

Emanuel Medical Center's Request for Modification of Condition VII

November 17, 2016

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Introduction & Purpose

On June 30, 2016, pursuant to Title 11, California Code of Regulations, Section 999.5, subdivision (h), Doctors Medical Center of Modesto, Inc.¹, doing business as Emanuel Medical Center, a 209 licensed bed general acute care hospital located in Turlock, California, submitted a request to modify Condition VII set forth in the California Attorney General's "Conditions to the Proposed Sale of Emanuel Medical Center and Approval of the Asset Purchase Agreement by and between Emanuel Medical Center, Inc. and Doctors Medical Center of Modesto, Inc." Emanuel Medical Center's request to modify Condition VII seeks a reduction of the "Minimum Charity Care Amount" based upon the implementation of the 2010 Federal Patient Protection and Affordable Care Act (the ACA). Condition VII requires Emanuel Medical Center to provide a certain level of charity care for six fiscal years beginning August 1, 2014 as set forth below:

VII.

For six fiscal years from the closing date of the Asset Purchase Agreement, Emanuel Medical Center shall provide an annual amount of Charity Care (as defined below) at Emanuel Medical Center equal to or greater than \$3,212,054 (the "Minimum Charity Care Amount"). For purposes hereof, the term "charity care" shall mean the amount of charity care costs (not charges) incurred by Emanuel Medical Center in connection with the operation and provision of services at Emanuel Medical Center. The definition and methodology for calculating "charity care" and the methodology for calculating "costs" shall be the same as that used by the California Office of Statewide Health Planning and Development (OSHPD) for annual hospital reporting purposes.² Emanuel Medical Center shall use charity care and collection policies that comply with Federal and California law. The planning of, and any subsequent changes to, the charity care and collection policies, and charity care services provided at Emanuel Medical Center shall require consultation with the Local Governing Board, referenced in section 13.2 of the Asset Purchase and attached hereto as Exhibit 2.

Emanuel Medical Center's obligation under this Condition shall be prorated on a daily basis if the closing date of the Asset Purchase Agreement is a date other than the first day of Emanuel Medical Center's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Consumer Price Index for the West Region of the United States, All items 1982-84=100 (as published by the U.S. Bureau of Labor Statistics).

¹ Doctors Medical Center of Modesto, Inc. also owns and operates Doctors Medical Center of Modesto, a 461-bed multispecialty hospital that is an ASC-certified Level II Trauma Center, designated as a Primary Stroke Center, accredited Chest Pain Center, and maintains a Level II Neonatal Intensive Care Unit.

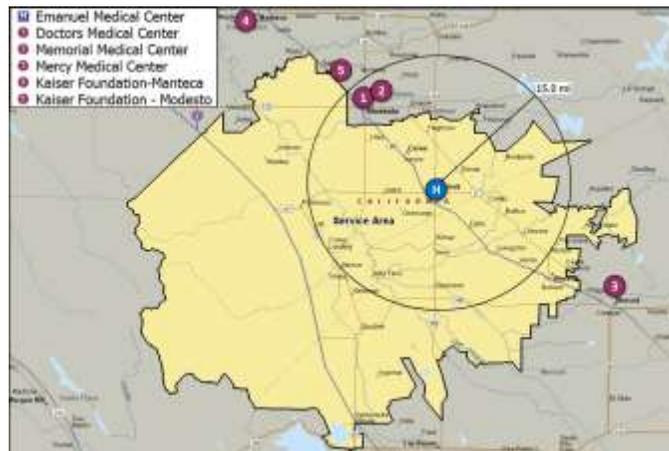
² The Office of Statewide Health Planning and Development (OSHPD) defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as ... charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

If the actual amount of charity care provided at Emanuel Medical Center for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Emanuel Medical Center shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide direct health care services to residents in Emanuel Medical Center's service area (19 ZIP codes), as defined on page 34 of the Health Care Impact Report, dated May 20, 2013, and attached hereto as Exhibit 1. Such payment shall be made within four months following the end of such fiscal year.

The 2011 Federal Affordable Care Act may cause a reduction in future needs of charity care. Any such reduction will be considered "unforeseen" for purposes of Title 11, California Code of Regulations, section 999.5, subdivision (h).

Vizient, Inc. (Vizient) was retained to prepare this report for the Office of the California Attorney General to analyze Emanuel Medical Center's request to reduce its obligation to provide a certain level of charity care as set forth in Condition VII. In preparation of this report, Vizient performed the following:

- A review of Emanuel Medical Center's request to modify Condition VII dated June 30, 2016 and submitted to the Office of the California Attorney General;
- An analysis of financial, utilization, and service information provided by the California Office of Statewide Health Planning and Development (OSHPD); and
- A review of service area trends to determine if similar charity care and payer mix patterns are occurring at other area hospitals. Emanuel Medical Center's service area includes approximately 320,000 residents. Emanuel Medical Center is the only hospital located within its service area; however, there are five other area hospitals³ located within 50 miles of Emanuel Medical Center.



³ Of the six area hospitals, data for four of the hospitals, including Emanuel Medical Center, Doctors Medical Center, Memorial Medical Center – Modesto, and Mercy Medical Center, was analyzed. Kaiser Foundation Hospital – Manteca and Kaiser Foundation Hospital – Modesto were excluded from the analysis due to limited availability of data from OSHPD.

Background & History

Emanuel Medical Center was founded as a 34-bed hospital in 1917 by the Pacific-Southwest Conference of the Evangelical Covenant Church, an Illinois nonprofit corporation. In 1966, Emanuel Medical Center's original hospital building was closed and a new 78-bed general acute care hospital was opened at its present location at 825 Delbon Avenue in Turlock. In 1976, the Pacific-Southwest Conference of the Evangelical Covenant Church transferred ownership of Emanuel Medical Center to Emanuel Medical Center, Inc., a California nonprofit religious corporation affiliated with Covenant Ministries of Benevolence, an Illinois nonprofit corporation. Covenant Ministries of Benevolence is a subordinate entity of the Evangelical Covenant Church.

On August 14, 2012, Emanuel Medical Center, Inc. and Covenant Ministries of Benevolence entered into a Letter of Intent with Tenet Health System Medical, Inc., a subsidiary of Tenet Healthcare Corporation, for Doctors Medical Center of Modesto, Inc., a California for-profit corporation, to acquire certain assets of Emanuel Medical Center, Inc. and assume ownership and operation of Emanuel Medical Center, ambulatory clinics, and certain related services. Doctors Medical Center of Modesto, Inc. is a subsidiary of Tenet Healthcare Corporation. On February 20, 2013, Emanuel Medical Center, Inc. and Doctors Medical Center of Modesto, Inc. entered into an Asset Purchase Agreement. On March 22, 2013, Emanuel Medical Center, Inc. submitted the "Notice of Submission and Request for Consent" to the Office of the California Attorney General.

In early 2013, Medical Development Specialists, LLC, now Vizient, was retained by the Office of the California Attorney General to prepare a healthcare impact statement to describe the possible effects that Doctors Medical Center of Modesto, Inc.'s acquisition of Emanuel Medical Center could have on the availability and accessibility of healthcare services to the communities served by Emanuel Medical Center. On May 20, 2013, the healthcare impact statement was issued. On January 10, 2014, the California Attorney General issued her decision granting conditional consent to the proposed sale of Emanuel Medical Center. The Asset Purchase Agreement closed on July 31, 2014.

Today, Emanuel Medical Center is licensed for 209 beds and provides emergency, cardiovascular, oncology, obstetrics, women's health, and surgical services to the over 530,000 residents living in Stanislaus County.

A) Charity Care Costs

Emanuel Medical Center

Since Emanuel Medical Center submitted its request to modify Condition VII on June 30, 2016, Emanuel Medical Center revised its Fiscal Year (FY) 2014 and FY 2015 OSHPD Disclosure Reports. As a result, the charity care data provided in the table below is based on the updated OSHPD Disclosure Reports and differs from the charity care data provided in Emanuel Medical Center's original request to the Office of the California Attorney General. While Emanuel Medical Center's revised its FY 2014 and FY 2015 OSHPD Disclosure Reports, the FY 2015 OSHPD Disclosure Report has not yet been audited by OSHPD to confirm accuracy, a standard process that can take several months. Emanuel Medical Center provided Vizient with internal data. However, in order to ensure standardization and accuracy, Vizient uses publicly reported data, including data reported by OSHPD, when conducting an analysis of hospital financial and utilization information. The FY 2015 OSHPD data used throughout this report is subject to change as a result of OSHPD's audit process. Therefore, Vizient's analysis and recommendations are provisional pending the completion of OSHPD's audit of Emanuel Medical Center's FY 2015 OSHPD Disclosure Report.

From the day after the closing of the Asset Purchase Agreement (August 1, 2014) until the end of calendar year 2014⁴ (December 31, 2014), Emanuel Medical Center provided nearly \$1.2 million in charity care costs, approximately \$149,000 less than the minimum amount required in Condition VII. In calendar year 2015, Emanuel Medical Center provided \$2.0 million in charity care costs, approximately \$1.25 million less than the minimum amount required in Condition VII.

CHARITY CARE COSTS: FY 2013-2015			
FY Year	Charity Care Costs	Charity Care Costs Requirement	Difference
2015 ¹	\$2,000,786	\$3,250,599	-\$1,249,813
2014 ²	\$1,197,537	\$1,346,423	-\$148,885
2014 ³	\$2,700,190	-	-
2013	\$6,773,958	-	-

Source: OSHPD Disclosure Reports, FY 2013-2015

¹ FY 2015 Unaudited OSHPD Data

² From the date after the closing of the Asset Purchase Agreement to calendar year end (August 1, 2014 to December 31, 2014)

³ January 1, 2014 to July 31, 2014

⁴ The Asset Purchase Agreement closed on July 31, 2014. Emanuel Medical Center's fiscal year is from February 1 to January 31. The first time period subject to the Attorney General's Conditions was August 1, 2014 to December 31, 2014.

As a result of not meeting the minimum charity care requirement, Emanuel Medical Center is requesting a change to the charity care methodology⁵. Emanuel Medical Center’s two proposed methodologies include blending the cost of care related to the increase in the Medi-Cal population with the cost of care related to charity care patients.

Emanuel Medical Center Compared to Other Area General Acute Care Hospitals

The table below compares charity care costs at area general acute care hospitals prior to the implementation of the ACA (i.e., FY 2013) and after the implementation of the ACA (i.e., FY 2015). Since FY 2013, charity care costs at Emanuel Medical Center have decreased by 70% from \$6.7 million in FY 2013 to approximately \$2.0 million in FY 2015. This decrease in charity care costs is consistent across all area hospitals. Doctors Medical Center of Modesto, which is owned and operated by Doctors Medical Center of Modesto, Inc. and is the second largest provider of inpatient services among the area hospitals, reported an 84% decrease between FY 2013 and FY 2015. Memorial Hospital Medical Center – Modesto, the third largest provider of inpatient services among the area hospitals, reported an 81% decrease in charity care costs between FY 2013 and FY 2015. Additionally, Mercy Medical Center – Merced, the fourth largest provider of inpatient services among the area hospitals, reported a 30% decrease in charity care costs between FY 2013 and FY 2015. Collectively, there has been a 75% decrease in charity care costs among area hospitals.

AREA HOSPITAL COST OF CHARITY CARE: FY 2013 & FY 2015			
Hospital	FY 2013	FY 2015	% Change
Emanuel Medical Center ¹	\$6,773,688	\$2,000,786	-70%
Doctors Medical Center of Modesto ¹	\$27,354,785	\$4,348,206	-84%
Memorial Hospital Medical Center - Modesto ¹	\$16,209,618	\$3,075,279	-81%
Mercy Medical Center - Merced	\$7,528,322	\$5,247,371	-30%
Total	\$57,866,413	\$14,671,642	-75%

Source: OSHPD Disclosure Reports, FY 2013 & FY 2015

¹ FY 2015 Unaudited OSHPD Data

Conclusion

Between FY 2013 and FY 2015, all of the area general acute care hospitals showed a significant decrease in charity care costs of between 30% and 84%.

⁵ Emanuel Medical Center’s two proposed methodologies can be found in the Appendix of this report.

B) Payer Mix Trends

Emanuel Medical Center

In support of its request, Emanuel Medical Center cited the January 1, 2014 commencement of the ACA and the “dramatic increase” in the number of Emanuel Medical Center’s charity care patients who have become eligible for Medi-Cal or other coverage as a result of the ACA’s Medi-Cal expansion and the Covered California program as the reason for the drop in charity care costs. As shown in the table below, when comparing the fiscal year prior to and after the implementation of the ACA for Medi-Cal inpatient discharges and outpatient visits, Emanuel Medical Center had an increase of 5% and 36%, respectively.

In FY 2013, Emanuel Medical Center reported 489 indigent⁶ inpatient discharges and 2,151 indigent outpatient visits. For FY 2015, Emanuel Medical Center provided Vizient with internal indigent volume⁷ data; however, this internal data does not appear on Emanuel Medical Center’s unaudited FY 2015 OSHPD Disclosure Report. Therefore, pending the audit of the FY 2015 OSHPD Disclosure Report, Emanuel Medical Center’s indigent inpatient discharges and outpatient visits cannot be reported and the change in indigent volume between FY 2013 and FY 2015 is presently unavailable. Currently, the FY 2015 OSHPD Disclosure Report provides no indigent patient utilization data. Thus, there is no data to substantiate Emanuel Medical Center’s FY 2015 charity care costs of approximately \$2.0 million.

EMANUEL MEDICAL CENTER: MEDI-CAL AND INDIGENT PATIENT PAYER MIX			
	FY 2013	FY 2015 ¹	% Change
Medi-Cal Inpatient Discharges	3,509	3,700	5%
Medi-Cal Outpatient Visits	42,891	58,370	36%
Indigent Inpatient Discharges	489	N/A ²	-
Indigent Outpatient Visits	2,151	N/A ²	-

Source: OSHPD Disclosure Reports, FY 2013 & FY 2015

¹ FY 2015 unaudited OSHPD data

² FY 2015 unaudited OSHPD data for indigent volume is unavailable. Emanuel Medical Center provided Vizient with the following internal unaudited FY 2015 data: 418 indigent inpatient discharges and 1,523 indigent outpatient visits

⁶ At Emanuel Medical Center, care provided to indigent patients is recorded as charity care.

⁷ “Volume” is defined as inpatient discharges and outpatient visits.

Emanuel Medical Center Compared to Other Area General Acute Care Hospitals

The table below shows the area general acute care hospitals' payer mix trends for FY 2013 and FY 2015. Between FY 2013 and FY 2015, inpatient and outpatient Medi-Cal volume at Doctors Medical Center of Modesto, a Disproportionate Share Hospital (DSH)⁸, increased by 37% and 57%, respectively. Between FY 2013 and FY 2015, inpatient and outpatient indigent volume at Doctors Medical Center of Modesto decreased by 54% and 41%, respectively. Similarly, between FY 2013 and FY 2015, inpatient and outpatient Medi-Cal volume at Memorial Medical Center – Modesto increased by 47% and 111%, respectively. Between FY 2013 and FY 2015, indigent inpatient discharges at Memorial Medical Center – Modesto decreased by 92% and indigent outpatient visits decreased by 69%.

Overall, between FY 2013 and FY 2015, inpatient and outpatient Medi-Cal volume at area hospitals increased by 25% and 24%, respectively. Additionally, inpatient and outpatient indigent volume at area hospitals (excluding Emanuel Medical Center⁹) decreased by 80% and 72%, respectively.

AREA HOSPITALS: PAYER MIX FY 2013 & FY 2015						
Medi-Cal	FY 2013		FY 2015 ¹		% Change	
	Inpatient Discharges	Outpatient Visits	Inpatient Discharges	Outpatient Visits	Inpatient Discharges	Outpatient Visits
Emanuel Medical Center	3,509	42,891	3,700	58,370	5%	36%
Doctors Medical Center of Modesto	8,577	48,778	11,716	76,381	37%	57%
Memorial Medical Center - Modesto	2,838	17,691	4,161	37,253	47%	111%
Mercy Medical Center - Merced	3,674	131,564	3,653	127,270	-1%	-3%
Total	18,598	240,924	23,230	299,274	25%	24%
Indigent						
Emanuel Medical Center	489	2,151	N/A ²	N/A ²	-	-
Doctors Medical Center of Modesto	380	4,484	175	2,625	-54%	-41%
Memorial Medical Center - Modesto	650	3,324	55	1,033	-92%	-69%
Mercy Medical Center - Merced	265	10,569	32	1,508	-88%	-86%
Total	1,295	18,377	262	5,166	-80%	-72%

Source: OSHPD Disclosure Reports, FY 2013 & FY 2015

¹ FY 2015 OSHPD data is unaudited for Emanuel Medical Center, Doctors Medical Center of Modesto, and Memorial Medical Center - Modesto

² FY 2015 unaudited OSHPD data for indigent volume is unavailable

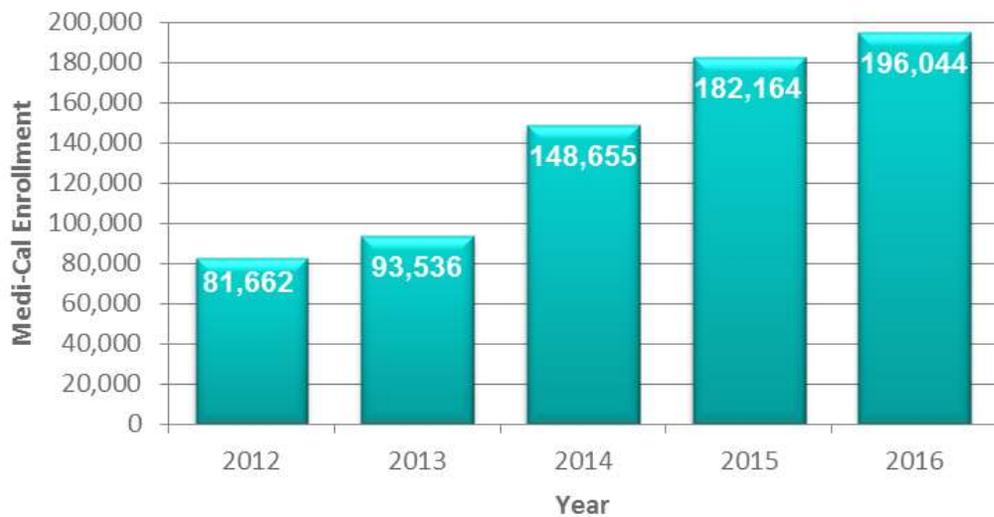
Note: The totals for indigent volume for FY 2013 and FY 2015 excludes Emanuel Medical Center. Emanuel Medical Center provided Vizient with the following internal unaudited FY 2015 data: 418 indigent inpatient discharges and 1,523 indigent outpatient visits

⁸ A designation for hospitals that serve a high percentage of Medi-Cal and other low-income patients, as provided by SB 855 (Statutes of 1991).

⁹ An explanation of why Emanuel Medical Center is excluded is provided on page 8.

Vizient contacted the Stanislaus County Health Services Agency to learn more about the need for indigent healthcare services in the county. Doctors Medical Center of Modesto has an agreement¹⁰ with Stanislaus County to receive compensation for inpatient services rendered to indigent patients. Since the commencement of the ACA, only one patient has qualified under the guidelines¹¹ of Stanislaus County's Medically Indigent Adult Program. Stanislaus County attributed the drop in indigent patients to the dedicated effort by local healthcare providers, including Emanuel Medical Center and Doctors Medical Center of Modesto, in assisting previously indigent patients with Medi-Cal enrollment.

The table below shows Medi-Cal enrollment in Stanislaus County between 2012 and April 2016:



Source: Stanislaus County Health Services Agency

Since 2013, Medi-Cal enrollment in Stanislaus County has more than doubled to nearly 200,000 enrollees. Between December 2013 and December 2014, enrollment increased by over 80% to more than 166,000 enrollees.

Golden Valley Health Centers, the largest network of Federally Qualified Health Centers in Stanislaus County, provides primary and specialty care services to the residents of Stanislaus County and Merced County. In 2015, Golden Valley Health Centers provided care to over 120,000 patients resulting in over 450,000 patient visits. According to the CEO, Tony Weber, Medi-Cal patient visits at Golden Valley Health

¹⁰ The 20-year agreement between Doctors Medical Center of Modesto and Stanislaus County to provide inpatient indigent care services is set to expire in November 2017.

¹¹ Qualification for the Medically Indigent Adult Program requires; applicants to be between the age of 21 and 65, be a verifiable resident of Stanislaus County, have no Medi-Cal or major healthcare coverage, able to meet other financial requirements, and be a non-disabled adult.

Centers' clinics have increased from approximately 65% in 2013 to approximately 78% today. Additionally, undocumented patient visits have decreased from over 20% in 2013 to approximately 8% today. According to Mr. Weber, Golden Valley Health Centers has arrangements with Doctors Medical Center to provide services to its patients, including undocumented patients, who require inpatient care. Preliminary talks between Emanuel Medical Center and Golden Valley Health Centers suggest similar arrangements for inpatient care are being explored.

Conclusion

Between FY 2013 and FY 2015, Medi-Cal volume increased significantly at all area general acute care hospitals except for the small decrease at Mercy Medical Center – Merced. The increase in Medi-Cal volume has a direct correlation to the drop in charity care costs. Between FY 2013 and FY 2015, indigent care volume decreased significantly at all area general acute care hospitals¹². The drop in indigent volume has a direct correlation to the drop in charity care costs.

¹² An explanation of why Emanuel Medical Center is excluded from the indigent payer analysis is provided on page 8 of this report.

C) Bad Debt

The table below shows bad debt at the area general acute care hospitals for FY 2013 and FY 2015. There has been a 73% decrease in bad debt¹³ at Emanuel Medical Center from nearly \$38.4 million in FY 2013 to approximately \$10.3 million in FY 2015.

AREA HOSPITAL BAD DEBT: FY 2013 & FY 2015			
Hospital	FY 2013	FY 2015 ¹	% Change
Emanuel Medical Center	\$38,436,787	\$10,288,506	-73%
Doctors Medical Center of Modesto	\$40,441,476	\$24,239,581	-40%
Memorial Medical Center - Modesto	\$56,471,903	\$13,930,225	-75%
Mercy Medical Center	\$27,431,656	\$7,436,503	-73%
Total	\$162,781,822	\$55,894,815	-66%

Source: OSHPD Disclosure Reports, FY 2013 & FY 2015

¹ FY 2015 OSHPD data is unaudited for Emanuel Medical Center, Doctors Medical Center of Modesto, and Memorial Medical Center - Modesto

Doctors Medical Center of Modesto's bad debt decreased by 40% from \$40.4 million in FY 2013 to \$24.2 million in FY 2015. In FY 2015, Memorial Medical Center – Modesto's bad debt decreased by 75% from \$56.5 million in FY 2013 to \$13.9 million. Additionally, bad debt at Mercy Medical Center – Merced decreased by 73% from \$27.4 million in FY 2013 to \$7.4 million in FY 2015. Collectively, there has been a decrease in bad debt of 66% among the area general acute care hospitals.

Conclusion

Between FY 2013 and FY 2015, bad debt decreased significantly at all area general acute care hospitals. For the same time period, bad debt at Emanuel Medical Center decreased by 73%, indicating that the decrease in charity care costs could not be explained by an increase in bad debt (e.g., did the newly insured, often enrolled in high deductible health plans, have difficulty paying co-pays leading to increased bad debt at Emanuel Medical Center?).

¹³ The amount of accounts receivable that are determined to be uncollectible due to the patient's unwillingness to pay. This amount is charged as a credit loss against gross patient revenue. Bad debts are classified as deductions from revenue and not included in operating expenses.

Summary

In summary, due to the expansion of Medi-Cal and increased enrollment in health insurance coverage, the number of Medi-Cal patients utilizing services at Emanuel Medical Center and the other general acute care hospitals located in the area has risen significantly since FY 2013. Between FY 2013 and FY 2015, indigent care volume decreased significantly at all area general acute care hospitals analyzed. As a result, the number of charity care patients served continues to decrease at area general acute care hospitals overall, resulting in a sharp decline in charity care costs. This decline in charity care costs at Emanuel Medical Center is consistent with other general acute care hospitals located in the area.

Vizient analyzed both of the proposed charity care modification methodologies included in Emanuel Medical Center's request for modification of Condition VII (see Exhibit 3 of the Appendix), as well as supplemental internal data submitted by Emanuel Medical Center to the California Attorney General (see Exhibit 4 of the Appendix) that utilizes Emanuel Medical Center's second proposed methodology. Vizient concluded that both of the proposed methodologies inappropriately blend Medi-Cal into the "indigent care" payer category given that compensation is received by Emanuel Medical Center for administering care to Medi-Cal patients. The definition of charity, as per OSHPD, includes "...services rendered to patients who are unable to pay for all or part of the services provided..." Although Vizient acknowledges that a large number of previously uninsured patients have moved into the Medi-Cal program, Vizient does not believe that using costs associated with providing care to newly insured Medi-Cal patients should be used in recalculating Emanuel Medical Center's required charity care cost amounts.

If the California Attorney General approves a recalculation of the Minimum Charity Care Amount, Vizient recommends that the required amount be determined by a rolling average of charity care costs using available data for the time period after the implementation of the ACA. This methodology would provide a more accurate representation of the community's need for charity healthcare. However, if the ACA were repealed or modified and California's participation in the Medi-Cal expansion and Covered California programs significantly changed, the area hospitals' charity care costs would likely increase to levels similar to those prior to the implementation of the ACA.

Appendix

Exhibit 1

EMANUEL MEDICAL CENTER SERVICE AREA ANALYSIS

Definition of Emanuel Medical Center's Service Area

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

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

Source: OSPHD Patient Discharge Database, 2011

Note: Excludes Normal Newborns

Exhibit 2

the terms of the Net Worth Escrow Agreement, funds shall be released to Seller upon each subsequent anniversary of the Closing Date such that all amounts remaining in the Escrow Account equal the amount of the net worth requirement for each applicable twelve (12) month period. Any funds remaining in the Net Worth Escrow Account at the end of the term of the Net Worth Escrow Agreement shall be released to Seller, except to the extent of the amount of any unresolved claims for indemnity made by a Purchaser Indemnified Party. Purchaser and Seller shall each be responsible for payment of one-half of all administrative and other fees and expenses payable to Escrow Agent in connection with establishing and maintaining the Net Worth Escrow Account. Seller shall provide (i) proof that is reasonably satisfactory to Purchaser of payment of Damages to any third party or government agency for purposes of reducing Seller's minimum net worth requirement set forth above, and (ii) audited financial statements, including balance sheets, income statements, and statements of cash flows, for each of the Seller fiscal years following the Closing Date, which financial statements shall be prepared in accordance with GAAP, applied on a consistent basis throughout the periods indicated, by an independent accounting firm that is reasonably acceptable to Purchaser, no later than ninety (90) days following the end of each such Seller fiscal year following the Closing Date; provided that Seller shall have no obligation to provide such audited financial statements to Purchaser following the deposit of funds into the Net Worth Escrow Account in accordance with the terms of this Section 12.7.

ARTICLE 13

POST-CLOSING COVENANTS OF PURCHASER

Immediately after the Closing, subject to the terms of Section 5.4, the below terms of this Article 13 and applicable laws, Purchaser will (i) cause the Hospital to be maintained as a full-service general acute care hospital facility, (ii) cause the Hospital's license (including other licensed activities of the Seller Businesses) to be consolidated with the license of DMC, in a manner intended to create an integrated regional network to serve Central Valley residents, and (iii) use its good faith efforts to cause the Hospital to have a dedicated management team in accordance with the operations plan described in Section 5.4, along with a unique cultural campus.

13.1 Contributions to CMB. Commencing on the Closing Date and annually thereafter on or before the next nine anniversaries of the Closing Date, as set forth in an agreement between Purchaser and CMB in the form attached hereto as Exhibit 13.1 (the "CMB Agreement"), Purchaser shall donate Six Hundred Thousand Dollars (\$600,000) to CMB by wire transfer of immediately available funds to the account designated in writing by Seller for mission support or other operational, transitional or financial needs determined to be necessary or desirable by CMB as a result of the transaction contemplated by this Agreement.

13.2 Local Governing Board. Purchaser shall take all required actions, as of Effective Time, to cause the scope of its local governing board's authority to include the Hospital. The following obligations shall apply so long as Purchaser owns and operates the Hospital:

(a) Purchaser's local governing board with responsibility over the Hospital shall be comprised of representatives from the respective service areas of DMC and the Hospital. Purchaser shall use its reasonable commercial efforts to cause at least three of the community

members of such local governing board (excluding any representatives appointed by the County of Stanislaus) to be residents of the service area of the Hospital. In addition, Purchaser shall use its reasonable commercial efforts to cause the physician members of such local governing board to include at least one physician who is a member of the Hospital's medical staff and who has an active medical practice located near the Hospital;

(b) For a period of five (5) years following the Closing Date, Seller shall have the right to select the Vice Chair of Purchaser's local governing board with responsibility over the Hospital. Purchaser shall appoint such individual to Purchaser's local governing board with responsibility over the Hospital; and

(c) The role of the local governing board with responsibility over the Hospital shall be consistent with that of similar local governing boards at other hospitals, or in other markets, respectively, that are owned directly or indirectly by affiliates of Purchaser, and shall be subject to the authority of Purchaser's sole director and the terms of Purchaser's organizational documents; provided, however, the local governing board with responsibility over the Hospital will exercise the powers of a governing board under applicable licensing, Medicare and accreditation standards.

Prior to the Closing, Purchaser shall provide to Seller a copy of the proposed amendments to the bylaws or other governing document of its local governing body with responsibility over the Hospital that are consistent with the provisions of this Section 13.2. Such amendments shall be effective as of the Effective Time. Such bylaws or other governing document of Purchaser's local governing body with responsibility over the Hospital shall thereafter be subject to change from time to time as determined by Purchaser, so long as the provisions thereof are consistent with the provisions of this Section 13.2 and applicable law.

13.3 Charity Care; Community-Based Programs. Purchaser acknowledges that the Hospital historically has provided significant levels of charity care for indigent and low-income patients and has also provided care through a variety of community-based health programs. Subject to changes in legal requirements or governmental guidelines or policies (such as implementation of universal healthcare coverage), for so long as Purchaser operates the Hospital, Purchaser shall maintain and adhere to the Hospital's current policy on charity care, a copy of which is attached as Exhibit 13.3 (or such other policy which is no less favorable than such attached policy), and shall provide the community-based programs set forth on, and in accordance with, Schedule 13.3.

13.4 Service Commitment. For the periods of time indicated below following the Closing Date, Purchaser shall:

(a) maintain the following key existing services at the Hospital for no less than ten (10) years: (i) medical-surgical services, (ii) intensive care unit/cardiac care unit, (iii) emergency department, (iv) pediatrics (including neonatal), (v) obstetrics (including perinatal), (vi) orthopedics (including surgery), (vii) cardiology (including surgery except open heart surgery) and (viii) oncology;

Exhibit 3

Emanuel Medical Center's Request Amendment to Condition VII: Proposed Methodology #1

In the spirit of our continued commitment to serving all patients, including low-income and Indigent, the uninsured and the underinsured, and recognizing the dramatic impact that Medi-Cal expansion has had in accordance with the ACA as described above in this letter, we are requesting that the Hospital's compliance with Condition VII for the 2014 Period, and all future fiscal years after the 2014 Period, be determined in accordance with the following methodology ("Proposed Methodology #1"):

This methodology takes into account the increase in the cost of care related to the increased Medi-Cal population and adds the cost of care related to Charity patients. The table on the following page is a comparing showing Medi-Cal charges between the 2013 Base Period and the 2014 Period (we experience a \$54,401,592 Medi-Cal charge increase between those two time periods). Then each fiscal year's charges is multiplied by the applicable cost to charge ratio per the OSHPD reports in their respective years to calculate the cost of care for each of those fiscal years. The increase in the cost of care for Medi-Cal patients was \$6,896,732 between these two time periods.

As stated above, 84.9% of the 530 new patient accounts reviewed for Medi-Cal eligibility during the 2014 Period would have qualified as Charity care prior to the implementation of the ACA. We then multiply the increase in the cost of care for Medi-Cal patients of \$6,896,732 by 84.9%, which yields an equivalent cost of Charity care of \$5,855,716.

Adding in the cost of Charity care from accounts that qualified for Charity care during the 2014 Period of \$1,846, the total cost of Charity care would be \$5,857,562 for the 2014 Period.

Method 1	Aug-Dec 2013	Aug-Dec 2014	Var
Charity Charges	\$24,923,635	\$12,414	(\$24,911,221)
Medi-Cal Charges	\$76,405,722	\$52,782,791	(\$23,622,931)
Managed Medi-Cal Charges	\$56,125,925	\$134,150,448	\$78,024,523
Total Medi-Cal Charges	\$132,531,647	\$186,933,239	\$54,401,592
Cost/Charge Ratio per OSHPD (B)	15.77%	14.87%	
Cost of Care of Medi-Cal Patients (A x B)	\$20,900,241	\$27,796,973	\$6,896,732
Back-Tested 530 Accounts of Potentially Eligible Medi-Cal Accounts From 2014 and Here are the Findings:			
Percentage of Accounts that Qualified for Charity pre ACA		84.9%	
Percentage of Accounts that Didn't Qualify for Charity pre ACA		15.1%	
Cost of Charity Care Based on 84.9% of Accounts Above (\$6,896,732 x 84.9%)			\$5,855,716
Cost to Charity From Charity Amount on OSHPD (\$12,414 x 14.87%)		\$12,414	\$1,846
Total Cost of Charity Care			\$5,857,562
Additional Info For Future Years:			
	Jan-Dec 2014	Jan-Dec 2015	Var
Medi-Cal Charges	\$171,918,283	\$119,952,665	(\$51,965,618)
Managed Medi-Cal Charges	\$280,524,570	\$433,449,756	\$152,925,186
Total Medi-Cal Charges	\$452,442,853	\$553,402,421	\$100,959,568

Stated another way, had ACA not been implemented, the Hospital would have shown a total of \$5,857,562 in total cost of Charity care for the 2014 Period, which figure is higher than the prorated Minimum Charity Care Amount of \$1,346,422 for the 2014 Period. This is attributable primarily to the 84.9% of the screened accounts that would have otherwise been eligible for Charity care. For calendar years 2015 and later, we would perform the same calculation to back-test accounts to identify what percentage of screened accounts would have qualified as Charity care prior to the implementation of ACA and apply the results of those findings against the cost of care for Medi-Cal patients during the applicable year (as compared to calendar year 2013) in the same manner reflected in the above table. The resulting cost of Charity care based upon such calculation, plus the cost of treating Charity care patients (per OSHPD data) in the applicable calendar year, would be the Hospital's total cost of Charity care for purposes of determining whether the Hospital has complied with the Minimum Charity Care Amount for the applicable calendar year.

Emanuel Medical Center's Request Amendment to Condition VII: Proposed Methodology #2

While Proposed Methodology #1 is our preferred methodology, the following methodology ("Proposed Methodology #2") is another approach that would be acceptable to EMC for addressing the issues raised in this letter. In the MDS report dated May 20, 2013 in which MDS provided its recommendations to your office regarding the transaction described in the APA (the "MDS Report"), MDS determined the Minimum Charity Care Amount contained in Condition VII by calculating the 5-year average of the Hospital's cost of

charity care for fiscal years 2008 through 2012. Insofar as a significant number of patients who would otherwise have been classified as charity care patients pre-ACA are now covered by Medi-Cal, we are proposing in Proposed Methodology #2 that the Minimum Charity Care Amount in Condition VII that would be applicable for the 2014 Period and all future fiscal years would be calculated differently, based upon OSHPD-reported data for all of the Charity and Indigent payer groups compared to historical averages. The below table shows a 4-year historical average of all of the Indigent payer contractual adjustments for the Hospital per OSHPD reports between fiscal year ending 2010 and fiscal year ending 2013. The average cost of care for this time period for these Indigent payers, using the OSHPD-calculated cost to charge ratio for the Hospital for each applicable fiscal year, is \$36,889,261. Accordingly, we are proposed that Condition VII would be modified under this Proposed Methodology #2 so that going-forward, for the Charity and Indigent payer groups described in the below table, the Hospital's minimum cost of care for such payers groups on an annual basis would be \$36,889,261. Such amount would be increased each year with the same CPI adjustment that is currently set forth in Condition VII. Under this methodology, the pro-rated amount for the 2014 Period would be \$15,463,170.

Year	Contractual Adjustments						Cost/Charity Ratio	Cost of Indigent Care
	Medi-Cal Trend	Managed Medi-Cal	County Indigent	Charity Other	Total Indigent			
FY 2010	\$126,171,984	\$32,538,507	\$838,514	\$13,061,838	\$172,610,843	17.58%	\$30,344,986	
FY 2011	\$102,794,282	\$63,363,587	\$442,725	\$23,586,663	\$190,187,257	19.14%	\$36,401,841	
FY 2012	\$128,922,291	\$67,687,896	\$179,406	\$36,923,017	\$233,712,610	16.10%	\$37,627,730	
FY 2013	\$120,745,124	\$89,562,134	\$100,728	\$40,361,399	\$250,769,385	17.22%	\$43,182,488	
4-Year Avg	\$119,658,420	\$63,288,031	\$390,343	\$28,483,229	\$211,820,024		\$36,889,261	
						Pro-rated for 5 Months ----->	\$15,463,170	
5 Months 2014	\$41,062,430	\$125,108,809	\$0	\$12,414	\$166,183,653	14.87	\$24,711,509	

Based on this Proposed Methodology #2, the Hospital has delivered \$24,711,509 for the cost of care related to Charity and other Indigent payers for the 2014 Period. This measure effectively allows for shifts between low-income categories (that is, between Charity care and Medi-Cal), which is what the Hospital, along with other hospitals in the Hospital's service area, are experiencing as a result of the implementation of ACA.

Exhibit 4

Emanuel Medical Center's Request Amendment to Condition VII: Supplemental Data

Emanuel Medical Center - Charity Review 2015 (pre-ACA back-testing)

Row Labels	Sum of Total Charges	Count of ACCT #	% of charges
YES	\$6,365,800	205	52.7%
NO-Other Coverage	\$5,682,140	232	47.0%
NO	\$23,793	6	0.2%
WOC	\$5,380	1	0.0%
Grand Total	\$12,077,113	444	100.0%
Total Accounts Submitted For Eligibility During 2015	\$40,494,791	1,789	
Extrapolated Charity Care	\$21,344,648		
Cost/Charge ratio per OSHPD	13.20%		
Extrapolated Cost of Charity Care	\$2,817,494		

Note: Doesn't include rollover charity cases from prior years enrollment