



May 21, 2014

Geoffrey Ligibel  
Director  
Houlihan Lokey  
123 North Wacker Drive, 4<sup>th</sup> Floor  
Chicago, IL 60606

Via E-Mail

Scott Jackson  
Director  
Houlihan Lokey  
123 North Wacker Drive, 4<sup>th</sup> Floor  
Chicago, IL 60606

Via E-Mail

Dear Geoff and Scott:

In response to your May 1, 2014 letter, Alecto Healthcare Services LLC ("Alecto") is pleased to submit the following proposal to acquire substantially all of the assets of Seton Medical Center ("Seton"), Seton Medical Center Coastside ("Seton Coastside"), and St. Vincent Medical Center ("St. Vincent"). With respect to the matters set forth in your letter, please be advised as follows:

I. Purchase Agreement. As requested, please find enclosed a marked-up Purchase Agreement for the acquisition of Seton and Seton Coastside and a marked-up Purchase Agreement for the acquisition of St. Vincent. Please note that while the mark-ups are substantially similar, we prepared a separate mark-up for Seton and Seton Coastside given the condition related to funding from San Mateo County as part of Measure A.

II. Proposal

1. Purchase Price. The aggregate purchase price to be paid by Alecto for Seton, Seton Coastside, and St. Vincent shall be \$130 Million less (a) an amount equal to the accrued payroll and paid time assumed by Alecto less (b) an amount equal to the tenant security deposits and advance rent payments assumed by Alecto. Alecto has allocated \$50 Million to Seton and Seton Coastside and \$80 Million to St. Vincent.

2. Sources of Capital. Alecto will fund the purchase price with financing from Medical Properties Trust (NYSE: MPW). A letter from Medical Properties Trust is enclosed as Exhibit 1.

3. Collective Bargaining Agreements. Alecto contemplates assuming the existing collective bargaining agreements provided that agreements can be reached with the labor unions on the following:

(a) The implementation of Alecto's standard 401(k) program in lieu of any existing retirement benefits. Alecto's standard 401(k) program provides for an employer match equal to 50% of an employee's elective deferrals up to 3% of the employee's annual earnings;

(b) The implementation of Alecto's standard medical and dental benefits which contemplate free standard coverage for employees only with modest contributions required for employees seeking coverage for their spouse, children, and/or family and modest contributions for all levels of premium coverage;

(c) The modification of the existing paid time off and sick pay accrual rates so that they are within market standards; and

(d) The modification of the wage structure so that employees will receive across the board increases each year but no longer receive increases based solely on years of experience.

4. Pension Plans. Alecto does not plan to assume any of DCHS's pension obligations. Alecto will offer its standard 401(k) program which provides for an employer match equal to 50% of an employee's elective deferrals up to 3% of the employee's annual earnings

5. Further Due Diligence. Any further due diligence will be limited to the following:

(a) Preliminary Title Reports;

(b) Phase 1 Environmental Surveys; and

(c) Discussions with representatives of San Mateo County and Daly City and DCHS to determine the level and form of commitment to Alecto under Measure A if Alecto was to purchase Seton.

6. Contingencies. In addition to standard closing contingencies such as regulatory approvals (i.e., HSR, Attorney General, and Department of Public Health), Alecto's obligation to close the transactions will be subject to the following:

(a) Confirmation that San Mateo County will provide \$15 Million per year in Measure A Funding for Seton through 2022 if Alecto successfully acquires Seton;

(b) Agreements being reached with the unions as to modifications to the existing collective bargaining agreements which are acceptable to Alecto.

7. Timing to Closing. Alecto is prepared to close the transactions within ninety (90) days of execution of a mutually agreeable Asset Purchase Agreement.

### III. Purchaser Due Diligence

At the present time, Alecto manages St. Rose Hospital in Hayward, California and owns and operates Olympia Medical Center in Los Angeles, California. Alecto's acquisition of Olympia is still in its early stages (acquired as of December 31, 2013) and as such, the matters described below focus on Alecto's management of St. Rose Hospital since October 2012:

#### 1. Community Relations

While Alecto has not commissioned any "community perception surveys" regarding its management of St. Rose, it does enjoy strong community support for its management of St. Rose since October 2012. This strong community support is evidenced by, among other things:

- State Senator Ellen Corbett issuing a proclamation commending Alecto for its efforts at St. Rose Hospital;
- The Hayward City Council publicly supporting Alecto's efforts and St. Rose's request for additional funding from Alameda County to support care for the indigent population of central and southern Alameda County;
- County Supervisor Richard Valle's vocal support for Alecto and its efforts to ensure the viability of St. Rose for years to come;
- Numerous community leaders writing letters in support of Alecto's request for additional funding from Alameda County to support care for the indigent population of central and southern Alameda County.

We would encourage you or DCHS to contact any of the following individuals to obtain a better understanding of the strong community support for Alecto: (1) Senator Ellen Corbett, (510) 577-2310; (2) Supervisor Richard Valle, (510) 272-6692; and (3) Fran David, City Manager, City of Hayward, (510) 583-4000.

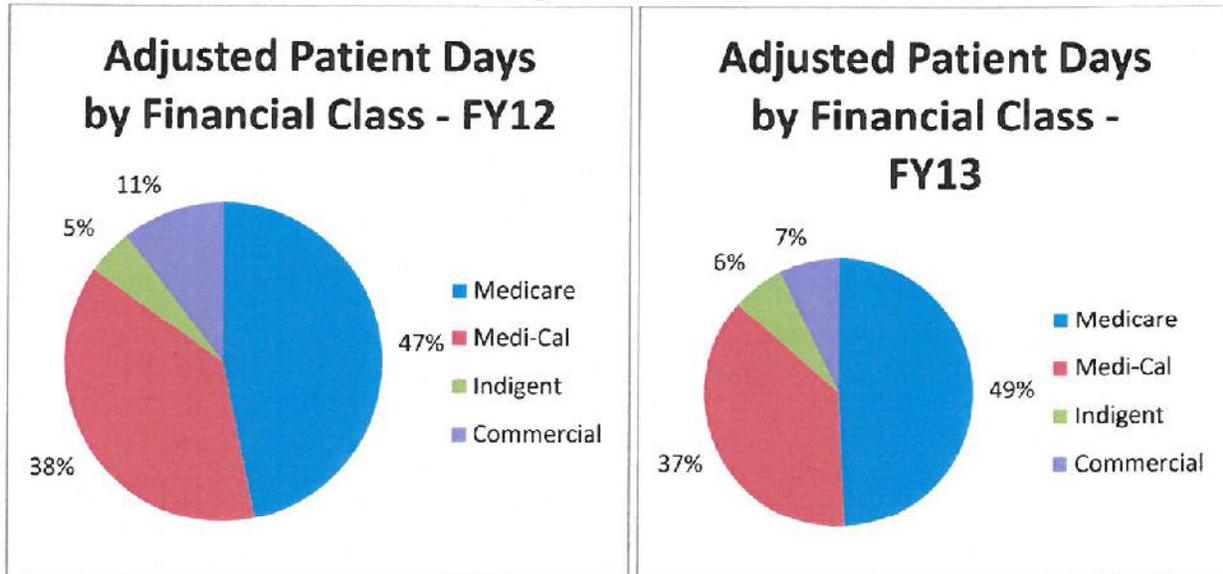
#### 2. Charity Care Provided

As the safety net hospital for central and Alameda County, St. Rose has and will continue to provide a high level of charity care as it meets the healthcare needs of the indigent and uninsured residents who rely on St. Rose for their healthcare needs. In this regard, St. Rose provided \$36.6 Million in charity care during the fiscal year ending September 30, 2012 and \$20.7 Million in charity care during the fiscal year ending September 30, 2013. Attached as Exhibit 2 are copies of the 2012 and 2013 Annual Disclosure Reports filed with OSHPD. It is important to note that the decrease in charity care numbers in 2013 was not result of St. Rose providing less charity care, but instead was the result of the reclassification of approximately \$15 Million in services that would have previously been classified as charity care due to the receipt of minimal funding (approximately 30% of Medi-Cal) for such services from Alameda County's HealthPAC program.

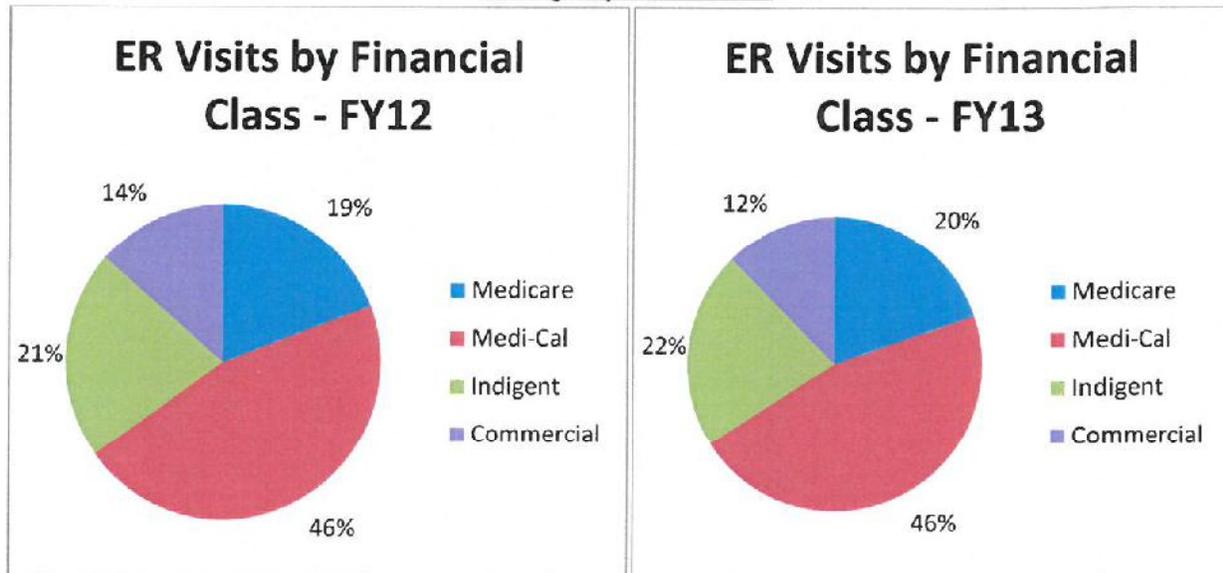
3. Payor Mix

As noted above, St. Rose serves as the safety net hospital for central and southern Alameda County and as a result, a large proportion of St. Rose's patients are Medi-Cal beneficiaries or indigent patients. Below are charts which depict the inpatient and outpatient volume at St. Rose.

Inpatient Volumes



Emergency Room Visits



4. Recent Financial Performance

When Alecto first took over management of St. Rose in October 2012, the hospital had lost as much as \$18 Million in a single year and was facing a serious question about its continued viability as St. Rose was in default with respect to bonds insured by Cal-Mortgage and Cal-Mortgage had exercised its statutory right to exercise control over the management of St. Rose. Since October 2012, Alecto, with the assistance of the hardworking physicians and staff at St. Rose, has transformed St. Rose. St. Rose's operating losses were less than \$2.2 Million for the 2013 fiscal year (without substantial supplemental funding it received in prior years). A copy of St. Rose's most recent audited financial statements are attached as Exhibit 3.

We are excited about this opportunity to acquire Seton, Seton Coastside, and St. Vincent and believe such a transaction will be beneficial to all parties. Please call me at (949) 398-8358 (Office) or (949) 689-2243 (Cell) with any questions.

Sincerely,



Michael J. Sarrao  
Executive Vice-President & Chief Legal Officer

Enclosures

cc: Lex Reddy, President & Chief Executive Officer, Alecto Healthcare Services  
Roger Krissman, Chief Financial Officer, Alecto Healthcare Services  
Panch Jeyakumar, M.D., Chief Medical Officer, Alecto Healthcare Services

**Exhibit 1**



## Medical Properties Trust

May 20, 2014

Geoff Ligibel, Director  
Scott Jackson, Director  
Houlihan Lokey  
123 North Wacker Drive, 4th Floor  
Chicago, IL 60606

Dear Mr. Ligibel and Mr. Jackson:

I am writing to you to express our high regard for Lex Reddy and his team at Alecto Healthcare. MPT has known Lex and worked with him for more than ten years. We find Lex to have the highest integrity and work ethic. In short, Lex always does what he says he is going to do. He is one of the most competent hospital administrators we know.

We are delighted to have the opportunity to finance Lex in any new venture he undertakes. In this case, we are interested in financing any acquisitions Alecto may make from Daughters of Charity Health System; specifically, Seton Medical Center, Seton Medical Center Coastside, and St. Vincent's.

Should you have any questions about Lex or our desire to work with and support Alecto, please do not hesitate to call me or our CFO, Steve Hamner.

Obviously, any final commitments will be subject to our complete due diligence of the specific properties and their operations along with the approval of our Board.

Sincerely,

Edward K. Aldag, Jr  
*Chairman, President, and Chief Executive Officer*

EKA

cc: Mr. Lex Reddy

**Exhibit 2**

USING DATA AUDITED BY OSHPD  
 FACILITY NO:106010967  
 ST. ROSE HOSPITAL

HOSPITAL SUMMARY INDIVIDUAL DISCLOSURE REPORT

DATE PREPARED: 5/21/2014  
 PAGE: 1 OF 5  
 REPORT PERIOD: 10/01/2011  
 THRU 09/30/2012

27200 CALAROGA AVENUE  
 HAYWARD CA 945454383

PHONE NO: (510)264-4000  
 OWNER: HAYWARD SISTERS HOSPITAL

GENERAL INFORMATION

TYPE OF CONTROL: Non-Profit Corporation  
 TYPE OF CARE: General  
 LICENSED BEDS\*  
 INTENSIVE 15  
 ACUTE 180  
 LONG-TERM 22  
 OTHER  
 TOTAL 217  
 OCCUPANCY RATE 37.60%

COUNTY: Alameda  
 HSA NO: 05  
 AVAILABLE BEDS  
 INTENSIVE 15  
 ACUTE 180  
 LONG-TERM 22  
 OTHER  
 TOTAL 217  
 OCCUPANCY RATE 37.60%  
 NO. BASSINETS 20

HPPA NO: 0421  
 EMERGENCY SERVICES  
 X EMERGENCY ROOM  
 TRAUMA CENTER DESIGNATION  
 X OBSERVATION  
 X ORTHOPEDIC  
 X PSYCHIATRIC  
 X HELICOPTER

FINANCIAL AND UTILIZATION DATA BY PAYER

|   | TOTAL         | MEDICARE TRADITIONAL | MEDICARE MANAGED CARE | MEDI-CAL TRADITIONAL |
|---|---------------|----------------------|-----------------------|----------------------|
| Patient (Census) Days                       | 29,855        | 15,027               | 2,818                 | 3,532                |
| Hospital Discharges (Excluding Nursery)     | 6,695         | 3,370                | 633                   | 799                  |
| Average Length of Stay (Including L-T Care) | 4.5           | 4.5                  | 4.5                   | 4.4                  |
| Average Length of Stay (Excluding L-T Care) | 4.4           | 4.5                  | 4.4                   | 4.4                  |
| Outpatient Visits (Incl. ER Visits)         | 70,118        | 7,018                | 1,380                 | 4,262                |
| Outpatient Emergency Services Visits        | 25,143        | 3,800                | 727                   | 2,960                |
| Gross Inpatient Revenue                     | \$509,378,395 | \$226,087,904        | \$46,372,667          | \$69,764,270         |
| Gross Outpatient Revenue                    | \$157,788,883 | \$35,304,728         | \$6,877,003           | \$15,601,086         |
| Deductions From Revenue                     | \$534,643,884 | \$211,594,153        | \$45,200,000          | \$67,026,888         |
| Net Inpatient Revenue                       | \$101,972,327 | \$43,921,183         | \$7,010,084           | \$14,986,991         |
| Net Outpatient Revenue                      | \$30,551,067  | \$5,877,296          | \$1,030,586           | \$3,351,477          |
| Net Inpatient Revenue Per Day               | \$3,416       | \$2,923              | \$2,488               | \$4,243              |
| Net Inpatient Revenue Per Discharge         | \$15,231      | \$13,033             | \$11,074              | \$18,757             |
| Net Outpatient Revenue Per Visit            | \$436         | \$837                | \$753                 | \$786                |
| Adjusted Patient Days                       | 39,103        |                      |                       |                      |
| Net Revenue Per Adj Patient Day             | \$3,389       |                      |                       |                      |
| Purchased Inpatient Days                    |               |                      |                       |                      |

FINANCIAL AND UTILIZATION DATA BY PAYER

|   | MEDI-CAL MANAGED CARE | CO. INDIGENT TRADITIONAL | CO. INDIGENT MANAGED CARE | THIRD PARTY TRADITIONAL |
|---|-----------------------|--------------------------|---------------------------|-------------------------|
| Patient (Census) Days                       | 4,233                 |                          |                           | 540                     |
| Hospital Discharges (Excluding Nursery)     | 978                   |                          |                           | 120                     |
| Average Length of Stay (Including L-T Care) | 4.3                   |                          |                           | 4.5                     |
| Average Length of Stay (Excluding L-T Care) | 4.3                   |                          |                           | 4.5                     |
| Outpatient Visits (Incl. ER Visits)         | 11,833                |                          |                           | 1,756                   |
| Outpatient Emergency Services Visits        | 8,014                 |                          |                           | 1,036                   |
| Gross Inpatient Revenue                     | \$81,378,820          |                          |                           | \$10,557,405            |
| Gross Outpatient Revenue                    | \$42,054,741          |                          |                           | \$6,976,034             |
| Deductions From Revenue                     | \$109,785,675         |                          |                           | \$15,000,000            |
| Net Inpatient Revenue                       | \$8,997,949           |                          |                           | \$1,557,405             |
| Net Outpatient Revenue                      | \$4,649,937           |                          |                           | \$976,034               |
| Net Inpatient Revenue Per Day               | \$2,126               |                          |                           | \$2,884                 |
| Net Inpatient Revenue Per Discharge         | \$9,200               |                          |                           | \$12,978                |
| Net Outpatient Revenue Per Visit            | \$393                 |                          |                           | \$556                   |
| Adjusted Patient Days                       |                       |                          |                           |                         |
| Net Revenue Per Adj Patient Day             |                       |                          |                           |                         |
| Purchased Inpatient Days                    |                       |                          |                           |                         |

FINANCIAL AND UTILIZATION DATA BY PAYER

|   | THIRD PARTY MANAGED CARE | OTHER INDIGENT | OTHER PAYERS |
|---|--------------------------|----------------|--------------|
| Patient (Census) Days                       | 2,250                    | 1,218          | 237          |
| Hospital Discharges (Excluding Nursery)     | 485                      | 260            | 50           |
| Average Length of Stay (Including L-T Care) | 4.6                      | 4.7            | 4.7          |
| Average Length of Stay (Excluding L-T Care) | 4.6                      | 4.7            | 4.7          |
| Outpatient Visits (Incl. ER Visits)         | 5,096                    | 21,651         | 17,122       |
| Outpatient Emergency Services Visits        | 2,539                    | 3,406          | 2,661        |
| Gross Inpatient Revenue                     | \$48,793,977             | \$21,988,520   | \$4,434,832  |
| Gross Outpatient Revenue                    | \$24,892,897             | \$14,657,388   | \$11,425,006 |
| Deductions From Revenue                     | \$37,335,122             | \$36,645,908   | \$12,056,138 |
| Net Inpatient Revenue                       | \$24,071,405             |                | \$1,427,310  |
| Net Outpatient Revenue                      | \$12,280,347             |                | \$2,376,390  |
| Net Inpatient Revenue Per Day               | \$10,698                 |                | \$6,022      |
| Net Inpatient Revenue Per Discharge         | \$49,632                 |                | \$28,546     |
| Net Outpatient Revenue Per Visit            | \$2,410                  |                | \$139        |
| Adjusted Patient Days                       |                          |                |              |
| Net Revenue Per Adj Patient Day             |                          |                |              |
| Purchased Inpatient Days                    |                          |                |              |

USING DATA AUDITED BY OSHPD  
 FACILITY NO:106010967  
 ST. ROSE HOSPITAL

HOSPITAL SUMMARY INDIVIDUAL DISCLOSURE REPORT

DATE PREPARED: 5/21/2014  
 PAGE: 2 OF 5  
 REPORT PERIOD: 10/01/2011  
 THRU 09/30/2012

LIVE BIRTH SUMMARY

|                   |              |
|-------------------|--------------|
| NATURAL BIRTHS    | 767          |
| CESAREAN SECTIONS | 275          |
| TOTAL LIVE BIRTHS | <u>1,042</u> |

GROSS PATIENT REVENUE BY REVENUE CENTER

|                             |                      | PERCENT OF TOTAL |
|-----------------------------|----------------------|------------------|
| DAILY HOSPITAL SERVICES     | \$266,243,445        | 39.9             |
| AMBULATORY SERVICES         | \$88,187,866         | 13.2             |
| ANCILLARY SERVICES          | \$312,735,967        | 46.9             |
| TOTAL GROSS PATIENT REVENUE | <u>\$667,167,278</u> | 100.0            |

SUMMARY STATEMENT OF INCOME

|                                      |                      |
|--------------------------------------|----------------------|
| GROSS PATIENT REVENUE                | \$667,167,278        |
| PROVISION FOR BAD DEBT               | \$11,505,493         |
| MEDICARE TRAD. CONTRACTUAL ADJ       | \$211,594,153        |
| MEDICARE MANAGED CONTRACTUAL ADJ     | \$45,200,000         |
| MEDI-CAL TRAD. CONTRACTUAL ADJ       | \$69,338,301         |
| MEDI-CAL MANAGED CONTRACTUAL ADJ     | \$109,785,675        |
| DISPROPORTIONATE SHARE FUNDS REC'D   | (\$2,311,413)        |
| CO. INDIGENT TRAD. CONTRACTUAL ADJ   |                      |
| CO. INDIGENT MANAGED CONTRACTUAL ADJ |                      |
| THIRD PARTY TRAD. CONTRACTUAL ADJ    | \$15,000,000         |
| THIRD PARTY MANAGED CONTRACTUAL ADJ  | \$37,335,122         |
| CHARITY OTHER                        | \$36,645,908         |
| ALL OTHER DEDUCTIONS                 | \$550,645            |
| TOTAL DEDUCTIONS FROM REVENUE        | <u>\$534,643,884</u> |
| CAPITATION PREMIUM REVENUE           |                      |
| NET PATIENT REVENUE                  | \$132,523,394        |
| OTHER OPERATING REVENUE              | \$1,540,351          |
| TOTAL OPERATING REVENUE              | <u>\$134,063,745</u> |
| TOTAL OPERATING EXPENSES             | <u>\$144,250,477</u> |
| NET FROM OPERATIONS                  | (\$10,186,732)       |
| NON-OPERATING REVENUE                | +                    |
| NON-OPERATING EXPENSES               | -                    |
| PROVISION FOR INCOME TAXES           | -                    |
| EXTRAORDINARY ITEMS                  | -                    |
| NET INCOME                           | <u>(\$689,451)</u>   |

OPERATING EXPENSES BY CLASSIFICATION

|                              |                      |
|------------------------------|----------------------|
| SALARIES AND WAGES           | \$68,578,854         |
| EMPLOYEE BENEFITS            | \$11,511,342         |
| PHYSICIANS PROFESSIONAL FEES | \$4,895,554          |
| OTHER PROFESSIONAL FEES      | \$832,938            |
| SUPPLIES                     | \$13,032,121         |
| PURCHASED SERVICES           | \$10,958,077         |
| DEPRECIATION                 | \$5,877,208          |
| LEASES AND RENTALS           | \$2,339,482          |
| INTEREST                     | \$3,435,888          |
| ALL OTHER EXPENSES           | \$22,789,013         |
| TOTAL OPERATING EXPENSES     | <u>\$144,250,477</u> |

ADJUSTED PATIENT REVENUE

|                             |               |
|-----------------------------|---------------|
| ADJUSTED INPATIENT REVENUE  | \$101,180,850 |
| REVENUE PER DAY             | \$3,389       |
| REVENUE PER DISCHARGE       | \$15,113      |
| ADJUSTED OUTPATIENT REVENUE | \$31,342,542  |
| REVENUE PER VISIT           | \$447         |

OPERATING EXPENSES BY COST CENTER GROUP

|                               |                      |
|-------------------------------|----------------------|
| DAILY HOSPITAL SERVICES       | \$29,289,879         |
| AMBULATORY SERVICES           | \$12,044,035         |
| ANCILLARY SERVICES            | \$38,943,509         |
| PURCHASED INPATIENT SERVICES  |                      |
| PURCHASED OUTPATIENT SERVICES |                      |
| RESEARCH                      |                      |
| EDUCATION                     |                      |
| GENERAL SERVICES              | \$17,223,784         |
| FISCAL SERVICES               | \$7,217,370          |
| ADMINISTRATIVE SERVICES       | \$30,980,474         |
| UNASSIGNED COSTS              | \$8,551,426          |
| TOTAL OPERATING EXPENSES      | <u>\$144,250,477</u> |

ADJUSTED PATIENT EXPENSES

|                              |               |
|------------------------------|---------------|
| ADJUSTED INPATIENT EXPENSES  | \$106,887,531 |
| EXPENSES PER DAY             | \$3,580       |
| EXPENSES PER DISCHARGE       | \$15,965      |
| ADJUSTED OUTPATIENT EXPENSES | \$35,822,593  |
| EXPENSES PER VISIT           | \$511         |

BALANCE SHEET SUMMARY

|                                    |                     |                              |                     |
|------------------------------------|---------------------|------------------------------|---------------------|
| TOTAL CURRENT ASSETS               | \$26,264,780        | TOTAL CURRENT LIABILITIES    | \$65,446,098        |
| LIMITED USE ASSETS                 | \$6,760,252         | DEFERRED INCOME              |                     |
| NET PROPERTY, PLANT, AND EQUIPMENT | \$40,041,794        | NET LONG-TERM DEBT           | \$30,827,843        |
| CONSTRUCTION-IN-PROGRESS           | \$981,949           | TOTAL LIABILITIES            | \$96,273,941        |
| OTHER ASSETS                       | \$3,518,401         |                              |                     |
| INTANGIBLE ASSETS                  |                     | EQUITY                       | (\$18,706,765)      |
| TOTAL ASSETS                       | <u>\$77,567,176</u> | TOTAL LIABILITIES AND EQUITY | <u>\$77,567,176</u> |

FINANCIAL RATIO FORMULAS

LIQUIDITY RATIOS

FORMULAS

|                             |       |   |
|-----------------------------|-------|---|
| CURRENT RATIO               | .50   | (TOTAL CURRENT ASSETS + BOARD DESIG. CASH + BOARD DESIG. INVESTMENTS) / TOTAL CURRENT LIABILITIES         |
| ACID TEST RATIO             | .18   | (CASH + MARKETABLE SECURITIES + BOARD DESIG. CASH + BOARD DESIG. INVESTMENTS) / TOTAL CURRENT LIABILITIES |
| DAYS IN ACCOUNTS RECEIVABLE | 25.64 | NET ACCOUNTS RECEIVABLE / (NET PATIENT REVENUE / DAYS IN REPORT PERIOD)                                   |
| BAD DEBT RATE               | 1.72% | (PROVISION FOR BAD DEBTS / TOTAL GROSS PATIENT REVENUE) X 100   |

DEBT, RISK, AND LEVERAGE RATIOS

|   |        |  |
|---|--------|--|
| LONG-TERM DEBT TO ASSETS RATE                         | 39.74% | (NET LONG-TERM DEBT / TOTAL ASSETS) X 100  |
| DEBT SERVICE COVERAGE RATIO                           | .19    | (NET INCOME + INTEREST-WORKING CAPITAL + INTEREST-OTHER + DEPRECIATION EXPENSE) / PRINCIPAL PAYMENTS ON SHORT-TERM AND LONG-TERM DEBT, NOTES, AND LOANS + INTEREST-WORKING CAPITAL + INTEREST-OTHER) |
| INTEREST EXPENSE AS A PERCENTAGE OF OPERATING EXPENSE | 2.38%  | ((INTEREST-WORKING CAPITAL + INTEREST-OTHER) / TOTAL OPERATING EXPENSE) X 100  |

PROFITABILITY RATIOS

|                                |           |  |
|--------------------------------|-----------|--|
| NET RETURN ON OPERATING ASSETS | ( 10.18%) | ((NET FROM OPERATIONS + INTEREST-WORKING CAPITAL + INTEREST-OTHER) / (TOTAL CURRENT ASSETS + NET PROPERTY, PLANT AND EQUIPMENT)) X 100 |
| NET RETURN ON EQUITY           | 3.69%     | (NET INCOME / EQUITY) X 100  |
| OPERATING MARGIN               | ( 7.60%)  | (NET FROM OPERATIONS / TOTAL OPERATING REVENUE) X 100  |
| TURNOVER ON OPERATING ASSETS   | 2.02      | TOTAL OPERATING REVENUE / (TOTAL CURRENT ASSETS + NET PROPERTY, PLANT, AND EQUIPMENT)  |

FIXED ASSET RATIOS

|                         |         |   |
|-------------------------|---------|---|
| FIXED ASSET GROWTH RATE | 16.50%  | ((CURRENT YEAR GROSS PROPERTY, PLANT AND EQUIPMENT + CONSTRUCTION-IN-PROGRESS) - (PRIOR YEAR GROSS PROPERTY, PLANT, AND EQUIPMENT + CONSTRUCTION-IN-PROGRESS)) / (PRIOR YEAR NET PROPERTY, PLANT, AND EQUIPMENT + CONSTRUCTION-IN-PROGRESS) X 100 |
| AVERAGE AGE OF PLANT    | 9.94    | ACCUMULATED DEPRECIATION / DEPRECIATION EXPENSE   |
| NET PPE ASSETS PER BED  | 189,050 | (NET PROPERTY, PLANT, AND EQUIPMENT + CONSTRUCTION-IN-PROGRESS) / LICENSED BEDS (END OF PERIOD)   |

SUMMARY OF FINANCIAL AND UTILIZATION DATA FOR SELECTED COST CENTERS

| REVENUE-PRODUCING COST CENTERS  | UNITS OF SERVICE | UNIT CODE | GROSS REV PER UNIT | ADJ REV PER UNIT | ADJ DIRECT EXP PER UNIT | ADJ TOTAL EXP PER UNIT | PROFIT/LOSS PER UNIT |
|---------------------------------|------------------|-----------|--------------------|------------------|-------------------------|------------------------|----------------------|
| <b>DAILY HOSPITAL SERVICES</b>  |                  |           |                    |                  |                         |                        |                      |
| MEDICAL/SURGICAL INTENSIVE CARE | 3,382            | 1         | \$12,143.74        | \$2,412.18       | \$2,077.66              | \$3,191.08             | (\$778.90)           |
| CORONARY CARE                   |                  | 1         |                    |                  |                         |                        |                      |
| BURN CARE                       |                  | 1         |                    |                  |                         |                        |                      |
| DEFINITIVE OBSERVATION          |                  | 1         |                    |                  |                         |                        |                      |
| MEDICAL/SURGICAL ACUTE          | 23,730           | 1         | \$8,626.89         | \$1,713.61       | \$852.45                | \$1,693.67             | \$19.94              |
| PEDIATRIC ACUTE                 |                  | 1         |                    |                  |                         |                        |                      |
| PSYCHIATRIC ACUTE - ADULT       |                  | 1         |                    |                  |                         |                        |                      |
| OBSTETRICS ACUTE                | 2,580            | 1         | \$5,278.56         | \$1,048.51       | \$220.66                | \$603.67               | \$444.84             |
| ALTERNATE BIRTHING CENTER       |                  | 1         |                    |                  |                         |                        |                      |
| CHEMICAL DEPENDENCY SERVICES    |                  | 1         |                    |                  |                         |                        |                      |
| SKILLED NURSING CARE            | 163              | 1         | \$2,389.00         | \$474.54         | \$521.99                | \$10,398.96            | (\$9,924.42)         |
| TOTAL PATIENT CARE SERVICES     | 29,855           | 2         | \$8,701.87         | \$1,728.50       | \$934.84                | \$1,816.63             | (\$88.13)            |
| NURSERY ACUTE                   | 2,374            | 3         | \$2,716.55         | \$539.60         | \$581.35                | \$885.94               | (\$346.34)           |
| <b>AMBULATORY SERVICES</b>      |                  |           |                    |                  |                         |                        |                      |
| EMERGENCY SERVICES              | 35,412           | 4         | \$2,428.12         | \$482.31         | \$237.64                | \$389.76               | \$92.55              |
| CLINICS                         | 19,780           | 4         | \$63.99            | \$12.71          | \$101.97                | \$155.75               | (\$143.04)           |
| OBSERVATION CARE                |                  | 5         |                    |                  |                         |                        |                      |
| HOME HEALTH CARE SERVICES       |                  | 6         |                    |                  |                         |                        |                      |

| REVENUE-PRODUCING COST CENTERS    | UNITS OF SERVICE | UNIT CODE | GROSS REV PER UNIT | ADJ REV PER UNIT | ADJ DIRECT EXP PER UNIT | ADJ TOTAL EXP PER UNIT | PROFIT/LOSS PER UNIT |
|-----------------------------------|------------------|-----------|--------------------|------------------|-------------------------|------------------------|----------------------|
| <b>ANCILLARY SERVICES</b>         |                  |           |                    |                  |                         |                        |                      |
| LABOR AND DELIVERY SERVICES       | 1,042            | 7         | \$8,668.49         | \$1,721.87       | \$3,159.52              | \$4,846.24             | (\$3,124.37)         |
| SURGERY AND RECOVERY SERVICES     | 378,060          | 8         | \$156.98           | \$31.18          | \$7.73                  | \$17.93                | \$13.25              |
| MEDICAL SUPPLIES SOLD TO PATIENTS | 32,542           | 9         | \$873.49           | \$173.51         | \$114.86                | \$166.62               | \$6.88               |
| CLINICAL LABORATORY SERVICES      | 244,761          | 10        | \$143.79           | \$28.56          | \$21.71                 | \$33.04                | (\$4.48)             |
| CARDIAC CATHETERIZATION SERVICES  | 1,174            | 11        | \$28,769.29        | \$5,714.62       | \$2,789.69              | \$4,883.36             | \$831.25             |
| RADIOLOGY - DIAGNOSTIC            | 37,600           | 11        | \$468.50           | \$93.06          | \$119.95                | \$172.31               | (\$79.25)            |
| MAGNETIC RESONANCE IMAGING        | 696              | 11        | \$2,058.76         | \$408.94         | \$558.65                | \$764.31               | (\$355.37)           |
| COMPUTED TOMOGRAPHIC SCANNER      | 7,105            | 11        | \$4,076.58         | \$809.75         | \$208.18                | \$402.70               | \$407.06             |
| DRUGS SOLD TO PATIENTS            | 32,789           | 14        | \$550.62           | \$109.37         | \$69.84                 | \$203.95               | (\$94.57)            |
| RESPIRATORY THERAPY               | 32,225           | 12        | \$697.71           | \$138.59         | \$106.67                | \$162.07               | (\$23.48)            |
| LITHOTRIPSY SERVICES              |                  | 11        |                    |                  |                         |                        |                      |
| PHYSICAL THERAPY                  | 50,384           | 27        | \$212.14           | \$42.14          | \$32.49                 | \$55.62                | (\$13.48)            |

**NON-REVENUE PRODUCING COST CENTERS**

| COST CENTER                    | UNITS OF SERVICE | UNIT CODE  | ADJ DIRECT EXP PER UNIT |
|--------------------------------|------------------|------------|-------------------------|
| DIETARY                        | 90,557           | 16         | \$15.16                 |
| LAUNDRY AND LINEN              | 627,578          | 17         | \$0.98                  |
| SOCIAL WORK SERVICES           | 3,652            | 18         | \$122.35                |
| HOUSEKEEPING                   | 213,360          | 19         | \$9.61                  |
| PLANT OPERATIONS & MAINTENANCE | 213,361          | 20         | \$13.37                 |
| PATIENT ACCOUNTING             | 667,167          | 21         | \$6.50                  |
| ADMITTING                      | 6,722            | 22         | \$254.80                |
| <b>COST CENTER</b>             |                  |            |                         |
| COST CENTER                    | UNITS OF SERVICE | UNIT CODE* | ADJ DIRECT EXP PER UNIT |
| HOSPITAL ADMINISTRATION        | 856              | 23         | \$27,652.11             |
| MEDICAL RECORDS                | 39,193           | 24         | \$62.39                 |
| NURSING ADMINISTRATION         | 276              | 25         | \$3,792.57              |
| UTILIZATION MANAGEMENT         | 6,722            | 22         | \$288.14                |
| COMMUNITY HEALTH EDUCATION     |                  | 26         |                         |
| INSURANCE - MALPRACTICE        | 667,167          | 21         | \$1.31                  |
| INTEREST - OTHER               | 213,361          | 20         | \$16.10                 |

**UNIT CODE DESCRIPTIONS**

| UNIT CODE | <-----STANDARD UNIT OF MEASURE ----->                    |
|-----------|--|
| 1         | NUMBER OF PATIENT DAYS                                   |
| 2         | TOTAL PATIENT DAYS (EXCLUDING NEWBORN)                   |
| 3         | NUMBER OF NEWBORN DAYS                                   |
| 4         | NUMBER OF VISITS   |
| 5         | NUMBER OF OBSERVATION HOURS                              |
| 6         | NUMBER OF HOME HEALTH CARE VISITS                        |
| 7         | NUMBER OF DELIVERIES                                     |
| 8         | NUMBER OF OPERATING MINUTES                              |
| 9         | NUMBER OF CS & S ADJUSTED INPATIENT DAYS                 |
| 10        | NUMBER OF TESTS  |
| 11        | NUMBER OF PROCEDURES                                     |
| 12        | NUMBER OF RESPIRATORY THERAPY ADJUSTED INPATIENT DAYS    |
| 14        | NUMBER OF PHARMACY ADJUSTED INPATIENT DAYS               |
| 16        | NUMBER OF PATIENT MEALS                                  |
| 17        | NUMBER OF DRY AND CLEAN POUNDS PROCESSED                 |
| 18        | NUMBER OF PERSONAL CONTACTS                              |
| 19        | NUMBER OF SQUARE FEET SERVICED                           |
| 20        | NUMBER OF GROSS SQUARE FEET                              |
| 21        | \$ 1,000 OF GROSS PATIENT REVENUE                        |
| 22        | NUMBER OF ADMISSIONS                                     |
| 23        | NUMBER OF HOSPITAL FULL-TIME EQUIVALENT (FTE) EMPLOYEES  |
| 24        | NUMBER OF ADJUSTED INPATIENT DAYS                        |
| 25        | NUMBER OF NURSING SERVICE FULL-TIME EQUIVALENT PERSONNEL |
| 26        | NUMBER OF PARTICIPANTS                                   |
| 27        | NUMBER OF SESSIONS                                       |

PERCENTAGE OF HOURS AND AVERAGE HOURLY RATE BY EMPLOYEE CLASSIFICATION

| COST CENTER GROUP           | MANAGEMENT      | TECHNICAL      | REGISTERED | LICENSED   | AIDES         |
|-----------------------------|-----------------|----------------|------------|------------|---------------|
|                             | AND SUPERVISION | AND SPECIALIST |            | VOCATIONAL | AND ORDERLIES |
|                             |                 |                | NURSES     | NURSES     |               |
| DAILY HOSPITAL SERVICES     | 1.86%           | 9.10%          | 64.02%     | 1.54%      | 16.27%        |
| AMBULATORY SERVICES         | 5.42%           | 20.26%         | 49.89%     | 3.82%      | %             |
| ANCILLARY SERVICES          | 5.44%           | 55.77%         | 28.00%     | 0.54%      | 1.27%         |
| TOTAL PATIENT CARE SERVICES | 3.80%           | 28.71%         | 47.99%     | 1.53%      | 7.91%         |
| RESEARCH                    | %               | %              | %          | %          | %             |
| EDUCATION                   | %               | %              | %          | %          | %             |
| GENERAL SERVICES            | 10.52%          | 34.62%         | %          | %          | %             |
| FISCAL SERVICES             | 12.88%          | %              | %          | %          | %             |
| ADMINISTRATIVE SERVICES     | 45.33%          | 15.58%         | %          | %          | %             |
| TOTAL OPERATING COST CTRS   | 9.98%           | 25.76%         | 30.92%     | 0.98%      | 5.10%         |
| NON-OPERATING COST CENTERS  | %               | %              | %          | %          | %             |
| AVERAGE HOURLY RATE         | \$62.57         | \$41.65        | \$58.14    | \$34.67    | \$24.54       |

| COST CENTER GROUP           | ENVIRON.       | CLERICAL            | REGISTRY      | TOTAL            | TOTAL      |
|-----------------------------|----------------|---------------------|---------------|------------------|------------|
|                             | AND FOOD SERV. | AND OTHER EMPLOYEES | AND TEMP HELP | PRODUCTIVE HOURS | PAID HOURS |
| DAILY HOSPITAL SERVICES     | %              | 6.89%               | 0.31%         | 454,008          | 532,790    |
| AMBULATORY SERVICES         | %              | 20.61%              | %             | 161,688          | 184,154    |
| ANCILLARY SERVICES          | %              | 8.69%               | 0.29%         | 379,402          | 468,427    |
| TOTAL PATIENT CARE SERVICES | %              | 9.81%               | 0.25%         | 995,098          | 1,185,371  |
| RESEARCH                    | %              | %                   | %             |                  |            |
| EDUCATION                   | %              | %                   | %             |                  |            |
| GENERAL SERVICES            | 48.90%         | 5.95%               | 6.82%         | 249,271          | 300,843    |
| FISCAL SERVICES             | %              | 87.12%              | 1.05%         | 111,930          | 127,045    |
| ADMINISTRATIVE SERVICES     | %              | 39.09%              | 1.93%         | 166,968          | 190,432    |
| TOTAL OPERATING COST CTRS   | 7.89%          | 17.82%              | 1.55%         | 1,544,663        | 1,803,691  |
| NON-OPERATING COST CENTERS  | %              | %                   | %             |                  |            |
| AVERAGE HOURLY RATE         | \$27.28        | \$25.73             | \$60.72       |                  |            |

HOSPITAL PERSONNEL PROFILE

|  |     |                                  |     |
|--|-----|----------------------------------|-----|
| TOTAL NUMBER OF PRODUCTIVE HOSPITAL FTE'S*     | 731 | TOTAL NUMBER OF NURSING FTE'S**  | 276 |
| NUMBER OF NURSING REGISTRY AND TEMP HELP FTE'S | 2   | NUMBER OF NURSING REGISTRY FTE'S | 1   |

\* EXCLUDES REGISTRY NURSES AND TEMPORARY HELP  
 \*\*INCLUDES NURSING REGISTRY

USING DATA SUBMITTED BY FACILITY  
 FACILITY NO: 106010967  
 ST. ROSE HOSPITAL

HOSPITAL SUMMARY INDIVIDUAL DISCLOSURE REPORT

DATE PREPARED: 5/21/2014  
 PAGE: 1 OF 5  
 REPORT PERIOD: 10/01/2012  
 THRU 09/30/2013

27200 CALAROGA AVENUE  
 HAYWARD CA 945454383

PHONE NO: (510)264-4000  
 OWNER: HAYWARD SISTERS HOSPITAL

GENERAL INFORMATION

TYPE OF CONTROL: Non-Profit Corporation  
 TYPE OF CARE: General  
 LICENSED BEDS\*  
 INTENSIVE 15  
 ACUTE 180  
 LONG-TERM 22  
 OTHER  
 TOTAL 217  
 OCCUPANCY RATE 34.60%

COUNTY: Alameda  
 HSA NO: 05  
 AVAILABLE BEDS  
 INTENSIVE 15  
 ACUTE 180  
 LONG-TERM 22  
 OTHER  
 TOTAL 217  
 OCCUPANCY RATE 34.60%  
 NO. BASSINETS 20

HFPA NO: 0421  
 EMERGENCY SERVICES  
 X EMERGENCY ROOM  
 TRAUMA CENTER DESIGNATION  
 X OBSERVATION  
 X ORTHOPEDIC  
 X PSYCHIATRIC  
 X HELICOPTER

FINANCIAL AND UTILIZATION DATA BY PAYER

|   | TOTAL         | MEDICARE TRADITIONAL | MEDICARE MANAGED CARE | MEDI-CAL TRADITIONAL |
|---|---------------|----------------------|-----------------------|----------------------|
| Patient (Census) Days                       | 27,371        | 13,146               | 2,641                 | 3,880                |
| Hospital Discharges (Excluding Nursery)     | 6,153         | 2,957                | 592                   | 873                  |
| Average Length of Stay (Including L-T Care) | 4.4           | 4.4                  | 4.5                   | 4.4                  |
| Average Length of Stay (Excluding L-T Care) | 4.4           | 4.4                  | 4.5                   | 4.4                  |
| Outpatient Visits (Incl. ER Visits)         | 40,577        | 6,221                | 1,543                 | 3,508                |
| Outpatient Emergency Services Visits        | 26,489        | 4,039                | 969                   | 2,897                |
| Gross Inpatient Revenue                     | \$493,910,258 | \$211,260,945        | \$47,426,960          | \$76,616,431         |
| Gross Outpatient Revenue                    | \$184,069,616 | \$43,755,593         | \$10,803,778          | \$15,536,914         |
| Deductions From Revenue                     | \$556,580,293 | \$218,900,838        | \$47,500,000          | \$73,914,517         |
| Net Inpatient Revenue                       | \$90,449,654  | \$33,057,949         | \$8,739,822           | \$15,163,789         |
| Net Outpatient Revenue                      | \$30,949,927  | \$3,057,751          | \$1,990,916           | \$3,075,039          |
| Net Inpatient Revenue Per Day               | \$3,305       | \$2,515              | \$3,309               | \$3,908              |
| Net Inpatient Revenue Per Discharge         | \$14,700      | \$11,180             | \$14,763              | \$17,370             |
| Net Outpatient Revenue Per Visit            | \$763         | \$492                | \$1,290               | \$877                |
| Adjusted Patient Days                       | 37,572        |                      |                       |                      |
| Net Revenue Per Adj Patient Day             | \$3,231       |                      |                       |                      |
| Purchased Inpatient Days                    |               |                      |                       |                      |

FINANCIAL AND UTILIZATION DATA BY PAYER

|   | MEDI-CAL MANAGED CARE | CO. INDIGENT TRADITIONAL | CO. INDIGENT MANAGED CARE | THIRD PARTY TRADITIONAL |
|---|-----------------------|--------------------------|---------------------------|-------------------------|
| Patient (Census) Days                       | 4,137                 |                          |                           | 446                     |
| Hospital Discharges (Excluding Nursery)     | 956                   |                          |                           | 93                      |
| Average Length of Stay (Including L-T Care) | 4.3                   |                          |                           | 4.8                     |
| Average Length of Stay (Excluding L-T Care) | 4.3                   |                          |                           | 4.8                     |
| Outpatient Visits (Incl. ER Visits)         | 11,396                |                          |                           | 1,817                   |
| Outpatient Emergency Services Visits        | 8,686                 |                          |                           | 821                     |
| Gross Inpatient Revenue                     | \$83,091,225          |                          |                           | \$10,500,616            |
| Gross Outpatient Revenue                    | \$53,980,884          |                          |                           | \$12,765,211            |
| Deductions From Revenue                     | \$122,607,755         |                          |                           | \$20,000,000            |
| Net Inpatient Revenue                       | \$8,768,092           |                          |                           | \$1,500,616             |
| Net Outpatient Revenue                      | \$5,696,262           |                          |                           | \$1,765,211             |
| Net Inpatient Revenue Per Day               | \$2,119               |                          |                           | \$3,365                 |
| Net Inpatient Revenue Per Discharge         | \$9,172               |                          |                           | \$16,136                |
| Net Outpatient Revenue Per Visit            | \$500                 |                          |                           | \$971                   |
| Adjusted Patient Days                       |                       |                          |                           |                         |
| Net Revenue Per Adj Patient Day             |                       |                          |                           |                         |
| Purchased Inpatient Days                    |                       |                          |                           |                         |

FINANCIAL AND UTILIZATION DATA BY PAYER

|   | THIRD PARTY MANAGED CARE | OTHER INDIGENT | OTHER PAYERS |
|---|--------------------------|----------------|--------------|
| Patient (Census) Days                       | 1,319                    | 693            | 1,109        |
| Hospital Discharges (Excluding Nursery)     | 282                      | 152            | 248          |
| Average Length of Stay (Including L-T Care) | 4.7                      | 4.6            | 4.5          |
| Average Length of Stay (Excluding L-T Care) | 4.7                      | 4.6            | 4.5          |
| Outpatient Visits (Incl. ER Visits)         | 2,682                    | 2,085          | 11,325       |
| Outpatient Emergency Services Visits        | 2,156                    | 1,797          | 5,124        |
| Gross Inpatient Revenue                     | \$33,437,006             | \$12,622,343   | \$18,954,732 |
| Gross Outpatient Revenue                    | \$15,002,745             | \$8,113,778    | \$24,110,713 |
| Deductions From Revenue                     | \$24,838,477             | \$20,736,120   | \$28,082,586 |
| Net Inpatient Revenue                       | \$16,291,495             |                | \$6,927,891  |
| Net Outpatient Revenue                      | \$7,309,779              | \$1            | \$8,054,968  |
| Net Inpatient Revenue Per Day               | \$12,351                 |                | \$6,247      |
| Net Inpatient Revenue Per Discharge         | \$57,771                 |                | \$27,935     |
| Net Outpatient Revenue Per Visit            | \$2,725                  | \$0            | \$711        |
| Adjusted Patient Days                       |                          |                |              |
| Net Revenue Per Adj Patient Day             |                          |                |              |
| Purchased Inpatient Days                    |                          |                |              |

USING DATA SUBMITTED BY FACILITY  
 FACILITY NO:106010967  
 ST. ROSE HOSPITAL

HOSPITAL SUMMARY INDIVIDUAL DISCLOSURE REPORT

DATE PREPARED: 5/21/2014  
 PAGE: 2 OF 5  
 REPORT PERIOD: 10/01/2012  
 THRU 09/30/2013

LIVE BIRTH SUMMARY

|                    |            |
|--------------------|------------|
| NATURAL BIRTHS     | 652        |
| CEASAREAN SECTIONS | 175        |
| TOTAL LIVE BIRTHS  | <u>827</u> |

GROSS PATIENT REVENUE BY REVENUE CENTER

|                             |                      | PERCENT OF TOTAL |
|-----------------------------|----------------------|------------------|
| DAILY HOSPITAL SERVICES     | \$250,723,667        | 37.0             |
| AMBULATORY SERVICES         | \$108,447,915        | 16.0             |
| ANCILLARY SERVICES          | \$318,868,292        | 47.0             |
| TOTAL GROSS PATIENT REVENUE | <u>\$677,979,874</u> | 100.0            |

SUMMARY STATEMENT OF INCOME

|                                      |                      |
|--------------------------------------|----------------------|
| GROSS PATIENT REVENUE                | \$677,979,874        |
| PROVISION FOR BAD DEBT               | \$26,817,880         |
| MEDICARE TRAD. CONTRACTUAL ADJ       | \$218,900,838        |
| MEDICARE MANAGED CONTRACTUAL ADJ     | \$47,500,000         |
| MEDI-CAL TRAD. CONTRACTUAL ADJ       | \$77,208,010         |
| MEDI-CAL MANAGED CONTRACTUAL ADJ     | \$122,607,755        |
| DISPROPORTIONATE SHARE FUNDS REC'D   | (\$3,293,493)        |
| CO. INDIGENT TRAD. CONTRACTUAL ADJ   |                      |
| CO. INDIGENT MANAGED CONTRACTUAL ADJ |                      |
| THIRD PARTY TRAD. CONTRACTUAL ADJ    | \$20,000,000         |
| THIRD PARTY MANAGED CONTRACTUAL ADJ  | \$24,838,477         |
| CHARITY OTHER                        | \$20,736,120         |
| ALL OTHER DEDUCTIONS                 | \$1,264,706          |
| TOTAL DEDUCTIONS FROM REVENUE        | <u>\$556,580,293</u> |
| CAPITATION PREMIUM REVENUE           |                      |
| NET PATIENT REVENUE                  | \$122,399,581        |
| OTHER OPERATING REVENUE              | \$1,039,726          |
| TOTAL OPERATING REVENUE              | <u>\$125,416,217</u> |
| NET FROM OPERATIONS                  | (\$2,976,910)        |
| NON-OPERATING REVENUE                | + \$1,408,911        |
| NON-OPERATING EXPENSES               | -                    |
| PROVISION FOR INCOME TAXES           | -                    |
| EXTRAORDINARY ITEMS                  | -                    |
| NET INCOME                           | <u>(\$1,567,999)</u> |

OPERATING EXPENSES BY CLASSIFICATION

|                              |                      |
|------------------------------|----------------------|
| SALARIES AND WAGES           | \$58,928,310         |
| EMPLOYEE BENEFITS            | \$15,522,240         |
| PHYSICIANS PROFESSIONAL FEES | \$4,081,109          |
| OTHER PROFESSIONAL FEES      | \$875,178            |
| SUPPLIES                     | \$12,277,996         |
| PURCHASED SERVICES           | \$10,429,282         |
| DEPRECIATION                 | \$6,015,891          |
| LEASES AND RENTALS           | \$1,909,552          |
| INTEREST                     | \$2,942,702          |
| ALL OTHER EXPENSES           | \$12,433,957         |
| TOTAL OPERATING EXPENSES     | <u>\$125,416,217</u> |

ADJUSTED PATIENT REVENUE

|                             |  |
|-----------------------------|--|
| ADJUSTED INPATIENT REVENUE  |  |
| REVENUE PER DAY             |  |
| REVENUE PER DISCHARGE       |  |
| ADJUSTED OUTPATIENT REVENUE |  |
| REVENUE PER VISIT           |  |

OPERATING EXPENSES BY COST CENTER GROUP

|                               |                      |
|-------------------------------|----------------------|
| DAILY HOSPITAL SERVICES       | \$29,304,743         |
| AMBULATORY SERVICES           | \$9,542,985          |
| ANCILLARY SERVICES            | \$37,563,392         |
| PURCHASED INPATIENT SERVICES  |                      |
| PURCHASED OUTPATIENT SERVICES |                      |
| RESEARCH                      |                      |
| EDUCATION                     |                      |
| GENERAL SERVICES              | \$16,727,041         |
| FISCAL SERVICES               | \$4,070,275          |
| ADMINISTRATIVE SERVICES       | \$19,687,713         |
| UNASSIGNED COSTS              | \$8,520,068          |
| TOTAL OPERATING EXPENSES      | <u>\$125,416,217</u> |

ADJUSTED PATIENT EXPENSES

|                              |  |
|------------------------------|--|
| ADJUSTED INPATIENT EXPENSES  |  |
| EXPENSES PER DAY             |  |
| EXPENSES PER DISCHARGE       |  |
| ADJUSTED OUTPATIENT EXPENSES |  |
| EXPENSES PER VISIT           |  |

**BALANCE SHEET SUMMARY**

|                                    |                     |                              |                     |
|------------------------------------|---------------------|------------------------------|---------------------|
| TOTAL CURRENT ASSETS               | \$25,311,859        | TOTAL CURRENT LIABILITIES    | \$53,385,530        |
| LIMITED USE ASSETS                 | \$5,214,083         | DEFERRED INCOME              |                     |
| NET PROPERTY, PLANT, AND EQUIPMENT | \$36,152,894        | NET LONG-TERM DEBT           | \$37,178,988        |
| CONSTRUCTION-IN-PROGRESS           | \$293,434           | TOTAL LIABILITIES            | \$90,564,518        |
| OTHER ASSETS                       | \$3,306,234         |                              |                     |
| INTANGIBLE ASSETS                  |                     | EQUITY                       | (\$20,286,014)      |
| TOTAL ASSETS                       | <u>\$70,278,504</u> | TOTAL LIABILITIES AND EQUITY | <u>\$70,278,504</u> |

**FINANCIAL RATIO FORMULAS**

**LIQUIDITY RATIOS**

**FORMULAS**

|                             |   |
|-----------------------------|---|
| CURRENT RATIO               | .57 (TOTAL CURRENT ASSETS + BOARD DESIG. CASH + BOARD DESIG. INVESTMENTS) / TOTAL CURRENT LIABILITIES         |
| ACID TEST RATIO             | .15 (CASH + MARKETABLE SECURITIES + BOARD DESIG. CASH + BOARD DESIG. INVESTMENTS) / TOTAL CURRENT LIABILITIES |
| DAYS IN ACCOUNTS RECEIVABLE | 29.87 NET ACCOUNTS RECEIVABLE / (NET PATIENT REVENUE / DAYS IN REPORT PERIOD)                                 |
| BAD DEBT RATE               | 3.96% (PROVISION FOR BAD DEBTS / TOTAL GROSS PATIENT REVENUE) X 100   |

**DEBT, RISK, AND LEVERAGE RATIOS**

|   |  |
|---|--|
| LONG-TERM DEBT TO ASSETS RATE                         | 52.90% (NET LONG-TERM DEBT / TOTAL ASSETS) X 100   |
| DEBT SERVICE COVERAGE RATIO                           | 1.05 (NET INCOME + INTEREST-WORKING CAPITAL + INTEREST-OTHER + DEPRECIATION EXPENSE) / (PRINCIPAL PAYMENTS ON SHORT-TERM AND LONG-TERM DEBT, NOTES, AND LOANS + INTEREST-WORKING CAPITAL + INTEREST-OTHER) |
| INTEREST EXPENSE AS A PERCENTAGE OF OPERATING EXPENSE | 2.35% ((INTEREST-WORKING CAPITAL + INTEREST-OTHER) / TOTAL OPERATING EXPENSE) X 100  |

**PROFITABILITY RATIOS**

|                                |   |
|--------------------------------|---|
| NET RETURN ON OPERATING ASSETS | (.06%) ((NET FROM OPERATIONS + INTEREST-WORKING CAPITAL + INTEREST-OTHER) / (TOTAL CURRENT ASSETS + NET PROPERTY, PLANT AND EQUIPMENT)) X 100 |
| NET RETURN ON EQUITY           | 7.73% (NET INCOME / EQUITY) X 100   |
| OPERATING MARGIN               | (2.43%) (NET FROM OPERATIONS / TOTAL OPERATING REVENUE) X 100   |
| TURNOVER ON OPERATING ASSETS   | 1.99 TOTAL OPERATING REVENUE / (TOTAL CURRENT ASSETS + NET PROPERTY, PLANT, AND EQUIPMENT)  |

**FIXED ASSET RATIOS**

|                         |   |
|-------------------------|---|
| FIXED ASSET GROWTH RATE | (1.42%) ((CURRENT YEAR GROSS PROPERTY, PLANT AND EQUIPMENT + CONSTRUCTION-IN-PROGRESS) - (PRIOR YEAR GROSS PROPERTY, PLANT, AND EQUIPMENT + CONSTRUCTION-IN-PROGRESS)) / (PRIOR YEAR NET PROPERTY, PLANT, AND EQUIPMENT + CONSTRUCTION-IN-PROGRESS) X 100 |
| AVERAGE AGE OF PLANT    | 10.38 ACCUMULATED DEPRECIATION / DEPRECIATION EXPENSE   |
| NET PPE ASSETS PER BED  | 167,955 (NET PROPERTY, PLANT, AND EQUIPMENT + CONSTRUCTION-IN-PROGRESS) / LICENSED BEDS (END OF PERIOD)   |

**SUMMARY OF FINANCIAL AND UTILIZATION DATA FOR SELECTED COST CENTERS**

| REVENUE-PRODUCING COST CENTERS  | UNITS OF SERVICE | UNIT CODE | GROSS REV PER UNIT | ADJ REV PER UNIT | ADJ DIRECT EXP PER UNIT | ADJ TOTAL EXP PER UNIT | PROFIT/LOSS PER UNIT |
|---------------------------------|------------------|-----------|--------------------|------------------|-------------------------|------------------------|----------------------|
| <b>DAILY HOSPITAL SERVICES</b>  |                  |           |                    |                  |                         |                        |                      |
| MEDICAL/SURGICAL INTENSIVE CARE | 3,345            | 1         | \$13,129.45        |                  | \$2,178.56              |                        |                      |
| CORONARY CARE                   |                  | 1         |                    |                  |                         |                        |                      |
| BURN CARE                       |                  | 1         |                    |                  |                         |                        |                      |
| DEFINITIVE OBSERVATION          |                  | 1         |                    |                  |                         |                        |                      |
| MEDICAL/SURGICAL ACUTE          | 21,917           | 1         | \$9,104.68         |                  | \$922.46                |                        |                      |
| PEDIATRIC ACUTE                 |                  | 1         |                    |                  |                         |                        |                      |
| PSYCHIATRIC ACUTE - ADULT       |                  | 1         |                    |                  |                         |                        |                      |
| OBSTETRICS ACUTE                | 2,109            | 1         | \$534.89           |                  | \$157.32                |                        |                      |
| ALTERNATE BIRTHING CENTER       |                  | 1         |                    |                  |                         |                        |                      |
| CHEMICAL DEPENDENCY SERVICES    |                  | 1         |                    |                  |                         |                        |                      |
| SKILLED NURSING CARE            |                  | 1         |                    |                  |                         |                        |                      |
| TOTAL PATIENT CARE SERVICES     | 27,371           | 2         | \$8,936.22         |                  | \$1,017.34              |                        |                      |
| NURSERY ACUTE                   | 1,897            | 3         | \$3,231.62         |                  | \$769.14                |                        |                      |
| <b>AMBULATORY SERVICES</b>      |                  |           |                    |                  |                         |                        |                      |
| EMERGENCY SERVICES              | 34,787           | 4         | \$3,106.67         |                  | \$255.77                |                        |                      |
| CLINICS                         | 3,821            | 4         | \$63.99            |                  | \$102.21                |                        |                      |
| OBSERVATION CARE                |                  | 5         |                    |                  |                         |                        |                      |
| HOME HEALTH CARE SERVICES       |                  | 6         |                    |                  |                         |                        |                      |

USING DATA SUBMITTED BY FACILITY  
 FACILITY NO:106010967  
 ST. ROSE HOSPITAL

HOSPITAL SUMMARY INDIVIDUAL DISCLOSURE REPORT

DATE PREPARED: 5/21/2014  
 PAGE: 4 OF 5  
 REPORT PERIOD: 10/01/2012  
 THRU 09/30/2013

| REVENUE-PRODUCING COST CENTERS    | UNITS OF SERVICE | UNIT CODE | GROSS REV PER UNIT | ADJ REV PER UNIT | ADJ DIRECT EXP PER UNIT | ADJ TOTAL EXP PER UNIT | PROFIT/LOSS PER UNIT |
|-----------------------------------|------------------|-----------|--------------------|------------------|-------------------------|------------------------|----------------------|
| <b>ANCILLARY SERVICES</b>         |                  |           |                    |                  |                         |                        |                      |
| LABOR AND DELIVERY SERVICES       | 827              | 7         | \$22,200.26        |                  | \$4,965.84              |                        |                      |
| SURGERY AND RECOVERY SERVICES     | 395,927          | 8         | \$157.47           |                  | \$7.16                  |                        |                      |
| MEDICAL SUPPLIES SOLD TO PATIENTS | 31,831           | 9         | \$224.60           |                  | \$120.66                |                        |                      |
| CLINICAL LABORATORY SERVICES      | 220,681          | 10        | \$186.07           |                  | \$23.44                 |                        |                      |
| CARDIAC CATHETERIZATION SERVICES  | 82,815           | 11        | \$448.06           |                  | \$40.77                 |                        |                      |
| RADIOLOGY - DIAGNOSTIC            | 32,838           | 11        | \$697.56           |                  | \$114.82                |                        |                      |
| MAGNETIC RESONANCE IMAGING        | 2,641            | 11        | \$844.12           |                  | \$84.07                 |                        |                      |
| COMPUTED TOMOGRAPHIC SCANNER      | 8,844            | 11        | \$4,076.10         |                  | \$128.72                |                        |                      |
| DRUGS SOLD TO PATIENTS            | 30,077           | 14        | \$540.76           |                  | \$70.12                 |                        |                      |
| RESPIRATORY THERAPY               | 30,401           | 12        | \$633.86           |                  | \$116.41                |                        |                      |
| LITHOTRIPSY SERVICES              |                  | 11        |                    |                  |                         |                        |                      |
| PHYSICAL THERAPY                  | 30,133           | 27        | \$281.58           |                  | \$46.91                 |                        |                      |

**NON-REVENUE PRODUCING COST CENTERS**

| COST CENTER                    | UNITS OF SERVICE | UNIT CODE  | ADJ DIRECT EXP PER UNIT |
|--------------------------------|------------------|------------|-------------------------|
| DIETARY                        | 72,587           | 16         | \$17.00                 |
| LAUNDRY AND LINEN              | 611,377          | 17         | \$0.83                  |
| SOCIAL WORK SERVICES           | 3,652            | 18         | \$137.02                |
| HOUSEKEEPING                   | 190,404          | 19         | \$9.94                  |
| PLANT OPERATIONS & MAINTENANCE | 213,386          | 20         | \$13.93                 |
| PATIENT ACCOUNTING             | 677,980          | 21         | \$1.57                  |
| ADMITTING                      | 7,060            | 22         | \$230.40                |
| <b>COST CENTER</b>             |                  |            |                         |
| COST CENTER                    | UNITS OF SERVICE | UNIT CODE* | ADJ DIRECT EXP PER UNIT |
| HOSPITAL ADMINISTRATION        | 683              | 23         | \$18,539.55             |
| MEDICAL RECORDS                | 37,572           | 24         | \$61.80                 |
| NURSING ADMINISTRATION         | 226              | 25         | \$3,974.49              |
| UTILIZATION MANAGEMENT         | 7,060            | 22         | \$272.46                |
| COMMUNITY HEALTH EDUCATION     |                  | 26         |                         |
| INSURANCE - MALPRACTICE        | 677,980          | 21         | \$1.05                  |
| INTEREST - OTHER               | 213,386          | 20         | \$13.79                 |

**UNIT CODE DESCRIPTIONS**

| UNIT CODE | <-----STANDARD UNIT OF MEASURE ----->                    |
|-----------|--|
| 1         | NUMBER OF PATIENT DAYS                                   |
| 2         | TOTAL PATIENT DAYS (EXCLUDING NEWBORN)                   |
| 3         | NUMBER OF NEWBORN DAYS                                   |
| 4         | NUMBER OF VISITS   |
| 5         | NUMBER OF OBSERVATION HOURS                              |
| 6         | NUMBER OF HOME HEALTH CARE VISITS                        |
| 7         | NUMBER OF DELIVERIES                                     |
| 8         | NUMBER OF OPERATING MINUTES                              |
| 9         | NUMBER OF CS & S ADJUSTED INPATIENT DAYS                 |
| 10        | NUMBER OF TESTS  |
| 11        | NUMBER OF PROCEDURES                                     |
| 12        | NUMBER OF RESPIRATORY THERAPY ADJUSTED INPATIENT DAYS    |
| 14        | NUMBER OF PHARMACY ADJUSTED INPATIENT DAYS               |
| 16        | NUMBER OF PATIENT MEALS                                  |
| 17        | NUMBER OF DRY AND CLEAN POUNDS PROCESSED                 |
| 18        | NUMBER OF PERSONAL CONTACTS                              |
| 19        | NUMBER OF SQUARE FEET SERVICED                           |
| 20        | NUMBER OF GROSS SQUARE FEET                              |
| 21        | \$ 1,000 OF GROSS PATIENT REVENUE                        |
| 22        | NUMBER OF ADMISSIONS                                     |
| 23        | NUMBER OF HOSPITAL FULL-TIME EQUIVALENT (FTE) EMPLOYEES  |
| 24        | NUMBER OF ADJUSTED INPATIENT DAYS                        |
| 25        | NUMBER OF NURSING SERVICE FULL-TIME EQUIVALENT PERSONNEL |
| 26        | NUMBER OF PARTICIPANTS                                   |
| 27        | NUMBER OF SESSIONS                                       |

PERCENTAGE OF HOURS AND AVERAGE HOURLY RATE BY EMPLOYEE CLASSIFICATION

| COST CENTER GROUP           | MANAGEMENT      | TECHNICAL      | REGISTERED | LICENSED          | AIDES         |
|-----------------------------|-----------------|----------------|------------|-------------------|---------------|
|                             | AND SUPERVISION | AND SPECIALIST | NURSES     | VOCATIONAL NURSES | AND ORDERLIES |
| DAILY HOSPITAL SERVICES     | 1.10%           | 7.86%          | 69.20%     | 2.29%             | 10.82%        |
| AMBULATORY SERVICES         | 2.88%           | 14.69%         | 62.54%     | 3.30%             | %             |
| ANCILLARY SERVICES          | 4.59%           | 60.08%         | 25.17%     | 0.59%             | 0.05%         |
| TOTAL PATIENT CARE SERVICES | 2.86%           | 30.06%         | 50.76%     | 1.74%             | 4.94%         |
| RESEARCH                    | %               | %              | %          | %                 | %             |
| EDUCATION                   | %               | %              | %          | %                 | %             |
| GENERAL SERVICES            | 7.93%           | 32.79%         | %          | %                 | %             |
| FISCAL SERVICES             | 17.88%          | %              | %          | %                 | %             |
| ADMINISTRATIVE SERVICES     | 51.22%          | 19.55%         | %          | %                 | %             |
| TOTAL OPERATING COST CTRS   | 8.90%           | 27.08%         | 34.33%     | 1.18%             | 3.34%         |
| NON-OPERATING COST CENTERS  | %               | %              | %          | %                 | %             |
| AVERAGE HOURLY RATE         | \$0.00          | \$0.00         | \$0.00     | \$0.00            | \$0.00        |

| COST CENTER GROUP           | ENVIRON.       | CLERICAL            | REGISTRY      | TOTAL            | TOTAL      |
|-----------------------------|----------------|---------------------|---------------|------------------|------------|
|                             | AND FOOD SERV. | AND OTHER EMPLOYEES | AND TEMP HELP | PRODUCTIVE HOURS | PAYD HOURS |
| DAILY HOSPITAL SERVICES     | %              | 8.64%               | %             | 372,656          | 429,129    |
| AMBULATORY SERVICES         | %              | 16.59%              | %             | 112,937          | 130,428    |
| ANCILLARY SERVICES          | %              | 8.35%               | 0.17%         | 333,399          | 418,408    |
| TOTAL PATIENT CARE SERVICES | %              | 9.62%               | 0.07%         | 818,992          | 977,965    |
| RESEARCH                    | %              | %                   | %             |                  |            |
| EDUCATION                   | %              | %                   | %             |                  |            |
| GENERAL SERVICES            | 53.54%         | 5.74%               | 0.18%         | 188,773          | 214,385    |
| FISCAL SERVICES             | %              | 82.12%              | %             | 100,050          | 112,565    |
| ADMINISTRATIVE SERVICES     | %              | 29.23%              | 1.43%         | 101,583          | 118,734    |
| TOTAL OPERATING COST CTRS   | 8.34%          | 16.63%              | 0.19%         | 1,211,197        | 1,423,649  |
| NON-OPERATING COST CENTERS  | %              | %                   | %             |                  |            |
| AVERAGE HOURLY RATE         | \$0.00         | \$0.00              | \$0.00        |                  |            |

HOSPITAL PERSONNEL PROFILE

|  |     |                                  |     |
|--|-----|----------------------------------|-----|
| TOTAL NUMBER OF PRODUCTIVE HOSPITAL FTE'S*     | 581 | TOTAL NUMBER OF NURSING FTE'S**  | 226 |
| NUMBER OF NURSING REGISTRY AND TEMP HELP FTE'S | 1   | NUMBER OF NURSING REGISTRY FTE'S |     |

\* EXCLUDES REGISTRY NURSES AND TEMPORARY HELP  
 \*\*INCLUDES NURSING REGISTRY

**Exhibit 3**

Audited Financial Statements

**HAYWARD SISTERS HOSPITAL  
dba ST. ROSE HOSPITAL  
AND AFFILIATES**

**September 30, 2013**

TCA Partners, LLP  
Certified Public Accountants

HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL  
AND AFFILIATES

Audited Financial Statements

September 30, 2013

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# **TCA Partners, LLP**

A Certified Public Accountancy Limited Liability Partnership

1111 East Herndon Avenue, Suite 211, Fresno, CA 93720  
Voice (559) 431-7708 Fax (559) 431-7685

## *Independent Auditor's Report on Financial Statements*

To the Board of Trustees  
Hayward Sisters Hospital  
dba St. Rose Hospital and Affiliates  
Hayward, California

### *Report on the Financial Statements*

We have audited the accompanying consolidated balance sheet of Hayward Sisters Hospital dba St. Rose Hospital and Affiliates (St. Rose) as of September 30, 2013, and the related consolidated statements of operations and changes in net assets and consolidated cash flows for the year then ended.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

An audit 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. Rose at September 30, 2013, and the results of its consolidated operations and its consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

***Other Matter***

The consolidated financial statements of St. Rose as of September 30, 2012, were audited by other auditors whose report dated June 14, 2013, expressed an unmodified opinion on those statements.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

***TCA Partners, LLP***

Fresno, California  
December 19, 2013

HAYWARD SISTERS HOSPITAL  
dba St. ROSE HOSPITAL AND AFFILIATES

Consolidated Balance Sheets

September  
2013                      2012

|   | <u>2013</u> | <u>2012</u> |
|---|-------------|-------------|
| <b>Assets</b>                                 |             |             |
| Current assets                                |             |             |
| Cash and cash equivalents                     |             |             |
| Investments                                   |             |             |
| Patient accounts receivable                   |             |             |
| Provider fee receivable                       |             |             |
| Supplies and other current assets             |             |             |
| Assets limited as to use                      |             |             |
| Total current assets                          |             |             |
| Assets limited as to use                      |             |             |
| Property and equipment, net                   |             |             |
| Other noncurrent assets                       |             |             |
| Total assets                                  |             |             |
| <b>Liabilities and net assets (deficit)</b>   |             |             |
| Current liabilities                           |             |             |
| Accounts payable                              |             |             |
| Accrued payroll and other related liabilities |             |             |
| Provider fee and CHFT grant payable           |             |             |
| Retention liability                           |             |             |
| Estimated third-party payor settlements       |             |             |
| Current portion of capital lease obligations  |             |             |
| Current portion of long-term debt             |             |             |
| Total current liabilities                     |             |             |
| Long-term obligations                         |             |             |
| Capital lease obligations, net of current     |             |             |
| Long-term debt, net of current                |             |             |
| Severance liability                           |             |             |
| Retention liability and other, net of current |             |             |
| Total long-term obligations                   |             |             |
| Pension benefit obligation                    |             |             |
| Total liabilities                             |             |             |
| Net assets (deficit)                          |             |             |
| Unrestricted                                  |             |             |
| Permanently restricted                        |             |             |
| Total net assets (deficit)                    |             |             |
| Total liabilities and net assets (deficit)    |             |             |

See accompanying notes to the consolidated financial statements

HAYWARD SISTERS HOSPITAL  
dba St. ROSE HOSPITAL AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

|   | September<br><u>2013</u> | <u>2012</u> |
|---|--------------------------|-------------|
| <b>Unrestricted revenues, gains and other support</b> |                          |             |
| Patient service revenues, net                         |                          |             |
| Other operating revenues                              |                          |             |
| Total unrestricted revenues, gains and other support  |                          |             |
| <b>Expenses</b>                                       |                          |             |
| Salaries, employee benefits and contract labor        |                          |             |
| Purchased services and other                          |                          |             |
| Provider fees paid                                    |                          |             |
| Supplies  |                          |             |
| Depreciation and amortization                         |                          |             |
| Interest  |                          |             |
| Total expenses  |                          |             |
| Operating loss  |                          |             |
| <b>Non-operating income (expense)</b>                 |                          |             |
| Investment income                                     |                          |             |
| Change in unrealized gains/losses on securities       |                          |             |
| Other   |                          |             |
| Change in pension benefit obligation                  |                          |             |
| Total non-operating income                            |                          |             |
| Decrease in unrestricted net assets                   |                          |             |
| <b>Change in Permanently Restricted Net Assets</b>    |                          |             |
| Net unrealized gain on investments                    |                          |             |
| Increase in permanently restricted net assets         |                          |             |
| Decrease in net assets                                |                          |             |
| Net deficit, beginning of year                        |                          |             |
| Net deficit, end of year                              |                          |             |

*See accompanying notes to the consolidated financial statements*

**HAYWARD SISTERS HOSPITAL  
dba St. ROSE HOSPITAL AND AFFILIATES**

Consolidated Statements of Cash Flows

|   | September<br><u>2013</u> | <u>2012</u> |
|---|--------------------------|-------------|
| <b>Cash flows from operating activities</b>   |                          |             |
| Change in net assets  |                          |             |
| Adjustments to reconcile changes in net assets<br>to net cash used in operating activities: |                          |             |
| Depreciation  |                          |             |
| Loss on disposal of assets  |                          |             |
| Change in operating assets and liabilities:   |                          |             |
| Patient accounts receivable, net  |                          |             |
| Supplies and other current assets   |                          |             |
| Estimated third-party settlements   |                          |             |
| Provider fees receivable, net   |                          |             |
| Accounts payable and accrued liabilities  |                          |             |
| Accrued payroll and related liabilities   |                          |             |
| Severance liability   |                          |             |
| Pension benefit obligation  |                          |             |
| Retention liability   |                          |             |
| Net cash provided by operating activities   |                          |             |
| <b>Cash flows from investing activities</b>   |                          |             |
| Purchases of property and equipment   |                          |             |
| Change in assets limited as to use  |                          |             |
| Change in short-term investments  |                          |             |
| Change in other noncurrent assets   |                          |             |
| Net cash used in investing activities   |                          |             |
| <b>Cash flows from financing activities</b>   |                          |             |
| Principal payments on capital lease obligations   |                          |             |
| Proceeds from long-term debt obligations  |                          |             |
| Payments on long-term obligations   |                          |             |
| Net cash used in financing activities   |                          |             |
| Net increase (decrease) in cash and<br>cash equivalents                                     |                          |             |
| Cash and cash equivalents, beginning of year  |                          |             |
| Cash and cash equivalents, end of year  |                          |             |
| <b>Supplemental Disclosures of Cash Flow Information</b>                                    |                          |             |
| Cash paid for interest  |                          |             |

*See accompanying notes to the consolidated financial statements*

# HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL AND AFFILIATES

## Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

### **Note 1- Organization and Significant Accounting Policies**

**Description of organization:** Hayward Sisters Hospital dba St. Rose Hospital (the Hospital) is a California acute, general, not-for-profit, 195-bed facility serving the needs of the population of southern Alameda County and its environs. The Hospital provides primary and secondary medical and surgical services. The Hospital is the sole corporate member of St. Rose Medical Office Building (MOB) and the St. Rose Hospital Foundation (the Foundation).

**Basis of presentation:** The accompanying consolidated financial statements include the accounts of St. Rose and affiliates (hereinafter collectively referred to as St. Rose) after elimination of intercompany transactions and balances. Principal affiliates include St. Rose Medical Office Building and the St. Rose Hospital Foundation.

The consolidated financial statements of St. Rose include the accounts of the Foundation and MOB. All significant intercompany transactions and balances have been eliminated in consolidation. In addition, these statements follow generally accepted accounting principles in the United States of America (U.S. GAAP) applicable to the health care industry as described in Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) Topic 954.

**Use of estimates:** The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Cash equivalents:** For purposes of the consolidated financial statements, cash equivalents consist primarily of highly liquid marketable securities with an original maturity of three months or less when purchased by St. Rose.

One or more of the financial institutions holding St. Rose's cash accounts are participating in the Federal Deposit Insurance Corporation's (FDIC) Transaction Account Guarantee Program. Under the program, through September 30, 2013, all noninterest-bearing transaction accounts at these institutions are fully guaranteed by the FDIC for the entire amount in the account. Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012 at all FDIC-insured institutions. Deposits held noninterest-bearing transaction accounts subsequent to December 31, 2012 are now aggregated with any interest-bearing deposits and the combined total is insured up to at least \$250,000.

HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL  
AND AFFILIATES

Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 1- Organization and Significant Accounting Policies (continued)**

**Short-term investments:** All investments in marketable debt and equity securities are measured at fair value in the consolidated balance sheets. The investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the change in unrestricted net assets unless their use is temporarily or permanently restricted by donor or law.

Substantially all of St. Rose's investments in debt and equity securities are classified as trading securities. This classification requires St. Rose to recognize unrealized gains and losses on substantially all of its investments in debt and equity securities as investment income in the consolidated statements of operations and changes in net assets.

Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. It is reasonably possible that changes in the value of investments could occur and such changes would affect the amounts reported.

**Patient accounts receivable:** St. Rose has agreements with third-party payers that provide for payments at amounts different from St. Rose's established rates. St. Rose regularly reviews accounts and contracts and provides appropriate contractual allowances that are netted against patient accounts receivable in the consolidated balance sheets. Management periodically reviews the adequacy of the allowance for doubtful accounts based on historical experience, trends in health care coverage and other collection indicators. Allowances for charity and doubtful amounts have been established and are netted against patient accounts receivable in the consolidated balance sheets.

As part of St. Rose's mission to serve the community, St. Rose provides care to patients even though they may lack adequate insurance or may participate in programs with negotiated or regulated reimbursement amounts. St. Rose makes every effort to determine if a patient qualifies for charity care upon admission, though determination may also be made at a later time. After satisfaction of amounts due from insurance, the application of any financial, uninsured or other discounts or payments received on the account, and reasonable efforts to collect from the patient have been exhausted, St. Rose follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by St. Rose.

**HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL  
AND AFFILIATES**

Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 1- Organization and Significant Accounting Policies (continued)**

Patient receivables, where a third-party payer is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Patient receivables due directly from the patients are carried at the original charge for the service provided, less amounts covered by third-party payers and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. Patient receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

**Estimated third-party payer settlements:** Certain of St. Rose's arrangements with third-party payors provide for interim reimbursement that is subject to retroactive adjustment and settlement. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Assets limited as to use:** The Board of Trustees has a policy of setting aside certain assets to be used for future development of the organization. Such assets are included in assets limited as to use in the accompanying consolidated balance sheets. Amounts available to meet current liabilities of St. Rose have been classified as current assets in the consolidated balance sheets. In addition, investments under bond agreements are recorded as assets limited as to use. Assets limited as to use are generally stated at fair value, with the related unrealized appreciation or depreciation reported in the consolidated statements of operations and changes in net assets.

**Fair value of financial instruments:** The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable and accrued liabilities approximate fair values due to their short maturities. The fair value of investments and debt is disclosed in Note 4.

**Supplies and other current assets:** Supplies, which consist primarily of medical and pharmaceutical supplies, are stated at the lower of cost or market, determined by the first-in, first-out method. Inventories are reviewed for obsolescence on a periodic basis. Other current assets include prepaid insurance payments that are amortized over the life of the insurance policy and certain deposits.

**HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL  
AND AFFILIATES**

Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 1- Organization and Significant Accounting Policies (continued)**

**Property and equipment:** Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method

Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Leasehold improvements are amortized over the shorter of the life of the lease or the estimated useful life of the improvements. Interest cost incurred on tax-exempt borrowings for designated capital projects is capitalized until those projects are placed in service. The cost is included as a component of the cost of acquiring those assets.

Gifts of long-lived assets, such as land, buildings or equipment, are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Costs associated with the development and installation of software are accounted for in accordance with the Intangibles-Goodwill and Other, Internal Use Software Subtopic of the FASB ASC. Accordingly, internal-use software costs are expensed or capitalized according to the provisions of the accounting standard. Salaries and benefits capitalized for the year ended September 30, 2012 was approximately \$114,000. There were no salaries and benefits capitalized for the year ended September 30, 2013.

**Deferred financing costs and original issue discounts/premiums on bond issue indebtedness:** Certain costs and original issue discounts/premiums incurred in connection with the issuance of long-term debt have been deferred and are being amortized over the estimated average life of the related debt using the straight-line method, which approximates the effective interest method. Deferred financing costs are included in other noncurrent assets and original issue discounts/premiums are recorded with the related debt.

HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL  
AND AFFILIATES

Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 1- Organization and Significant Accounting Policies (continued)**

**Asset impairment:** St. Rose evaluates the carrying value of its long-lived assets for impairment 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 the carrying value of an asset exceeds the estimated recoverability, an asset impairment charge is recognized. No asset impairment charges were recorded in 2013 or 2012.

**Asset retirement obligations:** St. Rose recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, St. Rose capitalizes the costs of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of operations and changes in net assets.

**Retention liability:** St. Rose insures for workers' compensation, employee health claims and professional liability under high deductible policies. These liabilities are reflected as retention liability on the consolidated balance sheets.

**Self-insurance plan for health benefits:** St. Rose is self-insured for employee health claims with a self-insured retention of [REDACTED] per employee per year, and has insurance coverage for claims in excess of [REDACTED] per employee per year. Total gross expenses under this program amounted to approximately [REDACTED] and [REDACTED] for the years ended September 30, 2013 and 2012, respectively. Self-insured employee health claims payable, including an estimate for incurred but not reported claims, were approximately [REDACTED] and [REDACTED] at September 30, 2013 and 2012, respectively. Based on historical experience, management believes that the established reserves are sufficient to cover reported claims and incurred but not reported claims. Management recognized an estimated liability based upon St. Rose's historical claims experience within stop-loss coverage limits. The claim reserve is based on the best data available to St. Rose; however, the estimate is subject to a significant degree of inherent variability. Such an estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of employee health liability claims is dependent on future developments, management is of the opinion that the associated liability recognized in the accompanying consolidated financial statements is adequate to cover such claims. Management is aware of no potential employee health liability whose settlement, if any, would have a material adverse effect on St. Rose's consolidated financial position.

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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 1- Organization and Significant Accounting Policies (continued)**

**Professional and general liability insurance:** St. Rose has a commercial insurance policy for malpractice and general liability claims. The policy is written on a claims-made basis with a [REDACTED] deductible per claim for 2013 and 2012, and a liability limit of [REDACTED] per occurrence and in aggregate per policy period for both years. Management's estimate of St. Rose's liability for expected losses from reported and unreported incidents is based on information obtained from St. Rose's actuary and St. Rose's claims managers. The liability is determined based on St. Rose's insurance policy coverage and is not discounted at September 30, 2013 and 2012. Expenses under the program were [REDACTED] and [REDACTED] for the years ended September 30, 2013 and 2012, respectively. Accrued professional and general liability, including an estimate for incurred but not reported claims, was approximately [REDACTED] and [REDACTED] at September 30, 2013 and 2012, respectively.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during their terms but reported subsequent to their termination may be uninsured. Such an estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of malpractice liability claims is dependent on future developments, management is of the opinion that the associated liability recognized in the accompanying consolidated financial statements is adequate to cover such claims. Management is aware of no potential malpractice liability whose settlement, if any, would have a material adverse effect on St. Rose's consolidated financial position.

**Workers' compensation:** St. Rose has a commercial insurance policy for workers' compensation and employer's liability claims. The deductibles for prior policy periods are: [REDACTED] per claim for claims incurred from July 2005 through June 2008; [REDACTED] per claim for claims incurred from July 2008 through June 2011; and [REDACTED] per claim for claims incurred from July 2011 through June 2014. The policy covers state-required statutory workers' compensation benefits and employer's liability benefits with a limit of [REDACTED] per claim. The accrual for St. Rose's liability includes the unpaid portion of claims that have been reported and estimates of amounts incurred for claims that have been incurred but not reported. Management recognized an estimated liability based upon St. Rose's historical claims experience within deductible coverage limits.

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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 1- Organization and Significant Accounting Policies (continued)**

Total gross expenses under this program amounted to approximately [REDACTED] and [REDACTED] for the years ended September 30, 2013 and 2012, respectively. Workers' compensation insurance claims payable, including an estimate for incurred but not reported claims, were approximately [REDACTED] and [REDACTED] at September 30, 2013 and 2012, respectively. Based on historical experience, management believes that the established reserves are sufficient to cover reported claims and incurred but not reported claims. The claim reserve is based on the best data available to St. Rose; however, the estimate is subject to a significant degree of inherent variability. Such an estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of workers' compensation liability claims is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements is adequate to cover such claims.

Under this insurance arrangement, St. Rose maintains letters of credit with a bank totaling [REDACTED]. Management is aware of no potential workers' compensation liability whose settlement, if any, would have a material adverse effect on St. Rose's consolidated financial position.

**Contributions and net assets:** Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of St. Rose and changes therein are classified and reported as follows:

**Unrestricted net assets:** Net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted net assets:** Temporarily restricted net assets are net assets that are subject to donor-imposed stipulations. These are stipulations that may or will be met either by actions of St. Rose and/or the passage of time. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. St. Rose has no temporarily restricted net assets at September 30, 2013 or 2012.

# HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL AND AFFILIATES

## Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

### Note 1- Organization and Significant Accounting Policies (continued)

**Permanently restricted net assets:** Permanently restricted net assets are net assets subject to donor-imposed stipulations that they be maintained by St. Rose in perpetuity. The Board of Trustees has interpreted California's enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of permanently restricted donations absent explicit donor stipulations to the contrary. As a result of this interpretation, St. Rose classifies as permanently restricted net assets (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the permanently restricted fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Generally, the donors of these assets permit St. Rose to use all or part of the investment return on these assets and the donor agreements allow St. Rose to appropriate for distribution each year 5 percent of its endowment fund's prior year average fair value. Permanently restricted net assets are commingled with St. Rose's other investments and returns are allocated to the permanently restricted fund on a pro rata basis.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets. A restriction expires when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Temporarily restricted contributions are recorded as restricted revenue when received, and when the restriction expires, the net assets are shown as released from restriction on the consolidated statements of operations and changes in net assets. Investment income on temporarily or permanently restricted net assets is recorded within the respective net asset category, and when the restriction expires, the net assets are shown as released from restriction.

**Excess (deficit) of revenues, gains and other support over expenses:** The consolidated statements of operations and changes in net assets include excess (deficit) of revenues, gains and other support over expenses. Changes in unrestricted net assets that are excluded from excess (deficit) of revenues, gains and other support *over* expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions that, by donor restriction, were to be used for the purposes of acquiring such assets).

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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 1- Organization and Significant Accounting Policies (continued)**

**Operating income (loss):** The consolidated statements of operations and changes in net assets include operating income (loss). Changes in unrestricted net assets that are excluded from operating income (loss) primarily include investment income and changes in gains and losses on trading securities, which management views as outside of St. Rose's normal operating activity.

**Net patient service revenues:** St. Rose reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. St. Rose provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, St. Rose bills third-party payors directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

**Charity care and unreimbursed healthcare costs:** St. Rose provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because St. Rose does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. St. Rose provides services without charge or at amounts less than its established rates, to patients who meet criteria of its charity care policy. The criteria for charity care consider the patient's ability to pay and will not be abridged on the basis of age, sex, race, creed, disability, sexual orientation or national origin. St. Rose maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services furnished under its charity care policy. Charges foregone for these services amounted to approximately [REDACTED] and [REDACTED] for the years ended September 30, 2013 and 2012, respectively. St. Rose's uncompensated cost for charity care totaled approximately [REDACTED] and [REDACTED] during the years ended September 30, 2013 and 2012, respectively. The uncompensated cost to St. Rose for charity care was computed based on a cost-to-charge ratio of 21 percent and 19 percent applied to charity care charges foregone for the years ended September 30, 2013 and 2012, respectively..

# HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL AND AFFILIATES

## Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

### **Note 1- Organization and Significant Accounting Policies (continued)**

During 2013 and 2012, over 52 percent and 54 percent of the patients admitted to the Hospital, respectively, were low-income, including 44 percent and 49 percent Medi-Cal eligible and 7 percent and 5 percent uninsured, respectively. In 2012, over 10,000 low-income children were treated at St. Rose's pediatric clinic and over 25,000 low-income patients were served in St. Rose's emergency room. In 2013, there were no low-income children treated at St. Rose's pediatric clinic and over 23,000 low-income patients were served in St. Rose's emergency room. St. Rose is the only disproportionate share hospital in Central and Southern Alameda County. None of the aforementioned services include the large number of Medicare patients who are also low-income.

In addition, St. Rose provides many programs and services at nominal or no charge, which are designed to benefit the broader community. These programs and services include health and well-being education, medications and medical supplies, a short-stay OB program, and an education reimbursement program. St. Rose also operates a 24-hour physician-staffed emergency program. The costs for these services are included in operating expenses in the consolidated statements of operations and changes in net assets.

**Income taxes:** St. Rose is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Thus, no provision for income taxes is included in the accompanying consolidated financial statements.

St. Rose follows the accounting guidance for accounting for uncertainty in income taxes. St. Rose is subject to federal and state income taxes to the extent it has unrelated business income. In accordance with the guidance for uncertainty in income taxes, management has evaluated its material tax positions and determined that there are no income tax effects with respect to its financial statements.

St. Rose is no longer subject to examination by federal or state authorities for years prior to September 30, 2010, nor has it been notified of any impending examination and no examinations are currently in process.

**Recent accounting pronouncements:** In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820)-Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which amended ASC 820, *Fair Value Measurement*, to change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. St. Rose adopted the provisions of ASU 2011-04 beginning October 1, 2011. The adoption of ASU 2011-04 did not have a material impact on St. Rose's consolidated financial statements.

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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 1- Organization and Significant Accounting Policies (continued)**

In July 2011, the FASB issued ASU 2011-07, *Health Care Entities (Topic 954)-Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which requires greater transparency regarding a health care entity's net patient revenue and the related allowance for doubtful accounts. ASU 2011-07 requires certain health care entities to change the provision of the bad debts associated with patient service revenue by reclassifying the provision from operating expense to a deduction from net patient service revenue and requires enhanced disclosures about net patient service revenue and the policies for recognizing revenue and assessing bad debts. The Update is effective for St. Rose's fiscal year 2013. St. Rose early adopted the provisions of ASU 2011-07 in 2012 and reflected the reclassification of provision for bad debts from operating expenses to a contra-revenue for the year ended September 30, 2012.

**Reclassification:** Certain prior year amounts have been reclassified to conform with the current year's financial statement presentation.

**Note 2- Management's Plans**

As reflected in the accompanying financial statements, St. Rose has incurred significant operating losses in recent years. St. Rose has sustained a consolidated operating loss for the fiscal years ending September 30, 2013 and 2012 of approximately [REDACTED] and [REDACTED] respectively. At September 30, 2013 St. Rose had negative working capital of [REDACTED] and accumulated Unrestricted Net Deficits of [REDACTED]

St Rose's loss for 2013 is a result of providing a disproportionate amount of care to the uninsured/underinsured population and health plan contractual reimbursements that are below market rates.

The infrastructure expenses (general and administrative) required to support the delivery of patient care is relatively fixed and significant.

On October 19, 2012, St. Rose's Board of Trustees entered into an interim management agreement with Alecto Healthcare and agreed to submit to California's Attorney General for approval the required documents for Alecto's long term management agreement and option to purchase St. Rose Hospital. During this time period, Cal Mortgage, which insures the bonds and working capital credit facility, exercised its rights under the insurance bond agreement to reconstitute the St. Rose Hospital's Board of Trustees. The Board membership was reduced from 16 members to 5 members.

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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 2- Management's Plans (continued)**

Additionally as outlined in the Alecto Management Agreement, Cal Mortgage agreed to fully insure a [REDACTED] increase in the existing working capital credit facility. This increased the credit borrowing capacity from [REDACTED] to [REDACTED]. Currently, [REDACTED] is drawn on the credit line.

St. Rose had a net loss of approximately [REDACTED] for the fiscal year ending September 30, 2013. In addition, the Hospital ended the fiscal year with negative [REDACTED] in working capital and held cash and cash equivalents of only [REDACTED] and short-term investments of [REDACTED]. The cash used in operations and negative working capital amounts raise substantial doubt concerning St. Rose's ability to continue as a going concern for a reasonable period of time.

Due to the significant resources allocated to uninsured and under insured patients, management believes the gap in funding shortfall for operation can be narrowed but not closed without continued supplemental funding from Federal, State and County programs. During 2013, the Hospital received [REDACTED] in supplemental funding from health plans and Measure A funds from Alameda County. Additional funding from DSH and other supplemental funding program funds were received in the amount of approximately [REDACTED] for fiscal year ending September 30, 2013.

In order to lessen the deficit, the Board of Trustees froze the defined benefit plan effective December 15, 2012. The Hospital was incurring approximately [REDACTED] a year in benefit expenses associated with the plan. Management sought to have Public Benefit Guarantee Corporation (PBGC) to take over ownership and administration of the plan thereby relieving the Hospital of [REDACTED] in plan liabilities. The Hospital is still in discussions with PBGC as this request remains open. Presently the Hospital's delinquent contributions exceed [REDACTED] and Management does not anticipate cash flows will be sufficient to make any plan contributions in the foreseeable future. Management has reviewed the services and product lines offered by the Hospital. Effective January 1, 2013 the Hospital transferred operations of the Silva Clinic and Occupational Medicine Clinic to the physicians. The clinic operations were not generating sufficient cash to meet the operational expenses. The Hospital was subsidizing the short fall by [REDACTED] per year. Due to transfer of clinic operations, subsidy is limited to [REDACTED] for the fiscal year.

Management has renegotiated certain vendor contracts. Management has also reached settlements with other certain vendors on past due amounts. These negotiations have resulted in an approximately [REDACTED] reduction in liabilities. Additionally, renegotiation of operating leases has resulted in [REDACTED] in future savings.

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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 2- Management's Plans (continued)**

There can be no assurance that the plans and actions proposed by management will be successful or that unforeseen circumstances will not require St. Rose to seek additional supplemental funding to continue operations. In addition, there can be no assurance that in the event additional supplemental funds are needed they will be available as St. Rose funding requests could be denied by various governmental agencies.

**Note 3- Net Patient Service Revenues**

St. Rose has agreements with third-party payers that provide for payments at amounts different from its established rates. These payment agreements include the following:

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

Outpatient and home health services are paid on prospective payment methodologies that are based on the clinical classification of the services provided.

For those services that St. Rose is paid on a cost reimbursement basis, a tentative rate is initially computed with a final settlement determined after submission of an annual cost report by St. Rose and completion of an audit thereof by the Medicare fiscal intermediary. At September 30, 2013, St. Rose's cost reports have been audited by the Medicare intermediary through 2011.

**Medicaid:** Inpatient services rendered to California Medicaid (Medi-Cal) program beneficiaries are based on a prospectively established contracted per diem rate. Outpatient services are reimbursed on a fee-for-service basis from predetermined fee schedules. Open settlements at September 30, 2013 are considered minor.

**Managed care organizations:** St. Rose participates as a provider of health care services under agreements with certain managed care organizations and under contracts negotiated with area employers. The terms of each contract will vary, but typically include either prospectively determined per diem rates, established rates for specific procedures, or a negotiated discounted rate offered by St. Rose for services provided to patients covered under the plan.

# HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL AND AFFILIATES

## Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

### Note 3- Net Patient Service Revenues (continued)

**Provider fee program:** In January 2010, the State of California enacted legislation that provided for supplemental Medi-Cal payments to certain hospitals funded by a quality assurance fee paid by participating hospitals and matching federal funds (the 2010 Hospital Fee Program). The legislation covered the period from April 1, 2009 through December 31, 2010. The most recent provider fee legislation was enacted in September 2011, covering the 30 months from July 1, 2011 through December 31, 2013. St. Rose recognizes provider fee revenues and expense related to the approved provider fee program through the year ended September 30, 2013. Advocacy efforts are currently underway to promote the enactment of provider fee arrangements to cover periods beyond December 2013 and preliminary reports indicate that the program will be extended. However, there is no certainty that such efforts will be successful and that these payments will continue.

The California Hospital Association created a private program, California Health Foundation and Trust (CHFT), for several purposes, including aggregating and distributing financial resources to support charitable activities at various hospitals and health systems in California.

Net patient service revenue in the consolidated statements of operations and changes in net assets includes approximately [REDACTED] and [REDACTED] related to supplemental Medi-Cal payments provided under the California provider fee programs in 2013 and 2012, respectively. St. Rose recorded provider fee expenses of approximately [REDACTED] and [REDACTED] in 2013 and 2012, respectively. Grant payments to the CHFT were recognized in connection with the provider fee programs, resulting in [REDACTED] and [REDACTED] recorded in purchased services and other expenses in 2013 and 2012, respectively. Net supplemental payments recognized in 2013 and 2012 related to the provider fee program were approximately [REDACTED] and [REDACTED] respectively.

**Concentration of credit risk:** St. Rose provides health care services through its inpatient and outpatient care facilities located in and around Hayward, California. St. Rose grants credit to patients, substantially all of whom are local residents. St. Rose generally does not require collateral or other security in extending credit to patients. St. Rose changed its billing system in 2012 to record receivables net of contractual allowances, which affects the comparability of patient accounts receivable from period to period.

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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 3- Net Patient Service Revenues (continued)**

The distribution of net patient accounts receivable by payor at September 30, 2013 and September 30, 2012 was as follows:

|                            | <u>2013</u> | <u>2012</u> |
|----------------------------|-------------|-------------|
| Medi-Cal                   |             |             |
| Managed care organizations |             |             |
| Medicare                   |             |             |
| Commercial and other       |             |             |
| Self pay                   |             |             |

**Note 4- Fair Value of Assets**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Guidance provided by the FASB describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the same measurement date. Financial assets and liabilities in Level 1 include U.S. Treasury securities and listed equities.
- Level 2: Pricing inputs are based upon quoted prices for similar instruments 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 and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds and interest rate swaps.
- Level 3: Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models and similar techniques. Financial assets in this category include alternative investments.

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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 4- Fair Value of Assets (continued)**

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy:

**Trading securities:** Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include exchange-traded equities mutual funds and certain cash equivalents. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

**Assets limited as to use:** These assets consist primarily of cash and short-term investments. The carrying amounts reported in the consolidated balance sheets approximate fair value.

**Other noncurrent assets:** Beneficial interests in perpetual trusts utilize significant unobservable inputs in estimating fair value due to their unique features, including no active market for selling the beneficial interests. Discounted present value calculations of future cash flows are used to approximate fair values of St. Rose's beneficial interest in the perpetual trust. Because the underlying assets of the perpetual trust are Level 1 investments for which quoted market values were available at September 30, 2013, St. Rose determined that its 50 percent share in the trust could be calculated by multiplying the trust's total fair value by St. Rose's share in the trust, which closely approximated the discounted present value of the trust assets.

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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 4- Fair Value of Assets (continued)**

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall:

|  | September 30, 2013 |                |                |                |
|--|--------------------|----------------|----------------|----------------|
|  | <u>Fair value</u>  | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| <b>Trading securities</b>  |                    |                |                |                |
| Cash and cash equivalents  |                    |                | \$ -           | \$ -           |
| Corporate backed obligations   |                    |                | -              | -              |
| Mutual funds   |                    |                | -              | -              |
| Equity securities  |                    |                | -              | -              |
| Total trading securities   |                    |                | -              | -              |
| <b>Assets limited as to use</b>  |                    |                |                |                |
| Cash and cash equivalents  |                    |                | -              | -              |
| Corporate backed obligations   |                    |                | -              | -              |
| Mutual funds   |                    |                | -              | -              |
| Equity securities  |                    |                | -              | -              |
| Total trading securities   |                    |                | -              | -              |
| Total beneficial interest in perpetual trust included in other noncurrent assets |                    |                |                |                |
| Total  | \$                 |                |                |                |

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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 4- Fair Value of Assets (continued)**

|  | September 30, 2012 |                |                |                |
|--|--------------------|----------------|----------------|----------------|
|  | <u>Fair value</u>  | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Trading securities   |                    |                |                |                |
| Cash and cash equivalents  | \$                 |                | \$ -           | \$ -           |
| Corporate backed obligations   |                    |                | -              | -              |
| Mutual funds   |                    |                | -              | -              |
| Equity securities  |                    |                | -              | -              |
| Total trading securities   |                    |                | <u>-</u>       | <u>-</u>       |
| Assets limited as to use   |                    |                |                |                |
| Cash and cash equivalents  |                    |                |                | -              |
| Corporate backed obligations   |                    |                |                | -              |
| Mutual funds   |                    |                |                | -              |
| Equity securities  |                    |                |                | -              |
| Total trading securities   |                    |                |                | <u>-</u>       |
| Total beneficial interest in perpetual trust included in other noncurrent assets |                    |                |                |                |
| Total  |                    |                |                |                |

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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 4- Fair Value of Assets (continued)**

The following represents assets limited as to use held by trustee at September 30, 2013 and 2012:

|   | <u>2013</u> | <u>2012</u> |
|---|-------------|-------------|
| Project fund                                      | \$          | \$          |
| Project fund, taxable                             |             |             |
| Interest Fund                                     |             |             |
| Principal Fund                                    |             |             |
| Cash and cash equivalents                         | —           | —           |
| Current assets                                    | =           | =           |
| <br>  |             |             |
| Bond reserve fund- 2009A                          |             |             |
| Bond reserve fund- 2009B                          | —           | —           |
| Noncurrent assets                                 | —           | —           |
| Total assets limited as to<br>use held by trustee | \$          | \$          |

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

|   | <u>Beneficial<br/>Interest in<br/>Perpetual<br/>Trust</u> |
|---|---|
| Balance, September 30, 2011   | \$  |
| Total unrealized gain included<br>included in decrease in net<br>assets | —   |
| Balance, September 30, 2012   | —   |
| Total unrealized loss included<br>in decrease in net assets             | —   |
| Balance, September 30, 2013   | \$  |

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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 4- Fair Value of Assets (continued)**

The following methods were used to estimate the fair value of all other financial instruments:

- The carrying amounts of cash and cash equivalents, patient accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the relatively short-term maturities of these instruments.
- The fair value of St. Rose's revenue bond debt, line-of-credit borrowings, capital lease obligations and other loans are estimated based on market prices or by performing a discounted cash flow analysis utilizing St. Rose's current incremental borrowing rates for similar borrowing arrangements as of the consolidated balance sheet date. The fair value of the bonds was approximately \$42,400,000 and \$44,800,000, and the remaining fair value of St. Rose's line-of- credit borrowings, capital lease obligations and other loans approximates the carrying value, as of September 30, 2013 and 2012, respectively. St. Rose classifies the fair value of all debt instruments as Level 2 within the fair value hierarchy.

Investment income for assets limited as to use, cash and cash equivalents, and investments primarily comprises interest income. Unrestricted investment income and net realized and unrealized gains consist of the following for the years ended September 30, 2013 and 2012:

|   |           | 2013 | 2012 |
|---|-----------|------|------|
| Interest and dividend income              | \$        |      |      |
| Net realized gain (loss)                  |           |      |      |
| Net unrealized gain on trading securities |           |      |      |
|   | <u>\$</u> |      |      |

**HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL  
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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 5- Property and Equipment**

Property and equipment consisted of the following at September 30:

|  | 2013 | 2012 |
|--|------|------|
| Land and improvements                          | \$   |      |
| Buildings and fixed equipment                  |      |      |
| Movable equipment                              |      |      |
| Equipment under capital lease obligations      |      |      |
| Less accumulated depreciation and amortization |      |      |
| Construction in progress                       |      |      |
| Property and equipment, net                    |      |      |

Accumulated amortization for equipment under capital lease obligations was [REDACTED] and [REDACTED] for the years ended September 30, 2013 and 2012, respectively. Depreciation and amortization expense for the years ended September 30, 2013 and 2012 was [REDACTED] and [REDACTED] respectively.

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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 6- Long-term Obligations**

Long-term debt and capital lease obligations consisted of the following at September 30, 2013 and 2012:

|  | <u>2013</u> | <u>2012</u> |
|--|-------------|-------------|
| <b>Long-term debt</b>  |             |             |
| Revenue Bonds, Series 2009A; interest payments are due monthly at varying rates between 4.75% and 5.62%, with terms maturing at May 15, 2019 and May 15, 2029, respectively; principal payments are due to ABAG Finance Authority starting in 2018, collateralized by a pledge of the Hospital's gross receipts. | [REDACTED]  | [REDACTED]  |
| Revenue Bonds, Series 2009B; interest payments are due monthly at 4.375% and 5.50%, for the two-term series, maturing at May 15, 2014 and May 15, 2017, respectively; principal payments are due to ABAG Finance Authority starting in 2010, collateralized by a pledge of the Hospital's gross receipts.        | [REDACTED]  | [REDACTED]  |
| Revolving line-of-credit agreement of \$11,500,000 with City National Bank, under which the bank has agreed to make loans at the greater of 2.00%, the LIBOR interest rate plus 2.25% or the fluctuating Prime Rate plus 0.25% per annum, with a revolving loan maturity date of June 1, 2013.                   | [REDACTED]  | [REDACTED]  |

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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 6- Long-term Obligations (continued)**

|  | <u>2013</u> | <u>2012</u> |
|--|-------------|-------------|
| Note payable to Fremont Bank, payable in fixed monthly installments through 2017, fixed interest of 7.14% collateralized by an interest in real estate as outlined in the Deed of Trust dated July 23, 2007. | 891,738     | 914,857     |
| Bridge loan, Eden Township Healthcare, installments through 2013, fixed interest rate of 3.25%, secured by security agreement.   | [REDACTED]  |             |
| Total long-term debt   |             |             |
| Capital lease obligations, at varying rates of imputed interest from 6.8% to 9.3%, collateralized by leased equipment.   |             |             |
| Total long-term debt and capital lease obligations   |             |             |
| Less current portion   | [REDACTED]  |             |

On November 26, 2012, City National Bank increased the revolving line-of-credit limit from [REDACTED] to [REDACTED] upon receipt of a [REDACTED] guarantee from Cal Mortgage and extended the revolving line-of-credit due date to June 1, 2014.

Payment for the bridge loan from Eden Township Healthcare was extended to September 1, 2014. In December 2011, [REDACTED] was paid on this loan. The remaining balance of [REDACTED] has not been repaid nor has any demand for payment been made. The bridge loan is included in the current portion of long-term debt on the accompanying consolidated balance sheet as of September 30, 2013.

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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 6- Long-term Obligations (continued)**

Scheduled principal repayments on long-term obligations and payments on capital lease obligations are as follows:

| <u>Years ending September 30,</u>             | <u>Long-Term<br/>Debt</u> | <u>Capital Lease<br/>Obligations</u> |
|---|---------------------------|--------------------------------------|
| 2014  |                           |                                      |
| 2015  |                           |                                      |
| 2016  |                           |                                      |
| 2017  |                           |                                      |
| Thereafter                                    |                           |                                      |
| Less interest under capital lease obligations |                           |                                      |

St. Rose's loan agreements contain restrictive covenants, including maintenance of certain debt and liquidity ratios, and limitations on the amount of annual capital expenditures.

St. Rose's management determined that at September 30, 2013, St. Rose was not in compliance with the financial covenants of its Series 2009A and 2009B Revenue Bonds. These covenants require a debt service coverage ratio of at least 1.5 times the aggregate annual debt service, a current ratio of at least 1.5 and not less than 30 days cash on hand. In the event any one of these financial ratios is not met, the covenant requires, absent a waiver from the Trustee, management to engage a third-party management consultant to perform a review of St. Rose's financial and nonfinancial operations. As described in greater detail in Note 2, St. Rose has implemented measures to improve its financial performance, including entering into management and purchase option agreements. On February 26, 2014, St. Rose received a deferral of action notice, including waiving the requirement to employ a management consultant from the bond insurer for St. Rose's failure to meet the above covenants.

**HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL  
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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 7- Permanently Restricted Net Assets**

Permanently restricted net assets include donor-restricted endowments from which the earnings are to be used for the following purposes at September 30, 2013 and 2012:

|  | <u>2013</u>   | <u>2012</u>   |
|--|---|---|
| Installation and acquisition of medical equipment and improving patient care | \$ <span style="background-color: black; color: black;">██████████</span> | \$ <span style="background-color: black; color: black;">██████████</span> |

**Note 8- Pension Plan**

Eligible associates of St. Rose may participate in the St. Rose Hospital Cash Balance Pension Plan (the Plan), a funded contributory defined-benefit pension plan that covers substantially all St. Rose's employees. St. Rose contributed ██████████ to the Plan during the year ended September 30, 2012. St. Rose made no contributions to the Plan during the year ended September 30, 2013.

On October 17, 2012, St. Rose amended the Plan to curtail member benefits accrual earnings for services after December 15, 2012. In addition, all active participants were granted full vesting as of December 15, 2012. As a result of the curtailment and accelerated vesting, the Plan recognized a ██████████ reduction to the benefit liability and an associated gain of ██████████ on curtailment as well as a special termination benefit from the accelerated vesting of ██████████

**HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL  
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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 8- Pension Plan (continued)**

The following table sets forth information regarding the Plan as of and for the years ended September 30, 2013 and 2012:

|   | <u>2013</u> | <u>2012</u> |
|---|-------------|-------------|
| Change in benefit obligation                                  |             |             |
| Benefit obligation, beginning of year                         | \$          |             |
| Service cost  |             |             |
| Interest cost   |             |             |
| Plan participants' contributions                              |             |             |
| Actuarial loss  |             |             |
| Benefits paid   |             |             |
| Special termination loss                                      |             |             |
| Curtailment   |             |             |
| Settlements   |             |             |
| Benefit obligation, end of year                               | <u>\$</u>   |             |
| Change in Plan assets   |             |             |
| Fair value of Plan assets, beginning of year                  | \$          |             |
| Actual return on Plan assets                                  |             |             |
| Employer contributions  |             |             |
| Plan participants' contributions                              |             |             |
| Benefits paid   |             |             |
| Settlements   |             |             |
| Fair value of Plan assets, end of year                        | <u>—</u>    |             |
| Funded status, benefit obligation in excess<br>of plan assets | <u>\$</u>   |             |

**HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL  
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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 8- Pension Plan (continued)**

|   | <u>2013</u> | <u>2012</u> |
|---|-------------|-------------|
| Components of net periodic pension cost               |             |             |
| Service cost  | \$          |             |
| Interest cost on projected benefit obligation         |             |             |
| Expected return on Plan assets                        |             |             |
| Net amortization of unrecognized prior service credit |             |             |
| Amortization of actuarial net loss                    |             |             |
| Special termination benefit loss                      |             |             |
| Curtailment gain                                      |             |             |
| Settlement  |             |             |
| Net periodic pension cost                             | <u>\$</u>   |             |

Plan items not yet recognized as a component of net period pension cost, but included as a separate component of unrestricted net assets, at September 30, 2013 and 2012 are as follows:

|                                   | <u>2013</u> | <u>2012</u> |
|-----------------------------------|-------------|-------------|
| Unrecognized net actuarial loss   |             |             |
| Unrecognized prior service credit |             |             |
| Net periodic pension cost         | <u>\$</u>   |             |

The estimated net actuarial loss and prior service credit that will be amortized as a component of net period pension cost during the year ending September 30, 2013 are [REDACTED] and [REDACTED] respectively.

The following weighted-average assumptions were used to determine the Plan's benefit obligations as of September 30, 2013 and 2012:

|  | <u>2013</u> | <u>2012</u> |
|--|-------------|-------------|
| Discount rate  | 3.80%       | 4.79%       |
| Rate of increase in compensation levels - through 2012   | 0.00%       | 0.00%       |
| Rate of increase in compensation levels - 2013 and after | 3.00%       | 3.00%       |

**HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL  
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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 8- Pension Plan (continued)**

The following weighted-average assumptions were used to determine the Plan's net periodic benefit cost for the years ended September 30:

|  | <u>2013</u> | <u>2012</u> |
|--|-------------|-------------|
| Discount rate  | 3.80%       | 4.79%       |
| Expected long-term rate of return on Plan assets         | 8.00%       | 8.00%       |
| Rate of increase in compensation levels - through 2012   | 0.00%       | 0.00%       |
| Rate of increase in compensation levels - 2013 and after | 3.00%       | 3.00%       |

Expected benefits to be paid in the next 10 years as calculated by the consulting actuary are:

| <u>Years ending September 30,</u> | <u>Amount</u>   |
|-----------------------------------|---|
| 2014                              | \$         |
| 2015                              |            |
| 2016                              |            |
| 2017                              |            |
| 2018                              |            |
| Thereafter                        |            |
|                                   | <u>\$ </u> |

**Plan assets:** St. Rose Hospital established the Plan effective August 15, 2005. The Plan is administered by the Plan Sponsor, St. Rose Hospital, and is a contributory defined-benefit plan intended to qualify under Section 401(a) of the IRC.

Target and actual asset allocations at September 30, 2013 and 2012 are:

|                        | <u>Target</u> | <u>2013</u> | <u>2012</u> |
|------------------------|---------------|-------------|-------------|
| Interest bearing cash  | 3%            | 4%          | 2%          |
| Bonds and fixed income | 35%           | 34%         | 33%         |
| Domestic equity        | 52%           | 59%         | 62%         |
| International equity   | 10%           | 3%          | 3%          |
|                        | <u>100%</u>   | <u>100%</u> | <u>100%</u> |

# HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL AND AFFILIATES

## Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

### **Note 8- Pension Plan (continued)**

Participants earn a benefit according to the terms of the Plan. As a cash balance plan, benefits are expressed as a notional account. In general, participants earn a "contribution credit" equal to a percentage of pay (if they worked at least 1,000 hours) plus interest each year on the balance in their notional account. The percentage of pay ranges from 3.0% to 11.5% depending on service and union status. Interest each year is based on the 30-year Treasury rate. For 2012 and 2013, this rate is 3.04% and 3.96%, respectively, and non-union participants contribute 3 percent of pay into the pension trust and will receive a minimum benefit of at least a return on their contributions with interest.

Participants are 100% vested in their benefits under the Plan upon completion of three years of service and are always 100% vested in their own contributions with interest. Upon termination, retirement or death, participants are able to begin to receive the benefit they earned under the Plan. Participants have options as to how they take their benefit. The default option is a life or joint and survivor annuity. However, most participants elect a lump-sum payment of their account balance.

Prior to the curtailment, St. Rose's contribution policy was to make contributions in an amount not less than the minimum required to maintain the Plan's tax qualified status. After the curtailment, St. Rose does not plan to make future contributions to the Plan. As a result of exceeding \$1.5 million in delinquent contributions in 2013, the PBGC may impose a lien on St. Rose's assets.

The broad-based investment goals of the Plan are to: (1) at a minimum, preserve the inflation-adjusted value of the pension assets after administrative cost and benefit payments; (2) prudently invest assets in a high-quality, diversified manner; (3) achieve the optimal return possible within the specified risk parameters; (4) achieve the actuarial earnings assumptions; and (5) adhere to the established guidelines.

The split among various asset classes, particularly the equity versus fixed-income ratio, is the most significant decision to affect the overall volatility of results. The assets are viewed as having long-term horizon with low to moderate liquidity constraints. The goal is to maximize returns over the long term, and accordingly, performance will be measured and reviewed regularly, the long-term allocation will be reviewed at least annually, and the asset allocation will be particularly rebalanced as the asset allocation nears the minimum and maximum of the established ranges.

HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL  
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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 8- Pension Plan (continued)**

The Plan asset portfolio's target allocation for total return investment strategies, which include interest bearing cash, bonds and fixed income, domestic equity and international equity, is 82%. The portfolio's target fixed-income exposure is 35 percent. Investments in domestic and international equities are held to improve diversification and thereby enhance long-term, risk-adjusted returns. However, recognizing that these investments are not as liquid as publicly traded stocks and bonds, portfolio investment policies limit overall exposure to these assets. The portfolio's allocation to private equities and real estate is limited to a maximum of 62 percent. St. Rose reviews performance, asset allocation and risk management reports for the Plan asset portfolio on a monthly basis.

Investments in debt securities are limited to a minimum quality of BBB and the average quality shall be no less than AA. Equity investments will be well diversified. Leverage of the portfolio is prohibited.

Investment advisors and managers will place investments and will exercise stockholder's rights and other authority, as they may from time to time possess, in a manner consistent with and in furtherance of such principles.

The long-term rate of return reflects the average rate of earnings expected on the funds invested to provide for benefits in the future. In estimating this rate, appropriate consideration was given to the returns currently being earned by Plan assets and the rates of return expected to be available for reinvestment. The present and expected asset mix was taken into account. The long-term rate is expected to be less volatile than the actual rate of return on assets, since the expected rate not only considers current returns, but also reinvestment rates in the future. This rate will generally be the same each year, unless the asset mix and/or asset returns are expected to significantly change in the future.

HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL  
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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 8- Pension Plan (continued)**

The fair values of the Plan's assets at September 30, by asset category, are as follows:

|                          |    | September 30, 2013 |         |         |         |
|--------------------------|----|--------------------|---------|---------|---------|
|                          |    | Fair value         | Level 1 | Level 2 | Level 3 |
| Interest bearing cash    | \$ |                    |         | \$ -    | \$ -    |
| Bonds and fixed income   |    |                    |         | -       | -       |
| Domestic equity          |    |                    |         | -       | -       |
| International equity     |    |                    |         | -       | -       |
| Total trading securities | \$ |                    |         | \$ -    | \$ -    |

|                          |    | September 30, 2012 |         |         |         |
|--------------------------|----|--------------------|---------|---------|---------|
|                          |    | Fair value         | Level 1 | Level 2 | Level 3 |
| Interest bearing cash    | \$ |                    |         | \$ -    | \$ -    |
| Bonds and fixed income   |    |                    |         | -       | -       |
| Domestic equity          |    |                    |         | -       | -       |
| International equity     |    |                    |         | -       | -       |
| Total trading securities | \$ |                    |         | \$ -    | \$ -    |

**403(b) savings plan:** St. Rose sponsors a 403(b) plan for employees. Employees are eligible to participate without regard to age or years of service. Employer contributions are not allowed by the 403(b) plan.

**HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL  
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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 9 – Commitments and Contingencies**

**Operating leases:** St. Rose leases various equipment and facilities under operating leases expiring at various dates through 2016. Total rental expense for all operating leases was approximately [REDACTED] and [REDACTED] for the years ended September 30, 2013 and 2012, respectively. Future minimum lease payments under non-cancelable leases consist of the following:

| <u>Years ending September 30,</u> | <u>Amount</u>        |
|-----------------------------------|----------------------|
| 2014                              | \$ [REDACTED]        |
| 2015                              | [REDACTED]           |
| 2016                              | [REDACTED]           |
| 2017                              | [REDACTED]           |
|                                   | <u>\$ [REDACTED]</u> |

**Operating leases as lessor:** St. Rose leases medical offices to tenants under various non-cancelable operating leases that expire at various dates through January 2028. These leases generally contain renewal options varying from 4 to 10 years. Rental income totaled approximately [REDACTED] and [REDACTED] for the years ended September 30, 2013 and 2012, respectively. Future minimum sublease income is as follows:

| <u>Years ending September 30,</u> | <u>Amount</u>        |
|-----------------------------------|----------------------|
| 2014                              | \$ [REDACTED]        |
| 2015                              | [REDACTED]           |
| 2016                              | [REDACTED]           |
| 2017                              | [REDACTED]           |
| 2018                              | [REDACTED]           |
| Thereafter                        | [REDACTED]           |
|                                   | <u>\$ [REDACTED]</u> |

# HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL AND AFFILIATES

## Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

### Note 9 – Commitments and Contingencies (continued)

**Management agreement:** On October 19, 2012, St. Rose's Board of Trustees approved entering into a management agreement and option to acquire St. Rose with Alecto, which was later approved by the Attorney General on January 29, 2013. Under the agreement, Alecto will employ the chief executive officer and chief financial officer and effectively operate St. Rose. The monthly management fee is based on the percentage of monthly patient accounts receivable collections of 2 percent up to [REDACTED] of collected receivables, 2.5 percent for collections between [REDACTED] and [REDACTED], and 3.0 percent for collections greater than [REDACTED]. The management agreement has a three-year term with an option for two additional one-year terms. On October 26, 2012, St. Rose and Alecto entered into a purchase option agreement in which Alecto has a three-year option to purchase certain assets and liabilities of St. Rose and St. Rose's MOB for an amount no greater than the combined outstanding balance of the revenue bonds, revolving line of credit and bank loans at the time of purchase.

**Severance agreement:** St. Rose entered into a long-term severance agreement with a prior chief executive officer in which it has committed to pay [REDACTED] over a three-year period. The related expense has been included in salaries, employee benefits and contract labor expense for the years ended September 30, 2013 and 2012. Of the [REDACTED] remaining severance liability, the [REDACTED] current portion has been included in accrued payroll and payroll-related liabilities and the [REDACTED] long-term portion has been included in long-term severance liability in the accompanying consolidated balance sheet at September 30, 2013.

**Legal contingencies:** St. Rose is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on St. Rose's financial position or operating results.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements and reimbursement for patient services, antitrust, anti-kickback and anti-referral by physicians, false claims prohibitions and, in the case of tax-exempt organizations, the requirement of tax exemption. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of reimbursement, false claims, anti-kickback and anti-referral statutes and regulations, quality of care provided to patients, and handling of controlled substances. Violations of these laws and regulations could result in expulsion from government health care programs with the imposition of significant fines and penalties as well as significant repayments for patient services previously billed.

# HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL AND AFFILIATES

## Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

### **Note 9 – Commitments and Contingencies (continued)**

Laws and regulations concerning government programs, including Medicare, Medicaid and various other programs, are complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. As a result of nationwide investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements.

Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines and penalties and exclusion from related programs. St. Rose expects that the level of review and audit to which it and other health care providers are subject will increase. There can be no assurance that regulatory authorities will not challenge St. Rose's compliance with these regulations, and it is not possible to determine the effect (if any) such claims or penalties would have upon St. Rose.

Centers for Medicare & Medicaid Services (CMS) implemented a project using recovery audit contractors (RAC) as part of CMS's further efforts to ensure accurate payments. The project uses the RACs to search for potentially inaccurate Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, it makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. St. Rose will deduct from revenue amounts assessed under the RAC audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated. RAC assessments are unknown and cannot be reasonably estimated.

**Current economic conditions:** The current protracted economic decline continues to present health care providers with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, constraints on liquidity and difficulty obtaining financing. The accompanying consolidated financial statements have been prepared using values and information currently available to St. Rose. Current economic conditions, including the rising unemployment rate and increased levels of deductibles and copays, have made it difficult for certain of St. Rose's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payors may significantly impact net patient service revenues, which could have an adverse impact on St. Rose's future operating results. Further, the effect of economic conditions on the State of California may have an adverse effect on cash flows related to the Medi-Cal program.

HAYWARD SISTERS HOSPITAL dba ST. ROSE HOSPITAL  
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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 9 – Commitments and Contingencies (continued)**

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the accompanying consolidated financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact St. Rose's ability to meet debt covenants or maintain sufficient liquidity. The conversion from the International Statistical Classification of Diseases and Related Health Problems Revision (ICD-9) to its 10th revision (ICD-10) will require the modification and reprogramming of many information technology (IT) applications impacting St. Rose's revenue cycle, net revenue realization, clinical and hospital processes, financial processes and IT software support. St. Rose is still assessing the impact of the conversion to ICD-10.

In March 2010, President Obama signed the Patient Protection and Affordable Care Act (PPACA) into law. PPACA will result in sweeping changes across the health care industry, including how care is provided and paid for. A primary goal of this comprehensive reform legislation is to extend health coverage to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of the 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 Medicaid programs. Given that the financial regulations and interpretive guidelines have yet to be published, St. Rose is unable to fully predict the impact of PPACA on its operations and financial results. There are multiple lawsuits challenging the constitutionality of major portions of PPACA; in June 2012, the U.S. Supreme Court upheld the major portion while limiting the federal government's ability to require state Medicaid programs to participate. Even so, St. Rose's management expects that in the coming years, patients who were previously uninsured and unable to pay for care will have basic insurance coverage, and amounts for reimbursement for services from both public and private payers will be reduced and made conditional on various quality measures. Management of St. Rose is studying and evaluating the anticipated impacts and developing strategies needed to prepare for implementation, and is preparing to work cooperatively with other constituents to optimize available reimbursement. The State of California issued seismic safety standards in 1994, which have been amended on several occasions since then. The regulations call for more stringent structural building standards to be in place by January 2013 for buildings remaining in acute care service beyond that date, with a two-year extension in most circumstances, by meeting certain milestone dates. Management believes St. Rose is or will be in compliance by the deadlines. California law currently imposes a separate, more rigorous set of seismic standards for acute care facilities effective in 2030.

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Notes to Consolidated Financial Statements

For the Year Ended September 30, 2013

**Note 10 – Functional Expenses**

St. Rose provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

|                            | 2013      | 2012 |
|----------------------------|-----------|------|
| Healthcare services        | \$        |      |
| General and administrative |           |      |
|                            | <u>\$</u> |      |

**Note 11 – Subsequent Events**

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

HAYWARD SISTERS HOSPITAL dba St. ROSE HOSPITAL AND AFFILIATES

Consolidating Schedule - Balance Sheet Information

September 30, 2013

|  | <u>St. Rose<br/>Hospital</u> | <u>Medical<br/>Office<br/>Building</u> | <u>St. Rose<br/>Hospital<br/>Foundation</u> | <u>Eliminations</u> | 2013<br>Consolidated<br>Total | 2012<br>Consolidated<br>Total |
|--|------------------------------|--|---|---------------------|-------------------------------|-------------------------------|
|--|------------------------------|--|---|---------------------|-------------------------------|-------------------------------|

Assets

HAYWARD SISTERS HOSPITAL dba St. ROSE HOSPITAL AND AFFILIATES

Consolidating Statement of Operations and Changes in Net Assets Information

September 30, 2013

|  | St. Rose<br>Hospital | Medical<br>Office<br>Building | St. Rose<br>Hospital<br>Foundation | Eliminations | 2013<br>Consolidated<br>Total | 2012<br>Consolidated<br>Total |
|--|----------------------|-------------------------------|------------------------------------|--------------|-------------------------------|-------------------------------|
|--|----------------------|-------------------------------|------------------------------------|--------------|-------------------------------|-------------------------------|

**Unrestricted revenues, gains and other support**

Patient service revenues, net  
 Other operating revenues  
 Total unrestricted revenues, gains and other support

**Expenses**

Salaries, employee benefits and contract labor  
 Purchased services and other  
 Provider fees paid  
 Supplies  
 Depreciation and amortization  
 Interest  
 Total expenses  
 Operating loss

**Non-operating income (expense)**

Investment income  
 Change in unrealized gains/losses on securities  
 Other  
 Change in pension benefit obligation  
 Total non-operating income (expense)  
 Increase (decrease) in unrestricted net assets

**Change in Permanently Restricted Net Assets**

Net unrealized gain/(loss) on investments  
 Increase in permanently restricted net assets  
 Decrease in net assets

Net deficit, beginning of year  
 Net deficit, end of year

