42,165	\$78,521	\$35,200
San Francisco	357,516	825,863	\$73,802	\$47,278
San Mateo	38,632	99,670	\$87,662	\$45,142
South San Francisco	22,219	65,547	\$73,568	\$31,466

— - Denotes primary service area



# Sources of Revenue

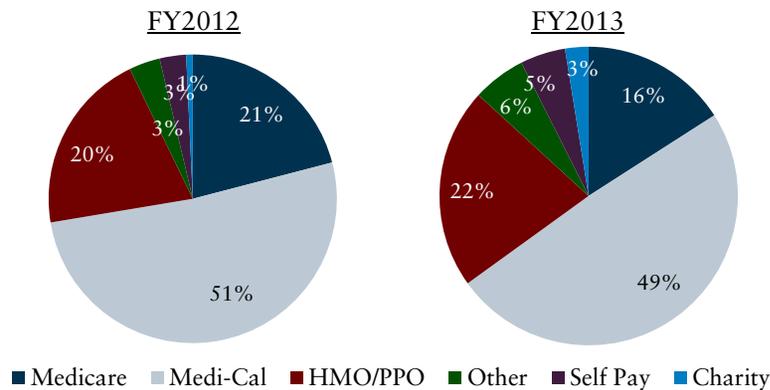
- SMC and SMCC are a net receiver of supplemental funding under the Provider Fee and Meaningful Use government programs
- SMCC relies heavily on Medi-Cal for its occupancy
  - Medi-Cal participants accounted for approximately 50% of all patient days over the past two years
- The skilled nursing facility had a payor mix of approximately 89% in January, 2014
  - One of only a few standalone SNFs in the region that accepts Medi-Cal
- In 2014, the ALOS for Medi-Cal patients was more than 5x longer than any other payor

## Net Supplemental Funding (FY2011–13 YTD) (\$ millions) \*

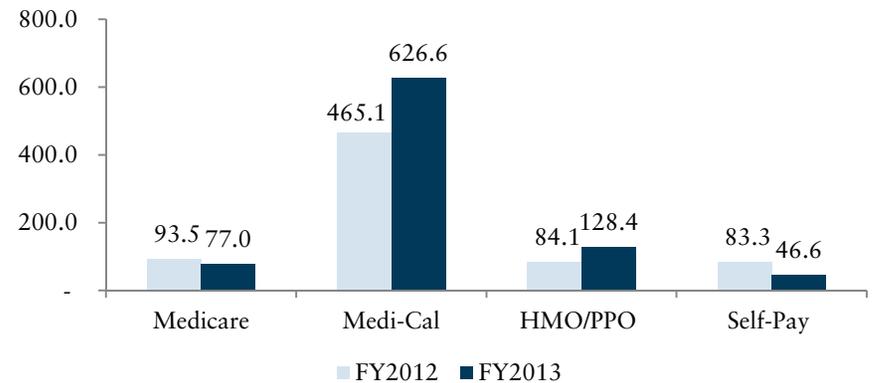
	FY2011	FY2012	FY2013	LTM Dec-2013
Provider Fee - Medi-Cal	\$ 10	\$ 11	\$ 8	\$ 8
Provider Fee - Medi-Cal Managed Care	4	1	13	13
Provider Tax	(14)	(13)	(16)	(16)
Net Provider Fee	(0)	(1)	5	5
Meaningful Use	-	1	-	2
Measure A	-	-	-	4
<b>Total</b>	<b>\$ (0)</b>	<b>\$ 0</b>	<b>\$ 5</b>	<b>\$ 11</b>

\* Represents total SMC and SMCC funding

## Patient Days by Payor (FY2012-13) \*



## Average Length of Stay by Payor (FY2012-13) \*



# Employee and Physician Overview

- SMCC has more than 160 employees (119 FTEs) and 10 affiliated physicians
  - Approximately 82%, or 135 employees, are covered by CBAs
    - SEIU has the largest representation, with 134 members
- SMCC has six active physicians, primarily focused on emergency medicine
- All services including dietary, environmental services and facilities are provided in-house and by SMCC employees, with the exception of bio-engineering, which is contracted with TriMedEx

## Employee FTEs by Type (September 2013)

Employee Category	Count	FTEs
<i>Union</i>		
SEIU Local 250	134	100
Local 39 Engineers	1	1
<i>Non-Union</i>		
Manager	2	2
Director	1	1
Supervisor	3	3
Other	23	12
Total	164	119

## Summary of Physicians by Specialty

Specialty	Count	% of Total
1. Emergency Medicine	8	80%
2. Internal Medicine	1	10%
3. Podiatry	1	10%
Total	10	100%

# Financial Performance Overview

- Net patient revenue is projected to increase due to an increase in reimbursement rates and an improvement in both the payor mix and patient acuity levels
- Salary and benefits have remained stable from FY2011 to LTM December 2013, at ~\$16 million to ~\$17 million, respectively

## Summary of Financial Performance (FY ending June 30; \$ millions)

	FY2011A	FY2012A	FY2013A	LTM Dec-13
Patient Revenue	\$ 18	\$ 16	\$ 21	\$ 23
Other Revenue	0	4	4	2
Total Revenue	19	20	25	25
Salaries and Benefits	(16)	(17)	(17)	(17)
Supplies	(1)	(2)	(2)	(2)
Purchased Services and Other	(2)	(2)	(2)	(2)
Total Expenses (a)	(19)	(20)	(21)	(20)
<u>Allocated Shared Services (b)</u>				
Corporate	-	-	-	-
CBS	(1)	(0)	(0)	(0)
IT	(0)	(1)	(1)	(1)
Total Shared Services	(1)	(1)	(1)	(1)
EBIDA Before Adjustments	(1)	(1)	4	4
<u>EBIDA Adjustments:</u>				
Third-Party Settlements	-	-	(3)	(3)
Adjusted EBIDA	(1)	(1)	1	1
Adjusted EBIDA (w/o Shared Services)	(0)	0	2	2
Capital Expenditures	\$ 0	\$ 0	\$ 0	\$ 0

## Select Balance Sheet Items (\$ millions)

	6/30/13	12/31/13
<u>Current Assets</u>		
Patient Accounts Receivable, Net	\$ 32	\$ 32
Due From Government Agencies	1	-
Other Current Assets	11	6
Total Current Assets	44	38
<u>Current Liabilities</u>		
Accounts Payable	5	7
Due to Government Agencies	2	(1)
Accrued Liabilities	23	22
Total Current Liabilities	\$ 31	\$ 28



### Notes:

- (a) Excludes Depreciation, Amortization, Interest and Asset Impairment  
 (b) LTM December 2013 represents shared services as of LTM November 2013

# Select Operating Statistics

## Key Operating Statistics

Site Size (Acres)	[15.8]	Operating Beds	116
Building Area (Sq. Ft.)	686,810		
Floors	1	Five Star Rating	4
Year Built	1960	# of Deficiencies	8

### YTD 2013 RUGs Distribution Summary <sup>(1)</sup>

Extensive Total	48%	Complex Total	5%
Rehab Total	30%	Physical and Other Total	2%
Special Total	15%	Behavioral / Cognitive Total	0%

### YTD 2013 RUGs Distribution Detail <sup>(1)</sup>

Category	Distribution	Category	Distribution
Extensive		Rehab	
ES2	11.0%	RMC	10.0%
ES2	37.2%	RMA	8.6%
Other Extensive	0.0%	RHC	4.5%
Total - Extensive	48.3%	RMB	3.9%
		Other - Rehab	2.4%
		Total - Rehab	29.5%
Special		Complex	
LD1	6.1%	CB1	2.9%
LC1	3.6%	CC1	1.2%
HB1	2.1%	CA1	0.9%
LB1	2.1%	CD1	0.0%
Other Special	1.5%	Other Complex	0.0%
Total - Special	15.4%	Total - Complex	5.0%
		Other	1.8%
		Total RUGs	100.0%

## Other Operating Statistics

	FY2013	LTM Dec-2013
<u>Emergency Services</u>		
IP Visits	1	1
OP Visits	3,002	2,941
Total	3,003	2,942
<u>Clinical Laboratory Services</u>		
IP Tests	6,938	7,010
OP Tests	12,178	9,967
Total	19,116	16,977
<u>Radiology</u>		
IP Procedures	220	205
OP Procedures	1,408	1,323
Total	1,628	1,528
<u>Therapy (Physical, Speech and Occupational)</u>		
Total Treatments	15,544	14,669
	<u>SNF</u>	<u>Outpatient</u>
<u>Payor Mix (January 2014 YTD)</u>		
Medicare (FFS+HMO)	5.2%	27.7%
Medi-Cal (FFS+HMO)	88.7%	17.0%
HMO PPO / Commercial	5.0%	46.2%
Self-Pay / Other	1.1%	9.1%

(1) Actual data through December 2013

# Top Product Lines and Physicians

## Top Product Lines by Discharges (FY2013) (a)

Product Line	Cases	% of Total
1. General Medicine	76	74%
2. Neurology	6	6%
3. Urology	3	3%
4. Other	18	17%
Total	103	100%

## Top Physicians by Discharges (FY2013) (a)

Physicians	Cases	% of Total
1. Physician A	63	61%
2. Physician B	19	18%
3. Physician C	14	14%
4. Physician D	7	7%
Total	103	100%

## Top Product Lines by Gross Revenue (FY2013) (\$ millions) (b)

Product Line	Gross		Total	
	Revenue	% of Total	Payments	% of Total
1. General Medicine	\$ 26.1	87%	\$ 8.5	87%
2. Neurology	1.8	6%	0.7	7%
3. Urology	1.3	4%	0.4	4%
4. Other	0.7	2%	0.1	1%
Total	\$ 29.9	100%	\$ 9.7	100%

## Top Physicians by Gross Revenue (FY2013) (\$ millions) (b)

Product Line	Gross		Total	
	Revenue	% of Total	Payments	% of Total
1. Physician A	\$ 12.8	43%	\$ 3.6	37%
2. Physician B	7.4	25%	2.6	26%
3. Physician C	4.4	15%	1.4	14%
4. Physician D	5.2	17%	2.2	23%
Total	\$ 29.9	100%	\$ 9.7	100%

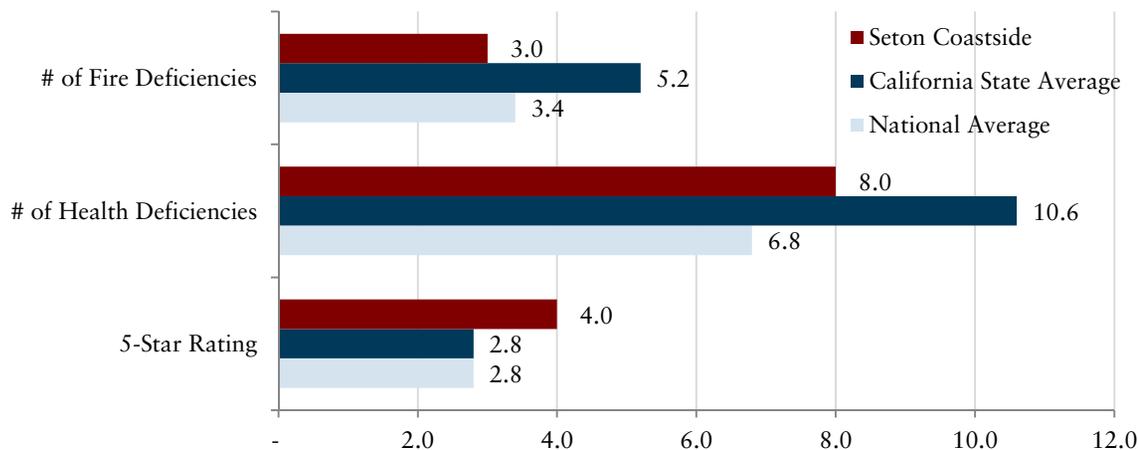
Notes: Fiscal year ends June 30

(a) Includes routine nursery discharges

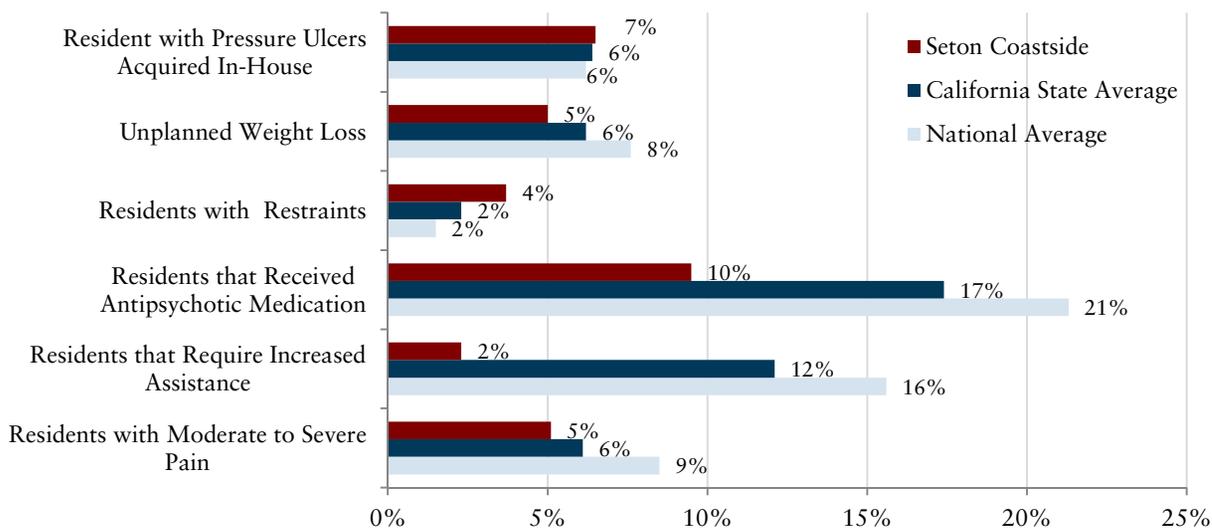
(b) Total Payments include cash posted to individual patient accounts only, excluding Medicare cost report settlements, Medi-Cal disproportionate share payments, Trauma payments (Measure B funds), Provider Fee and Capitation Settlements

# Health, Safety and Quality Metrics – SNF

## Health and Safety



## Clinical Quality



# Capital Expenditure Summary

- SMCC is compliant with California seismic standards and requires no additional seismic capital investment
- A summary of the recent investments and near-term capital needs are highlighted in the tables below:

Summary of Major Near-Term CapEx Needs (\$ millions)			
CapEx Need	Estimated		Description
	Cost	Timing	
Infrastructure	\$0.1	Beyond FY2015	Hospital Facilities
Equipment	0.1	Beyond FY2015	Medical Equipment
<b>Total</b>	<b>\$0.2</b>		

Summary of Recent CapEx (FY2011-13) (\$ millions)			
	FY2011	FY2012	FY2013
<u>Building, Fixtures and Leasehold</u>			
1. Building Fixtures	\$ 0.0	\$ -	\$ -
2. Building Improvements	-	0.5	-
3. Furniture & Fixtures	-	0.1	0.0
Subtotal	0.0	0.6	0.0
4. Medical Equipment	-	0.1	0.1
<u>Software and IT</u>			
5. Software	0.0	0.0	0.0
6. Computer Equipment	-	-	0.0
7. Network Equipment	0.0	0.0	0.0
8. Telephone Equipment	-	-	0.0
Subtotal	0.0	0.0	0.1
9. Vehicles	-	-	-
<b>Total</b>	<b>\$ 0.0</b>	<b>\$ 0.7</b>	<b>\$ 0.2</b>

# Summary of Major Equipment

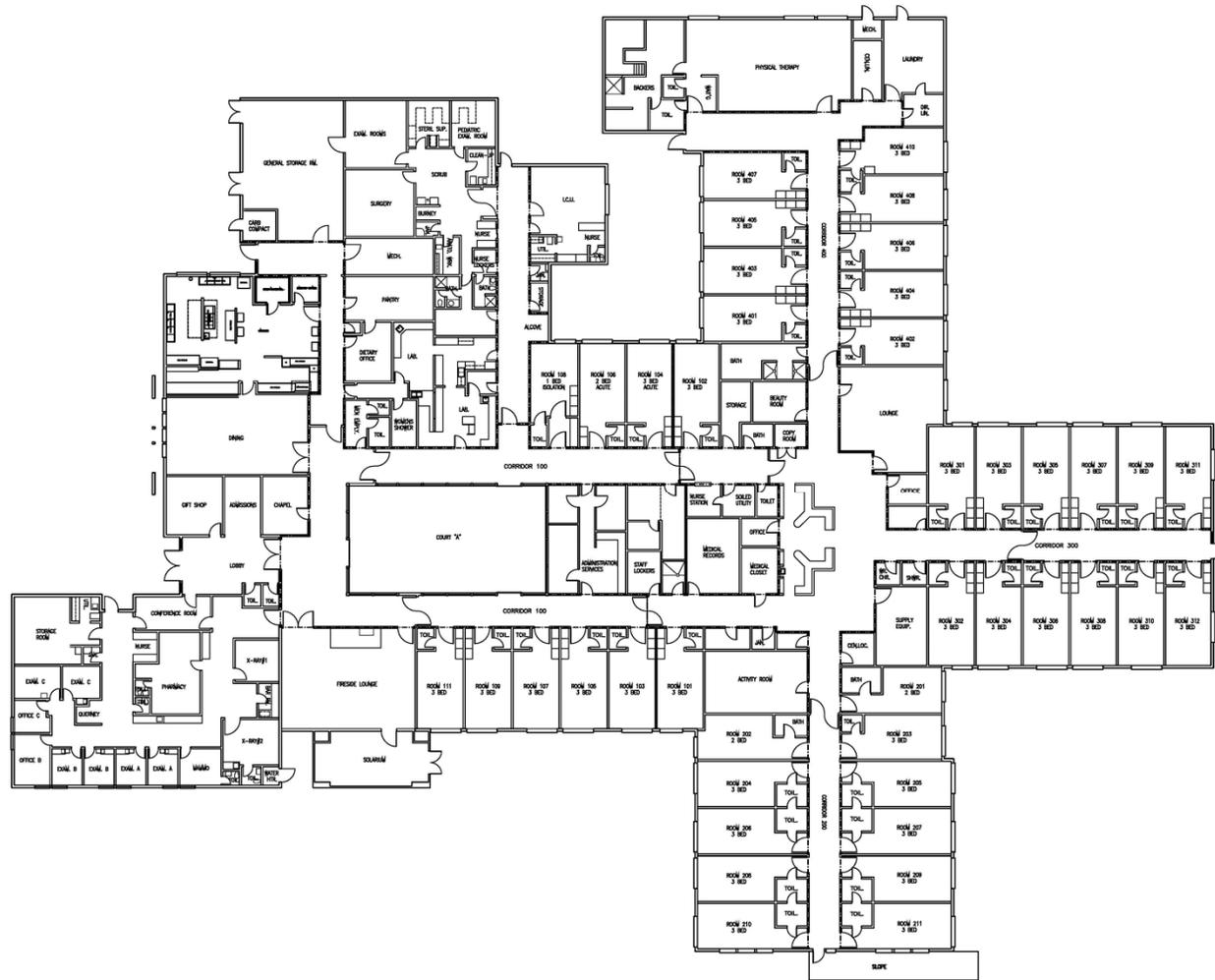
	Manufacturer / Model	Owned / Leased	Age of Equipment (years)
<b>RADIOLOGY &amp; IMAGING</b>			
X-ray	Quantum Odyssey	Owned	6 years
Ultrasound	GE VSCAN	Owned	9 years

# Summary of Properties

## Summary of Owned Properties

Description	Address	Seismic	# of Stories	Year Built	Sq. Ft.	Occupied by DCHS
<b>HOSPITAL RELATED PROPERTIES</b>						
Hospital & Nursing Home (With Two Trailers)	600 Marine Blvd. Moss Beach, CA 94038	N/A	1	1960	686,810	100%

# Campus Map



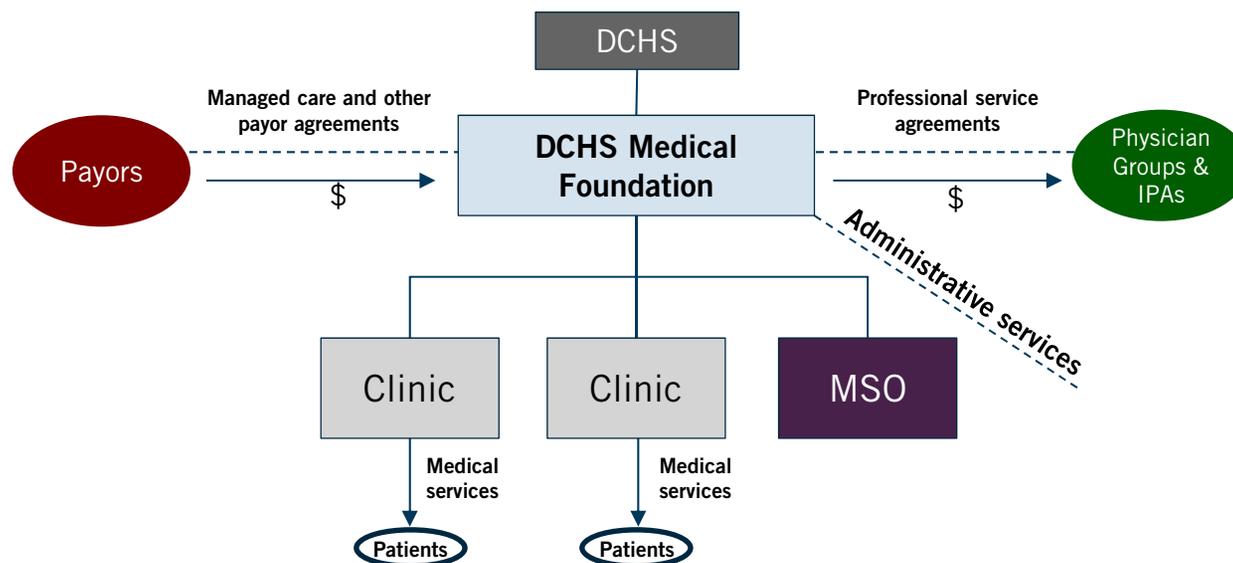


# **Overview of Operations**

## **DCHS Medical Foundation**

# DCHS Medical Foundation Overview

- DCCHS Medical Foundation was established in December 2011 and incorporated as a California Nonprofit Religious Corporation. It is a 501(c)(3) tax-exempt entity listed in the Official Catholic Directory.
  - A “medical foundation” is a result of California statute (California Health & Safety Code § 1206(l)) that is designed to exempt certain not-for-profit, tax-exempt corporations operating multi-specialty clinics from clinic licensure requirements
    - A “medical foundation” (i) is a nonprofit, 501(c)(3) tax-exempt corporation that, (ii) conducts medical research and health education and (iii) provides OP medical care at one or more ambulatory sites (iv) through at least 40 independent contractor physicians
  - This structure enables exemption from clinic licensure requirements, including OSHPD-3 sign-off, which results in a significant reduction in facility and personnel costs and provides a physician alignment vehicle that creates a competitive position in the marketplace
  - Major California healthcare providers (e.g., Sutter, Stanford and Dignity Health) have established medical foundations as vehicles for securing long-term clinical and financial relationships with large numbers of physicians
- On April 1, 2012, DCCHS Medical Foundation began its operations after acquiring assets from San Jose Medical Group and San Jose Medical Management for \$13 million, including a full-service MSO that provides support for clinical operations
  - In FY2013, the entity acquired nine additional physician practices, NCA, a regional IPA in Santa Clara County, and Allied IPA in Los Angeles



# DCHS Medical Foundation Overview (cont.)

- The DCCHS Medical Foundation has approximately 400 primary care and specialty physicians under PSAs and IPA contracts and offers medical, surgical and related healthcare services for people of all ages at community-based, multi-specialty clinics conveniently located in both Northern and Southern California
- The DCCHS Medical Foundation has 10 physician groups in Northern California
  - More than 100 physicians who practice full-time at DCCHS Medical Foundation clinics, and existing IPAs with approximately 300 participating physicians
  - Specialties include: cardiology, dermatology, endocrinology, family practice, gastroenterology, general surgery, hematology/oncology, hospitalist medicine, infectious disease, internal medicine, neurology, obstetrics & gynecology, ophthalmology, orthopedic surgery, otolaryngology, pediatrics, podiatry, pulmonology, rheumatology and urgent care
- The Southern California region represents five physician groups
  - Approximately 30 physicians who practice full-time at DCCHS Medical Foundation clinics and an existing IPA with approximately 12 participating physicians
  - Specialties include: chiropractic medicine, family practice, internal medicine, obstetrics & gynecology, orthopedic surgery and pediatrics
- The DCCHS Medical Foundation currently includes the following physician groups:

Northern California (a)		Southern California		Key Statistics (FY2013)	
Physician Group	Count	Physician Group	Count		
■ Almaden Family Physicians Medical Group	7	■ All Care Medical Group	26	<b>Revenue Management</b>	
■ Daly City Family Practice	1	■ Allied Healthcare Providers Medical Group (IPA)	12	<u>Visits</u>	
■ Daly City Internal Medicine	1	■ Compton Obstetrics and Gynecology	1	FFS	139,958
■ Family Medicine Associates of San Jose, Inc.	13	■ Los Angeles Internal Medicine	1	HMO	86,983
■ Gilroy Family Practice	1	■ Lynwood General Surgery	2	Total	226,941
■ Morgan Hill Medical Associate	1			FFS Visits / Workday	555
■ Northern Cal Advantage Med Group (IPA)	209			Revenue / Visit	\$ 231
■ O'Connor Urgent Care	2			<u>HMO Enrollment (Average)</u>	
■ Samaritan Family Practice	4			Commercial HMO	11,838
■ San Jose Medical Group	74			Senior HMO	2,151
				Sub Cap-PCP HMO	7,451
				Total	21,440
				<b>Cost Management</b>	
				Total Salaries as % of Revenue	61%
				Purchased Med Services as % of HMO Rev.	41%
				Materials & Supplies as % of Revenue	12%



Note: Fiscal year ends June 30  
(a) Excludes 10 SMC hospitalists

# Financial Performance Overview

- DCHS Medical Foundation LTM December 2013 revenues have increased approximately 25% and expenses have increased approximately 27%, as compared to FY2013

## Summary of Financial Performance (FY ending June 30; \$ millions)

	FY2013A	LTM Dec-13
Patient Revenue	\$ 34	\$ 43
Premium Revenue	24	30
Other Operating Revenue	2	3
Total Revenue	60	75
Salaries And Benefits	(45)	(57)
Supplies	(6)	(8)
Purchased Services And Other (a)	(22)	(29)
Total Operating Expenses (b)	(74)	(94)
EBIDA	\$ (13)	\$ (19)

## Select Balance Sheet Items (\$ millions)

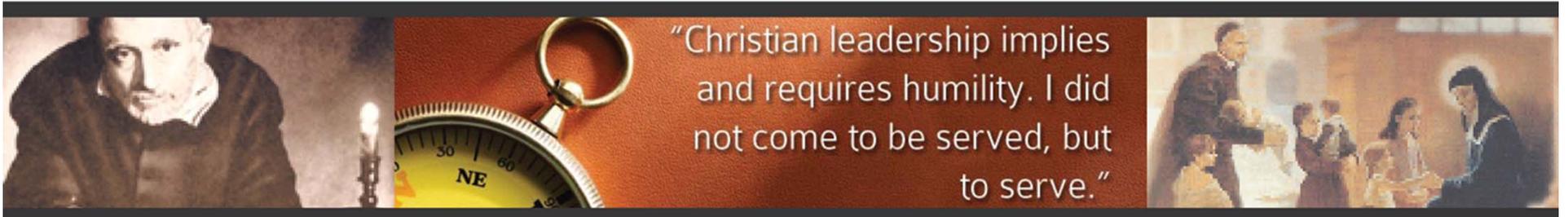
	6/30/2013	12/31/2013
<u>Current Assets</u>		
Patient Accounts Receivable, Net	\$ 4	\$ 7
Due From Government Agencies	-	-
Other Current Assets	2	3
Total Current Assets	6	10
<u>Current Liabilities</u>		
Accounts Payable	2	4
Due to Government Agencies	-	-
Accrued Liabilities	2	5
Total Current Liabilities	\$ 4	\$ 8

Notes:

- (a) Includes professional and medical fees, provider tax, out of network and other operating expenses  
 (b) Does not include Depreciation, Amortization and Interest



## Medical Office Buildings



# Overview of Owned MOBs

Property	Address	Sq. Footage	Year Built
<b>SFMC</b>			
Huntington Park Medical Office Building	2700 E. Slauson Ave. Huntington Park, CA 90255	9,432	1965
Maywood Medical Office Building	5931 Atlantic Blvd. Maywood, CA 90270	6,045	1976
<b>SVMC</b>			
St. Vincent Professional Office Building (POB)	201 S. Alvarado St. & 199 S. Alvarado St. Los Angeles, CA 90057	53,455	1977
Ocean View Pavilion	2222 Ocean View Ave. Los Angeles, CA 90057	35,967	1975
<b>OCH</b>			
Medical Office Building*	2101 Forest Ave. San Jose, CA 95128	55,585	1960
Clarmar Building	2030 Forest Ave. San Jose, CA 95128	11,200	1960 (Rebuilt 1992)
Barclay Building Medical Office Condo	2039 Forest Ave., Units B2 and 204 San Jose, CA 95128	2,038	1960 (Rehab in 1980s)
<b>SLRH</b>			
Morgan Hill Medical Office Building	18550 Saint Louise Dr. Morgan Hill, CA 95037	25,840	1989
<b>SMC</b>			
Serramonte Medical Center	1500 Southgate Ave. Daly City, CA 94015	34,508	1973
SMOC #1 Medical Office Building	1800 Sullivan Ave. Daly City, CA 94015	55,801	1968
SMOC #2 Medical Office Building	1850 Sullivan Ave. Daly City, CA 94015	84,908	1987

\* Property is attached to Previous Main Hospital (currently vacant)

# Overview of Owned Land and Other Related Properties

Property	Address	Sq. Footage	Year Built
<b>SFMC</b>			
Parking Lot	3633 Martin Luther King Jr. Blvd Lynwood, CA 90262	N/A	2009
<b>SVMC</b>			
House Ear Clinic (Ground Lease)	2100 W 3rd St. Los Angeles, CA 90057	85,497	N/A
<b>OCH</b>			
45% JV Interest in Health Center One Office Building	455 O'Connor Dr. San Jose, CA 95128	52,000	1996
<b>SLRH</b>			
Previous Hospital Facility (Vacant)*	18500 Saint Louise Drive Morgan Hill, CA 95037	87,954	1989

\* Property is attached to Morgan Hill Medical Office Building

# Huntington Park Medical Office Building (SFMC)

## Property Overview

<b>Property Address</b>	2700 E Slauson Ave Huntington Park, CA 90255
<b>Age</b>	Constructed in 1965
<b>Total Land Area</b>	12,500 SF (est.)
<b>Occupancy (Feb 2014)</b>	<p><b>Total GLA:</b> 9,432 SF</p> <p><b>Physician Practices:</b> 0 SF (0% of total)</p> <p><b>Hospital Operations:</b> 4,745 SF (50% of total)</p> <p><b>Other Occupied:</b> 0 SF (0% of total)</p> <p><b>Vacant:</b> 4,687 (50% of total)</p>
<b>Avg. Lease Term</b>	N/A (no third-party tenants)
<b>Avg. Rent / SF</b>	N/A (no third-party tenants)
<b># of Floors / Elevators</b>	2 floors; 1 elevator
<b>Parking</b>	20 spaces
<b>LHM Operations In Property</b>	<ul style="list-style-type: none"> <li>■ SFMC hospital based Primary Care Community Clinic                             <ul style="list-style-type: none"> <li>● The clinic is in the process of converting over to the DCHS Medical Foundation (non-hospital clinic)</li> </ul> </li> </ul>
<b>Property Manager</b>	Cassidy Turley
<b>Other</b>	<ul style="list-style-type: none"> <li>■ This MOB does not currently have any third-party physician practices / tenants, although the property has two available physician practice suites</li> </ul>



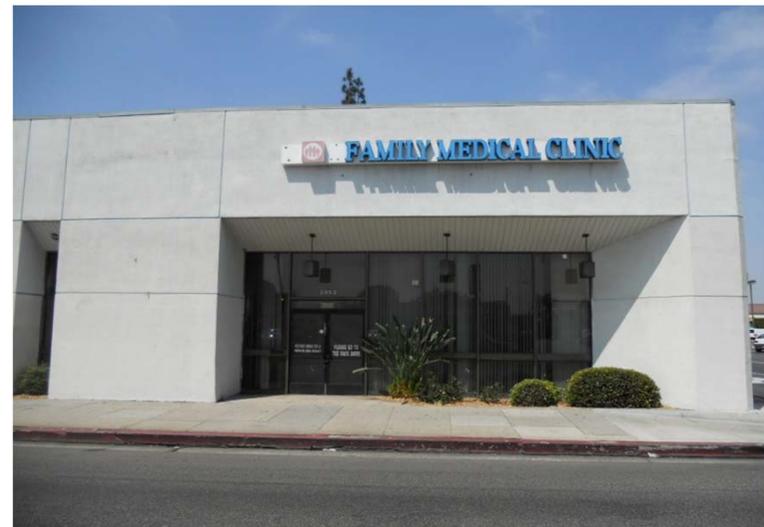
## Summary of Major Tenants

<p><b>Major Current Tenants</b></p> <ul style="list-style-type: none"> <li>■ N/A (no third-party tenants)</li> </ul>	<p><b>2014 Lease Expirations</b></p> <ul style="list-style-type: none"> <li>■ N/A (no third-party tenants)</li> </ul>
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# Maywood Medical Office Building (SFMC)

## Property Overview

<b>Property Address</b>	5931 S. Atlantic Blvd Maywood, CA 90270
<b>Age</b>	Constructed in 1976
<b>Occupancy (Feb 2014)</b>	<p><b>Total GLA:</b> 6,045 SF</p> <p><b>Physician Practices:</b> 6,045 SF (100% of total)</p> <p><b>Hospital Operations:</b> 0 SF (0% of total)</p> <p><b>Other Occupied:</b> 0 SF (0% of total)</p> <p><b>Vacant:</b> 0 SF (0% of total)</p>
<b>Avg. Lease Term</b>	3 years
<b>Avg. Rent / SF (Monthly)</b>	\$1.20 (base rent under triple net lease)
<b># of Floors / Elevators</b>	2 floors / None
<b>Parking</b>	No designated parking spaces. Adjacent shopping center parking available, subject to certain restrictions
<b>LHM Operations In Property</b>	None
<b>Property Manager</b>	Cassidy Turley
<b>Other</b>	<ul style="list-style-type: none"> <li>■ Triple net lease with the tenant responsible for all reasonable repairs and maintenance</li> <li>■ SFMC only pays for major repairs and replacements, such as HVAC, and certain property taxes                             <ul style="list-style-type: none"> <li>● No major replacements in 2013</li> <li>● Scheduled tenant improvements of approximately \$40,000 in 2014</li> </ul> </li> </ul>



## Summary of Major Tenants

<u>Major Current Tenants</u>	<u>2014 Lease Expirations</u>
<ul style="list-style-type: none"> <li>■ Ardmore Medical Group (Primary Care Community Clinic)</li> </ul>	<ul style="list-style-type: none"> <li>■ None (lease expires on 9/30/2016)</li> </ul>

# St. Vincent Professional Office Building (SVMC)

## Property Overview

<b>Property Address</b>	201 S. Alvarado St Los Angeles, CA 90057
<b>Age</b>	Constructed in 1977 (interior corridor enhancement in 2005)
<b>Total Land Area</b>	53,455 SF
<b>Occupancy (Feb 2014)</b>	<p><b>Total GLA:</b> 110,003 SF</p> <p><b>Physician Practices:</b> 65,019 SF (59% of total)</p> <p><b>Hospital Operations:</b> 25,482 SF (23% of total)</p> <p><b>Other Occupied:</b> 3,323 SF (3% of total)</p> <p><b>Vacant:</b> 16,179 (15% of total)</p>
<b>Weighted Average Lease Term (Third-Party Tenants)</b>	9 years (occupied units)
<b>Weighted Average Rent / SF (Monthly) (Third-Party Tenants)</b>	\$2.37 (excludes vacant units)
<b># of Floors / Elevators</b>	8 floors (plus basement); 3 elevators
<b>Parking</b>	<ul style="list-style-type: none"> <li>■ 6-level, 462-space parking structure with direct access to SVMC through an underground tunnel             <ul style="list-style-type: none"> <li>● 406 regular, 11 handicap and 45 physician parking spaces</li> </ul> </li> </ul>
<b>LHM Operations In Property</b>	<ul style="list-style-type: none"> <li>■ Cancer Treatment Center</li> <li>■ Dialysis Center</li> <li>■ IT Department</li> <li>■ St. Vincent Cardiology Institute</li> <li>■ St. Vincent Radiology/Outpatient Laboratory</li> <li>■ Health Benefits Resource Center</li> </ul>
<b>Property Manager</b>	Bantry Property Services, Inc.



## Summary of Major Tenants

### Major Current Tenants

- SVMC Cancer Treatment Center (8,082 SF)
- St. Vincent Dialysis Center (5,561 SF)
- Clinica Msr. Oscar A. Romero (5,020 SF)
- Clan Hahn & Eduardo Lim, MD (4,814 SF)
- SVMC OP Radiology / Clinical Lab (3,804 SF)

### 2014 Lease Expirations

- Edward McPherson, MD (2,561 SF); expires 2/28/2014
- Mingquan Bussarakum, MD (908 SF); expires 2/28/2014
- Clan Hahn & Eduardo Lim, MD (4,814 SF); expires 6/30/2014
- Michael J. Wong, MD (1,527 SF); expires 6/30/2014
- Wolfgang Scheele, MD (964 SF); expires 6/30/2014
- Med-Neuro, Corp. (1,263); expires 7/31/2014
- Mordo Suchov, MD (1,033 SF); expires 7/31/2014
- Barton Tanenbaum, MD (1,363 SF); expires 8/31/2014
- Elena Spektor, MD (951 SF); expires 8/31/2014
- James R. Katz, MD, Inc. (2,312 SF); expires 8/31/2014
- Kahn & Chalison, a Medical Corp. (1,702 SF); expires 9/30/2014
- Steven G. Khwarg, MD (888 SF, 2 units); expires 9/30/2014
- Levine & Steinschriber Group (1,929 SF); expires 11/30/2014
- Amritlal Ranavat, MD (786 SF); expires 12/31/2014

# Ocean View Pavilion (SVMC)

## Property Overview

<b>Property Address</b>	2222 W. Ocean View Ave Los Angeles, CA 90057
<b>Age</b>	Constructed in 1975
<b>Total Land Area</b>	52,942 SF
<b>Occupancy (Feb 2014)</b>	<p><b>Total GLA:</b> 34,449 SF</p> <p><b>Physician Practices:</b> 2,918 SF (8% of total)</p> <p><b>Hospital Operations:</b> 13,594 SF (39% of total)</p> <p><b>Other Occupied:</b> 8,894 SF (26% of total)</p> <p><b>Vacant:</b> 9,043 (26% of total)</p>
<b>Weighted Average Lease Term (Third-Party Tenants)</b>	10 years (occupied units)
<b>Weighted Average Rent / SF (Monthly) (Third-Party Tenants)</b>	\$2.09 (excludes vacant units)
<b># of Floors / Elevators</b>	2 floors; 2 elevators
<b>Parking</b>	<ul style="list-style-type: none"> <li>■ 71 parking spaces (open lot)             <ul style="list-style-type: none"> <li>● 65 regular, 5 handicap and 1 physician space</li> </ul> </li> </ul>
<b>LHM Operations In Property</b>	<ul style="list-style-type: none"> <li>■ SVMC Accounting Department</li> <li>■ Multicultural Health Awareness &amp; Prevention Center</li> </ul>
<b>Property Manager</b>	Bantry Property Services, Inc.



## Summary of Major Tenants

<u>Major Current Tenants</u>	<u>2014 Lease Expirations</u>
<ul style="list-style-type: none"> <li>■ SVMC Accounting Department (9,352 SF)</li> <li>■ ViraCor – IBT Laboratories, Inc. (8,894 SF)</li> <li>■ Multicultural Health Awareness &amp; Prevention Center (3,466 SF)</li> <li>■ Knights of Malta Free Clinic (2,918 SF)</li> </ul>	<ul style="list-style-type: none"> <li>■ None</li> </ul>

# Medical Office Building (OCH)

## Property Overview

<b>Property Address</b>	2101 Forest Ave San Jose, CA 95128
<b>Age</b>	Constructed in 1960
<b>Total Land Area</b>	55,585 SF
<b>Occupancy (Feb 2014)</b>	<p><i>Total GLA:</i> 36,852 SF</p> <p><i>Physician Practices:</i> 20,396 SF (55% of total)</p> <p><i>Hospital Operations:</i> 0 SF (0% of total)</p> <p><i>Other Occupied:</i> 0 SF (0% of total)</p> <p><i>Vacant:</i> 16,456 (45% of total)</p>
<b>Weighted Average Lease Term (Third-Party Tenants)</b>	9 years (occupied units)
<b>Weighted Average Rent / SF (Monthly) (Third-Party Tenants)</b>	\$2.75 (excludes vacant units)
<b># of Floors / Elevators</b>	2 floors with partial basement; 1 elevator
<b>Parking</b>	<ul style="list-style-type: none"> <li>■ Parking is shared with the hospital with a parking ratio of 4.0 stalls per 1,000 SF of usable area</li> </ul>
<b>LHM Operations In Property (Not Included Above)</b>	<ul style="list-style-type: none"> <li>■ IT department</li> <li>■ Auditorium space</li> <li>■ Family Residency Office</li> </ul>
<b>Property Manager</b>	Cassidy Turley
<b>Other</b>	<ul style="list-style-type: none"> <li>■ Significant number of vacant units available for rent</li> </ul>



## Summary of Major Tenants

### Major Current Tenants

- Pain Care of Silicon Valley, Inc. (2,745 SF)
- Dagmar Horvath, MD (2,334 SF)
- Paul Andrade, MD and Jaquelyn Tsu, MD (1,858 SF)
- Bruce Lerman, DPM, Inc. (1,452 SF)

### 2014 Lease Expirations

- Yu, Andy S., M.D. (950 SF); expires 3/31/2014
- Paul Andrade, M.D. and Jaquelyn (1,858 SF); expires 4/30/2014
- Jerwin Wu, M.D. (1,087 SF); expires 7/31/2014
- Dagmar Horvath, MD (2,334 SF); expires 9/30/2014
- Pain Care of Silicon Valley, Inc. (2,745 SF); expires 10/31/2014
- Margaret Chu, M.D. (1,253 SF); expires 11/30/2014

# Clarmar Building (OCH)

## Property Overview

<b>Property Address</b>	2030 Forest Ave San Jose, CA 95128
<b>Age</b>	Constructed in 1960 (rebuilt 1992)
<b>Total Land Area</b>	11,200 SF
<b>Occupancy (Feb 2014)</b>	<p><b>Total GLA:</b> 11,084 SF</p> <p><b>Physician Practices:</b> 4,182 SF (38% of total)</p> <p><b>Hospital Operations:</b> 4,361 SF (39% of total)</p> <p><b>Other Occupied:</b> 0 SF (0% of total)</p> <p><b>Vacant:</b> 2,541 SF (23% of total)</p>
<b>Weighted Average Lease Term (Third-Party Tenants)</b>	8 years (occupied units)
<b>Weighted Average Rent / SF (Monthly) (Third-Party Tenants)</b>	\$2.73 (excludes vacant units)
<b># of Floors / Elevators</b>	2 floors
<b>Parking</b>	<ul style="list-style-type: none"> <li>■ 45 parking spaces                             <ul style="list-style-type: none"> <li>● 36 parking space up front and 9 physician parking spaces behind the building</li> </ul> </li> </ul>
<b>LHM Operations In Property</b>	<ul style="list-style-type: none"> <li>■ DCHS Medical Foundation</li> </ul>
<b>Property Manager</b>	Cassidy Turley
<b>Other</b>	<ul style="list-style-type: none"> <li>■ Vacant unit offers 2,541 SF</li> </ul>



## Summary of Major Tenants

### Major Current Tenants

- DCHS Medical Foundation (4,361 SF)
- Mehrdad Rezaee, M.D. (3,001 SF)
- Cordero, Mario (1,181 SF)

### 2014 Lease Expirations

- Cordero, Mario (1,181 SF); expires 8/31/2014

# Barclay Building Medical Office Condo (2 Units) (OCH)

## Property Overview

<b>Property Address</b>	2039 Forest Ave, Unit B2 and 204 San Jose, CA 95128
<b>Age</b>	Constructed in 1985
<b>Total Land Area</b>	1.7 acres
<b>Occupancy (Feb 2014)</b>	<p><b>Total GLA:</b> 3,656 SF</p> <p><b>Physician Practices:</b> 0 SF (0% of total)</p> <p><b>Hospital Operations:</b> 0 SF (0% of total)</p> <p><b>Other Occupied:</b> 0 SF (0% of total)</p> <p><b>Vacant:</b> 3,656 SF (100% of total)</p>
<b>Avg. Lease Term</b>	N/A (vacant units)
<b>Avg. Rent / SF</b>	N/A (vacant units)
<b># of Floors / Elevators</b>	2 floors; 1 elevator
<b>Parking</b>	<ul style="list-style-type: none"> <li>Available adjacent 3-level parking structure with 142 spaces for all owners / users</li> </ul>
<b>LHM Operations In Property</b>	None
<b>Property Manager</b>	Cassidy Turley
<b>Other</b>	<ul style="list-style-type: none"> <li>Unit 105 (6,609 SF; excluded above) is in the process of being sold to its current tenant-physician</li> <li>Unit B2 is a basement storage unit</li> <li>Unit 204 is currently split into 204A (1,247 SF) and 204B (1,656 SF)</li> </ul>



## Summary of Major Tenants

### Major Current Tenants

- N/A (vacant units)

### 2014 Lease Expirations

- N/A (vacant units)

# Morgan Hill Medical Office Building (SLRH)

## Property Overview

<b>Property Address</b>	18550 Saint Louise Dr Morgan Hill, CA 95037
<b>Age</b>	Constructed in 1989
<b>Total Land Area</b>	25 acres (a)
<b>Occupancy (Feb 2014)</b>	<p><b>Total GLA:</b> 19,759 SF</p> <p><b>Physician Practices:</b> 15,130 SF (77% of total)</p> <p><b>Hospital Operations:</b> 3,350 SF (17% of total)</p> <p><b>Other Occupied:</b> 0 SF</p> <p><b>Vacant:</b> 1,279 (6% of total)</p>
<b>Avg. Lease Term</b>	9 years
<b>Avg. Rent / SF</b>	\$2.27 (excludes vacant units)
<b># of Floors / Elevators</b>	2 floors; 1 elevator
<b>Parking</b>	410 parking stalls
<b>LHM Operations In Property</b>	<ul style="list-style-type: none"> <li>■ DCHS Medical Foundation (1,128 SF)</li> <li>■ Administrative Offices</li> <li>■ Urgent Care (1,506 SF)</li> <li>■ SLRH Radiology Department (716 SF)</li> </ul>
<b>Property Manager</b>	Cassidy Turley
<b>Other</b>	<ul style="list-style-type: none"> <li>■ Urgent care possible expansion into Suite 107</li> </ul>



Note: Property is highlighted above and is attached to Previous Main Hospital (currently vacant)

## Summary of Major Tenants

### Major Current Tenants

- Fritter, Schulz & Conlan (2,709 SF)
- W. Brian Joyce, M.D. (2,151 SF)
- Preete Bhanot M.D., Inc. (2,037 SF)
- Nimisha Shah, M.D. and Devang Shah, M.D. (1,720 SF)

### 2014 Lease Expirations

- Rajesh Prasad, M.D. (1,088 SF); expires 6/30/2014
- Fritter, Schulz & Conlan (2,709 SF); expires 7/31/2014
- Preete Bhanot M.D., Inc. (2,037 SF); expires 7/31/2014
- Eli Chen, M.D. (1,134 SF); expires 9/30/2014
- Nimisha Shah, M.D. and Devang Shah, M.D. (1,720 SF); expires 10/31/2014
- W. Brian Joyce, M.D. (2,151 SF); expires 10/31/2014
- Rodney Z. Wong, M.D. (1,075 SF); expires 12/31/2014

(a) Entire site including former acute care hospital (closed and vacant building owned by DCHS)

# Serramonte Medical Center (SMC)

## Property Overview

<b>Property Address</b>	1500 Southgate Ave Daly City, CA 94015
<b>Age</b>	Constructed in 1973
<b>Total Land Area</b>	34,508 SF
<b>Occupancy (Feb 2014)</b>	<p><b>Total GLA:</b> 32,237 SF</p> <p><b>Physician Practices:</b> 18,235 SF (57% of total)</p> <p><b>Hospital Operations:</b> 5,639 SF (17% of total)</p> <p><b>Other Occupied:</b> 1,171 SF (4% of total)</p> <p><b>Vacant:</b> 7,192 (22% of total)</p>
<b>Weighted Average Lease Term (Third-Party Tenants)</b>	13 years
<b>Weighted Average Rent / SF (Monthly) (Third-Party Tenants)</b>	\$2.28 (excludes vacant units)
<b># of Floors / Elevators</b>	2 floors; 1 elevator
<b>Parking</b>	110 spaces
<b>LHM Operations In Property</b>	<ul style="list-style-type: none"> <li>■ St. Elizabeth Ann Seton New Life Center</li> <li>■ SMC New Life Center Training</li> <li>■ DCHS Medical Foundation (Shared with Pacific Cardiovascular Surgeons)</li> </ul>
<b>Property Manager</b>	Cassidy Turley
<b>Other</b>	<ul style="list-style-type: none"> <li>■ Many vacant (yet smaller) units provide expansion opportunities for smaller physician practices</li> </ul>



## Summary of Major Tenants

### Major Current Tenants

- Belluomini, Paul, DDS, John I. Kis, DDS (4,561 SF)
- SMC St. Elizabeth Ann Seton New Life Center (4,107 SF)
- Palo Alto Medical Foundation (2,782 SF)
- San Francisco Peninsula Cardiovascular (2,513 SF)

### 2014 Lease Expirations

- San Francisco Peninsula Cardiovascular (2,513 SF); expires 4/30/2014
- Three units are on a month-to-month basis

# SMOC#1 Medical Office Building (SMC)

## Property Overview

<b>Property Address</b>	1800 Sullivan Ave Daly City, CA 94015
<b>Age</b>	Constructed in 1968
<b>Total Land Area</b>	55,801 SF
<b>Occupancy (Feb 2014)</b>	<p><b>Total GLA:</b> 52,538 SF</p> <p><b>Physician Practices:</b> 43,630 SF (83% of total)</p> <p><b>Hospital Operations:</b> 1,081 SF (2% of total)</p> <p><b>Other Occupied:</b> 1,268 SF (2% of total)</p> <p><b>Vacant:</b> 6,559 SF (12% of total)</p>
<b>Weighted Average Lease Term (Third-Party Tenants)</b>	10 years
<b>Weighted Average Rent / SF (Monthly) (Third-Party Tenants)</b>	\$2.28 (excludes vacant units)
<b># of Floors / Elevators</b>	6 floors; 2 elevators
<b>Parking</b>	Shared with SMOC#2: Three open air parking lots 267 spaces and one parking structure with four levels (135,488 SF with 467 spaces)
<b>LHM Operations In Property</b>	<ul style="list-style-type: none"> <li>■ DCHS Medical Foundation</li> </ul>
<b>Property Manager</b>	Cassidy Turley



## Summary of Major Tenants

### Major Current Tenants

- Palo Alto Medical Foundation (4,114 SF)
- Feeney, James, MD & David Vaughan, MD (3,687 SF)
- San Francisco Peninsula Ear, Nose & Throat (2,596 SF)
- Medicus Integrated Health Services, Inc. (2,167 SF)

### 2014 Lease Expirations

- Moloney, Sean T., MD (1,174 SF); expires 3/31/2014
- Parada, Theodor S., MD, Inc. (846 SF); expires 4/30/2014
- The Orthopaedic Group of San Francisco (2,136 SF); expires 4/30/2014
- Lee, Damon, MD (716 SF); expires 10/31/2014
- Tsang, Ellick, M.D. (661 SF); expires 10/31/2014

# SMOC#2 Medical Office Building (SMC)

## Property Overview

<b>Property Address</b>	1850 Sullivan Ave Daly City, CA 94015
<b>Age</b>	Constructed in 1987
<b>Total Land Area</b>	84,908 SF
<b>Occupancy (Feb 2014)</b>	<p><b>Total GLA:</b> 84,911 SF</p> <p><b>Physician Practices:</b> 45,397 SF (53% of total)</p> <p><b>Hospital Operations:</b> 28,044 SF (33% of total)</p> <p><b>Other Occupied:</b> 0 SF (0% of total)</p> <p><b>Vacant:</b> 11,470 SF (14% of total)</p>
<b>Weighted Average Lease Term (Third-Party Tenants)</b>	12 years
<b>Weighted Average Rent / SF (Monthly) (Third-Party Tenants)</b>	\$2.27 (excludes vacant units)
<b># of Floors / Elevators</b>	5 floors; 2 elevators
<b>Parking</b>	Shared with SMOC#1: Three open air parking lots 267 spaces and one parking structure with four levels (135,488 SF with 467 spaces)
<b>LHM Operations In Property</b>	<ul style="list-style-type: none"> <li>■ Neuroskeletal Imaging Center/Breast Health</li> <li>■ Orthopedic Institute &amp; Express Care</li> <li>■ Registration &amp; Lab (STAR)</li> <li>■ Outpatient Surgery Center</li> </ul>
<b>Property Manager</b>	Cassidy Turley
<b>Other</b>	<ul style="list-style-type: none"> <li>■ Five out of seven vacant units are over 1,200 SF</li> </ul>



## Summary of Major Tenants

### Major Current Tenants

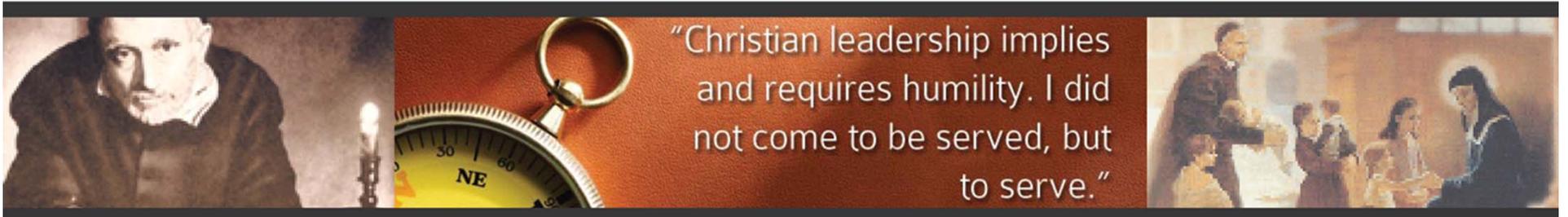
- SpineCare Medical Group, Inc. (14,039 SF)
- SMC - Outpatient Surgery Center (13,974 SF)
- SMC - Neuroskeletal Imaging Center/Breast Health (8,462 SF)
- Peninsula Orthopedic Associates, Inc. (7,690 SF)

### 2014 Lease Expirations

- AT&T Mobility, Site 71 (Roof); expires 6/30/2014
- SpineCare Medical Group, Inc. (14,039 SF); expires 12/31/2014



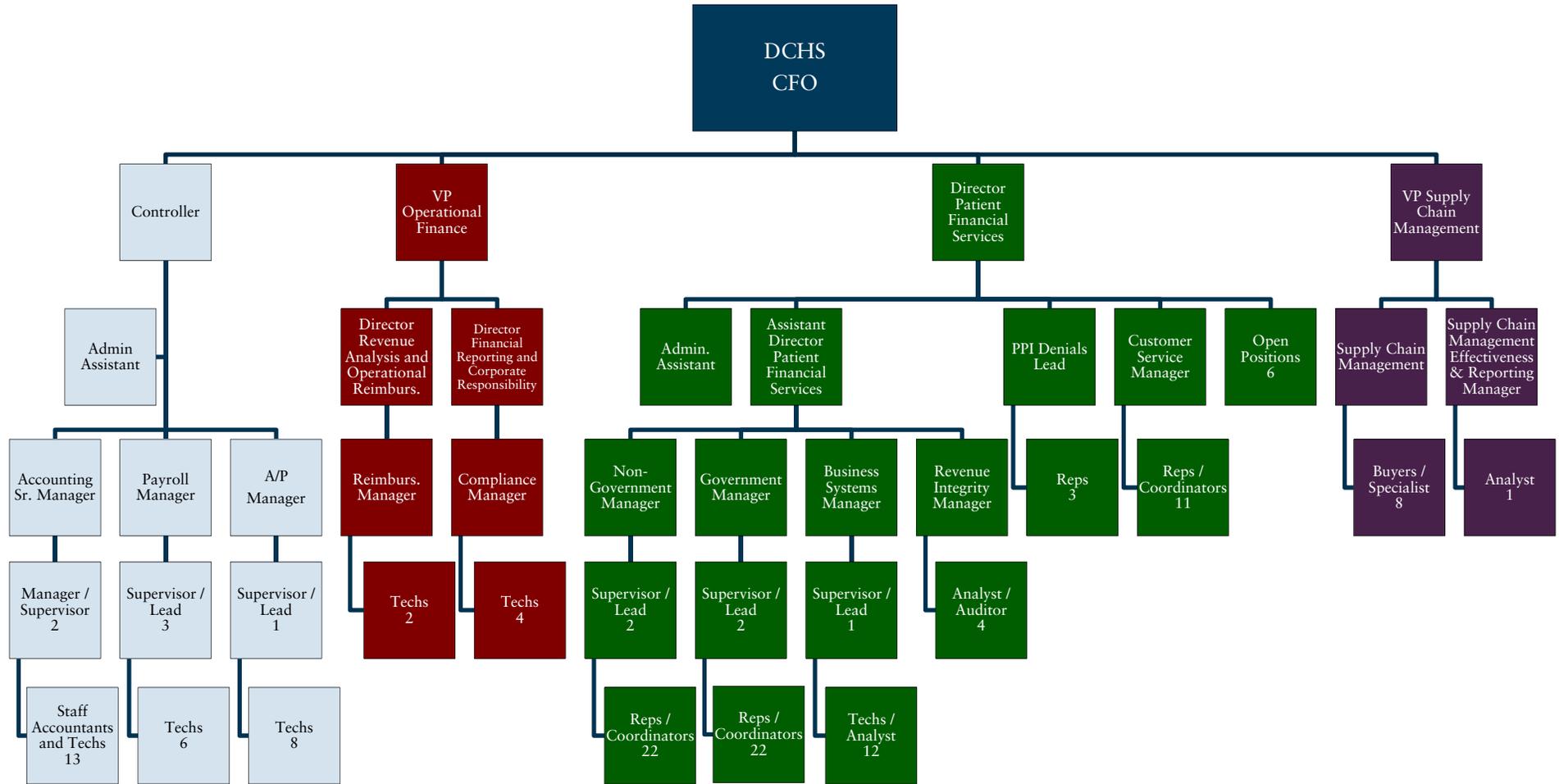
## Shared Services



# Overview of Shared Services and CBS

- While DCHS operates as a unified Catholic health system, it is based on a locally-focused model of governance, management and finance
  - This allows each LHM to develop its own unique role and service configuration that matches its capabilities and resources with the service area needs
- DCHS monitors performance and provides selective services on a System-wide basis. The System operates separately incorporated Caritas Business Services (“CBS”), a not-for-profit entity, located in both Redwood City, CA and at each LHM.
- CBS employs nearly 140 associates, and its services include accounting, finance and patient financial services:
  - Accounting Department handles general ledger, accounts payable and payroll
  - Finance Department assists and provides the LHMs with budget planning, financial analysis, statistical & labor productivity reporting, cost accounting, chargemaster and reimbursement reporting
  - Patient Financial Services Department includes insurance verification, financial advisors, cashiering, billing and collection of all LHM services, as well as a customer service call center to assist patients with billing questions
  - Supply Chain Management and Purchasing handles the vendor contracting and procurement functions for the LHMs. Activities are performed by a centralized team of supply chain analysts and buyers.
- CBS provides all support services to the System’s Northern California LHMs and, with the exception of billing and collections, support services to the Southern California LHMs
- Shared services expenses are allocated to the LHMs based on services provided and size of hospital (as measured by operating expense)
- DCHS provides services and performs many functions on behalf of and for the benefit of its LHMs, including:
  - Information Technology
  - Supply Chain Management
  - Risk Management
  - Managed Care Contracting and Payor Relationships
  - Treasury and Debt Management
  - Revenue Cycle Improvement
  - Facilities Planning and Development
  - Human Resources
  - Quality and Patient Safety
  - Ethics
  - Advocacy and Governmental Affairs
  - Marketing and Communications
- Additionally, DCHS has implemented a comprehensive compliance program that is overseen by a DCHS officer and the DCHS Board of Directors
  - Each LHM and CBS has designated a corporate responsibility officer

# CBS Organizational Chart



Accounting
  Finance
  Patient Financial Services
  Supply Chain Management

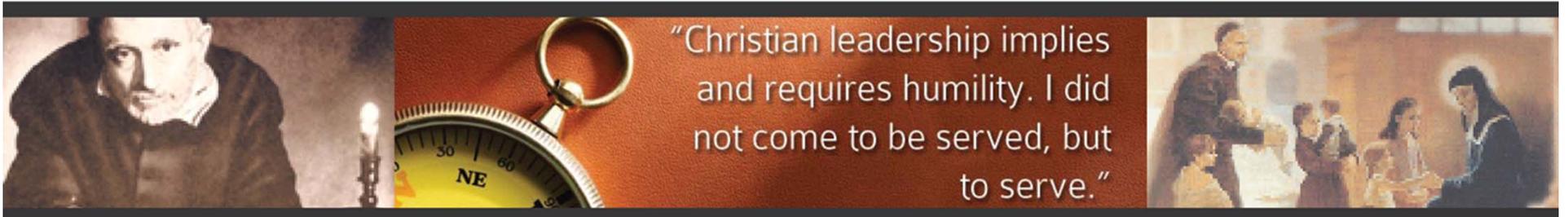
# Allocated Shared Service Expenses by Entity

## Summary of Shared Service Expenses (\$ millions)

	CBS			Corporate			IT			Total		
	LTM			LTM			LTM			LTM		
	FY2012	FY2013	Nov-2013									
<b>LHMs</b>												
SFMC	\$ 0.9	\$ 1.0	\$ 1.3	\$ 5.8	\$ 8.2	\$ 8.6	\$ 8.7	\$ 8.6	\$ 9.1	\$ 15.5	\$ 17.7	\$ 19.0
SVMC	0.6	0.7	0.9	4.7	5.4	5.7	5.6	5.8	6.1	11.0	11.8	12.7
OCH	6.7	6.7	6.5	5.7	7.7	8.1	8.3	8.7	9.0	20.8	23.2	23.6
SLRH	2.0	2.0	2.0	1.9	2.3	2.4	2.6	2.6	2.7	6.5	6.9	7.1
SMC	6.0	6.1	5.8	5.8	7.5	7.9	7.8	8.0	8.2	19.6	21.6	22.0
SMCC	0.5	0.5	0.5	-	-	-	0.6	0.5	0.5	1.0	1.0	1.0
Total LHM Allocation	16.8	16.9	16.9	24.0	31.2	32.7	33.5	34.1	35.7	74.3	82.2	85.3
<b>Other Entities</b>												
SFMC Foundation	0.0	0.0	0.0	-	-	-	-	-	-	0.0	0.0	0.0
SVMC Foundation	0.0	0.0	0.0	-	-	-	-	-	-	0.0	0.0	0.0
OCH Foundation	0.0	0.0	0.0	-	-	-	-	-	-	0.0	0.0	0.0
SLRH Foundation	0.0	0.0	0.0	-	-	-	-	-	-	0.0	0.0	0.0
SMC Foundation	0.0	0.0	0.0	-	-	-	-	-	-	0.0	0.0	0.0
Total Other Allocation	0.1	0.1	0.1	-	-	-	-	-	-	0.1	0.1	0.1
<b>Total</b>	<b>\$ 16.9</b>	<b>\$ 17.0</b>	<b>\$ 17.0</b>	<b>\$ 24.0</b>	<b>\$ 31.2</b>	<b>\$ 32.7</b>	<b>\$ 33.5</b>	<b>\$ 34.1</b>	<b>\$ 35.7</b>	<b>\$ 74.4</b>	<b>\$ 82.2</b>	<b>\$ 85.4</b>



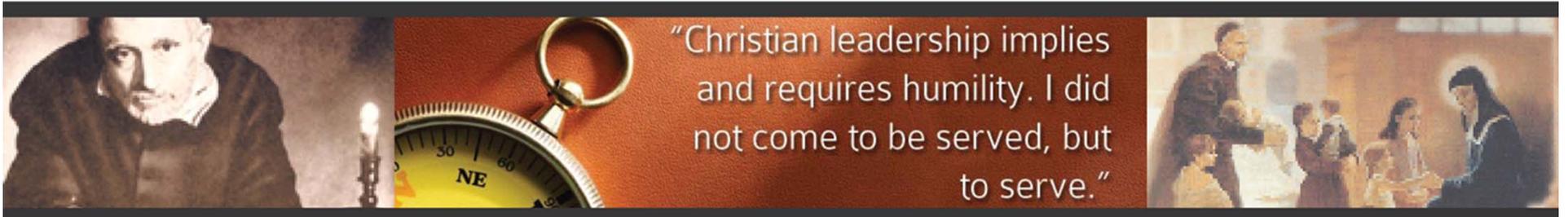
## Appendices





# Appendices

## Historical Financial Overview



# FY2011A Income Statement by Entity

## Summary of Historical Financial Performance (\$ millions)

	SFMC	SVMC	OCH	SLRH	SMC	SMCC	DCHS System Office	Eliminations	Obligated Group	Entities and Elimination	DCHS
Patient Revenue	\$ 224	\$ 176	\$ 266	\$ 84	\$ 255	\$ 18	\$ -	\$ -	\$ 1,023	\$ 5	\$ 1,028
Supplemental Funding Receipts (a)	133	16	16	5	13	-	-	-	183	-	183
Other Revenue (b)	39	15	9	2	10	0	57	(55)	77	(1)	76
Total Revenue	396	207	290	91	278	19	57	(55)	1,282	4	1,286
Salaries and Benefits	(187)	(95)	(192)	(56)	(171)	(16)	(17)	-	(734)	5	(729)
Supplies	(34)	(46)	(41)	(10)	(39)	(1)	(0)	-	(171)	2	(169)
Purchased Services and Other	(68)	(46)	(30)	(12)	(38)	(2)	(56)	55	(197)	(7)	(204)
Supplemental Funding Tax	(35)	(16)	(15)	(3)	(14)	-	-	-	(83)	-	(83)
Total Expenses (c)	(324)	(203)	(278)	(81)	(262)	(19)	(73)	55	(1,185)	0	(1,185)
<u>Allocated Shared Services:</u>											
Corporate	(5)	(5)	(5)	(2)	(1)	-	-	-	(18)	-	(18)
CBS	(0)	(0)	(9)	(3)	(8)	(1)	-	-	(21)	-	(21)
IT	(8)	(7)	(6)	(2)	(6)	(0)	-	-	(30)	-	(30)
Total Shared Services	(14)	(12)	(20)	(6)	(15)	(1)	-	-	(69)	-	(69)
EBIDA Before Adjustments	57	(7)	(8)	4	(0)	(1)	(16)	-	28	4	32
<u>EBIDA Adjustments:</u>											
Third-Party Settlements	(7)	(1)	(1)	0	(1)	-	-	-	(9)	-	(9)
Estimated Litigation Cost	-	-	-	-	(1)	-	-	-	(1)	-	(1)
Total Adjustments	(7)	(1)	(1)	0	(2)	-	-	-	(10)	-	(10)
Adjusted EBIDA	51	(8)	(10)	4	(2)	(1)	(16)	-	18	4	22
Adjusted EBIDA (w/o Shared Services)	65	4	11	10	13	(0)	(16)	-	86	4	91

Notes: Fiscal year ends June 30

- (a) Includes supplemental funding from SB 1255, SB 1732, SB 855, SB 474, provider fees and meaningful use
- (b) Excludes meaningful use proceeds
- (c) Excludes Interest, Depreciation, Asset Impairment and shared services



# FY2012A Income Statement by Entity

## Summary of Historical Financial Performance (\$ millions)

	SFMC	SVMC	OCH	SLRH	SMC	SMCC	DCHS System Office	Eliminations	Obligated Group	Entities and Elimination	DCHS
Patient Revenue	\$ 209	\$ 198	\$ 255	\$ 80	\$ 230	\$ 16	\$ -	\$ -	\$ 988	\$ 12	\$ 1,000
Supplemental Funding Receipts (a)	133	19	17	6	13	-	-	-	188	-	188
Other Revenue (b)	36	15	7	1	8	4	68	(57)	82	5	86
Total Revenue	379	231	279	87	251	20	68	(57)	1,258	16	1,274
Salaries and Benefits	(190)	(97)	(182)	(55)	(156)	(17)	(19)	-	(716)	(14)	(730)
Supplies	(30)	(48)	(38)	(8)	(34)	(2)	(0)	-	(159)	(3)	(162)
Purchased Services and Other	(70)	(50)	(29)	(12)	(31)	(2)	(63)	57	(200)	(6)	(206)
Supplemental Funding Tax	(34)	(15)	(14)	(3)	(13)	-	-	-	(79)	-	(79)
Total Expenses (c)	(324)	(209)	(264)	(79)	(234)	(20)	(82)	57	(1,154)	(23)	(1,178)
<u>Allocated Shared Services:</u>											
Corporate	(6)	(5)	(6)	(2)	(6)	-	-	-	(24)	-	(24)
CBS	(1)	(1)	(7)	(2)	(6)	(0)	-	-	(17)	-	(17)
IT	(9)	(6)	(8)	(3)	(8)	(1)	-	-	(34)	-	(34)
Total Shared Services	(15)	(11)	(21)	(7)	(20)	(1)	-	-	(74)	-	(74)
EBIDA Before Adjustments	39	11	(5)	1	(3)	(1)	(14)	-	29	(7)	22
<u>EBIDA Adjustments:</u>											
Third-Party Settlements	1	(8)	(4)	(0)	(2)	-	-	-	(13)	-	(13)
Estimated Litigation Cost	-	-	-	-	-	-	-	-	-	-	-
Total Adjustments	1	(8)	(4)	(0)	(2)	-	-	-	(13)	-	(13)
Adjusted EBIDA	40	3	(9)	1	(5)	(1)	(14)	-	16	(7)	9
Adjusted EBIDA (w/o Shared Services)	56	14	11	8	14	0	(14)	-	90	(7)	83

Notes: Fiscal year ends June 30

(a) Includes supplemental funding from SB 1255, SB 1732, SB 855, SB 474, provider fees and meaningful use

(b) Excludes meaningful use proceeds

(c) Excludes Interest, Depreciation, Asset Impairment and shared services



# FY2013A Income Statement by Entity

## Summary of Historical Financial Performance (\$ millions)

	SFMC	SVMC	OCH	SLRH	SMC	SMCC	DCHS System Office	Eliminations	Obligated Group	Entities and Elimination	DCHS
Patient Revenue	\$ 220	\$ 176	\$ 260	\$ 72	\$ 224	\$ 21	\$ -	\$ -	\$ 973	\$ 39	\$ 1,012
Supplemental Funding Receipts (a)	157	15	27	6	21	-	-	-	226	-	226
Other Revenue (b)	40	16	9	2	7	4	68	(65)	80	25	105
Total Revenue	417	207	295	80	252	25	68	(65)	1,279	64	1,343
Salaries and Benefits	(191)	(100)	(189)	(57)	(160)	(17)	(19)	-	(733)	(51)	(784)
Supplies	(30)	(46)	(41)	(7)	(36)	(2)	(0)	-	(162)	(8)	(170)
Purchased Services and Other	(74)	(52)	(31)	(12)	(32)	(2)	(54)	65	(191)	(22)	(214)
Supplemental Funding Tax	(43)	(17)	(17)	(4)	(16)	-	-	-	(98)	-	(98)
Total Expenses (c)	(338)	(216)	(278)	(81)	(244)	(21)	(73)	65	(1,184)	(81)	(1,266)
<u>Allocated Shared Services:</u>											
Corporate	(8)	(5)	(8)	(2)	(8)	-	-	-	(31)	-	(31)
CBS	(1)	(1)	(7)	(2)	(6)	(0)	-	-	(17)	-	(17)
IT	(9)	(6)	(9)	(3)	(8)	(1)	-	-	(34)	-	(34)
Total Shared Services	(18)	(12)	(23)	(7)	(22)	(1)	-	-	(82)	-	(82)
EBIDA Before Adjustments	61	(21)	(6)	(7)	(13)	4	(5)	-	12	(17)	(5)
<u>EBIDA Adjustments:</u>											
Third-Party Settlements	(4)	3	(7)	(0)	(1)	(3)	-	-	(12)	-	(12)
Estimated Litigation Cost	2	-	-	-	-	-	-	-	2	-	2
Total Adjustments	(3)	3	(7)	(0)	(1)	(3)	-	-	(10)	-	(10)
Adjusted EBIDA	58	(18)	(12)	(8)	(14)	1	(5)	-	2	(17)	(16)
Adjusted EBIDA (w/o Shared Services)	76	(7)	11	(1)	7	2	(5)	-	84	(17)	67

Notes: Fiscal year ends June 30



- (a) Includes supplemental funding from SB 1255, SB 1732, SB 855, SB 474, provider fees and meaningful use
- (b) Excludes meaningful use proceeds
- (c) Excludes Interest, Depreciation, Asset Impairment and shared services

# Summary of Select Balance Sheet Items

## Select Balance Sheet Items (December 2013) (\$ millions)

	SFMC	SVMC	OCH	SLRH	SMC
<b>Select Working Capital Items</b>					
Patient Accounts Receivable, Net	\$ 52	23	35	10	32
Due from Government Agencies	14	1	-	-	-
Inventory	4	5	5	1	3
Other Current Assets	16	6	3	1	3
<b>Total Current Assets</b>	<b>86</b>	<b>35</b>	<b>42</b>	<b>12</b>	<b>38</b>
Accounts Payable	7	8	8	2	7
Accrued liabilities	38	18	20	6	22
Payable to Third-Party Payors	(0)	3	(3)	1	(1)
<b>Total Current Liabilities</b>	<b>\$ 45</b>	<b>\$ 29</b>	<b>\$ 25</b>	<b>\$ 8</b>	<b>\$ 28</b>

## PP&E Detail by LHM (\$ millions)

	SFMC		SVMC		OCH		SLRH		SMC		SMCC	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
<b>PP&amp;E Detail</b>												
Land	\$ 7	2%	17	5%	7	3%	5	10%	7	3%	1	7%
Buildings	189	61%	161	50%	162	57%	14	30%	138	55%	5	59%
Equipment	114	37%	135	42%	111	39%	29	60%	101	40%	3	31%
Construction in Progress	1	0%	9	3%	2	1%	0	0%	6	2%	0	3%
<b>Total</b>	<b>312</b>	<b>100%</b>	<b>321</b>	<b>100%</b>	<b>283</b>	<b>100%</b>	<b>48</b>	<b>100%</b>	<b>252</b>	<b>100%</b>	<b>9</b>	<b>100%</b>
Accumulated Depreciation	(179)		(238)		(228)		(28)		(206)		(6)	
<b>Net PP&amp;E</b>	<b>\$ 133</b>		<b>\$ 83</b>		<b>\$ 54</b>		<b>\$ 21</b>		<b>\$ 47</b>		<b>\$ 2</b>	

# Historical CapEx by LHM

- In FY2011-13, DCHS spent approximately \$135 million on major projects of more than \$1 million in the 10 CapEx categories presented below
  - Nearly 60% of all expenditures were related to Software and IT, with Software accounting for approximately 48% of all CapEx

## Summary of Historical Capital Expenditures (\$ millions)

	SFMC			SVMC			OCH			SLRH			SMC			SMCC			Total		
	FY2011	FY2012	FY2013	FY2011	FY2012	FY2013	FY2011	FY2012	FY2013	FY2011	FY2012	FY2013	FY2011	FY2012	FY2013	FY2011	FY2012	FY2013	FY2011	FY2012	FY2013
<b><u>Building, Fixtures and Leasehold</u></b>																					
1. Building Fixtures	\$ 0.2	\$ 1.1	\$ -	\$ 0.5	\$ 0.4	\$ 0.3	\$ 0.5	\$ 0.2	\$ 0.1	\$ -	\$ -	\$ -	\$ 0.1	\$ 0.1	\$ 0.0	\$ 0.0	\$ -	\$ -	\$ 1.2	\$ 1.8	\$ 0.4
2. Building Improvements	1.3	5.2	1.5	0.0	1.0	2.6	3.0	0.4	1.1	-	-	-	0.1	5.1	0.5	-	0.5	-	4.4	12.3	5.7
3. Leasehold Improvements	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1
4. Furniture & Fixtures	0.2	0.2	0.2	0.2	0.2	0.1	0.4	0.0	-	-	-	-	0.0	0.1	0.0	-	0.1	0.0	0.8	0.6	0.4
Subtotal	1.7	6.5	1.7	0.7	1.6	3.2	3.9	0.7	1.2	-	-	-	0.2	5.3	0.5	0.0	0.6	0.0	6.5	14.6	6.7
5. Medical Equipment	3.7	2.5	2.6	3.5	2.2	3.9	1.4	1.9	2.3	-	-	-	0.7	2.5	0.0	-	0.1	0.1	9.4	9.1	8.8
<b><u>Software and IT</u></b>																					
6. Software	1.5	11.2	8.6	0.4	0.4	9.9	10.3	3.8	1.1	-	2.5	6.3	1.0	0.3	8.1	0.0	0.0	0.0	13.2	18.1	33.9
7. Computer Equipment	0.6	0.5	0.1	0.3	0.3	0.1	0.5	0.2	0.0	-	-	-	0.2	0.1	0.1	-	-	0.0	1.5	1.0	0.4
8. Network Equipment	2.3	1.0	1.1	0.8	0.4	0.3	1.2	0.6	0.6	-	-	-	0.2	0.4	1.6	0.0	0.0	0.0	4.5	2.3	3.5
9. Telephone Equipment	-	0.1	0.5	-	0.2	-	0.2	0.1	-	-	-	-	-	0.0	0.2	-	-	0.0	0.2	0.4	0.7
Subtotal	4.4	12.7	10.2	1.4	1.2	10.3	12.2	4.6	1.7	-	2.5	6.3	1.4	0.8	10.0	0.0	0.0	0.1	19.4	21.8	38.6
10. Vehicles	-	-	0.0	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	0.1
<b>Total</b>	<b>\$ 9.8</b>	<b>\$ 21.6</b>	<b>\$ 14.5</b>	<b>\$ 5.6</b>	<b>\$ 5.0</b>	<b>\$ 17.4</b>	<b>\$ 17.4</b>	<b>\$ 7.2</b>	<b>\$ 5.2</b>	<b>\$ -</b>	<b>\$ 2.5</b>	<b>\$ 6.3</b>	<b>\$ 2.4</b>	<b>\$ 8.6</b>	<b>\$ 10.6</b>	<b>\$ 0.0</b>	<b>\$ 0.7</b>	<b>\$ 0.2</b>	<b>\$ 35.2</b>	<b>\$ 45.6</b>	<b>\$ 54.2</b>

# Summary of Outstanding Obligations

## Summary of Outstanding Obligations (\$ millions)

Obligation	Outstanding as of Dec 2013	Coupon	Maturity
Series 2005A Tax-Exempt Bonds	\$ 259	5.00% / 5.25%	2024 - 2039
Series 2005G Tax-Exempt Bonds	18	5.00%	2022
Series 2005H Tax-Exempt Bonds	13	5.25%	2025
Total Series 2005 Bonds	290		
Debt Service Reserve Funds (a)	(27)		
Total Net Series 2005 Bonds	263		
Other Long-Term Debt	9		
Total Long-Term Debt	272		
<u>Unfunded Retirement Plan Liabilities</u>			
Church Plan (b)	229	\$13 million in DCHS cash funding in for FY2013	
RPHE (c)	49	\$16 million in DCHS cash funding in for FY2013	
Postretirement Healthcare Plan (b)	5		
Total Unfunded Retirement Plan Liabilities	283		
Total Long-Term Obligations	\$ 555		

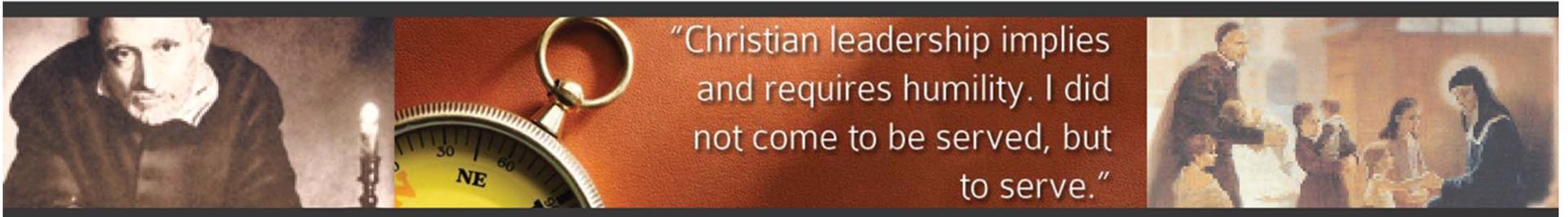
Notes:

- (a) Balance represents debt service reserve funds of approximately \$27 million and excludes principal account funds
- (b) GAAP balance sheet liability per audited FY2013 report; represents the difference between the present value of future retirement obligations and the market value of contributed retirement assets
- (c) \$49 million represents DCHS' share of actuarial unfunded pension liability as of December 31, 2012. The actuarially determined withdrawal liability estimate for the RPHE as of December 31, 2012 is approximately \$214 million.



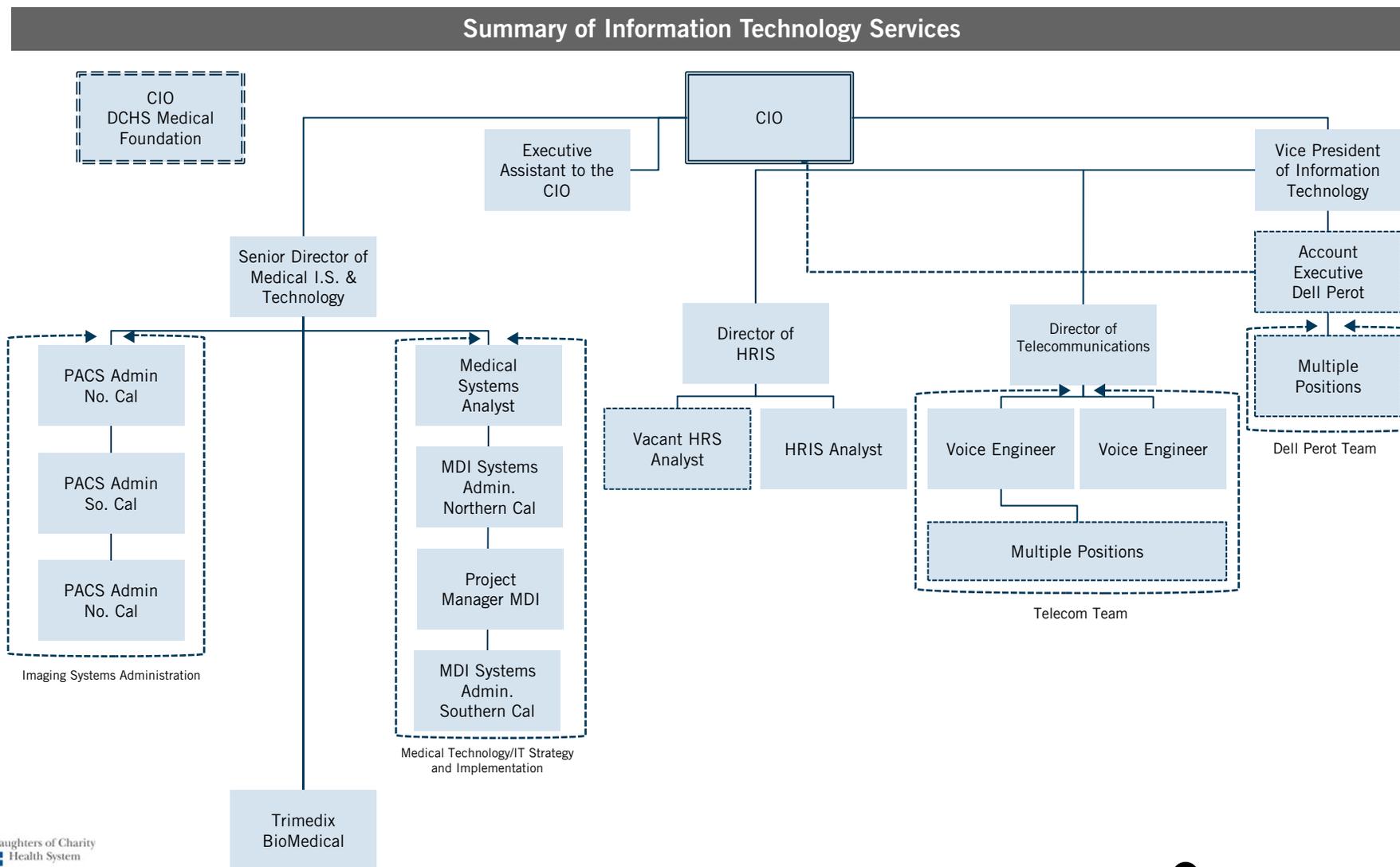
# Appendices

## IT and Clinical Systems Overview



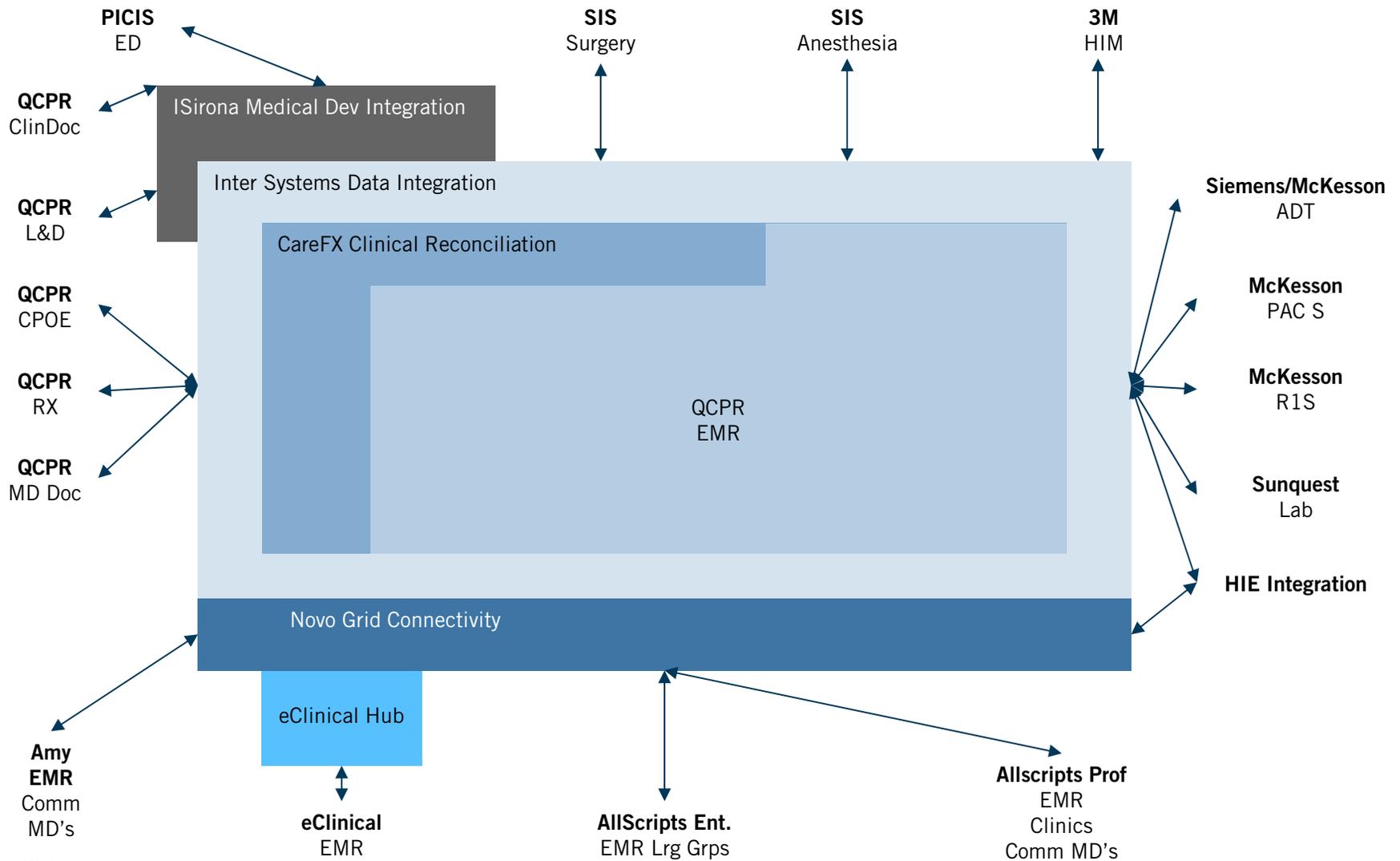
# Overview of Information Technology Services

- The diagram below summarizes the existing information technology services, with a diagram of DCHS clinical systems presented on the next page



# Clinical System Overview

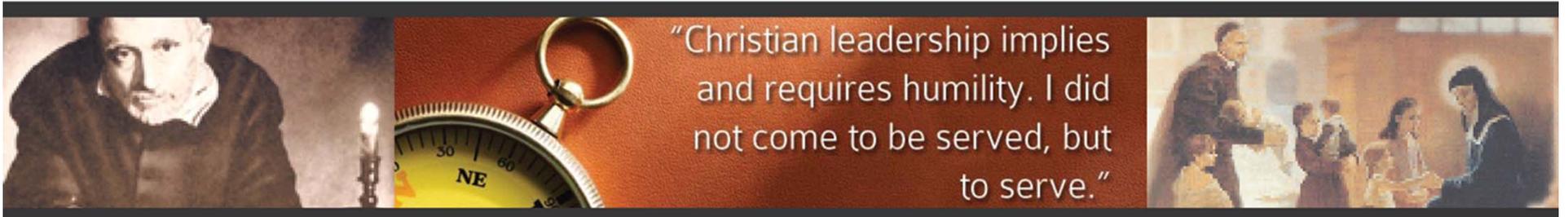
Overview of Clinical Systems Overview (2012 – 2015)





# Appendices

## Additional Detail on Supplemental Government Funding



“Christian leadership implies and requires humility. I did not come to be served, but to serve.”

# Summary of Supplemental Funding

## Summary of DCHS Supplemental Funding (\$ millions)

	FY2011	FY2012	FY2013	LTM Dec-2013
<b>Provider Fee</b>				
Provider Fee - Medi-Cal	\$ 103	\$ 124	\$ 88	\$ 94
Provider Fee - Medi-Cal Managed Care	34	11	82	81
Provider Tax	(83)	(79)	(98)	(101)
Net Provider Fee	53	55	72	74
<b>Other Payments</b>				
SB 1255	8	9	8	8
SB 1732	8	8	8	5
SB 855	28	26	32	31
SB 474 (b)	2	2	2	2
Total Other Payments	46	46	50	47
Meaningful Use	-	8	6	8
Measure A	-	-	-	4
<b>Total</b>	<b>\$ 100</b>	<b>\$ 109</b>	<b>\$ 128</b>	<b>\$ 132</b>

The California Hospital Provider Fee Program is expected to provide \$318 million in net funding (\$106 million per year) to the System's hospitals over the three years (a 77% increase over 2011-2013 funding levels)

## Provider Fee Program (a) (\$ millions)

SFMC	\$ 236
SVMC	(8)
OCH	36
SLRH	20
SMC/SMCC	34
<b>Total Funding</b>	<b>\$ 318</b>

## Summary of Supplemental Funding by LHM (December 2013 LTM) (\$ millions)

	SFMC	SVMC	OCH	SLRH	SMC/SMCC	Total
<b>Provider Fee</b>						
Provider Fee - Medi-Cal	\$ 58	\$ 13	\$ 11	\$ 4	\$ 8	\$ 94
Provider Fee - Medi-Cal Managed Care	49	3	14	3	13	81
Provider Tax	(44)	(18)	(18)	(4)	(16)	(101)
Net Provider Fee	62	(2)	7	2	5	74
<b>Other Payments</b>						
SB 1255	8	-	-	-	-	8
SB 1732	5	-	-	-	-	5
SB 855	31	-	-	-	-	31
SB 474 (b)	2	-	-	-	-	2
Total Other Payments	47	-	-	-	-	47
Meaningful Use	3	-	1	2	2	8
Measure A	-	-	-	-	4	4
<b>Total</b>	<b>\$ 112</b>	<b>\$ (2)</b>	<b>\$ 8</b>	<b>\$ 4</b>	<b>\$ 11</b>	<b>\$ 132</b>

Note: Fiscal year ends June 30

(a) Three-year Provider Fee program effective January 1, 2014. Funding estimates based on CHA fee model dated September 16, 2013.

(b) Temporary funding until the opening of MLK Hospital

# Government Supplemental Funding – Provider Fee Program

- DCHS receives significant supplemental payments under the Hospital Quality Assurance Fee (aka Provider Fee) program

Program	FY2013 Receipts (\$ millions)	Funding Review Frequency	Eligibility Requirements	Program Description
<b>Hospital Quality Assurance Fee Program (Provider Fee)</b>	\$71.9 Net (\$169.6 receipts less \$97.6 payments)	Varies (New SB 239 bill under review)	<ul style="list-style-type: none"> <li>■ Private hospitals, including additional payments for certain facilities that provide high-acuity care and trauma services to the Medi-Cal population</li> <li>■ Safety-net hospitals are the primary beneficiaries under the program</li> </ul>	<ul style="list-style-type: none"> <li>■ California legislation program that imposes a Quality Assurance Fee (QA Fee) on certain general acute care hospitals in order to make supplemental and grant payments and increased capitation payments (Supplemental Payments) to hospitals up to the aggregate upper payment limit for various periods</li> <li>■ The program uses fees assessed by the state on hospitals to draw down federal matching funds, which are then issued as supplemental Medi-Cal payments to hospitals</li> <li>■ Payments are made directly by the state or Medi-Cal managed care plans, which will receive increased capitation rates from the state in amounts equal to the Supplemental Payments</li> <li>■ Outside of the legislation, the California Hospital Association has created a private program, operated by the California Health Foundation and Trust, which was established to alleviate disparities potentially resulting from the implementation of the programs</li> <li>■ Four programs were created as part of the Provider Fee program:               <ol style="list-style-type: none"> <li>AB 1653 (April 1, 2009 through December 31, 2010) resulted in a net benefit of \$2.6 billion to California hospitals</li> <li>SB 90 (January 1, 2011 through June 30, 2011) resulted in a net benefit of \$858 million</li> <li>SB 335 (July 1, 2011 through December 31, 2013) is expected to result in a net benefit of over \$4.6 billion</li> <li>SB 239 is a three-year program (2014-2016), which was approved by the state Legislature and sent to the Governor in September 2013. The bill is estimated to result in approximately \$10 billion.</li> </ol> </li> </ul>

# Government Supplemental Funding – Meaningful Use Program

- DCHS receives certain supplemental payments under the Meaningful Use programs

Program	FY2013 Receipts (\$ millions)	Funding Review Frequency	Eligibility Requirements	Program Description
<b>Meaningful Use Incentives</b>	\$6.4	N/A	<ul style="list-style-type: none"> <li>■ Hospitals and physicians must annually meet electronic health record (EHR) "meaningful use" criteria that become more stringent over three stages, as determined by CMS</li> </ul>	<ul style="list-style-type: none"> <li>■ The American Recovery and Reinvestment Act of 2009 established payments under the Medicare and Medi-Cal programs for certain professionals and hospitals that meaningfully use certified EHR technology</li> <li>■ The Medicare incentive payments are paid out to qualifying hospitals over four consecutive years on a transitional schedule</li> </ul>

# Government Supplemental Funding – SB 855 (SFMC)

- In addition to the funding outlined on the previous two pages, SFMC receives supplemental payments from SB 855, SB 1255, SB 1732 and SB 474 programs, which provide Medi-Cal payments to disproportionate share (“DSH”) hospitals that treat a high number of Medi-Cal and low-income patients

Medi-Cal Program	FY2013 Receipts (\$ millions)	Funding Review Frequency	Eligibility Requirements	Program Description
<b>Disproportionate Share Hospitals Payment Program (SB 855)</b>	\$31.7	Annual	<ul style="list-style-type: none"> <li>■ The California Department of Health Services determines eligibility by using data from the Office of Statewide Health Planning and Development’s “Annual Hospital Disclosure Report”</li> <li>■ Federal Medicaid program requires most DSH hospitals to have at least two obstetricians (required annual certification) providing services to Medi-Cal patients</li> <li>■ Other eligibility requirements:               <ol style="list-style-type: none"> <li>i. Medicaid I/P utilization rate (days) of one standard deviation above the state mean;</li> <li>or</li> <li>ii. Medicaid I/P utilization rate of &gt;25%</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>■ Supplemental Medi-Cal payment adjustments to acute care hospitals that treat a high volume of low-income and Medi-Cal patients for inpatient care</li> <li>■ Uses formulas to determine hospital eligibility, the amount of funding (non-federal and federal) for the program and the distribution of program funds to eligible hospitals</li> <li>■ The DSH program receives mandatory transfers from public entities (i.e., counties, hospital districts, and the University of California) that are matched by federal Medicaid funds</li> </ul>

# Government Supplemental Funding – SB 1255 (SFMC)

Medi-Cal Program	FY2013 Receipts (\$ millions)	Funding Review Frequency	Eligibility Requirements	Program Description
<b>Emergency Services and Supplemental Payments Program (SB 1255)</b>	\$7.7	Annual	<ul style="list-style-type: none"> <li>■ Eligibility requirements:                             <ol style="list-style-type: none"> <li>i. Medi-Cal Selective Provider Contracting Program hospital; and</li> <li>ii. DSH hospital; and</li> <li>iii. Licensed provider of basic or comprehensive emergency medical services</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>■ Supplemental Medi-Cal payments to DSH hospitals</li> <li>■ Program receives voluntary transfers from public entities, matched by federal Medicaid funds, after negotiations with the Executive Director of California Medical Assistance Commission (“CMAC”)</li> <li>■ Negotiations with CMAC determine the amount of funds, as well as the size of the voluntary transfers</li> <li>■ Negotiations usually require that the hospitals provide specified services to the Medi-Cal patients</li> <li>■ SB 1255 negotiations are confidential</li> </ul>

# Government Supplemental Funding – SB 1732 (SFMC)

Medi-Cal Program	FY2013 Receipts (\$ millions)	Funding Review Frequency	Eligibility Requirements	Program Description
<b>Construction and Renovation Reimbursement Program (SB 1732)</b>	\$8.1	Project basis	<ul style="list-style-type: none"> <li>■ Eligibility requirements:                             <ul style="list-style-type: none"> <li>i. DSH hospital; and</li> <li>ii. Must have Office of Statewide Health Planning and Development’s approval for capital construction projects</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Supplemental Medi-Cal reimbursement to DSH hospitals for debt service cost (principal and interest) of approved capital projects</li> <li>■ Hospitals must meet with the Department of Health Services to determine which capital projects will be covered, payment amounts and payment schedules</li> <li>■ While the program is administered by the Department of Health Services, the payment authority is incorporated into the Selective Provider Contract Program’s hospital contracts under CMAC</li> </ul>

# Government Supplemental Funding – SB 474 (SFMC)

Medi-Cal Program	FY2013 Receipts (\$ millions)	Funding Review Frequency	Eligibility Requirements	Program Description
<b>Private Hospital Supplemental Payment (SB 474)</b>	\$2.2	Annual	<ul style="list-style-type: none"> <li>■ Hospitals impacted by the closure of MLK Hospital</li> <li>■ County has indicated its intent to continue support until the MLK Hospital is re-opened</li> </ul>	<ul style="list-style-type: none"> <li>■ Supplemental Medi-Cal payments to certain designated hospitals impacted by the closure of MLK Hospital in August 2007</li> <li>■ Program was enacted in October 2007 and established the South Los Angeles Medical Services Preservation Fund to address the regional impact of the closure of MLK Hospital and to help stabilize health services for the low-income population in the area</li> <li>■ County committed \$5 million, with a 100% Federal matching contribution</li> <li>■ The program is administered by the County of Los Angeles</li> <li>■ The payment authority is incorporated into the Selective Provider Contract Program's hospital contracts under CMAC</li> </ul>

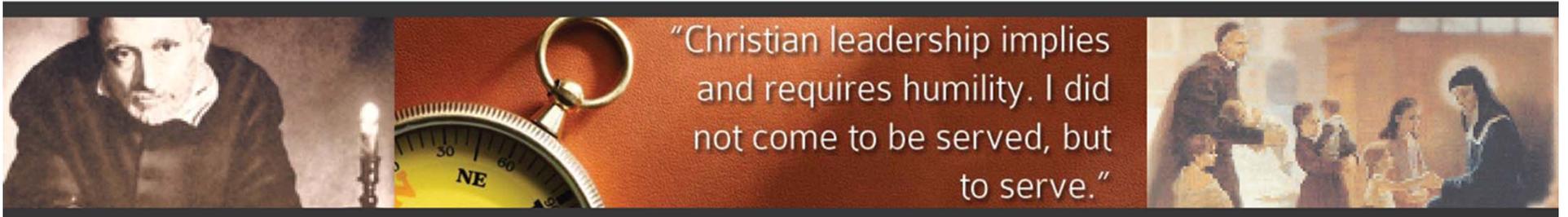
# Government Supplemental Funding – Measure A (SMC)

Program	FY2013 Receipts (\$ millions)	Funding Review Frequency	Eligibility Requirements	Program Description
<b>San Mateo County Ballot Measure A (Measure A)</b>	N/A (\$3.6 Dec 2013 YTD)	Currently Under Review	<ul style="list-style-type: none"> <li>■ Certain designated hospitals providing high-acuity care to the San Mateo County’s Medi-Cal and underinsured population</li> </ul>	<ul style="list-style-type: none"> <li>■ The program was passed (~66% voter approval rate) in 2012 and was funded with an additional half-cent sales tax in the San Mateo County for 10 years                             <ul style="list-style-type: none"> <li>● Estimated funding of \$45-\$60 million per year to be used to fund a variety of social service and infrastructure needs in the San Mateo County</li> </ul> </li> <li>■ SMC was a major sponsor of the ballot initiative and specifically named as an intended recipient of the funds</li> <li>■ In July 2013, the San Mateo County Supervisors approved the initial allocation of funding to SMC                             <ul style="list-style-type: none"> <li>● \$11.5 million provided in the nine months between October 2013 and June 2014, including \$2 million for seismic compliance work and \$500,000 to fund a strategic plan to be conducted in collaboration with the County by February 2014</li> <li>● Estimated additional long-term funding to SMC of approximately \$15 million per year is currently under review</li> </ul> </li> <li>■ The County is also evaluating a potential use of intergovernmental transfers, estimated to provide an additional 30% to the funding available to SMC</li> </ul>

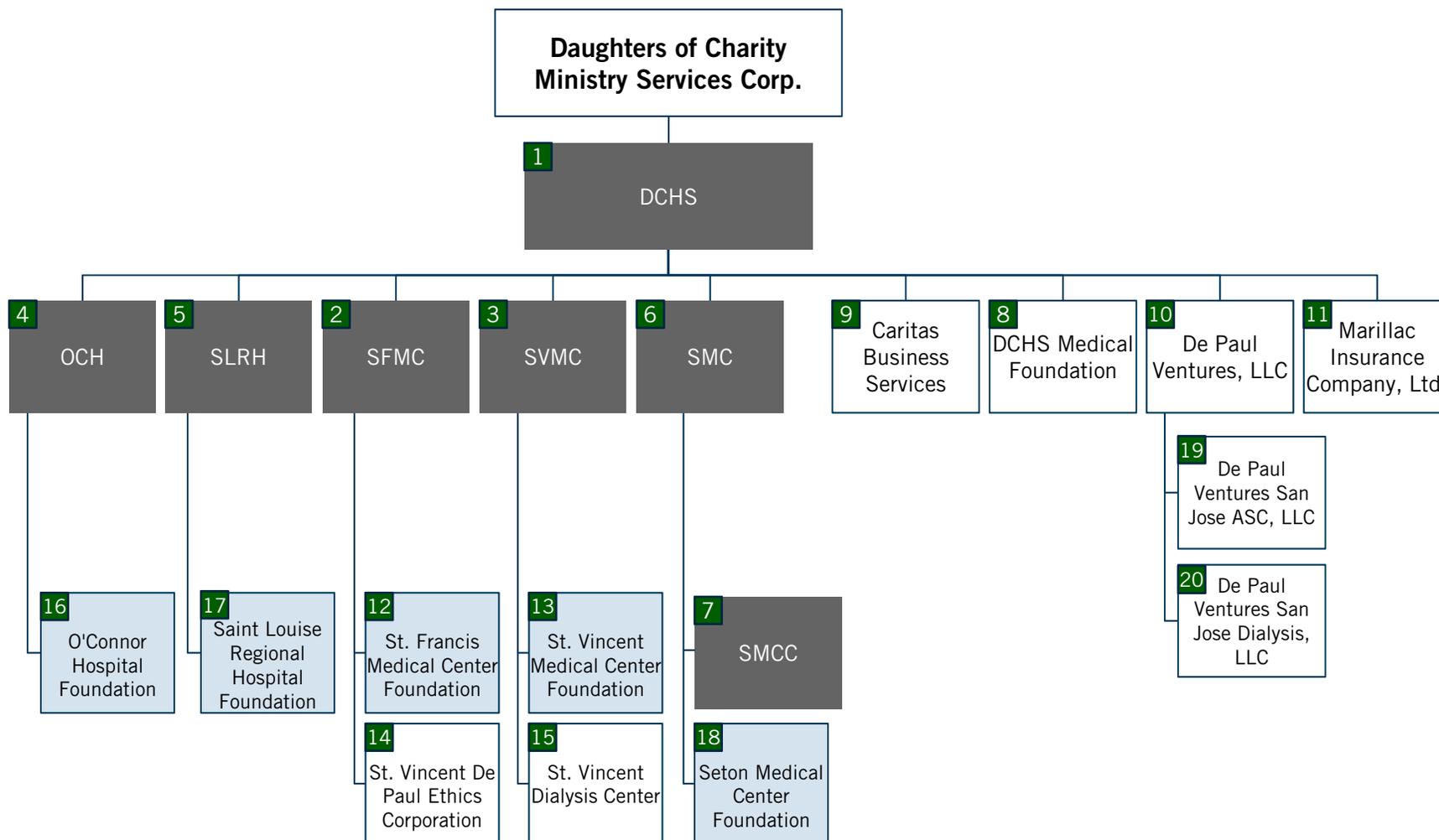


# Appendices

## Overview of Legal Entities



# Legal Entity Chart



■ Member of Obligated Group under Series 2005 Bonds. Numbers tie to entity descriptions



\* See next two pages for descriptions of each legal entity

# Legal Entity Description

- The Daughters of Charity, Province of the West merged with Catholic Healthcare West (“CHW”) in March 1995. In an effort to focus on local governance, management and finance, the Daughters of Charity withdrew its sponsored hospitals from CHW and formed DCHS in 2001.

	Description	Ownership / Governance
1. DCHS	<ul style="list-style-type: none"> <li>■ Tax-exempt not-for-profit</li> <li>■ Incorporated in June 2001</li> </ul>	<ul style="list-style-type: none"> <li>■ Daughters of Charity Ministry Services Corp. is the sole member</li> </ul>
2. SFMC	<ul style="list-style-type: none"> <li>■ Tax-exempt not-for-profit</li> <li>■ Incorporated in 1981</li> </ul>	<ul style="list-style-type: none"> <li>■ DCHS is the sole member</li> </ul>
3. SVMC	<ul style="list-style-type: none"> <li>■ Tax-exempt not-for-profit</li> <li>■ Incorporated in 1918</li> </ul>	<ul style="list-style-type: none"> <li>■ DCHS is the sole member</li> </ul>
4. OCH	<ul style="list-style-type: none"> <li>■ Tax-exempt not-for-profit</li> <li>■ Incorporated in 1986</li> </ul>	<ul style="list-style-type: none"> <li>■ DCHS is the sole member</li> </ul>
5. SLRH	<ul style="list-style-type: none"> <li>■ Tax-exempt not-for-profit</li> <li>■ Incorporated in 1987</li> </ul>	<ul style="list-style-type: none"> <li>■ DCHS is the sole member</li> </ul>
6. SMC	<ul style="list-style-type: none"> <li>■ Tax-exempt not-for-profit</li> <li>■ Incorporated in 2001</li> </ul>	<ul style="list-style-type: none"> <li>■ DCHS is the sole member</li> </ul>
7. SMCC	<ul style="list-style-type: none"> <li>■ Tax-exempt not-for-profit</li> <li>■ Incorporated in 1980</li> </ul>	<ul style="list-style-type: none"> <li>■ SMC is the sole member</li> </ul>
8. DCHS Medical Foundation	<ul style="list-style-type: none"> <li>■ Tax-exempt not-for-profit</li> <li>■ Incorporated in 2011</li> </ul>	<ul style="list-style-type: none"> <li>■ DCHS is the sole member</li> </ul>
9. Caritas Business Services	<ul style="list-style-type: none"> <li>■ Provides a range of support services for the NorCal LHMs of DCHS, including SMC, SMCC, OCH, SLRH and the DCHS System Office</li> <li>■ CBS services include Accounting, Finance and Patient Financial Services</li> </ul>	<ul style="list-style-type: none"> <li>■ DCHS is the sole member</li> </ul>
10. De Paul Ventures	<ul style="list-style-type: none"> <li>■ Limited liability company</li> <li>■ Created for the purposes of investing in a freestanding surgery center, as well as other healthcare entities</li> </ul>	<ul style="list-style-type: none"> <li>■ DCHS is the sole member</li> </ul>

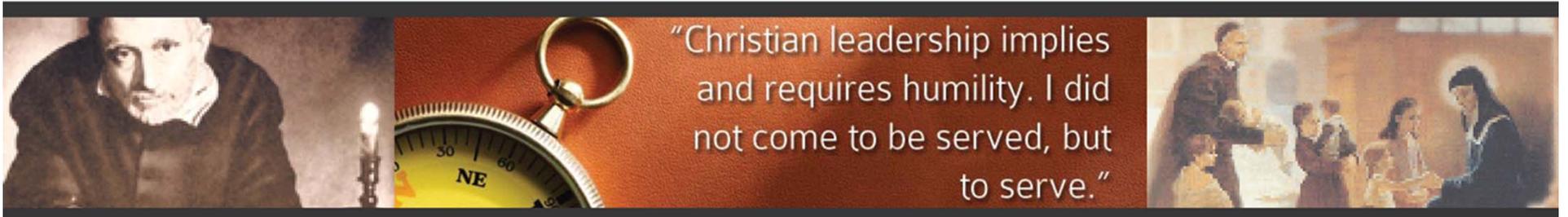
# Legal Entity Description (cont.)

	Description	Ownership / Governance
11. Marillac Insurance Company	<ul style="list-style-type: none"> <li>■ Captive insurance company to self-insure for professional and general liability exposures</li> <li>■ Incorporated in 2003</li> </ul>	<ul style="list-style-type: none"> <li>■ DCHS is the sole member</li> </ul>
12. SFMC Foundation	<ul style="list-style-type: none"> <li>■ Not-for-profit public benefit corporation</li> <li>■ Charitable foundation under the Uniform Prudent Management of Institutional Funds Act (UPMIFA)</li> </ul>	<ul style="list-style-type: none"> <li>■ SFMC is the sole member</li> </ul>
13. SVMC Foundation	<ul style="list-style-type: none"> <li>■ Not-for-profit public benefit corporation</li> <li>■ Charitable foundation under the Uniform Prudent Management of Institutional Funds Act (UPMIFA)</li> </ul>	<ul style="list-style-type: none"> <li>■ SVMC is the sole member</li> </ul>
14. St. Vincent De Paul Ethics Corporation	<ul style="list-style-type: none"> <li>■ N/A</li> </ul>	<ul style="list-style-type: none"> <li>■ SVMC is the sole member</li> </ul>
15. St. Vincent Dialysis Center	<ul style="list-style-type: none"> <li>■ Not-for-profit affiliated corporation</li> <li>■ Specialty clinic licensed only for the provision of dialysis services</li> </ul>	<ul style="list-style-type: none"> <li>■ SFMC is the sole member</li> </ul>
16. O'Connor Hospital Foundation	<ul style="list-style-type: none"> <li>■ Not-for-profit public benefit corporation</li> <li>■ Charitable foundation under the Uniform Prudent Management of Institutional Funds Act (UPMIFA)</li> </ul>	<ul style="list-style-type: none"> <li>■ OCH is the sole member</li> </ul>
17. SLRH Foundation	<ul style="list-style-type: none"> <li>■ Not-for-profit public benefit corporation</li> <li>■ Charitable foundation under the Uniform Prudent Management of Institutional Funds Act (UPMIFA)</li> </ul>	<ul style="list-style-type: none"> <li>■ SLRH is the sole member</li> </ul>
18. Seton Medical Center Foundation	<ul style="list-style-type: none"> <li>■ Not-for-profit public benefit corporation</li> <li>■ Charitable foundation under the Uniform Prudent Management of Institutional Funds Act (UPMIFA)</li> </ul>	<ul style="list-style-type: none"> <li>■ SMC is the sole member</li> </ul>
19. De Paul Ventures San Jose ASC, LLC	<ul style="list-style-type: none"> <li>■ Limited liability company</li> <li>■ Owns a 25% interest as a limited partner in a partnership that owns and operates a freestanding surgery center in San Jose, CA</li> </ul>	<ul style="list-style-type: none"> <li>■ De Paul Ventures, LLC</li> </ul>
20. De Paul Ventures San Jose Dialysis, LLC	<ul style="list-style-type: none"> <li>■ Limited liability company</li> </ul>	<ul style="list-style-type: none"> <li>■ De Paul Ventures, LLC</li> </ul>



# Appendices

## Overview of CA Seismic Regulations



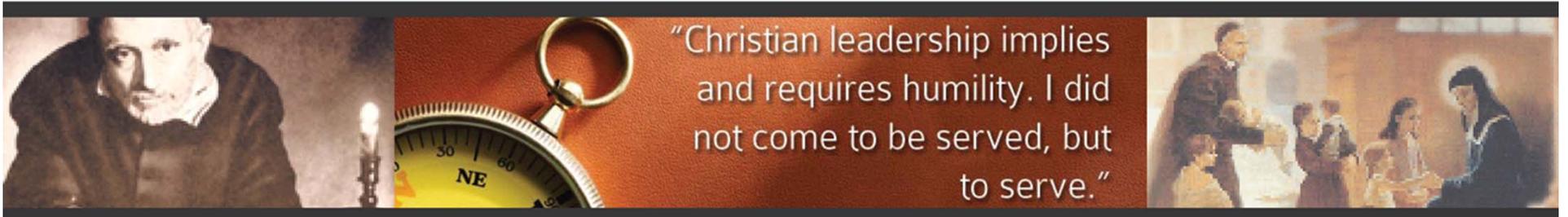
# Overview of CA Seismic Regulations

- The Alfred E. Alquist Seismic Safety Act of 1973 established a building seismic compliance program for hospitals constructed on or after March 7, 1973, under OSHPD's jurisdiction
- Senate Bill 1953 ("SB 1953") enacted in 1994 amended the Act to ensure the viability and operations of general acute care buildings during and after a seismic event
  - The bill covers more than 2,600 hospital buildings and requires to comply with three seismic safety deadlines
    - 1) By 2002, major non-structural systems (i.e., backup generators, exit lighting, etc.) must be braced
    - 2) By January 1, 2008 (or January 1, 2013 if an extension is granted), every hospital building must receive at least a Structural Performance Category (SPC) level rating of 2, except in circumstances where compliance results in diminished healthcare services to the community
      - To remain as a general acute care hospital, the facility must conduct seismic evaluations and prepare a subsequent evaluation report and compliance plan
        - ◆ In addition to receiving the SPC-2 rating, all general acute care hospitals must also receive a Nonstructural Performance Category (NPC) level rating of 3, indicating sufficient external and internal infrastructure capacity to survive a large seismic event
    - 3) By January 1, 2020, all hospital buildings are required to comply with standards necessary to continue operating after a seismic event

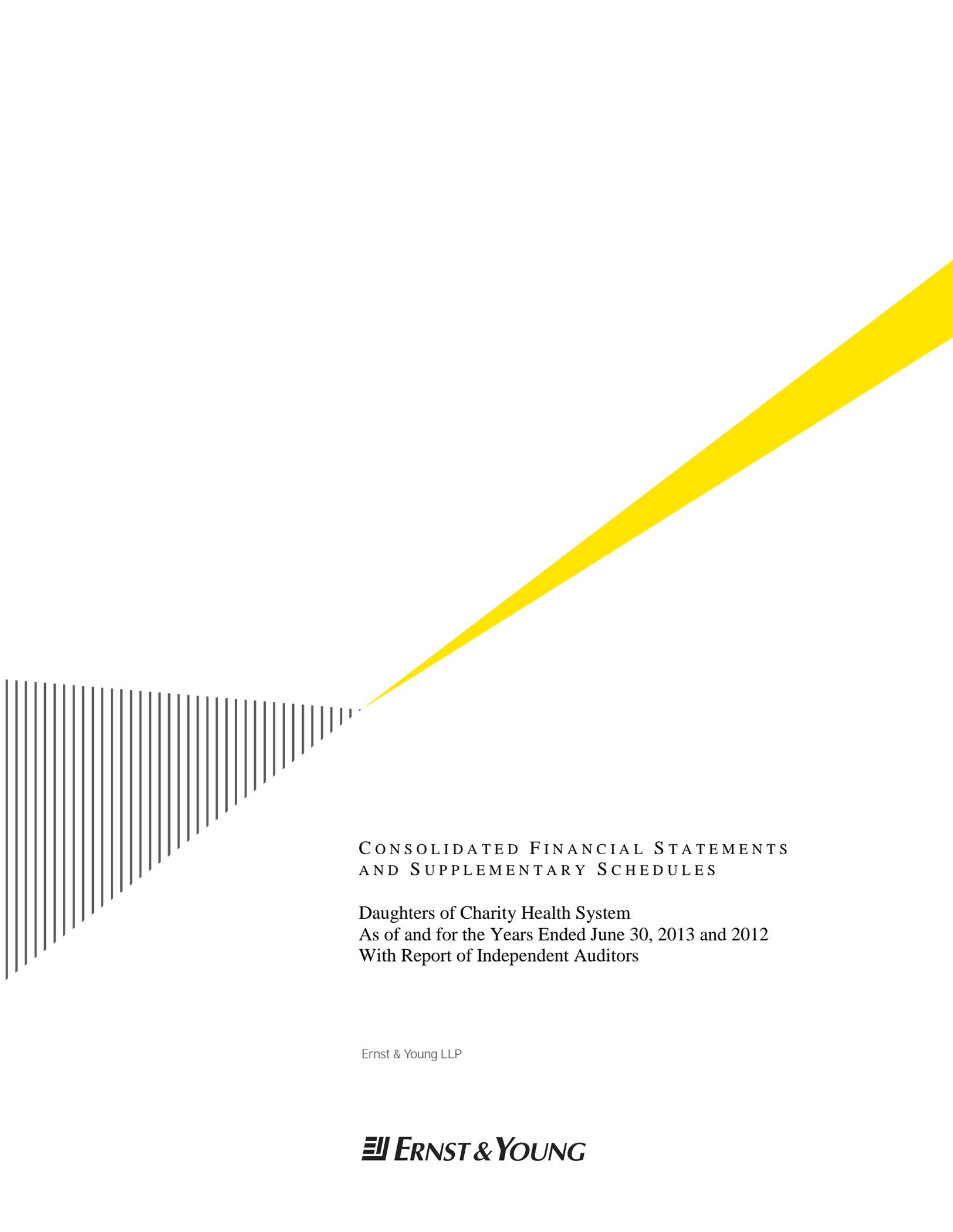


# Appendices

## FY2013 Audited Financials



“Christian leadership implies and requires humility. I did not come to be served, but to serve.”



CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULES

Daughters of Charity Health System  
As of and for the Years Ended June 30, 2013 and 2012  
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Daughters of Charity Health System

Consolidated Financial Statements and Supplementary Schedules

As of and for the Years Ended June 30, 2013 and 2012

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## Report of Independent Auditors

The Board of Directors  
Daughters of Charity Health System

We have audited the accompanying consolidated financial statements of Daughters of Charity Health System, which comprise the consolidated balance sheet as of June 30, 2013, and the related consolidated statement of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daughters of Charity Health System at June 30, 2013, and the consolidated results of its operations and changes in net assets, and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the combined financial statements, the Daughters of Charity Health System changed the presentation and classification of the provision for bad debts on the Consolidated Statement of Operations and Changes in Net Assets as a result of the adoption of Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patent Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*.

### Report of Other Auditors on June 30, 2012 Financial Statements

The consolidated financial statements of Daughters of Charity Health System for the year ended June 30, 2012, were audited by other auditors who expressed an unmodified opinion on those statements on November 27, 2012, (November 26, 2013, as to the effects of the restatement discussed in Note 8 and the Ascension Health Affiliation Agreement discussed in Note 12).



November 26, 2013

# Daughters of Charity Health System

## Consolidated Balance Sheets (In Thousands)

	June 30	
	2013	2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 31,160	\$ 34,870
Interest in pooled investment fund – short-term	62,478	72,859
	93,638	107,729
Patient accounts receivable – net of allowance for doubtful accounts of \$40 million and \$53 million in 2013 and 2012, respectively	153,851	159,092
Due from government agencies	22,336	22,420
Other current assets	119,354	140,405
Total current assets	389,179	429,646
Assets limited as to use:		
Interest in pooled investment fund – long-term	112,882	169,447
Other investments	63,491	69,172
Under bond indenture agreements	40,859	41,853
	217,232	280,472
Goodwill and intangibles – net	10,905	7,141
Property and equipment – net	369,530	374,236
Other long-term assets	13,283	14,254
	\$ 1,000,129	\$ 1,105,749
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 37,234	\$ 26,463
Current portion of long-term debt	22,915	13,283
Due to government agencies	20,163	22,143
Accrued liabilities	137,284	169,097
	217,596	230,986
Other liabilities:		
Long-term debt – net of current portion	437,344	460,227
Workers’ compensation and hospital professional and general liability	43,527	40,650
Pension obligations	234,074	266,997
Other long-term liabilities	3,654	3,782
Total other liabilities	718,599	771,656
Net assets:		
Unrestricted	20,666	60,776
Temporarily restricted	33,988	33,467
Permanently restricted	9,280	8,864
Total net assets	63,934	103,107
	\$ 1,000,129	\$ 1,105,749

See accompanying notes.

## Daughters of Charity Health System

### Consolidated Statements of Operations and Changes in Net Assets (In Thousands)

	<b>Year Ended June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Unrestricted revenues and other support:</b>		
Net patient service revenue	\$ 1,271,229	\$ 1,213,366
Provision for doubtful accounts	(40,354)	(34,409)
Net patient service revenue less provision for doubtful accounts	1,230,875	1,178,957
Premium revenue	65,489	41,056
Other operating revenue	29,435	32,799
Contributions	16,723	21,049
Total unrestricted revenues and other support	1,342,522	1,273,861
 Expenses:		
Salaries and benefits	783,586	730,244
Supplies	170,262	161,876
Purchased services and other	393,619	360,897
Depreciation and amortization	60,439	56,642
Interest – net	25,336	25,202
Total expenses	1,433,242	1,334,861
 Operating loss	(90,720)	(61,000)
Investment income – net	16,252	1,500
 Deficit of revenues over expenses	(74,468)	(59,500)
 Net assets released from restrictions used for purchase of property and equipment	1,248	2,726
Change in funded status of pension plans	32,581	(42,782)
Other	529	1,537
Decrease in unrestricted net assets	(40,110)	(98,019)

## Daughters of Charity Health System

### Consolidated Statements of Operations and Changes in Net Assets (continued) (In Thousands)

	<b>Year Ended June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Temporarily restricted net assets:</b>		
Contributions	\$ 17,800	\$ 24,743
Net assets released from restrictions:		
Operations	(15,584)	(16,263)
Property and equipment	(1,248)	(2,726)
Other	(447)	(496)
Increase in temporarily restricted net assets	521	5,258
<b>Permanently restricted net assets:</b>		
Net realized and unrealized gains (losses) on investments	138	(189)
Contributions	278	598
Increase in permanently restricted net assets	416	409
Decrease in net assets	(39,173)	(92,352)
Net assets – beginning of year	103,107	195,459
Net assets – end of year	\$ 63,934	\$ 103,107

*See accompanying notes.*

# Daughters of Charity Health System

## Consolidated Statements of Cash Flows

(In Thousands)

	<b>Year Ended June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities</b>		
Decrease in net assets	\$ (39,173)	\$ (92,352)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	60,439	56,642
Provision for and write-off of doubtful accounts	40,354	34,409
Changes in fair value and unrealized and realized (gains) losses on investments, net	(13,110)	1,017
Amortization of bond premium	(468)	(582)
Amortization of deferred debt issuance cost	223	235
Change in funded status of pension plans	(32,581)	42,782
Asset impairment	10	1,141
Gains on disposal of property and equipment	(221)	(10)
Changes in operating assets and liabilities:		
Patient accounts receivable	(35,113)	(45,367)
Due to government agencies	(1,896)	18,460
Other current assets	15,753	(51,740)
Other long-term assets	436	2,135
Accounts payable	10,771	(2,640)
Accrued liabilities	(23,855)	14,514
Workers' compensation and hospital professional and general liabilities	2,877	5,672
Pension obligations	(342)	7,439
Other long-term liabilities	(128)	(1,239)
Net cash used in operating activities	(16,024)	(9,484)
<b>Investing activities</b>		
Purchases of investments and deposits to interest in pooled investment fund – long-term	(348,774)	(336,993)
Proceeds from sales of investments and withdrawals from the interest in pooled investment fund – long-term	418,656	377,030
Net withdrawals from (deposits to) interest in pooled investment fund – short-term	11,102	(27,000)
Purchase of assets for health-related activity	(4,738)	(7,800)
Cash and cash equivalent movements in assets limited as to use	(2,985)	(29)
Changes in assets under bond indenture agreements	994	954
Purchases to property and equipment	(50,066)	(40,805)
Cash proceeds from disposal of property and equipment	271	19
Net cash provided by (used in) investing activities	24,460	(34,624)
<b>Financing activities</b>		
Repayment of debt	(13,283)	(10,589)
Cash contributions received for the purchase of property and equipment	1,137	1,714
Net cash used in financing activities	(12,146)	(8,875)

## Daughters of Charity Health System

### Consolidated Statements of Cash Flows (continued)

*(In Thousands)*

	<b>Year Ended June 30</b>	
	<b>2013</b>	<b>2012</b>
Decrease in cash and cash equivalents	\$ (3,710)	\$ (52,983)
Cash and cash equivalents – beginning of year	<b>34,870</b>	87,853
Cash and cash equivalents – end of year	<b><u>\$ 31,160</u></b>	<b><u>\$ 34,870</u></b>
 <b>Supplemental disclosures of cash flow information</b>		
Cash paid for interest – net of amounts capitalized	<b><u>\$ 25,581</u></b>	<b><u>\$ 25,549</u></b>
 <b>Supplemental disclosures of noncash items</b>		
Capitalized interest	<b><u>\$ 1,078</u></b>	<b><u>\$ 1,483</u></b>
(Decrease) increase in receivable for investments sold	<b><u>\$ (1,894)</u></b>	<b><u>\$ 3,037</u></b>
(Decrease) increase in payable for investments purchased	<b><u>\$ (10,125)</u></b>	<b><u>\$ 15,035</u></b>
Accrued additions to property and equipment	<b><u>\$ 4,462</u></b>	<b><u>\$ 2,295</u></b>
Purchase of assets for health-related activity acquired through the issuance of notes payable	<b><u>\$ 500</u></b>	<b><u>\$ 5,200</u></b>

*See accompanying notes.*

# Daughters of Charity Health System

## Notes to Consolidated Financial Statements

June 30, 2013

### 1. Organization

The Daughters of Charity Health System (Parent), a California nonprofit religious corporation, was formed in June 2001 by the Daughters of Charity Ministry Services Corporation (Ministry Services), a California not-for-profit religious corporation. Ministry Services is the sole corporate member of DCHS. DCHS is the sole corporate member of six California not-for-profit religious corporations that operate six acute care hospitals and other facilities (the “Hospitals,” see list below) in the state of California. Daughters of Charity Health System and the following list of affiliated entities (collectively, “DCHS”) became one of the largest not-for-profit health care systems in the state of California, with approximately 1,660 licensed acute care and skilled nursing beds.

DCHS consists of Parent\* and the following:

- O’Connor Hospital\*
- Saint Louise Regional Hospital\*
- St. Francis Medical Center Lynwood\*
- St. Vincent Medical Center\*
- Seton Medical Center\*
- Seton Medical Center Coastside (a division of Seton Medical Center)\*
- Caritas Business Services
- Marillac Insurance Company, Ltd. (Marillac)
- O’Connor Hospital Foundation
- Saint Louise Regional Hospital Foundation
- St. Francis Medical Center of Lynwood Foundation
- St. Vincent Medical Center Foundation
- Seton Health Services Foundation
- St. Vincent de Paul Ethics Corporation
- St. Vincent Dialysis Center
- De Paul Ventures, LLC (see Note 2)
- DCHS Medical Foundation (see Note 2)

\* Part of the Obligated Group (see discussion below and Note 9)

The Daughters of Charity of St. Vincent de Paul (the Daughters of Charity) commenced its health care mission in California in 1856, with four of the Hospitals having been sponsored by the Daughters of Charity since their formation.

# Daughters of Charity Health System

## Notes to Consolidated Financial Statements (continued)

### **1. Organization (continued)**

DCHS established an Obligated Group (see listing of entities included in the Obligated Group above) to access the capital markets. Obligated Group members are jointly and severally liable for the long-term debt outstanding under the Bond Master Indenture.

### **2. Summary of Significant Accounting Policies**

#### **Consolidation**

The accompanying consolidated financial statements include the accounts of DCHS after elimination of intercompany transactions.

#### **Use of Estimates**

The preparation of the consolidated financial statements in conformity with United States (U.S.) generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist primarily of cash and highly liquid marketable securities with original maturities, at the time of purchase, of three months or less.

#### **Patient Accounts Receivable, Allowance for Doubtful Accounts, and Net Patient Service Revenue**

Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated settlements under reimbursement agreements with third-party payers. Settlements with third-party payers are accrued on an estimated basis in the period in which the related services are rendered and are adjusted in future periods as final settlements are determined.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

DCHS adopted the accounting standard addressing the presentation of the provision for bad debts in 2013, and as such, patient service revenues less provision for bad debts are reported net of the provision for bad debts on the consolidated statement of operations and changes in net assets. DCHS's self-pay write-offs were \$40,354,000 and \$34,409,000 for the years ended June 30, 2013 and 2012, respectively. The increase in write-offs resulted from DCHS engaging a third-party collection agency to work on past due balances. The provision for bad debts for the year ended June 30, 2012 was reclassified as a reduction of patient service revenues.

DCHS manages its risks by regularly reviewing accounts and contracts and by providing appropriate allowances for uncollectible amounts. DCHS manages the receivables by regularly reviewing its patient accounts and contracts and by providing appropriate allowances for uncollectible amounts. These allowances are estimated based upon an evaluation of historical payments, negotiated contracts and governmental reimbursements. Adjustments and changes in estimates are recorded in the period in which they are determined.

Patient services revenues, net of contractual allowances and discounts, are as follows (in thousands):

	<b>Year Ended June 30</b>	
	<b>2013</b>	<b>2012</b>
Government	<b>\$ 754,971</b>	\$ 722,073
Contracted	<b>454,262</b>	435,496
Self-pay and others	<b>21,642</b>	21,388
	<b>\$ 1,230,875</b>	\$ 1,178,957

Significant concentrations of net patient accounts receivable are as follows:

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
HMO/PPO/Commercial	<b>40%</b>	43%
Medicare	<b>30</b>	31
Medi-Cal	<b>25</b>	24
Other	<b>5</b>	2
Total	<b>100%</b>	100%

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

Inpatient acute care services, outpatient services, and skilled nursing services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid using a cost reimbursement methodology.

Health care services are provided free of charge or at a significant discount based on a sliding scale to individuals who meet certain financial criteria. DCHS makes every effort to determine if a patient qualifies for charity care upon admission. If a patient is determined to qualify for charity care, services are rendered to the patient free of cost. The costs of providing these services are included in unsponsored community benefit expense (see Note 3).

After satisfaction of amounts due from insurance and the application of financial discounts to patients' balances, and after exhausting all reasonable efforts to collect from the patients, a significant portion of the DCHS's uninsured and self-pay patient accounts are referred to the third-party agencies based on DCHS's established guidelines for further collection activities. As a result, DCHS's records a significant provision for doubtful accounts related to these uninsured patients in the period the services are rendered.

Gross patient revenue is recorded based on usual and customary charges. Gross patient revenue was \$5,919,043,000 and \$5,788,231,000 for the years ended June 30, 2013 and 2012, respectively. The percentage of inpatient and outpatient services is as follows:

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
Inpatient services	<b>65.2%</b>	66.0%
Outpatient services	<b>34.8</b>	34.0

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

DCHS derives significant portions of its revenues from Medicare, Medicaid (Medi-Cal), and other third-party payer programs. As a result, DCHS is exposed to certain credit risks. The estimated percentage of gross patient revenues by major payer group is as follows:

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
Medicare	<b>46.9%</b>	46.9 %
Medicare capitated	<b>1.4</b>	1.4
Medi-Cal	<b>23.5</b>	23.5
Medi-Cal capitated	<b>1.0</b>	0.9
Contracted-rate payers	<b>19.9</b>	20.8
Commercial capitated	<b>0.1</b>	0.2
Commercial insurance – self-pay and other payers	<b>7.2</b>	6.3
	<b>100.0%</b>	100.0%

Certain entities of DCHS have agreements with third-party payers that provide for payments to DCHS at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

Medi-Cal and contracted-rate payers are paid on a per diem, per discharge, modified cost, or capitated basis or a combination of these.

Net patient revenue included \$12,214,000 and \$13,275,000, for the years ended June 30, 2013 and 2012, respectively, which related to prior years' reimbursement settlements from Medicare, Medi-Cal, and other programs.

DCHS's St. Francis Medical Center qualified for and received Medi-Cal funding as a disproportionate-share hospital from the state of California under Senate Bill (SB) 855. Related revenues were \$31,299,000 and \$26,332,000, for the years ended June 30, 2013 and 2012, respectively, and are included in net patient service revenue. Amounts to be received in future years, if any, are subject to annual determination.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

The St. Francis Medical Center also received funding for Medi-Cal disproportionate-share hospitals under Senate Bill 1255 (SB 1255). These SB 1255 funds are paid from the Emergency Services and Supplemental Payments Fund Related revenues were \$7,700,000 and \$9,100,000, for the years ended June 30, 2013 and 2012, respectively, and are included in net patient service revenue. This funding must be applied for and approved each year.

The St. Francis Medical Center also qualifies for Medi-Cal funding as a disproportionate-share hospital from the state of California under Senate Bill 1732 (SB 1732). This SB 1732 program permits health care facilities servicing a disproportionate share of Medi-Cal patients to receive supplemental reimbursement for a portion of their debt service for qualified capital projects. St. Francis Medical Center has an amendment to its Medi-Cal contract, which was executed on June 19, 1993, for reimbursement related to the St. Francis Medical Center Health Services Pavilion, which was completed in 1991. Related revenues were \$8,052,000 and \$8,204,000, for the years ended June 30, 2013 and 2012, respectively, and are included in net patient service revenue.

As part of DCHS's mission to serve the community, DCHS provides care to patients even though they may lack adequate insurance or may participate in programs that do not pay full charges. Reserves for charity care and uncollectible amounts have been established and are netted against patient accounts receivable in the consolidated balance sheets.

#### **Industry Concentration**

The receipt of future revenues by DCHS is subject to, among other factors, federal and state policies affecting the health care industry. There are future revenue uncertainties that may require that costs be controlled, which will be subject to the capability of management; future economic conditions, which may include an inability to control expenses in periods of inflation; increased competition; and other conditions, which are impossible to predict.

#### **Inventories**

Inventories consist of supplies and are stated at the lower of cost or market value, which is determined using the first-in, first-out method. Inventories are reviewed for obsolescence on a periodic basis. Amounts are included in other current assets.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Assets Limited as to Use**

Assets limited as to use represent assets designated by the board of directors for future capital improvements, other specific purposes for Marillac over which the board of directors retains control, assets held by trustees under bond indenture agreements, and investments restricted by donors. The board of directors has the full ability to utilize those Marillac assets limited as to use to satisfy the needs of on-going operations as necessary. Excluding the assets held as part of the pooled investment fund, described below, these assets include investments in cash, equity securities – domestic and foreign, U.S. federal and corporate obligations, to-be-announced (TBA) mortgage-backed securities, asset-backed securities, and fixed-income securities, which are stated at fair value. The composition and fair value of the long-term interest in the pooled investment fund also are limited as to use and are as shown below.

Fair values are based on quoted market prices, if available, or estimated quoted market prices for similar securities. Investment income or loss is included in deficit of revenues over expenses, unless the income or loss is restricted by donor or law. The assets are reflected in the assets limited as to use line item in the consolidated balance sheet.

##### **Interest in Pooled Investment Fund**

DCHS has been participating in a pooled investment fund administered by Ascension Health. This pooled investment fund is referred to as the Health System Depository (HSD). DCHS recognizes its rights to the assets held in the HSD as a beneficial interest in the pooled investment fund. Beginning April 1, 2012, Ascension Health has decided to operate its investment management activities through its subsidiary, Catholic Healthcare Investment Management Company (CHIMCO), an investment advisor registered with the Securities and Exchange Commission. Consequently, DCHS's HSD accounts were closed, and the remaining balance was then invested into the newly created CHIMCO Alpha Fund, LLC (the "Fund"). CHIMCO serves as a manager and the principal advisor of the Fund.

The fair value of DCHS beneficial interest in the HSD fund is determined using DCHS's ownership percentage of the Fund based on the net asset value (NAV) of the pool. The fair value of DCHS's investment in the Fund decreased by \$66,946,000 and \$453,000 as of June 30, 2013 and 2012, respectively. DCHS's total investment in the Fund, reflected at fair value, was \$175,360,000 and \$242,306,000 as of June 30, 2013 and 2012, respectively. The total investment in the Fund is comprised of cash, equity securities – domestic and foreign, U.S. federal and corporate obligations, TBA mortgage-backed securities, asset-backed securities, and fixed-income securities, which are stated at fair value.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

As of June 30, 2013 and 2012, investment balances of approximately \$62,478,000 and \$72,859,000, respectively, in the Fund represented cash invested in a short-term pooled investment account. A centralized cash management arrangement that allows DCHS to access the Fund on demand using the Fund's short-term investments accounts.

#### Investments

All debt and equity securities are carried at estimated fair value using quoted market prices. Investments received through gifts are recorded at estimated fair value at the date of donation. Gains and losses that result from market fluctuations are recognized in the period that such fluctuations occur. Realized gains or losses resulting from sales or maturities are calculated on an adjusted-cost basis. Adjusted-cost is the original cost of the security adjusted for any purchases or sales during the year. Dividend and interest income are accrued when earned.

Investment income includes the following (in thousands):

	Year Ended June 30	
	2013	2012
Interest and dividends	\$ 3,238	\$ 2,858
Investment fees	(288)	(253)
Unrealized gain (loss) on investments – net	5,856	(12,016)
Net realized gain on sales of securities	8,025	11,147
	<u>16,831</u>	<u>1,736</u>
Amounts included in changes in restricted net assets	(579)	(236)
Investment income	<u>\$ 16,252</u>	<u>\$ 1,500</u>

#### Derivative Financial Instruments

During the fiscal years ended June 30, 2013 and 2012, DCHS entered into forward contracts related to the purchase and sale of TBA mortgage-backed securities under a dollar-roll strategy. The contracts represent a commitment to purchase or sell the security at a fixed price on a specified future date and include net settlement provisions, therefore, meeting the definition of a derivative under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*. The Company has recorded the gross

# Daughters of Charity Health System

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

amounts of benefits and obligations as assets and liabilities, respectively, as the contracts are not settled daily. As of June 30, 2013 and 2012, the value of the benefits was \$3,200,000 and \$3,684,000, respectively, and the value of the obligations was \$3,208,000 and \$7,357,000, respectively. These amounts represent pending unsettled benefits and obligations, and have been included in the other current assets and the accrued liabilities line items within the consolidated balance sheets. The amount of net realized gain (loss) included in investment income within the consolidated statements of operations and changes in net assets and unrealized gains were immaterial for the years ended June 30, 2013 and 2012, respectively, to the consolidated financial statements.

DCHS enters into TBA transactions to generate short-term investment income; the aggregate notional amounts transacted during the year were approximately \$46 million and \$60 million for the fiscal years ended June 30, 2013 and 2012, respectively. DCHS transacts all of its TBA transactions with its custodian and does not expect any significant occurrences of counterparty default. All TBA securities are exchange-traded and subject to the credit risk associated with the underlying pool of mortgages. However, management believes that such risk associated with trading these securities is insignificant to its overall investment strategy.

### Property and Equipment

Property and equipment are stated at cost, if purchased, and at fair market value, if donated. Depreciation of property and equipment is calculated using a half-year convention and the straight-line method for financial statement purposes. Estimated useful lives by classification are as follows:

Land improvements	5–25 years
Buildings	10–40 years
Building service equipment	5–25 years
Equipment	4–20 years

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### Long-Lived Asset Impairment

DCHS evaluates the carrying value of its long-lived assets for impairment periodically or whenever events or changes in circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from estimated future undiscounted cash flows generated by the underlying tangible assets. When carrying value of an asset exceeds the recoverability, an asset impairment charge is recognized. When an asset is not operating at full capacity, it is also deemed impaired. The remaining net book value is recognized as an impairment charge in the consolidated statements of operations and changes in net assets. For the years ended June 30, 2013 and 2012, impairments from the disposal of assets of \$10,000 and \$1,141,000, respectively, were recorded.

##### Goodwill and Intangible Assets

Goodwill is measured as of the effective date of a business acquisition as the excess of the aggregate of the fair value of consideration transferred over the fair value of the tangible and intangible assets acquired and liabilities assumed. There was no impairment to goodwill recorded for the years ended June 30, 2013 and 2012.

The changes in the carrying amount of goodwill are as follows (in thousands):

	Year Ended June 30	
	2013	2012
Beginning balance	\$ 6,779	\$ –
Addition from acquisition	3,642	6,779
Ending balance	<u>\$ 10,421</u>	<u>\$ 6,779</u>

DCHS, through the DCHS Medical Foundation, acquired intangible assets and goodwill valued at \$3,884,000 as of June 30, 2013, as a result of various physician practice acquisitions during fiscal year 2013.

DCHS acquired intangible assets and goodwill valued at \$7,141,000 as of June 30, 2012, which were part of its asset purchase agreement with San Jose Medical Group (SJMG).

# Daughters of Charity Health System

## Notes to Consolidated Financial Statements (continued)

### **2. Summary of Significant Accounting Policies (continued)**

The goodwill impairment tests are based on financial projections prepared by management that incorporate anticipated results from programs and initiatives being implemented. If these projections are not met or if negative trends occur that impact outlook, the value of goodwill may be impaired. During the fiscal year ended June 30, 2013, management noted no events or indicators of impairment related to the recorded goodwill.

It is DCHS's policy to amortize intangible assets with a finite life over their useful lives.

### **Fair Value of Financial Instruments**

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and due to/from government agencies approximate fair value. The fair value of investments is disclosed in Notes 4 and 8, and the fair value of debt is disclosed in Note 9.

### **Ownership Interests in Health-Related Activities**

Generally, when the ownership interest in health-related activities is more than 50%, the activities are consolidated, and a noncontrolling interest is recorded if appropriate. When the ownership interest is at least 20%, but not more than 50%, it is accounted for on the equity method, and the income or loss is reflected in the performance indicator. Activities with less than 20% ownership are carried at the lower of cost or estimated net realizable value.

### **Medical Foundation**

The DCHS Medical Foundation (Medical Foundation) was established in December 2011 and incorporated under the California Nonprofit Religious Corporation regulations as a not-for-profit corporation exempted from IRC Section 501(c)(3). The sole member of this corporation is DCHS, acting through its board of directors. On April 1, 2012, the Medical Foundation began its operations after purchasing fixed and intangible assets from SJMG and San Jose Medical Management Inc. for \$13,000,000. Of the \$13,000,000 purchase consideration, \$7,800,000 was paid in cash and the remaining \$5,200,000 was in notes payable to SJMG, which were payable in two equal installments of \$2,600,000 in fiscal years 2013 and 2014. The loan contained contingencies that would have reduced the future payments due to SJMG if it had failed to maintain the minimum number of physicians and a minimum number of

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

physicians providing services on a full-time basis to the Medical Foundation's patients. The contingent loan payments to SJMG were based on a sliding scale, as defined in the asset purchase agreement between the parties. SJMG had met the provision of the first year's loan contingencies by the end of the fiscal year, ending June 30, 2013. As a result, the Medical Foundation had repaid the first installment of \$2,600,000 to SJMG, which has been reflected in DCHS's consolidated financial statements as of June 30, 2013.

During the year ended June 30, 2013, the Medical Foundation has acquired nine additional independent physician practitioners (IPAs), comprising the IPAs' tangible and intangible assets. The total cost of these acquisitions amounted to \$5,023,000, of which \$4,523,000 was paid in cash and the remaining balance of \$500,000 in notes payable in two installments of \$350,000 and \$150,000 in fiscal years 2014 and 2015, respectively. These acquisition costs have been reflected in DCHS's consolidated financial statements as of June 30, 2013.

The purchase consideration for the two years were allocated as follows (in thousands):

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Assets purchased</b>		
Inventory	\$ 130	\$ 178
Deposit	66	-
Equipment	737	3,081
Leasehold improvements	206	2,600
Intangibles:		
Finite-lived intangibles	242	362
Goodwill	3,642	6,779
	<u>\$ 5,023</u>	<u>\$ 13,000</u>

#### De Paul Ventures, LLC

In August 2010, DCHS filed with the state of California to form a California limited liability company called De Paul Ventures, LLC, which is a wholly owned and operated holding company of DCHS. The company is formed as a means to support the mission of DCHS by providing multiple needs of the poor, particularly for housing, health, and social services. Around the same time, De Paul Ventures, LLC entered into an operating agreement to form De Paul Ventures – San Jose ASC, LLC, and became the sole Member of De Paul Ventures – San Jose ASC, LLC.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

In February 2011, De Paul Ventures – San Jose ASC, LLC entered into a partnership agreement with Physician Surgery Services, a California limited liability partnership, dba Advanced Surgery Center. De Paul Ventures – San Jose ASC, LLC received a 25% partnership interest, as a limited partner, in exchange for DCHS's cash investment of \$1,170,250. Physician Surgery Services, LLC is made up of various physician owners and operates a freestanding surgery center in San Jose, California. DCHS's investment of \$1,170,250 in the partnership interest of Physician Surgery Services, LLC is reflected under De Paul Ventures, LLC as a separate nonobligated entity in the consolidated balance sheets of DCHS as of June 30, 2013 and 2012. DCHS received a total of \$554,000 and \$504,000, as partnership distribution from the activities of DePaul Ventures – San Jose ASC, LLC, for the years ended June 30, 2013 and 2012, respectively.

In April 2013, De Paul Ventures, LLC formed De Paul Ventures – San Jose Dialysis, LLC, a California limited liability company, and became the sole member of De Paul Ventures San Jose Dialysis, LLC. In May 2013, De Paul Ventures – San Jose Dialysis, LLC entered into an agreement to acquire a 10% interest in Priday Dialysis, LLC, a Delaware limited liability company. The latter is an ambulatory health care center specializing in end-stage renal disease treatment. De Paul Ventures – San Jose Dialysis, LLC's investment in Priday Dialysis, LLC is valued at \$215,000 and has been included in DCHS's consolidated financial statements as of June 30, 2013.

#### **Guarantees**

In the normal course of its business, DCHS enters into various types of guarantees with counterparties in connection with certain derivative, underwriting, asset sale, and other transactions. DCHS also provides indemnifications against potential losses to certain parties involved in their bond financing. The indemnifications are ordinarily documented in standard contract terms. Generally, there are no stated or notional amounts included in these indemnifications, and the events or contingences triggering the obligations to indemnify are generally not expected to occur. There have been no claims, and none are expected to occur; therefore, it is not possible to develop an estimate of the maximum payout and fair value under these guarantees and indemnifications. DCHS has not recorded any liabilities in the consolidated financial statements as of June 30, 2013 and 2012, related to any guarantees or indemnification arrangements.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Self Insurance**

DCHS is self-insured for hospital professional and general liabilities by a wholly owned self-insured captive insurance company. The provisions for estimated hospital professional and general liability claims include estimates of the ultimate costs for both uninsured reported claims and claims incurred-but-not-reported (IBNR), in accordance with actuarial projections or paid claims lag models based on past experience. Such claim reserves are based on the best data available to DCHS; however, these estimates are subject to a significant degree of inherent variability. There is at least a reasonable possibility that a material change to the estimated reserves will occur in the near term. Such estimates are continually monitored and reviewed, and as reserves are adjusted, the differences are reflected in current operations. Management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims.

DCHS has entered into reinsurance, stop loss, and excess policy agreements with independent insurance companies to limit its losses on hospital professional and general liability claims.

Hospital professional and general liabilities were \$14,909,000 and \$11,994,000 discounted at a rate of 3% and 5% as of June 30, 2013 and 2012, respectively. Management is not aware of any potential hospital professional and general liability claims whose settlement would have a material adverse effect on the DCHS's consolidated financial position.

##### **Workers' Compensation Insurance**

DCHS is insured for workers' compensation claims with major independent insurance companies, subject to certain deductibles of \$500,000 per occurrence as of June 30, 2013 and 2012. Based on actuarially determined estimates, provisions have been made in the consolidated financial statements, with the current portion included within accrued liabilities and the noncurrent portion within workers' compensation and hospital professional and general liabilities, for all known claims and incurred but not reported claims as of June 30, 2013 and 2012. Workers' compensation liabilities were \$22,891,000 and \$23,418,000 discounted using a rate of 3% and 5%, as of June 30, 2013 and 2012, respectively. Estimation differences between actual payments and amounts recorded in previous years are recognized as expense in the year such amounts become determinable.

# Daughters of Charity Health System

## Notes to Consolidated Financial Statements (continued)

### **2. Summary of Significant Accounting Policies (continued)**

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those for which use by DCHS has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by DCHS in perpetuity.

#### **California Hospital Fee Program**

California legislation established a program that imposes a Quality Assurance Fee (QA Fee) on certain general acute-care hospitals in order to make supplemental and grant payments and increased capitation payments (Supplemental Payments) to hospitals up to the aggregate upper payment limit for various periods. There have been three such programs since inception. The first two programs were the 21-month program (21-Month Program) covering the period April 1, 2009 to December 31, 2010, and the six-month program (Six-Month Program) covering the period January 1, 2011 to June 30, 2011 (the "Original Programs"), and the third, a 30-month program covering the period from July 1, 2011 to December 31, 2013 (30-Month Program, collectively, the "Programs"). The 30-Month Program was signed into law by the Governor of California in September 2011. The Programs are designed to make supplemental inpatient and outpatient Medi-Cal payments to private hospitals, including additional payments for certain facilities that provide high-acuity care and trauma services to the Medi-Cal population. This hospital QA Fee program provides a mechanism for increasing payments to hospitals that serve Medi-Cal patients, with no impact on the state's General Fund (GF). Payments are made directly by the state or Medi-Cal managed care plans, which will receive increased capitation rates from the state in amounts equal to the Supplemental Payments. Outside of the legislation, the California Hospital Association (CHA) has created a private program, operated by the California Health Foundation and Trust (CHFT), which was established to alleviate disparities potentially resulting from the implementation of the Programs.

The Original Programs required full federal approval (i.e. by the Centers for Medicare and Medicaid Services (CMS)) in order for them to be fully enacted. If final federal approval was not ultimately obtained, provisions in the underlying legislation allowed for the QA Fee, previously assessed, and Supplemental Payments, previously received, to be returned and recouped, respectively. As such, revenue and expense recognition was not allowed until full CMS approval was obtained. Full CMS approvals for the 21-Month Program and 6-Month Program were obtained in December 2010 and December 2011, respectively. For the year ended June 30, 2012, DCHS recognized payments to the California Department of Health Care Services (DHCS) for the QA Fee in the amount of \$28,091,000 and pledge payments to the CHFT of approximately

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

\$1,327,000 within purchased services and other expenses. DCHS recognized Supplemental Payment revenue for the year ended June 30, 2012, in the amount of \$55,237,000 pertaining to the 6-Month Program within net patient service revenues.

In June 2012, the legislation governing the 30-Month Program was amended to allow for the fee-for-service portion to be administered separately from the managed care portion. Accordingly, upon CMS approval of the fee-for-service portion of the 30-Month Program in June 2012, for the year ended June 30, 2012, DCHS recognized \$51,296,000 in accrued liabilities for the 30-Month Program QA Fee payments, which was expensed within purchased services and other expenses. Additionally, Supplemental Payment revenue in the amount of \$78,904,000 was recognized within net patient service revenue and as the payments were not yet received, a receivable was recorded in other current assets.

In May and June 2013, CMS approved the managed care portion of the 30-Month Program covering the period from July 1, 2011 to June 30, 2013. Accordingly, DCHS recognized the impact of the managed care portion for the approved period and continued to recognize the fee-for-service portion of the 30-Month Program. DCHS recognized payments to DHCS for the QA Fee in the amount of \$97,609,000 and pledge payments to CHFT of \$4,938,000 within purchased services and other expenses. During the year ended June 30, 2013, DCHS also recognized Supplemental Payment revenue in the amount of \$169,454,000 pertaining to the 30-Month Program within net patient service revenues.

#### **Meaningful Use Incentives**

The American Recovery and Reinvestment Act of 2009 established payments under the Medicare and Medi-Cal programs for certain professionals and hospitals that meaningfully use certified electronic health record (EHR) technology. The Medicare incentive payments are paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medi-Cal incentives, hospitals and physicians must annually meet EHR “meaningful use” criteria that become more stringent over three stages as determined by CMS. For the years ended June 30, 2013 and 2012, DCHS has recorded meaningful use incentive payments of \$6,492,000 and \$8,409,000, respectively. These incentive payments have been recorded as other operating revenue in the DCHS consolidated financial statements.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### Premium Revenue

Certain entities of DCHS have at-risk agreements with various payers to provide medical services to enrollees. Under these agreements, DCHS receives monthly payments based on the number of enrollees, regardless of services actually performed by DCHS. DCHS accrues costs when services are rendered under these contracts, including estimates of IBNR claims and amounts receivable/payable under risk-sharing arrangements.

The IBNR accrual includes an estimate of the costs of services for which DCHS is responsible, including out-of-network services.

##### Other Operating Revenue

Included in other operating revenue are amounts from investments in health-related activities, rental income, cafeteria, and other nonpatient care revenue.

##### Contributions

Unconditional promises to give cash and other assets to DCHS are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets. Net assets released from restrictions used for operations are also included in other operating revenue as contribution revenue to the Hospitals.

##### Interest Expense

Interest expense on debt issued for construction projects, net of income earned on the funds held pending use, is capitalized from the date of the borrowing until the projects are placed in service. Interest components include the following (in thousands):

	Year Ended June 30	
	2013	2012
Total interest expense	\$ 26,414	\$ 26,685
Less: capitalized interest expense	(1,078)	(1,483)
Net interest expense	<u>\$ 25,336</u>	<u>\$ 25,202</u>

# Daughters of Charity Health System

## Notes to Consolidated Financial Statements (continued)

### **2. Summary of Significant Accounting Policies (continued)**

#### **Income Taxes**

DCHS has established its status as an organization exempt from income taxes under the Internal Revenue Code (IRC) Section 501(c)(3) and the laws of California. Certain activities of the operating entities of DCHS may be subject to income taxes; however, such activities are not significant to the consolidated financial statements.

#### **Performance Indicator**

Management considers the deficit of revenues over expenses to be DCHS's performance indicator. Deficit of revenues over expenses includes all changes in unrestricted net assets, except net assets released from restrictions used for purchase of property and equipment and the change in funded status of pension plans.

#### **Transactions Between Related Organizations**

DCHS and various members of DCCHS pay for sisters' services provided to it by its sponsoring congregation at amounts comparable to low-wage employees' salaries.

Certain Obligated Group members have a policy whereby assets are periodically transferred as charitable distributions to subsidiaries of DCCHS that are not members of the Obligated Group. These transfers are accounted for as direct charges to the Obligated Group members' unrestricted net assets. It is anticipated that Obligated Group members will continue to make asset transfers to the subsidiaries. These transfers are eliminated upon consolidation.

#### **Asset Retirement Obligations (AROs)**

AROs are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value, and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, DCCHS records period-to-period changes in the ARO liability resulting from the passage of time. DCCHS's ARO liabilities recorded in the consolidated financial statements at June 30, 2013 and 2012, were \$3,043,000 and \$3,034,000, respectively.

# Daughters of Charity Health System

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Revenue Guarantees

DCHS has agreements with physicians whereby minimum revenues are guaranteed by DCHS for stipulated dollar amounts over specified periods, as defined in the contracts. DCHS records a liability for the amount of the guaranteed revenue at the time the contract is entered into and adjusts the liability as it is expended. DCHS has recorded liabilities of \$1,014,000 and \$1,117,000 as of June 30, 2013 and 2012, respectively.

#### Recent Accounting Pronouncements

In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Services Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07) which amended Accounting Standards Codification (ASC) No. 954, *Health Care Entities*, to provide greater transparency regarding a health care entity's net patient revenue and related allowance for doubtful accounts. The provisions of ASU 2011-07, which was adopted by DCHS retrospectively, beginning July 1, 2012, required a change in the presentation of the provision for bad debts associated with patient services revenue by reclassifying the provision from operating expenses to a deduction from net patient revenue and enhanced disclosures about net patient revenue and the policies for recognizing and assessing bad debts. As a result, the provision for bad debts associated with patient care has been reclassified for comparative periods presented in DCHS's financial statements.

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11). The update requires entities to disclose information about offsetting related transactions to enable users of its financial statements to understand the effect of those transactions on its financial position. This disclosure requirement of ASU 2011-11, which is applied retrospectively, is effective for DCHS beginning in July 1, 2013. Adoption of ASU 2011-11, is not expected to have a material impact on the consolidated financial statements of DCHS.

In October 2012, the FASB issued ASU No. 2012-05, *Statement of Cash Flows (Topic 230), Not-for-Profit-Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flow*. The amendments in this update require not-for-profit entities to classify cash receipts from the sale of donated financial assets as cash flows from operating activities, unless the donor restricted the use of contributed resources to long-term purposes, in which case cash receipts should be classified as cash flows from financing activities. The amendments in

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

this update are effective for DCHS prospectively beginning July 1, 2013. The adoption of ASU 2012-05, is not expected to have a material impact on the consolidated financial statements of DCHS.

In January 2013, the FASB issued ASU No. 2013-01, *Balance Sheet (Topic 210), Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. The amendments in this update are intended to clarify ASU No. 2011-11. The amendments in ASU No. 2013-01 clarify that the scope of ASU No. 2011-11, and applies to derivatives accounted for in accordance with ASC 815, *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are subject to an enforceable master netting arrangement or similar agreements. The effective date of application of this amendment is July 1, 2013. The adoption of ASU No. 2013-01 will not materially affect DCHS's investment in forward contracts with net settlement provision related to the purchase and sale of TBA mortgage-backed securities within a dollar-roll strategy.

In July 2013, the FASB issued ASU No. 2013-09, *Fair Value Measurement (Topic 820), Deferral of the Effective Date of Certain Disclosures from Non-public Employee Benefit Plans in Update No. 2011-04*. The amendments in this update defer indefinitely the effective date of certain required disclosures in ASU No. 2011-04 of quantitative information about the significant unobservable inputs used in Level 3 fair value measurements for investments held by a nonpublic employee benefit plan in its plan sponsor's own nonpublic entity equity securities. The effective date of the application of this amendment is July 2013. The adoption of ASU No. 2013-09 is not expected to have a material impact on the consolidated financial statements, of DCHS.

In April 2013, the FASB issued ASU No. 2013-06, *Not-for-Profit Entities (Topic 958), Services Received from Personnel of an Affiliate*, which requires that a recipient non-for-profit entity recognize all services from personnel of an affiliate that directly benefit the recipient not-for-profit entity, and for which the affiliate does not charge the recipient not-for-profit entity. The amendments in ASU 2013-06 are effective prospectively for fiscal years beginning after June 15, 2014. The adoption of ASU 2013-06 is not expected to have a material impact on the consolidated financial statements of DCHS.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 3. Un-sponsored Community Benefit Expense

The following is a summary of DCHS's community service in terms of services to the poor and benefits to the broader community for the year ended June 30, 2013. The summary has been prepared in accordance with the Catholic Health Association of the United States publication, *A Guide for Planning and Reporting Community Benefit* (dollars in thousands):

	Total Community Benefit Expense – at Cost		Direct Offsetting Revenue	Un-sponsored Community Benefit Expense – at Cost	
	Amount	Percentage of Total Expenses		Amount	Percentage of Total Expenses
	<i>(Unaudited)</i>				
Benefits for the poor:					
Traditional charity care	\$ 36,718	2.6 %	\$ –	\$ 36,718	2.6 %
Unpaid costs of public programs – Medi-Cal	366,465	25.6	262,552	103,913	7.3
Nonbilled services	15,579	1.1	1,887	13,692	1.0
Cash and in-kind donations	15	–	–	15	–
Other	5,707	0.4	800	4,907	0.3
Total quantifiable benefits for the poor	424,484	29.7	265,239	159,245	11.2
Benefits for the broader community:					
Nonbilled services	830	0.1	604	226	–
Education and research	500	–	27	473	–
Cash and in-kind donations	339	–	32	307	–
Other	1,943	0.1	–	1,943	0.1
Total quantifiable benefits for the broader community	3,612	0.2	663	2,949	0.1
Total quantifiable community benefits	428,096	29.9	265,902	162,194	11.3
Unpaid costs of Medicare program	542,864	37.9	421,456	121,408	8.5
Total quantifiable community benefits and unpaid costs of Medicare program	\$ 970,960	67.8 %	\$ 687,358	\$ 283,602	19.8 %

#### Benefits for the Poor

Benefits for the poor include services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### **3. Un-sponsored Community Benefit Expense (Unaudited) (continued)**

##### **Benefits for the Broader Community**

Benefits for the broader community include services and programs provided to other needy populations that may not qualify as poor, but that need special services and support. Examples include the elderly, substance abusers, victims of child abuse, and persons with acquired immune deficiency syndrome. They also include the cost of health promotion and education, health clinics and screenings, and medical research, which benefit the broader community.

##### **Traditional Charity Care**

Traditional charity care covers services provided to persons who cannot afford to pay and who meet DCHS's criteria for financial assistance. DCHS utilizes information obtained directly from patients as well as information from publicly available sources in determining charity care eligibility. The amounts above reflect the costs of these services (based on DCHS's relationship of costs to charges) before and after contributions and other revenues received as direct assistance for the provision of charity care. The amount of services quantified at customary charges was \$121,836,000 and \$108,031,000 for the years ended June 30, 2013 and 2012, respectively. The amount of traditional charity care at cost was \$36,718,000 and \$22,130,000 for the year ended June 30, 2013.

##### **Unpaid Costs of Public Programs – Medi-Cal**

Unpaid costs of public programs are the costs of treating indigent and Medi-Cal beneficiaries in excess of government payments. Cost is based on DCHS's relationship of costs to charges.

##### **Nonbilled Services**

Nonbilled services include the cost of services for which a patient is not billed or for which a nominal fee has been assessed. These are services that are not expected to be financially self-supporting. Examples are free clinic services and meal programs.

##### **Cash and In-Kind Donations**

Cash and in-kind donations are made by DCHS to special funds used to benefit the poor and the community.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### **3. Un-sponsored Community Benefit Expense (Unaudited) (continued)**

##### **Education**

Education includes the unpaid cost of training health professionals, such as medical residents, nursing students, and students in allied health professions.

##### **Research**

Research includes the unpaid cost of testing medical equipment and controlled studies of therapeutic protocols.

##### **Other Benefits for the Broader Community Expenses**

Other benefits for the broader community expenses include low- or negative-margin services, which are services offered because of a need in the community. They do not include services offered because they create revenues elsewhere.

##### **Total Community Benefit Expense**

Total community benefit expense is the total cost of community benefits before direct offsetting revenue, donations, or other funds used to defray such costs.

##### **Un-sponsored Community Benefit Expense**

Un-sponsored community benefit expense is the total cost incurred after direct offsetting revenue, if any, from patients, donations, and other sources.

##### **Unpaid Costs of Medicare Program**

Unpaid costs of the Medicare program are the costs of treating Medicare beneficiaries in excess of government payments. Cost is based on DCHS's relationship of costs to charges.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### **4. Fair Value Measurements**

DCHS accounts for certain assets at fair value or on a basis that approximates fair value. A fair value hierarchy for valuation inputs prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels and is determined by the lowest-level input that is significant to the fair value measurement in its entirety. These levels are as follows:

*Level 1* — Quoted prices are available in active markets for identical assets as of the measurement date. Financial assets and liabilities in Level 1 include listed equities and money markets balances.

*Level 2* — Pricing inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets in this category generally include asset-backed securities, corporate bonds, municipal bonds, and commingled investment funds.

*Level 3* — Pricing inputs are generally unobservable for the assets and include situations where there is little, if any, market activity for the investment. The inputs used in determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets. Therefore, the fair values are determined using discounted cash flow models and similar techniques.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 4. Fair Value Measurements (continued)

The following represents assets measured at fair value on a recurring basis (in thousands):

	June 30, 2013			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pooled investment funds:				
Pooled funds – short-term	\$ 62,478	\$ –	\$ 62,478	\$ –
Pooled funds – long-term	112,882	–	112,882	–
	<u>175,360</u>	–	<u>175,360</u>	–
Other investments – assets limited as to use:				
Cash equivalents	11,174	11,174	–	–
Debt securities issued by foreign corporations	2,722	–	2,722	–
Debt securities issued by the U.S. Treasury and other				
U.S. government corporations	6,780	–	6,780	–
Government mortgage-backed securities	3,205	–	3,205	–
TBA mortgage-backed securities	3,178	–	3,178	–
Commercial mortgage-backed securities	3,963	–	3,963	–
Corporate U.S. debt securities	18,382	–	18,382	–
Index funds	9,248	–	9,248	–
Convertible equity	348	–	348	–
Investment held in trust account	4,491	–	4,491	–
	<u>63,491</u>	<u>11,174</u>	<u>52,317</u>	–
Under bond indenture agreements – assets limited as to use:				
Cash equivalents	15,718	15,718	–	–
Debt securities issued by foreign corporations	25,141	–	25,141	–
	<u>40,859</u>	<u>15,718</u>	<u>25,141</u>	–
	<u>\$ 279,710</u>	<u>\$ 26,892</u>	<u>\$ 252,818</u>	<u>\$ –</u>

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 4. Fair Value Measurements (continued)

	June 30, 2012			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pooled investment funds:				
Pooled funds – short-term	\$ 72,859	\$ –	\$ 72,859	\$ –
Pooled funds – long-term	169,447	–	169,447	–
	242,306	–	242,306	–
Other investments – assets limited as to use:				
Cash equivalents	9,657	9,657	–	–
Debt securities issued by foreign corporations	4,015	–	4,015	–
Debt securities issued by the U.S. Treasury and other	–	–	–	–
U.S. government corporations	17,429	–	17,429	–
Government mortgage-backed securities	2,750	–	2,750	–
TBA mortgage-backed securities	3,676	–	3,676	–
Commercial mortgage-backed securities	4,515	–	4,515	–
Corporate U.S. debt securities	12,601	–	12,601	–
Index funds	11,882	–	11,882	–
Investment held in trust account	2,647	–	2,647	–
	69,172	9,657	59,515	–
Under bond indenture agreements – assets limited as to use:				
Cash equivalents	15,716	15,716	–	–
Debt securities issued by foreign corporations	26,137	–	26,137	–
	41,853	15,716	26,137	–
	\$ 353,331	\$ 25,373	\$ 327,958	\$ –

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 4. Fair Value Measurements (continued)

There were no transfers to or from Levels 1, 2 or 3 during the years presented. The Level 2 financial assets listed in fair value hierarchy tables above use the following valuation techniques and inputs:

As described in Note 2, DCHS participates in Ascension Health's pooled CHIMCO fund, which is carried at fair value based on quoted market prices, quoted market prices for similar instruments, and observable and unobservable inputs. The pooled fund is composed of cash, equity securities – domestic and foreign, U.S. federal and corporate obligations, TBA mortgage-backed securities, asset-backed securities, and fixed-income securities and is designated as Level 2.

For marketable securities, such as foreign corporation and U.S. government debt securities, government and commercial mortgage-backed securities, TBA mortgaged-backed securities, corporate U.S. debt securities, index funds, and beneficial interest held in trust accounts, wherein identical quoted market prices are not readily available, the fair value of such investments is determined based on market participant pricing or other available market data for comparable instruments and transactions at the measurement date in establishing the valuation. DCHS, therefore, incorporates industry-standard valuation techniques as inputs to fair valuation of its investments designated as Level 2.

DCHS's rationale for the assignment of levels is based on types or classes of financial assets rather than an analysis of each individual asset. Key consideration in the assignment of levels was given to the determination of a security's fair valuation measurement if obtained from an active market, and then further consideration was given for the types of inputs used to evaluate the fair value price. This approach has been supported by management's analysis of the methodology, the evaluated pricing models, and inputs used by its pricing vendors. It is also consistent with industry practice.

Where quoted prices are available in an active market (exchange-traded), the securities are classified as Level 1. It is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. If quoted market prices are not readily available for a specific financial asset, then value is determined using quoted prices of assets with similar characteristics and is classified as Level 2. Examples of these categories are DCHS's investment in high-yield debt securities, collateralized mortgage obligations, and fixed-income prices provided by a broker-dealer. In cases where there is limited activity and less transparency associated with inputs to the valuation, DCHS will designate the investments as Level 3.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 4. Fair Value Measurements (continued)

Included within the assets above are investments in certain securities that report fair value, using a calculated NAV or its equivalent. The following table and explanations identify attributes relating to the nature and risk of such investments (in thousands):

	<b>June 30, 2013</b>		
	<b>Fair Value</b>	<b>Redemption Frequency (If Currently Eligible)</b>	<b>Redemption Notice Period</b>
<b>Level 2</b>			
Pooled funds – short-term (1)	\$ 62,478	Daily	1–3 days
Pooled funds – long-term (1)	<u>112,882</u>	Daily	1–3 days
Total pooled funds	<u>175,360</u>		
TBA mortgaged-backed securities (2)	3,178	Daily	1–3 days
Investment held in trust account (3)	<u>4,491</u>	Not eligible	Not applicable
Total limited as to use	<u>7,669</u>		
	<u><u>\$ 183,029</u></u>		
<b>June 30, 2012</b>			
	<b>Fair Value</b>	<b>Redemption Frequency (If Currently Eligible)</b>	<b>Redemption Notice Period</b>
<b>Level 2</b>			
Pooled funds – short-term (1)	\$ 72,859	Daily	1–3 days
Pooled funds – long-term (1)	<u>169,447</u>	Daily	1–3 days
Total pooled funds	<u>242,306</u>		
TBA mortgaged-backed securities (2)	3,676	Daily	1–3 days
Investment held in trust account (3)	<u>2,647</u>	Not eligible	Not applicable
Total limited as to use	<u>6,323</u>		
	<u><u>\$ 248,629</u></u>		

- (1) This category includes investments in CHIMCO Alpha Fund and is mainly invested in U.S. government, state, municipal, and agency obligations; corporate- and foreign government-fixed maturities; and U.S. government and corporate asset-backed securities.
- (2) This category includes investments in forward contracts (derivative instruments) related to the purchase and sale of TBA mortgage-backed securities within a dollar roll. The contracts represent a commitment to purchase and sell the securities at a fixed price on a specified future date and include net settlement provisions. The primary objective of these funds is to seek attractive short-term risk-adjusted absolute returns. There is no redemption limitation imposed on these investments; therefore, the liquidity is not limited to beyond one to three business days.
- (3) This category includes investments in equity securities, fixed-income securities, commodities, cash, and short-term investments. This includes investments in donor-restricted trust funds managed by select brokerage firms. There are no provisions for redemptions until donor restrictions are released. Distributions from some of these trust funds are received periodically; however, redemption of the fair value of the trusts (corpus) may remain restricted during the life of these funds or may be liquidated at a future date.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 4. Fair Value Measurements (continued)

The investments included above are not expected to be sold at amounts that are different from their NAV. There were no unfunded commitments at June 30, 2013 and 2012.

##### *Investment Held in Trust Accounts*

DCHS is the beneficiary of a split-interest agreement from a donor. The related assets are controlled and invested by an independent third party. DCHS records the assets for its share when formal written or other verifiable documentation is received. DCHS's share of the assets is based on the present value of the estimated future distributions to be received by DCHS over the term of the agreement. The agreements are carried at fair value based on the underlying assets. The discount rates used to value split-interest agreements at June 30, 2013, ranged from 0.5% to 1.2%.

#### 5. Property and Equipment

Property and equipment consists of the following (in thousands):

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
Land	\$ 30,446	\$ 32,223
Land improvements	20,244	14,857
Buildings and service equipment	698,645	702,720
Equipment	496,444	448,496
Construction in progress	17,122	25,232
Total	<u>1,262,901</u>	<u>1,223,528</u>
Less accumulated depreciation	<u>(893,371)</u>	<u>(849,292)</u>
	<u>\$ 369,530</u>	<u>\$ 374,236</u>

DCHS's depreciation expense was \$60,284,000 and \$56,522,000 for the years ended June 30, 2013 and 2012, respectively.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 6. Other Assets

Other current assets consist of the following (in thousands):

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
Inventories	\$ 18,334	\$ 17,466
Prepaid expenses	18,483	20,533
Provider fee receivable	54,740	78,904
Other receivable	5,881	2,589
Pledges receivable	5,641	2,793
Other current assets	16,275	18,120
	\$ 119,354	\$ 140,405

Other long-term assets consist of the following (in thousands):

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
Notes receivable – primarily secured	\$ 1,943	\$ 1,706
Ownership interest in health-related activities – net	4,656	8,811
Pledge receivable	–	211
Other	6,684	3,526
	\$ 13,283	\$ 14,254

#### 7. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
Wages and benefits	\$ 64,198	\$ 61,966
Out-of-network cost and IBNR	11,680	8,674
Provider fee payable	25,531	54,323
Other	35,875	44,134
	\$ 137,284	\$ 169,097

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### **8. Pension and Other Postretirement Benefit Plans**

DCHS maintains two different defined benefit retirement plans that cover substantially all eligible employees of DCHS. Benefits are generally based on age, years of service, and employee compensation. DCHS also offers postretirement health care benefits to a limited number of its employees. The postretirement health care benefits are determined based on age and years of service.

The first retirement plan is a multiemployer defined benefit pension plan called Retirement Plan for Hospital Employees (RPHE). The entities that participate in the RPHE are Seton Medical Center, Seton Medical Center Coastside, O'Connor Hospital, Saint Louise Regional Hospital, and Caritas Business Services. Benefits are generally based on years of service and the employee's compensation. Contributions to the plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. DCHS contributed cash of \$15,873,000 and \$17,260,000 to the RPHE during the fiscal years ended June 30, 2013 and 2012, respectively.

The second retirement plan is a single-employer defined benefit pension plan (the DCHS Retirement Plan). DCHS associates at St. Francis Medical Center, St. Vincent Medical Center, and the system office are eligible to participate in this plan. DCHS contributed \$13,018,000 and \$11,644,000 to the DCHS Retirement Plan during the fiscal years ended June 30, 2013 and 2012, respectively.

The third retirement plan is a retiree health insurance program (the Postretirement Healthcare Plan). DCHS employees at O'Connor Hospital, St. Louise Regional Hospital, Seton Medical Center, and Seton Medical Center Coastside are eligible to participate in this plan. The Postretirement Healthcare Plan is an unfunded plan. DCHS contributed \$200,000 and \$238,000 to the Postretirement Healthcare Plan during the fiscal years ended June 30, 2013 and 2012, respectively.

#### **Defined Contribution Pension Plans**

In addition to the above pension plans, DCHS maintains three different defined contribution pension plans for its employees. Two of these contribution plans require employer participation based on a percentage of the employees' contributions. A third plan was adopted by DCHS's board of directors for all its new and existing nonunion employees in September 2010. This plan was further expanded to cover the nurses union (United Nurses Associations of California or UNAC) of St. Francis Medical Center, effective January 1, 2012 and to the Service Employees

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 8. Pension and Other Postretirement Benefit Plans (continued)

International Union (SEIU) on January 1, 2013. The third plan is a fully employer-paid defined contribution pension plan. During the fiscal years ended June 30, 2013 and 2012, the employer's contribution for these three defined contribution plans was \$21,568,000 and \$16,012,000, respectively.

#### Pension Plan Curtailment

In September 2011, the union representing registered nurses (RN) of St. Francis Medical Center had ratified freezing of the defined benefit pension plan for all its members, effective January 1, 2012. Upon freezing the defined benefit pension plan, DCHS had introduced an employer-paid defined contribution plan (IRC 401(a)) for St. Francis Medical Center's RNs, beginning January 1, 2012.

In April 2012, DCHS's largest union, SEIU, had ratified freezing the defined benefit pension plan belonging to all its members in DCHS's six hospitals effective January 1, 2013. Upon freezing the defined benefit pension plan, DCHS had introduced an employer-paid defined contribution plan (IRC 401(a)) for its SEIU members beginning January 1, 2013.

The funded status of the DCHS Retirement Plan and Postretirement Healthcare Plan benefits is as follows (in thousands):

	June 30, 2013		June 30, 2012	
	DCHS Retirement Plan	Postretirement Healthcare Plan	DCHS Retirement Plan	Postretirement Healthcare Plan
Change in benefit obligation:				
Benefit obligation – beginning of year	\$ 474,848	\$ 6,083	\$ 410,314	\$ 18,475
Service cost	3,426	331	4,940	1,109
Interest cost	21,608	265	23,159	1,027
Curtailments	–	–	(27,454)	–
Actuarial (gain) loss	(25,934)	(386)	78,501	(14,290)
Benefits paid	(15,632)	(200)	(14,612)	(238)
Plan amendments	–	(1,415)	–	–
Benefit obligation – end of year	<u>\$ 458,316</u>	<u>\$ 4,678</u>	<u>\$ 474,848</u>	<u>\$ 6,083</u>
Accumulated benefit obligation	<u>\$ 448,001</u>	<u>\$ 4,678</u>	<u>\$ 462,629</u>	<u>\$ 6,083</u>

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 8. Pension and Other Postretirement Benefit Plans (continued)

	June 30, 2013		June 30, 2012	
	DCHS Retirement Plan	Postretirement Healthcare Plan	DCHS Retirement Plan	Postretirement Healthcare Plan
Change in plan assets:				
Fair value of plan assets – beginning of year	\$ 213,934	\$ –	\$ 212,013	\$ –
Actual return on plan assets	19,135	–	4,619	–
Employer contribution	13,021	200	13,317	238
Benefits paid	(15,632)	(200)	(14,612)	(238)
Administrative expenses	(1,538)	–	(1,403)	–
Fair value of plan assets – end of year	\$ 228,920	\$ –	\$ 213,934	\$ –
Funded status	\$ (229,396)	\$ (4,678)	\$ (260,914)	\$ (6,083)

The total underfunded status of the DCHS Retirement Plan and Postretirement Healthcare Plan is recognized in the consolidated balance sheets as noncurrent pension obligations of \$234,074,000 and \$266,997,000 as of June 30, 2013 and 2012, respectively.

Amounts that have not yet been recognized as components of net period benefit cost are as follows (in thousands):

	June 30, 2013		June 30, 2012	
	DCHS Retirement Plan	Postretirement Healthcare Plan	DCHS Retirement Plan	Postretirement Healthcare Plan
Net actuarial loss (gain)	\$ 149,190	\$ (11,144)	\$ 180,370	\$ (11,732)
Prior service costs	–	496	–	2,196
Total amount not recognized	\$ 149,190	\$ (10,648)	\$ 180,370	\$ (9,536)

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 8. Pension and Other Postretirement Benefit Plans (continued)

The components of net period benefit cost and amounts recognized in the consolidated statements of operations and changes in net assets apart from expenses are as follows (in thousands):

	Year Ended June 30, 2013		Year Ended June 30, 2012	
	DCHS Retirement Plan	Postretirement Healthcare Plan	DCHS Retirement Plan	Postretirement Healthcare Plan
Components of net periodic benefit cost (income):				
Service cost	\$ 3,426	\$ 331	\$ 4,940	\$ 1,109
Interest cost	21,608	265	23,159	1,027
Expected return on plan assets	(16,626)	-	(16,650)	-
Net prior service cost amortization	-	285	-	285
Net loss (gain) amortization	4,304	(974)	7,028	68
Net periodic benefit cost (income)	\$ 12,712	\$ (93)	\$ 18,477	\$ 2,489
Change in net assets apart from periodic benefit cost:				
Net actuarial (gain) loss	\$ (26,876)	\$ (386)	\$ 91,906	\$ (14,290)
(Deduct) add:				
Impact of curtailment	-	-	(27,454)	-
Amortization of prior service cost	-	(285)	-	285
Amortization of actuarial (gain) loss	(4,304)	974	(7,028)	68
Net prior service credit (plan amendments)	-	(1,415)	-	-
Total	\$ (31,180)	\$ (1,112)	\$ 57,424	\$ (13,937)

The estimated actuarial loss and prior service cost for the DCHS Retirement Plan that will be amortized into net periodic benefit cost over the next fiscal year is \$3,438,000 and \$0, respectively.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 8. Pension and Other Postretirement Benefit Plans (continued)

##### Assumptions

The weighted-average assumptions used to determine benefit obligations and net period benefit costs, are as follows:

	June 30, 2013		June 30, 2012	
	DCHS Retirement Plan	Postretirement Healthcare Plan	DCHS Retirement Plan	Postretirement Healthcare Plan
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	<b>5.20%</b>	<b>4.89%</b>	4.62%	4.46%
Rate of compensation increase	<b>3.50</b>	<b>N/A</b>	3.50	N/A
Weighted-average assumptions used to determine net periodic benefit costs:				
Discount rate	<b>4.62%</b>	<b>4.46%</b>	5.79%	5.60%
Expected return on plan assets	<b>7.25</b>	<b>N/A</b>	7.75	N/A
Rate of compensation increase	<b>3.50</b>	<b>N/A</b>	4.00	N/A

##### Expected Return on Plan Assets

The DCHS Retirement Plan's estimated long-term rate of return on pension assets is driven primarily by historical asset-class returns, an assessment of expected future performance, advice from external actuarial firms, and the incorporation of specific asset-class risk factors. Asset allocations are periodically updated using pension plan asset/liabilities studies, and DCHS's estimated long-term rates of return are consistent with these studies. The DCHS Retirement Plan portfolio return assumption is 7.25% and 7.75%, at June 30, 2013 and 2012, respectively.

##### Discount Rate

The discount rate assumptions used to determine the postretirement benefit plan obligations and expenses reflect the prevailing rate available on high-quality, fixed-income debt instruments. The rate was based on cash flow analysis that matched estimated future benefit payments to the noncollateralized bond discount yield curve as of June 30, 2013 and 2012.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 8. Pension and Other Postretirement Benefit Plans (continued)

##### Other Benefit Assumptions

For the measurement of accumulated postretirement benefit obligations at June 30, 2013, the Postretirement Healthcare Plan assumed health care cost trend rates start at 11% in 2013 and decrease by 0.25–0.75 % annually, reaching an ultimate rate of 5.50% in fiscal year 2023.

##### Plan Assets and Investment Strategy

The following information represents DCHS's pension plan assets measured at fair value and indicate the fair value hierarchy and valuation techniques utilized to determine such fair value (in thousands):

	June 30, 2013			
	Total Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 1,460	\$ 1,460	\$ –	\$ –
Common collective trust funds	63,856	–	63,856	–
Fixed-income funds	80,485	–	80,485	–
Domestic stocks	20,290	20,290	–	–
Real estate equity investments	16,666	16,666	–	–
Foreign stock funds	46,163	–	46,163	–
Total plan assets	\$ 228,920	\$ 38,416	\$ 190,504	\$ –

	June 30, 2012			
	Total Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		<i>(revised)</i>	<i>(revised)</i>	
Cash equivalents	\$ 3,080	\$ 3,080	\$ –	\$ –
Common collective trust funds	88,452	–	88,452	–
Fixed-income funds	53,428	–	53,428	–
Domestic stocks	16,370	16,370	–	–
Real estate equity investments	15,439	15,439	–	–
Foreign stock funds	34,966	–	34,966	–
Total plan assets	\$ 211,735	\$ 34,889	\$ 176,846	\$ –

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### **8. Pension and Other Postretirement Benefit Plans (continued)**

Subsequent to the issuance of the 2012 consolidated financial statements, DCHS determined that direct investments in domestic stocks described as Domestic stock funds of \$16,370,000 and included in Level 2 investments within the fair value hierarchy should have been described as Domestic stocks and included as Level 1 investments in the fair value hierarchy. Additionally, direct investments in real estate stocks described as Real estate funds of \$15,439,000 and included in Level 2 investments within the fair value hierarchy should have been described as Real estate equity investments and included as Level 1 investments in the fair value hierarchy. As a result, the 2012 balances and descriptions have been restated to appropriately describe the investments and to reflect the investments in Level 1 as these securities are traded in active markets.

As of June 30, 2013, \$1,460,000 of the plan's cash balance was held in a separate non-interest-bearing cash account for the purpose of claims disbursement by the plan's administrator.

DCHS's investment strategy for the assets of the DCHS Retirement Plan is designed to preserve principal while earning returns relative to the overall market consistent with a prudent level of risk. The strategy balances the liquidity needs of the DCHS Retirement Plan with the long-term return goals necessary to satisfy future obligations. The target asset allocation is diversified across traditional asset classes. Diversification is also achieved through participation in U.S. and non-U.S. markets, investment manager style, philosophy, and capitalization. The complementary investment styles and approaches used by investment managers are aimed at reducing volatility while capturing the equity premium from the capital markets over the long-term. Risk tolerance is established through consideration of plan liabilities, plan funded status, and DCHS's consolidated financial condition. Consistent with DCHS's fiduciary responsibilities, the fixed-income allocation generally provides for security of principal to meet near-term expenses and obligations. Periodic reviews of the market values and corresponding asset allocation percentages are performed to determine whether a rebalancing of the portfolio is necessary.

#### **Cash Contributions and Benefit Payments**

DCHS expects to contribute \$13,223,000 to the DCHS Retirement Plan and \$192,000 to the Postretirement Healthcare Plan in 2014.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 8. Pension and Other Postretirement Benefit Plans (continued)

The benefit payments, which reflect expected future service, as appropriate, expected to be paid in each of the next five years, and in aggregate for the next five years are as follows (in thousands):

	<b>DCHS Retirement Plan Benefits</b>	<b>Postretirement Healthcare Benefits</b>
2014	\$ 15,600	\$ 200
2015	17,400	300
2016	19,200	300
2017	20,800	300
2018	22,500	400
Next five years	139,200	2,300

#### Multiemployer Plan

Certain affiliated entities in Northern California participate in multiemployer defined benefit retirement plans as described below (in thousands):

<b>Plan</b>	<b>Pension Plan Employer Identification Number/Plan Number</b>	<b>Pension Protection Act Zone Status</b>		<b>Funding Improvement/ Rehabilitation Plan Status June 30, 2013</b>
		<b>June 30</b>		
		<b>2013</b>	<b>2012</b>	
Retirement Plan for Hospital Employees	94-2995676/001	<b>Green</b>	Green	No

#### Pension Protection Act Zone Status (from worst to best):

Critical Status	Red
Seriously Endangered	Orange
Endangered	Yellow
None of the above	Green

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 8. Pension and Other Postretirement Benefit Plans (continued)

Plan	Pension Plan Employer Identification Number/Plan Number	Contributions			Surcharge Imposed (during 2012)	Collective Bargaining Agreement Expiration Date
		2014 (expected)	2013	2012		
Retirement Plan for Hospital Employees	94-2995676/001	\$ 16,421	\$ 15,873	\$ 17,260	No	March 13, 2014

Since March 1, 2011, participant benefits were frozen for the non-contractual employees of the two participating affiliates in the Retirement Plan for Hospital Employees. Beginning January 1, 2013 participant benefits were frozen for all Service Employees International Union (SEIU) employees. Certain affiliates will continue to make periodic contributions as needed for eligible participants.

The contributions for the multiemployer plan were approximately 55% of the total contributions to the plans for June 30, 2013 and 2012. There are no minimum contributions required for future periods by the collective-bargaining agreements, statutory obligations, or other contractual obligations for both plans.

The risks of participating in multiemployer plans are different from single-employer plans in the following aspects: (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (iii) if the affiliates choose to stop participating in the multiemployer plan, the affiliates may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 9. Long-Term Debt

Long-term debt consists of the following (in thousands):

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
California Statewide Communities Development Authority Revenue \$259 million Bonds Series 2005A, payable in varying installments through 2040, fixed interest rates ranging from 5.00% to 5.25%	<b>\$ 259,124</b>	\$ 259,124
California Statewide Communities Development Authority Revenue \$106 million Bonds Series 2005F, G, and H (St. Francis Medical Center), payable in varying annual installments through 2026, fixed interest rates ranging from 5.00% to 5.25%	<b>30,860</b>	40,720
California Statewide Communities Development Authority Revenue \$143 million Bonds Series 2008A, payable in varying installments through 2039, fixed interest rates ranging from 8.00% to 8.38%	<b>143,655</b>	143,655
Notes payable to the Daughters of Charity Foundation, two, \$10 million face value, payable in monthly installments of approximately \$57,000 through 2032 at 0% interest	<b>12,578</b>	13,251
Notes payable for Health Center One Mortgage, \$6.5 million face value, payable in monthly installments with a lump-sum payment in May 2018, fixed interest rate of 5.85%	<b>5,833</b>	5,983
Notes payable to San Jose Medical Group, payable through 2014 at 3.25% interest	<b>2,600</b>	5,200
Other	<b>500</b>	—
	<b>455,150</b>	467,933
Less current portion	<b>22,915</b>	13,283
	<b>432,235</b>	454,650
Plus bond premium	<b>5,109</b>	5,577
	<b>\$ 437,344</b>	\$ 460,227

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 9. Long-Term Debt (continued)

Scheduled long-term principal debt payments as of June 30, 2013, are as follows (in thousands):

2014	\$ 22,915
2015	7,989
2016	8,308
2017	8,814
2018	14,290
Thereafter	392,834
	<u>\$ 455,150</u>

#### Obligated Group

DCHS and the local health ministries identified in Note 1 are the members of the Obligated Group established pursuant to a Master Trust Indenture dated December 1, 2001 (the Master Indenture), with U.S. Bank, National Association, as master trustee (the Master Trustee). DCHS and such local health ministries collectively are referred to as the Obligated Group or as “Members,” and each individually is sometimes referred to herein as a “Member.” The Obligated Group is jointly and severally liable for the debt outstanding under the Master Indenture.

The Series 2005 Bonds (the Revenue Bonds) are a limited obligation of California Statewide Communities Development Authority and are payable solely from payments made by the Obligated Group. Payment of principal and interest on the Revenue Bonds is secured by the property and equipment of each Member of the Obligated Group. Each of the Obligated Group Members has executed one or more deeds of trust pursuant to which the respective Obligated Group Member has granted to the trustee hereunder, as trustee for the benefit of the Master Trustee, a first lien on, and security interest in, the Hospitals and other parcels of property owned by such Obligated Group Members, subject to permitted liens, as security for the performance of the Obligated Group Members’ obligations under the Master Indenture. Additionally, each of the Obligated Group Members has created a gross revenue fund with its depository bank to further secure its gross revenues for the benefit of the Master Trustee.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### **9. Long-Term Debt (continued)**

The Obligated Group's financing agreements contain restrictive covenants, including maintenance of a debt ratio, limitations on the amount of any additional borrowings, and limitations on the disposal or transfer of assets to nonobligated group members. Additionally, the financing agreements require that funds are established with, and controlled by, a trustee during the period the bonds remain outstanding. The Obligated Group has complied with such financial covenants and restrictions at June 30, 2013.

The provisions of the Master Trust Indenture calculate the annual debt-service coverage ratio as "income available for debt service" divided by the debt-service requirement for the year. Under DCHS's interpretation, after consultation with bond counsel, the definition of "income available for debt service" has been interpreted to not include \$6,502,000 of the increase in fair value recorded in fiscal year 2013 earnings for the change in fair value of the beneficial interest in Ascension Health's CHIMCO Alpha fund.

#### **Fair Values**

The fair value of long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered for debt of the same remaining maturities. The estimated fair values of the DCHS's debt instruments as of June 30, 2013 and 2012, are \$459,305,000 and \$484,533,000, respectively. The reported fair value of DCHS's debt instrument includes the full value of an irrevocable principal pre-payment of \$9,860,000 made as of June 30, 2013, for the year ended June 30, 2014. The fair value amounts do not represent the amount that would be required to expend to retire the indebtedness.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 10. Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets are available for the following purposes (in thousands):

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
Equipment and expansion	\$ 8,086	\$ 7,501
Research and education	2,565	5,654
Charity and other	23,337	20,312
Total temporarily restricted net assets	<u>33,988</u>	<u>33,467</u>
Permanently restricted net assets	9,280	8,864
Total restricted net assets	<u>\$ 43,268</u>	<u>\$ 42,331</u>

Equipment and expansion relate to assets held by DCHS, which are restricted by donors or grantors to be used specifically for equipment, capital projects, or other capital needs.

Research and education relate to assets held by DCHS, which are restricted by donors or grantors to be used in specific research or education programs.

Charity and other relate mainly to assets held by DCHS, which are restricted by donors or grantors to be used in specific health care programs for charity care and other medical and patient services.

Permanently restricted net assets of \$9,280,000 and \$8,864,000 at June 30, 2013 and 2012, respectively, are restricted to investments to be held in perpetuity, with the income expendable to support DCHS's mission.

#### Endowments

DCHS and five of its consolidated charitable foundations follow the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA eliminates the concept of "historic dollar value" and allows an institution to spend or accumulate as the board determines is prudent for the uses, benefits, purposes, and duration of the endowment fund unless the gift instrument states a particular spending rate or formula. California's version of UPMIFA also includes a rebuttable provision that spending greater than 7% of the average fair market value (calculated at least quarterly over a minimal period of three years) is presumed to be imprudent.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### **10. Temporarily and Permanently Restricted Net Assets (continued)**

In accordance with UPMIFA, DCHS considers the following factors when appropriating or accumulating an endowment fund: (i) general economic conditions, (ii) effects of inflation and deflation, (iii) the purposes of the institution and the endowment fund, (iv) expected total return from income and appreciation of investments, (v) DCHS's other resources, (vi) the duration and preservation of the endowment fund, and (vii) DCHS's investment policies.

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or UPMIFA requires DCHS to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were not material as of June 30, 2013 and 2012. These deficiencies resulted from unfavorable investment market fluctuations.

DCHS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under these policies, as approved by the boards of trustees of the charitable foundations, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives, DCHS relies on a balanced investment strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). DCHS targets a diversified asset allocation that places a great emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 10. Temporarily and Permanently Restricted Net Assets (continued)

The endowment net asset composition by type of fund consists of the following (in thousands):

	June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 496	\$ 781	\$ 9,280	\$ 10,557
Total funds	\$ 496	\$ 781	\$ 9,280	\$ 10,557

	June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 254	\$ 364	\$ 8,864	\$ 9,482
Total funds	\$ 254	\$ 364	\$ 8,864	\$ 9,482

The changes in endowment net assets are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at June 30, 2011	\$ 430	\$ 250	\$ 8,455	\$ 9,135
Net gains (losses) – realized and unrealized	(176)	114	(189)	(251)
Contributions	–	–	598	598
Balance at June 30, 2012	254	364	8,864	9,482
Net gains (losses) – realized and unrealized	242	417	138	797
Contributions	–	–	278	278
Balance at June 30, 2013	\$ 496	\$ 781	\$ 9,280	\$ 10,557

# Daughters of Charity Health System

## Notes to Consolidated Financial Statements (continued)

### **11. Commitments, and Contingent Liabilities**

#### **Standby Letter of Credit**

Marillac, a subsidiary of DCHS, pledged \$20,350,000 of its assets to support a standby letter of credit in favor of Old Republic Insurance Company (ORIC), one of the parent's insurers, as of June 30, 2013 and 2012.

#### **Litigation**

Certain entities of DCHS are defendants in various actions arising from their health care service activities. It is the opinion of management, after consulting with legal counsel, that such actions will not have a material adverse effect on DCHS's consolidated financial position or results of operations as of June 30, 2013. Therefore, based on the information provided by its legal counsel, DCHS has accrued \$1,452,000 and \$1,373,000 as of June 30, 2013 and 2012, respectively, which were related to certain of these actions. DCHS evaluates recoveries from insurance coverage separately from its liability, and when appropriate, an asset is recorded separately from the associated liability.

As part of its ongoing compliance program, DCHS routinely reviews arrangements between physicians and its hospitals. In September and October 2013, DCHS made a voluntary self-disclosure to the federal government (in accordance with federal self-disclosure guidelines) related to certain financial arrangements between physicians and one of its hospitals that might constitute potential violations of federal regulatory standards. DCHS's voluntary disclosure could result in payments to the government and/or the imposition of additional compliance requirements. At this time, management cannot accurately estimate the amounts of any payments or settlements that might result, or if additional related issues will arise. There can be no guarantee that any resulting payments or settlements will not have a material adverse impact on DCHS's consolidated financial position or results of operations.

#### **Laws and Regulations**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters, such as licensure, accreditation, government health care program participation requirements, reimbursement laws and regulations, anti-referral laws, and false claims prohibitions. In recent years, government

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### **11. Commitments, and Contingent Liabilities (continued)**

activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, and anti-referral statutes and regulations by health care providers. Certain entities of DCHS are subject to such laws and regulations and to governmental investigations, whistle-blower lawsuits, and other legal proceedings concerning such laws and regulations. Violations of these laws and regulations could result in expulsion from government health care programs, as well as imposition of significant fines and penalties and significant repayments for patient services previously reimbursed.

DCHS had approximately 7,600 employees as of June 30, 2013, of whom just over 5,700 are full-time employees. Approximately 73% of these 7,600 employees are employed by DCHS entities and are represented by collective bargaining units. Of these employees, 33% are represented by a collective bargaining agreement that will expire on March 13, 2014 which is currently in the process of being negotiated. Employee strikes or other adverse labor actions may have a material adverse impact on DCHS's consolidated financial position or results of operations.

#### **Health Care Reform**

In March 2010, President Obama signed the Health Care Reform Legislation into law. The new law will result in sweeping changes across the health care industry. The primary goal of this comprehensive legislation is to extend health coverage to approximately 32,000,000 uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medi-Cal programs. DCHS is unable to predict the full impact of the Health Care Reform Legislation at this time due to the law's complexity and current lack of implementing regulations or interpretive guidance. However, DCHS expects that several provisions of the Health Care Reform Legislation will have a material effect on its business beginning January 2014.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### 11. Commitments, and Contingent Liabilities (continued)

##### Lease Commitments

Future minimum lease payments under DCHS's significant noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2013, are as follows (in thousands):

	<u>Operating Leases</u>
2014	\$ 12,152
2015	11,418
2016	9,595
2017	6,312
2018	3,447
Thereafter	6,292
	<u>\$ 49,216</u>

Rent expense was \$20,708,000 and \$15,921,000 for the years ended June 30, 2013 and 2012.

##### Seismic Standards

DCHS is assessing its earthquake retrofit requirements for health care facilities under a state of California law (SB90) that can allow a delay of up to seven years from the January 1, 2013, deadline for Structural Performance Category 1 (SPC-1) retrofits. This affects seven buildings at three of DCHS's hospitals. Applications for the extensions have been submitted and all have been granted an interim administrative delay until January 1, 2015 to allow the Office of Statewide Health and Planning Development (OSHPD) evaluation of the applications. To date one facility has been granted an extension to January 1, 2019. The remaining are actively under review by OSHPD.

## Daughters of Charity Health System

### Notes to Consolidated Financial Statements (continued)

#### **12. Ascension Health Affiliation Agreement**

Ascension Health Alliance and DCHS entered into an affiliation agreement in December 2012. Pursuant to this affiliation agreement, Ascension Health Alliance will provide certain consulting and strategic services to DCHS in an effort to enhance delivery of healthcare consistent with its charitable mission. DCHS and its affiliates will remain independent from Ascension Health Alliance and will not be construed as partners or joint venturers with Ascension Health Alliance by virtue of the affiliation. The affiliation does not involve a change in corporate control of DCHS nor a transfer of its assets or an assumption of its liabilities.

#### **13. Subsequent Events**

In October 2013, the Daughters of Charity Foundation (DOCF), an organization separate and independent from DCHS, made a restricted donation for the benefit of DCHS by depositing sufficient funds with the Bond Trustee to redeem the \$143,655,000 principal amount of the California Statewide Development Authority Revenue Bonds Series 2008A Bonds. The Series 2008A Bonds were redeemed at par on October 25, 2013.

In September 2013, DOCF informed DCHS that it had forgiven the outstanding balance of \$12,409,000 owed to DOCF by DCHS.

DCHS is a participant, along with other health care providers, in Premier, Inc.'s group purchasing program and DCHS also holds an investment in Premier, Inc. that is accounted for under the cost method. On October 1, 2013, Premier, Inc. completed an initial public offering and was reorganized from a privately held company to a public company.

DCHS has evaluated subsequent events and disclosed all material events through November 26, 2013, which is the date these financial statements of DCHS were issued.

## Supplementary Schedules

## Report of Independent Auditors on Supplementary Information

The Board of Directors  
Daughters of Charity Health System

We have audited the consolidated financial statements of Daughters of Charity Health System of and for the year ended June 30, 2013, and have issued our report thereon dated November 26, 2013, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating financial statement schedules for Daughters of Charity Health System are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Ernst & Young LLP*

November 26, 2013

## Daughters of Charity Health System

### Consolidating Balance Sheets

As of June 30, 2013

*(In Thousands)*

	<b>O'Connor Hospital</b>	<b>Saint Louise Regional Hospital</b>	<b>St. Francis Medical Center Lynwood</b>	<b>St. Vincent Medical Center</b>	<b>Seton Medical Center</b>	<b>Seton Medical Center Coastside</b>	<b>DCHS System Office</b>
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ 9,336	\$ 1,714	\$ (2,886)	\$ (417)	\$ 3,181	\$ (61)	\$ (235)
Interest in pooled investment fund – short-term	14,128	819	30,765	3,852	6,791	–	4,354
Subtotal	23,464	2,533	27,879	3,435	9,972	(61)	4,119
Patient accounts receivable – net	34,423	10,260	45,081	24,007	32,069	2,810	–
Due from government agencies	2,625	123	13,294	5,252	1,042	–	–
Due from related organizations	8,144	6,991	64,840	14,213	22,058	4,000	49,006
Other current assets	14,424	4,917	39,228	13,005	11,191	130	22,468
Total current assets	83,080	24,824	190,322	59,912	76,332	6,879	75,593
Assets limited as to use:							
Interest in pooled investment fund – long-term	9,850	249	82,256	5,535	289	–	828
Other investments	–	–	–	1,682	–	–	–
Under bond indenture agreements	–	–	–	–	–	–	40,859
Total assets limited as to use	9,850	249	82,256	7,217	289	–	41,687
Goodwill and intangible – net							
Property and equipment – net	58,379	27,957	138,650	80,844	48,675	2,176	4,378
Other long-term assets	2,094	704	143	1,246	33	2	5,643
Total	\$ 153,403	\$ 53,734	\$ 411,371	\$ 149,219	\$ 125,329	\$ 9,057	\$ 127,301

## Daughters of Charity Health System

### Consolidating Balance Sheets (continued)

As of June 30, 2013

*(In Thousands)*

	<b>Eliminations</b>	<b>Obligated Group Subtotal</b>	<b>Marillac Insurance Company</b>	<b>Caritas Business Services</b>	<b>All Other Entities</b>	<b>Eliminations</b>	<b>DCHS Total</b>
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ -	\$ 10,632	\$ 11,162	\$ 1,415	\$ 7,951	\$ -	\$ 31,160
Interest in pooled investment fund – short-term	-	60,709	-	928	841	-	62,478
Subtotal	-	71,341	11,162	2,343	8,792	-	93,638
Patient accounts receivable – net	-	148,650	-	-	5,201	-	153,851
Due from government agencies	-	22,336	-	-	-	-	22,336
Due from related organizations	(140,509)	28,743	-	1,298	365	(30,406)	-
Other current assets	-	105,363	9,213	169	8,279	(3,670)	119,354
Total current assets	(140,509)	376,433	20,375	3,810	22,637	(34,076)	389,179
Assets limited as to use:							
Interest in pooled investment fund – long-term	-	99,007	-	-	13,875	-	112,882
Other investments	-	1,682	47,826	-	13,983	-	63,491
Under bond indenture agreements	-	40,859	-	-	-	-	40,859
Total assets limited as to use	-	141,548	47,826	-	27,858	-	217,232
Goodwill and intangible – net	-	-	-	-	10,905	-	10,905
Property and equipment – net	-	361,059	-	485	7,986	-	369,530
Other long-term assets	-	9,865	-	121	3,297	-	13,283
Total	\$ (140,509)	\$ 888,905	\$ 68,201	\$ 4,416	\$ 72,683	\$ (34,076)	\$ 1,000,129

Daughters of Charity Health System  
Consolidating Balance Sheets (continued)

As of June 30, 2013  
(In Thousands)

	O'Connor Hospital	Saint Louise Regional Hospital	St. Francis Medical Center Lynwood	St. Vincent Medical Center	Seton Medical Center	Seton Medical Center Coastside	DCHS System Office
<b>Liabilities</b>							
Current liabilities:							
Accounts payable	\$ 5,278	\$ 910	\$ 4,663	\$ 6,450	\$ 5,241	\$ 78	\$ 12,848
Current portion of long-term debt	1,090	565	3,545	1,044	1,143	–	12,578
Due to government agencies	620	3,890	3,683	9,163	2,256	551	–
Accrued liabilities	26,677	8,036	37,759	21,892	23,244	1,661	4,932
Due to related organizations	10,268	25,703	13,989	47,796	14,791	16,775	12,849
Total current liabilities	43,933	39,104	63,639	86,345	46,675	19,065	43,207
Other liabilities:							
Long-term debt – net of current portion	82,387	46,465	109,681	85,873	94,024	–	18,764
Hospital general liability and workers' compensation	–	–	–	–	–	–	5,633
Pension obligations	57,914	6,631	83,569	66,650	1,787	150	17,373
Other long-term liabilities	202	32	148	1,934	995	–	33
Total other liabilities	140,503	53,128	193,398	154,457	96,806	150	41,803
Net assets:							
Unrestricted	(32,421)	(39,417)	152,083	(96,513)	(18,564)	(14,158)	42,291
Temporarily restricted	1,388	919	2,251	2,157	412	4,000	–
Permanently restricted	–	–	–	2,773	–	–	–
Total net assets	(31,033)	(38,498)	154,334	(91,583)	(18,152)	(10,158)	42,291
Total	\$ 153,403	\$ 53,734	\$ 411,371	\$ 149,219	\$ 125,329	\$ 9,057	\$ 127,301

Daughters of Charity Health System  
Consolidating Balance Sheets (continued)

As of June 30, 2013  
(In Thousands)

	Eliminations	Obligated Group Subtotal	Marillac Insurance Company	Caritas Business Services	All Other Entities	Eliminations	DCHS Total
<b>Liabilities</b>							
Current liabilities:							
Accounts payable	\$ -	\$ 35,468	\$ -	\$ 4	\$ 1,762	\$ -	\$ 37,234
Current portion of long-term debt	-	19,965	-	-	2,950	-	22,915
Due to government agencies	-	20,163	-	-	-	-	20,163
Accrued liabilities	-	124,201	8,338	2,198	2,549	(2)	137,284
Due to related organizations	(140,509)	1,662	-	101	28,643	(30,406)	-
<b>Total current liabilities</b>	<b>(140,509)</b>	<b>201,459</b>	<b>8,338</b>	<b>2,303</b>	<b>35,904</b>	<b>(30,408)</b>	<b>217,596</b>
Other liabilities:							
Long-term debt – net of current portion	-	437,194	-	-	150	-	437,344
Hospital general liability and workers' compensation	-	5,633	41,580	-	-	(3,686)	43,527
Pension obligations	-	234,074	-	-	-	-	234,074
Other long-term liabilities	-	3,344	-	-	310	-	3,654
<b>Total other liabilities</b>	<b>-</b>	<b>680,245</b>	<b>41,580</b>	<b>-</b>	<b>460</b>	<b>(3,686)</b>	<b>718,599</b>
Net assets:							
Unrestricted	-	(6,699)	18,283	2,113	6,951	18	20,666
Temporarily restricted	-	11,127	-	-	22,861	-	33,988
Permanently restricted	-	2,773	-	-	6,507	-	9,280
<b>Total net assets</b>	<b>-</b>	<b>7,201</b>	<b>18,283</b>	<b>2,113</b>	<b>36,319</b>	<b>18</b>	<b>63,934</b>
<b>Total</b>	<b>\$ (140,509)</b>	<b>\$ 888,905</b>	<b>\$ 68,201</b>	<b>\$ 4,416</b>	<b>\$ 72,683</b>	<b>\$ (34,076)</b>	<b>\$ 1,000,129</b>

**Daughters of Charity Health System**  
**Consolidating Statements of Operations**

For the Year Ended June 30, 2013  
*(In Thousands)*

	<b>O'Connor Hospital</b>	<b>Saint Louise Regional Hospital</b>	<b>St. Francis Medical Center Lynwood</b>	<b>St. Vincent Medical Center</b>	<b>Seton Medical Center</b>	<b>Seton Medical Center Coastside</b>	<b>DCHS System Office</b>
Unrestricted revenues and other support:							
Net patient service revenue less provision for doubtful accounts	\$ 284,437	\$ 78,372	\$ 372,122	\$ 190,727	\$ 245,199	\$ 20,829	\$ –
Premium revenue	–	–	33,019	8,593	–	–	–
Other operating revenue	9,132	779	7,523	5,746	6,241	470	65,591
Contributions	1,582	883	4,146	1,774	593	4,001	2,110
<b>Total unrestricted revenues and other support</b>	<b>295,151</b>	<b>80,034</b>	<b>416,810</b>	<b>206,840</b>	<b>252,033</b>	<b>25,300</b>	<b>67,701</b>
Expenses:							
Salaries and benefits	188,899	57,270	190,873	100,488	159,549	16,740	19,186
Supplies	40,593	7,351	30,277	46,151	36,258	1,600	219
Purchased services and other	71,204	22,874	134,659	81,532	69,289	3,289	53,525
Depreciation	14,383	4,338	17,796	9,882	10,428	362	1,117
Interest	5,060	2,771	7,026	4,894	5,840	(10)	(245)
Asset impairment	10	–	–	–	–	–	–
<b>Total expenses</b>	<b>320,149</b>	<b>94,604</b>	<b>380,631</b>	<b>242,947</b>	<b>281,364</b>	<b>21,981</b>	<b>73,802</b>
Operating (loss) income	(24,998)	(14,570)	36,179	(36,107)	(29,331)	3,319	(6,101)
Investment income – net	2,210	49	8,394	994	1,028	1	8,218
<b>(Deficit) excess of revenues over expenses</b>	<b>\$ (22,788)</b>	<b>\$ (14,521)</b>	<b>\$ 44,573</b>	<b>\$ (35,113)</b>	<b>\$ (28,303)</b>	<b>\$ 3,320</b>	<b>\$ 2,117</b>

## Daughters of Charity Health System

### Consolidating Statements of Operations (continued)

For the Year Ended June 30, 2013

*(In Thousands)*

	<b>Obligated Group Eliminations</b>	<b>Subtotal</b>	<b>Marillac Insurance Company</b>	<b>Caritas Business Services</b>	<b>All Other Entities</b>	<b>Eliminations</b>	<b>DCHS Total</b>						
Unrestricted revenues and other support:													
Net patient service revenue less provision for doubtful accounts	\$	-	\$ 1,191,686	\$	-	\$	39,189	\$	-	\$ 1,230,875			
Premium revenue		-	41,612		-		23,877		-	65,489			
Other operating revenue		(65,237)	30,245		11,691		16,922		2,048	29,435			
Contributions		-	15,089		-		-		1,634	16,723			
<b>Total unrestricted revenues and other support</b>		<b>(65,237)</b>	<b>1,278,632</b>		<b>11,691</b>		<b>16,922</b>		<b>66,748</b>	<b>(31,471)</b>	<b>1,342,522</b>		
Expenses:													
Salaries and benefits		-	733,005		-		13,724		50,570	(13,713)	783,586		
Supplies		-	162,449		-		176		7,813	(176)	170,262		
Purchased services and other		(65,237)	371,135		11,791		2,813		25,250	(17,380)	393,609		
Depreciation		-	58,306		-		245		2,133	(245)	60,439		
Interest		-	25,336		-		-		-	-	25,336		
Asset impairment		-	10		-		-		-	-	10		
<b>Total expenses</b>		<b>(65,237)</b>	<b>1,350,241</b>		<b>11,791</b>		<b>16,958</b>		<b>85,766</b>	<b>(31,514)</b>	<b>1,433,242</b>		
Operating (loss) income		-	(71,609)		(100)		(36)		(19,018)	43	(90,720)		
Investment income – net		-	20,894		120		25		1,238	(6,025)	16,252		
<b>(Deficit) excess of revenues over expenses</b>	<b>\$</b>	<b>-</b>	<b>\$ (50,715)</b>	<b>\$</b>	<b>20</b>	<b>\$</b>	<b>(11)</b>	<b>\$</b>	<b>(17,780)</b>	<b>\$</b>	<b>(5,982)</b>	<b>\$</b>	<b>(74,468)</b>

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