STATE OF WASHINGTON
DEPARTMENT OF HEALTH
Olympia, Washington 98504

August 6, 2018

CERTIFIED MAIL # 7018 3010 0001 0575 1140

Howard Wall, Secretary
Capella Healthcare Inc.
103 Continental Place, # 200
Brentwood, Tennessee 37027

RE: Nonprofit Conversion #17-01

Dear Mr. Wall,

We have completed review of the Non-Profit Hospital Conversion applications submitted by RCCH/Capella for the purchase of Lourdes Medical Center in Franklin County and Lourdes Counseling Center in Benton County.

The department concludes the applications submitted by RCCH/Capella Healthcare, LLC for the conversion from non-profit to for-profit status of Lourdes Medical Center and Lourdes Counseling are consistent with the applicable Non Profit Hospital Acquisition review criterion in RCW 70.45 and WAC 246-312. These conversions are approved with the following conditions.

Conditions
The documentation required to meet the conditions below should be submitted to the Department of Health and the Office of the Attorney General.

These approvals are based on the department's record and the representations made to the department and AGO throughout the review of these Conversion and Certificate of Need applications.

1. Prior to the closing of the transaction no material changes can be made to the Application, the Asset Purchase Agreement, or any other applicable application documents, except as may be necessary to comply with conditions identified.

2. Prior to the closing of the transaction there occur no changes in operations at the Hospitals, or other events, which result in Ascension not receiving fair market value for the Hospitals.

3. The Donation Agreement between LHN and the Catholic Foundation shall be amended to require the Catholic Foundation to hold the proceeds in trust and as permanently restricted funds.

4. LHN shall establish a reasonable process for interim partial transfers of the proceeds of the transaction to the Catholic Foundation during the escrow period. This process must be approved by the Department of Health and the Office of the Attorney General.

5. LHN shall establish a reasonable process for reasonable review of payments from the escrow account to assure that those payments are limited to appropriate liabilities anticipated by the APA. This process must be approved by the Department of Health and the Office of the Attorney General.

6. LHN must resolve the discrepancies between the Application and the draft Donation Agreement, including resolving the duration of escrow, the precise assets to be conveyed into escrow (and concomitant obligations to be paid from escrow), the terms of the escrow, provisions for interim investment of escrowed funds, the treatment of post-closing adjustments, and vesting of authority in the Catholic Foundation to enforce any and all provisions of this transaction governing charitable funds, including without limitation transfers into or out of the escrow account – all subject to Department of Health and Attorney General approval.

7. LHN must establish a third distribution committee related to healthcare grants from the proceeds of the transaction with membership including residents of both Benton and Franklin counties and possessing the necessary subject matter expertise.

8. LHN must vest the right of first refusal with the Catholic Foundation, rather than Ascension. Consistent with statute, the right of first refusal shall not be time limited.

9. LHN must establish a mechanism that requires Capella to provide adequate and timely notice to the Catholic Foundation of any potential sale, acquisition, or merger involving the assets so that it may exercise its right of first refusal.

10. The net proceeds from the sale of Lourdes Medical Center and Lourdes Counseling Center shall be dedicated to the permissible health care-related purposes for the benefit of the communities within the region served by both hospitals. The Catholic Foundation shall provide to DOH annually, such financial reports, either discretely or as a part of any other reports that demonstrate compliance with this condition.

11. Upon closing the net proceeds of the sale shall be immediately transferred and held in an interest bearing trust account for the benefit of the new foundation until such time as the initial members of the new foundation's board of directors have been appointed. The financial institution in which such account is established shall be subject to DOH's approval. The principal and interest in such trust account shall be transferred to the new foundation immediately following the appointment of the initial members of the new foundation's board of directors.

12. RCCH/Capella must agree to the conditions outlined in the Certificate of Need evaluations for Lourdes Medical Center and Lourdes Counseling Center.

Approved Costs

The approved capital expenditure for both project is $21,000,000

Please notify the Department of Health within 20 days of the date of this letter whether you accept the above project description, conditions, and capital costs for your project. If you accept these in their entirety, your application will be approved and the Certificate of Need sent to you.

If you reject any of the above provisions, your application will be denied. The department will send you a letter denying your application and provide you information about your appeal rights.

Send your written response to the Certificate of Need Program, at one of the following addresses.

Mailing Address:
Department of Health
Certificate of Need Program
Mail Stop 47852
Olympia, WA 98504-7852

Physical Address:
Department of Health
Certificate of Need Program
111 Israel Road SE
Tumwater, WA 98501

If you have any questions, or would like to arrange for a meeting to discuss our decision, please contact the Certificate of Need Program at (360) 236-2955.

Sincerely,

Nancy Tyson, Executive Director
Health Facilities and Certificate of Need

Enclosure

DEPARTMENT OF HEALTH FINDINGS ON THE APPLICATIONS SUBMITTED BY RCCH/CAPELLA TO CONVERT LOURDES MEDICAL CENTER AND LOURDES COUNSELING CENTER FROM NON-PROFIT TO FOR-PROFIT

APPLICANT DESCRIPTION

RegionalCare Hospital Partners Holdings, Inc. (d/b/a RCCH HealthCare Partners) is a Delaware corporation that was formed in 2009. On a consolidated basis, RegionalCare Hospital Partners Holdings, Inc., through its subsidiaries, owns or leases and operates general acute care hospitals and other related health care organizations in the United States. On April 29, 2016, RegionalCare Hospital Partners Holdings, Inc. merged with Capella Health Holdings, LLC, which owned and operated eight general acute care hospitals in five states at the time of the merger. The RegionalCare/Capella Merger was effective May 1, 2016. [source: Application, p2; RCCH Press Release]

A further subsidiary of Capella is Lourdes Hospital, LLC, which is also incorporated in Delaware. An organizational chart showing the ownership and subsidiary structure is attached as Appendix A to this evaluation. [source: Application, Exhibit 2]

To summarize, Capella is owned 100% by RCCH. In turn, Lourdes Hospital, LLC is owned 100% by Capella. For ease of reference, this evaluation will refer to the applicant as RCCH/Capella.

As of the writing of this evaluation, Capella owns one acute care hospital in Washington State, Capital Medical Center in Olympia. Capella also received recent Certificate of Need approval to acquire TRIOS Health in Kennewick, within Benton County.

BACKGROUND INFORMATION

Our Lady of Lourdes Hospital – now known as Lourdes Medical Center – was originally founded in 1916 by the Sisters of St. Joseph. Lourdes Counseling Center – formerly known as Carondelet Behavioral Health – was acquired by Lourdes in 1988. In 1997 the organization came to be known as Lourdes Health Network. Lourdes Health Network became a member of Ascension Health in 2002. Lourdes Medical Center was designated as a Critical Access hospital in 2005 and has continually maintained this status. [source: Lourdes website; CN Historical Files]

Lourdes Medical Center is a 35-bed critical access hospital located at 520 North 4th Avenue in Pasco within Franklin County. It is currently a Medicare and Medicaid provider of acute and rehabilitation care services to the residents of Pasco and surrounding areas. Lourdes Medical is designated as a Level IV trauma center and a Level II Rehabilitation provider by the Department of Health's Office of Emergency Medical and Trauma Prevention. [CN historical files]

Lourdes Counseling Center is a 32 bed psychiatric hospital located at 1175 Carondelet Drive in Richland, within Benton County. Lourdes Counseling Center is currently a Medicare and Medicaid provider of psychiatric care services to the residents of Benton and Franklin Counties and surrounding areas. [source: CN historical files]

PROJECT DESCRIPTION

These applications propose to convert Lourdes Medical Center and Lourdes Counseling Center operations from non-profit to for-profit.[1]

This evaluation will focus on the conversion of Lourdes Medical Center and Lourdes Counseling Center from non-profit to for-profit status.

The Certificate of Need applications related to this transaction outline the services offered prior to the transaction at each hospital. Neither application proposes to reduce or change the services available at either of the hospitals.

The estimated capital expenditure for the purchase of both hospitals is $21,000,000. Of that amount, $17,564,400 is related to the purchase of Lourdes Medical; $3,435,600 is related to the purchase of Lourdes Counseling. [CN Applications 17-37 and 17-38].

APPLICABILITY OF NON-PROFIT HOSPITAL CONVERSION LAW

This project was subject to Department of Health (DOH) review as the conversion of a nonprofit hospital to a for profit hospital under Revised Code of Washington (RCW) 70.45 and Washington Administrative Code (WAC) 246-312.

APPLICATION CHRONOLOGY

Action	Date
Application Submitted	May 5, 2017
Pre-Review Activities • DOH's 1st Screening Letter • Applicant's Response Received • DOH's 2nd Screening Letter • Applicant's Response Received • DOH's 3rd Screening Letter[2] • Applicant's Response Received • DOH's 4th Screening Letter • Applicant's Response Received	 • June 22, 2017 • August 23, 2017 • September 14, 2017 • November 13, 2017 • December 11, 2017 • December 18, 2017 • January 11, 2018 • January 22, 2018
Department Releases Request for Proposal for Validation Assessment	February 9, 2018
Beginning of Review	February 23, 2018
Public Comment • Public comments accepted through this date/Public hearings conducted	 March 19, 2018 March 19, 2018
Rebuttal Comments Due	April 3, 2018
AGO Opinion Completed	June 4, 2018
Department's Decision Date	August 6, 2018

[1] In a parallel review, applications have been submitted under the Certificate of Need statute (RCW 70.38) for the purchase of these facilities by RCCH. Separate decisions will be issued for those applications.

[2] While Certificate of Need applications are limited to two screenings, there is no such limit on the number of screenings for a non-profit conversion application.

SOURCE INFORMATION REVIEWED

- RCCH/Capella's Nonprofit Conversion application for Lourdes Medical Center and Lourdes Counseling Center received May 2, 2017
- RCCH/Capella's screening response received August 23, 2017, November 13, 2017, December 18, 2017, and January 22, 2018
- RCCH/Capella's Certificate of Need application for Lourdes Counseling Center received May 2, 2017
- RCCH/Capella's Lourdes Counseling Center screening response received August 7, 2017 and October 30, 2017
- RCCH/Capella's Certificate of Need application for Lourdes Medical Center received May 2, 2017
- RCCH/Capella's Lourdes Medical Center screening response received August 7, 2017 and October 30, 2017
- Public comment received by 5:00 pm on March 19, 2018
- ECG Management Consultants Report dated May 18, 2018 – Attached as Appendix B
- RCCH's Letter regarding assumptions used in ECGs report – Attached as Appendix C
- Attorney General Opinion dated June 4, 2018 – Attached as Appendix D
- ECG Management Consultants Updated Report dated July 31, 2018 – Attached as Appendix E
- Lourdes Health Network website at https://www.yourlourdes.com
- Ascension Health website at www.ascension.org
- Certificate of Need historical files

CRITERIA EVALUATION

To obtain Department of Health approval, the parties to the acquisition must demonstrate compliance with the criteria found in Revised Code of Washington (RCW) 70.45.070 and 70.45.080 and Washington Administrative Code (WAC) 246-312(050)(1), (2) and (3).

CONCLUSION

Based on the following evaluation, the department concludes the applications submitted by RCCH/Capella Healthcare, LLC for the conversion from non-profit to for-profit status of Lourdes Medical Center and Lourdes Counseling are consistent with the applicable Non Profit Hospital Acquisition review criterion in RCW 70.45 and WAC 246-312. These conversions should be approved with the following conditions.

CONDITIONS

The documentation required to meet the conditions below should be submitted to the Department of Health and the Office of the Attorney General.

These approvals are based on the department's record and the representations made to the department and AGO throughout the review of these Conversion and Certificate of Need applications.

1. Prior to the closing of the transaction no material changes can be made to the Application, the Asset Purchase Agreement, or any other applicable application documents, except as may be necessary to comply with conditions identified.

2. Prior to the closing of the transaction there occur no changes in operations at the Hospitals, or other events, which result in Ascension not receiving fair market value for the Hospitals.

3. The Donation Agreement between LHN and the Catholic Foundation shall be amended to require the Catholic Foundation to hold the proceeds in trust and as permanently restricted funds.

4. LHN shall establish a reasonable process for interim partial transfers of the proceeds of the transaction to the Catholic Foundation during the escrow period. This process must be approved by the Department of Health and the Office of the Attorney General.

5. LHN shall establish a reasonable process for reasonable review of payments from the escrow account to assure that those payments are limited to appropriate liabilities anticipated by the APA. This process must be approved by the Department of Health and the Office of the Attorney General.

6. LHN must resolve the discrepancies between the Application and the draft Donation Agreement, including resolving the duration of escrow, the precise assets to be conveyed into escrow (and concomitant obligations to be paid from escrow), the terms of the escrow, provisions for interim investment of escrowed funds, the treatment of post-closing adjustments, and vesting of authority in the Catholic Foundation to enforce any and all provisions of this transaction governing charitable funds, including without limitation transfers into or out of the escrow account – all subject to Department of Health and Attorney General approval.

7. LHN must establish a third distribution committee related to healthcare grants from the proceeds of the transaction with membership including residents of both Benton and Franklin counties and possessing the necessary subject matter expertise.

8. LHN must vest the right of first refusal with the Catholic Foundation, rather than Ascension. Consistent with statute, the right of first refusal shall not be time limited.

9. LHN must establish a mechanism that requires RCCH/Capella to provide adequate and timely notice to the Catholic Foundation of any potential sale, acquisition, or merger involving the assets so that it may exercise its right of first refusal.

10. The net proceeds from the sale of Lourdes Medical Center and Lourdes Counseling Center shall be dedicated to the permissible health care-related purposes for the benefit of the communities within the region served by both hospitals. The Catholic Foundation shall provide to DOH annually, such financial reports, either discretely or as a part of any other reports that demonstrate compliance with this condition.

11. Upon closing the net proceeds of the sale shall be immediately transferred and held in an interest bearing trust account for the benefit of the new foundation until such time as the initial members of the new foundation's board of directors have been appointed. The financial institution in which such account is established shall be subject to DOH's approval. The principal and interest in such trust account shall be transferred to the new foundation immediately following the appointment of the initial members of the new foundation's board of directors.

12. RCCH/Capella must agree to the conditions outlined in the Certificate of Need evaluations for Lourdes Medical Center and Lourdes Counseling Center.

FINDINGS

The Revised Code of Washington (RCW) 70.45.060 (1), requires the department of obtain an opinion from the Attorney General's office as to whether or not the proposed acquisition meets the requirements under RCW 70.45.070(1), (2), (3), (4), (5), (6), (7), (8), (9), and (10). The specific requirements of RCW 70.45.070 are also found in WAC 246-312. The WAC requirements that coincide with those found in RCW 70.45.070 are WAC 246-312-050(1)(a) through WAC 246-312-050(1)(j). A complete copy of the Attorney General Office's (AGO) opinion is in Appendix D attached to this evaluation.

A. WAC 246-312-050 (1)

Based on the source information reviewed, the department concludes that with the conditions identified in the conclusions section of this evaluation, the applicant has met the criteria in WAC 246-312-050(1). It is noted that public comment associated with any of the below sub-criteria were factored into the Attorney General's opinion. Therefore, the department did not conduct a second review of these comments.

(a) The acquisition is permitted under chapter 24.03 RCW, the Washington Nonprofit Corporation Act, and other laws governing nonprofit entities, trusts, or charities

As part of its evaluation the AGO analyzed whether the proposed acquisition was permitted under chapter 24.03 RCW, the Washington Nonprofit Corporation Act and other applicable laws, and concluded that it meets all requirements under statute. Their analysis of this requirement can be found on pages 9 and 10 of their written opinion.

The department concurs with the analysis and conclusions of the AG's office. The department concludes **this sub-criterion is met.**

(b) The nonprofit corporation that owns the hospital being acquired has exercised due diligence in authorizing the acquisition, selecting the acquiring person, and negotiating the terms and conditions of the acquisition

The AG evaluation analyzed whether Ascension exercised due diligence in authorizing the acquisition, selecting the acquiring person, and negotiating the terms and conditions of the acquisition. The AG and concluded that it meets all requirements under this section of statute. Their analysis of this requirement can be found on pages 10 through 16 of their written opinion.

The department concurs with the analysis and conclusions of the AG's office. The department concludes **this sub-criterion is met.**

(c) The procedures used by the nonprofit corporation's board of trustees and officers in making its decision fulfilled their fiduciary duties, that the board and officers were sufficiently informed about the proposed acquisition and possible alternatives, and that they used appropriate expert assistance

The AG evaluation analyzed whether procedures used by the nonprofit corporation's board of trustees and officers in making its decision fulfilled their fiduciary duties, that the board and officers were sufficiently informed about the proposed acquisition and possible alternatives, and

that they used appropriate expert assistance. The AG concluded that it meets all requirements under this section of statute. Their analysis of this requirement can be found on pages 17 through 19 of their written opinion.

The department concurs with the analysis and conclusions of the AG's office. The department concludes **this sub-criterion is met.**

(d) There is no conflict of interest related to the acquisition, including, but not limited to, board members and executives of, and experts retained by, the nonprofit corporation, acquiring person, or other parties to the acquisition

The AG opinion analyzed whether there were any conflicts of interest related to the acquisition, including, but not limited to, board members and executives of, and experts retained by, the nonprofit corporation, acquiring person, or other parties to the acquisition. The AG concluded that it meets all requirements under this section of statute. Their analysis of this requirement can be found on page 20 of their written opinion.

The department concurs with the analysis and conclusions of the AG's office. The department concludes **this sub-criterion is met.**

(e) The nonprofit corporation will receive fair market value for its assets. The attorney general or the department may employ reasonably necessary expert assistance in making this determination

To assist the department and the AG's office with this portion of the evaluation, the department solicited bids for a consulting valuation expert.

The Department executed a contract with ECG Management Consultants (ECG).[3] The contract with ECG required it to render an opinion as to the fair market value of the two nonprofit hospital assets being sold, including consideration of the seller's relationships with any related nonprofit organizations or charitable foundations to the determination of fair market value. A full copy of the report is presented in Appendix B.

The AG report analyzed whether the nonprofit corporation will receive fair market value for its assets. The evaluation concluded that Ascension would not receive fair market value for its assets.

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[3] ECG Management Consultants provides healthcare management consulting services. The company offers strategy services in the areas of enterprise strategy, facility and capital asset planning, service line strategy, physician strategy and alignment, health reform and accountable care organization strategy, transactions and affiliations, organizational design, and development, and finance services in the categories of business and financial advisory services, payor contracting and reimbursement, provider compensation planning, valuation services, and industry benchmarking. It also provides operations services in the areas of performance improvement, care model transformation, patient access, and revenue cycle optimization, regulatory compliance, technology infrastructure and operations, and digital health. The company serves academic medical centers, health systems, community hospitals, children's hospitals, medical groups, payors, and ambulatory surgery centers. [source AG Evaluation p23]

Upon receipt of ECG's opinion, RCCH recommended a number of updates to ECG's valuation model to reflect a more accurate reflection of fair market value.

The AG opinion made the following statement related to this recommendation:

"The parties to the transaction have identified alleged weaknesses in ECG's analysis, asserting in part that ECG should have utilized available financial data for 2018, should not have excluded certain management fees from its analysis, should have acknowledged a risk to LHN's continued status as a Critical Care Hospital, and should have assumed a need for significant infrastructure investment at the hospital in the future. Memorandum from RCCH Healthcare Partners and Lourdes Health Network to John Bry, Janis Snoey, Nancy Tyson and Audrey Udashen (May 18, 2018). It is not evident to us that the dramatic gulf between ECG's and Deloitte's respective valuation ranges can be entirely explained by the alleged weaknesses in ECG's analysis, nor would resolving these concerns address the fact that the applicant's valuation relies on data that is nearly three years old. ***However, the Department may wish to seek a response from ECG to assist the Department in evaluating these assertions and determining whether variances between the valuations can be reconciled or diminished****."* [***emphasis*** added] [source AG Opinion p26]

As a result of this, the department solicited ECG to update their valuation report using the factors identified above. ECG's updated report is attached as Appendix E of this evaluation.

These updates had a significant impact on the fair market value of LHN. With these updates, ECG concluded the fair market value of the assets related to this transaction ranged from $21,000,000 and $24,000,000.

The department concurs with the analysis of the AG's office, and relied on the updated fair market valuation provided by ECG (the department's consultant). With the updated fair market valuation, this requirement is met. The department concludes this **sub-criterion is met.**

(f) If the acquisition is financed in part by the nonprofit corporation, that charitable funds will not be placed at unreasonable risk

LHN is not financing any part of proposed acquisition. Therefore, this sub-criterion does not apply. [source: AG Opinion p27]

(g) Any management contract under the acquisition is for fair market value

The applicant will not be entering into any management agreements. Therefore, this sub-criterion does not apply. [source: AG Opinion p27]

(h) The proceeds from the acquisition will be controlled as charitable funds independently of the acquiring person or parties to the acquisition, and will be used for charitable health purposes consistent with the nonprofit corporation's original purpose. Charitable health purposes include providing health care to the disadvantaged, the uninsured, and the underinsured, and providing benefits to promote improved health in the affected community

The AG opinion analyzed whether the proceeds from the acquisition will be controlled as charitable funds independently of the acquiring person or parties to the acquisition, and will be used for charitable health purposes consistent with the nonprofit corporation's original purpose. Charitable health purposes include providing health care to the disadvantaged, the uninsured, and the underinsured, and providing benefits to promote improved health in the affected community. Their complete analysis can be found on pages 28 through 36 of their written opinion.

The AG concluded that meets all requirements under this section of statute, with the following amendments to the application as conditions:

- Amendment of the Donation Agreement between LHN and the Catholic Foundation to require the Catholic Foundation to hold the proceeds in trust and as permanently restricted funds;
- Establishment of a reasonable process for interim partial transfers of the proceeds of the transaction to the Catholic Foundation during the escrow period;
- Establishment of a process for reasonable review of payments from the escrow account to assure that those payments are limited to appropriate liabilities anticipated by the APA;
- Resolution of discrepancies between the Application and the draft Donation Agreement, including resolving the duration of escrow, the precise assets to be conveyed into escrow (and concomitant obligations to be paid from escrow), the terms of the escrow, provisions for interim investment of escrowed funds, and the treatment of post-closing adjustments, all subject to Department of Health and Attorney General approval; and
- Vesting of authority in the Catholic Foundation to enforce any and all provisions of this transaction governing charitable funds, including without limitation transfers into or out of the escrow account.

The department concurs with the analysis and conclusions of the AG's office including the recommended conditions. With the applicant's agreement to the conditions within the conclusions section of this evaluation, the department concludes **this sub-criterion is met.**

(i)The charitable entity established to hold the proceeds of the acquisition will be broadly based in, and representative of, the community where the hospital to be acquired is located, taking into consideration the structure and governance of such entity

The AG opinion analyzed whether the charitable entity established to hold the proceeds of the acquisition will be broadly based in, and representative of, the community where the hospital to be acquired is located, taking into consideration the structure and governance of such entity. Their complete analysis can be found on page 36 of their written opinion.

The AG concluded the applicant met this requirement with the following recommended condition:

- Establish a third distribution committee related to healthcare grants from the proceeds of the transaction with membership including residents of both Benton and Franklin counties and possessing the necessary subject matter expertise.

The department concurs with the analysis and conclusions of the AG's office including the recommended condition. With the applicant's agreement to the conditions within the conclusions section of this evaluation, the department concludes **this sub-criterion is met.**

(j) If the hospital is subsequently sold to, acquired by, or merged with another entity that a right of first refusal to repurchase the assets by a successor nonprofit corporation or foundation has been retained.

The AG opinion analyzed whether the right of first refusal to repurchase the assets by a successor nonprofit corporation or foundation has been retained if the hospital is subsequently sold to, acquired by, or merged with another entity. Their complete analysis can be found on pages 36 and 37 of their written opinion.

The AG concluded the applicant met this requirement with the following recommended conditions:

- Vesting of the right of first refusal with the Catholic Foundation, rather than Ascension; and
- Establishment of a mechanism that requires Capella to provide adequate and timely notice to the Catholic Foundation of any potential sale, acquisition, or merger involving the assets so that it may exercise its right of first refusal.

The department concurs with the analysis and conclusions of the AG's office. The department concludes **this sub-criterion is met.**

B. WAC 246-312-050 (2)

Based on the source information reviewed, the department concludes that with the conditions within the conclusions section of this evaluation, the applicant has met the criteria in WAC 246-312-050(2).

(a) If the acquisition results in a reduction or elimination of particular health services, that sufficient safeguards are included to assure the affected community has continued access to affordable care, and that alternative sources of care are available in the community

RCCH/Capella states it is prepared to make a long-term commitment to the greater Tri-City area and to each of the Hospitals' medical staffs and employees, and to solidify each Hospital's position as the healthcare provider of choice in the respective service areas. RCCH/Capella has access to sufficient capital to allow the Hospitals to maintain high quality care for their patients and to continue to provide the quality healthcare services that Pasco, Kennewick, and the surrounding communities have come to expect. [source: Application, pp 20]

Their CON application made the following statement related to this sub-criterion. [source: CN Application 17-38 p11, CN Application 17-37 pp11-12]

"As outlined in the APA, Capella has agreed to:

1. *For a period of at least 10 years, implement reasonable policies for community benefit programs that are generally consistent with the community benefit policies of LHN at the time of acquisition. Capella has also assumed the same level of charity care in its pro forma financials that Lourdes provided in 2016.*
2. *For a period of at least 10 years, continue to participate in Medicare and Medicaid programs.*
3. *Implement reasonable policies for treatment of indigent patients that are generally consistent with the charity care policies of LHN at the time of acquisition.*

Capella is committed to providing services consistent with the level of services currently enjoyed by service area residents. No elimination or reduction of services is anticipated with approval of this project."

In its evaluation of the CON applications, the department concluded a condition was necessary regarding the above identified "essential" services. Prior to RCCH/Capella discontinuing any of the "essential" services during the ten years identified in the APA, the condition requires RCCH/Capella to submit an application requesting to modify that condition. [WAC 246-310-570(1)(d)]

Based on the above analysis and if RCCH/Capella agrees to the condition above, the department concludes **this sub-criterion is met.**

(b) Hospital privileges will not be revoked

Two of the stated objectives of the Board as they initiated their discernment process to identify a purchaser was related directly to this sub-criterion:

- *Preserving viability of staff retention and competitive wage and benefits*
- *Retaining strong physician and other clinical provider relationships*

Once RCCH/Capella was selected as the potential purchaser, the APA was unanimously approved by the board "with no dissenting viewpoints." Among other things, the APA guarantees that:

- *"The transaction will not result in the revocation of hospital privileges for any physicians on staff at either of the Facilities in good standing at the time of the closing of the proposed transaction."* [source: Application p24]

Based on section 6.22 of the APA and other representations made in its application, the department concludes this **sub-criterion has been met**.

(c) Sufficient safeguards are included to maintain appropriate capacity for health science research and health care provider education

The application makes the following statement related to this sub-criterion.

"Per LHN, the Facilities do not currently offer health science research and provider education." [source: Application p11]

As such, this sub-criterion is not applicable.

(d) The parties to the acquisition are committed to providing health care to the disadvantaged, the uninsured, and the underinsured and to providing benefits to promote improved health in the affected community

RCCH/Capella provided the following statement related to this sub-criterion:

"Pursuant to Section 6.21 of the APA, Capella has agreed to implement policies for the treatment of indigent patients in a manner consistent with LHN's charity care policies and practices in effect before the Transaction. Also, Capella is required to provide the same general levels of charity care as provided by LHN. Capella has committed to cause the Facilities to continue to provide services to patients covered by Medicare and Medicaid programs for a period of at least ten (10) years.

Furthermore, for a period of ten (10) years, Capella must implement reasonable policies for the Facilities' community benefit programs consistent with LHN's community benefit policies and practices in effect immediately before the Transaction. Any material change to such policies will be subject to the approval of the Local Board." [source: Application p12]

The Certificate of Need application for Lourdes Medical Center expanded upon this point:

"Lourdes operates with a nondiscrimination policy that will be adopted by Capella upon acquisition. This nondiscrimination policy assures access to all low income and other underserved groups. In addition, Lourdes operates with a Department of Health (Department) approved charity care policy (included as Exhibit 7) that Capella also proposes to adopt. Historically, Lourdes has provided charity care above the Department of Health's regional average for the Central Washington region. Capella assumed Lourdes 2016 level of charity care in its proforma financials." [source: CN Application 17-38 p13]

"Lourdes has provided health care services in Franklin County and has served Benton and Franklin Counties since 1916. This history has resulted in well-established working relationships with the other health care providers and community organizations. Lourdes has established relationships with skilled nursing facilities (for referral of patients), home health and hospice providers, and other acute and primary care providers. Each of these relationships will be maintained under Capella." [source: CN Application 17-38 p23]

To determine whether all residents of the service area would continue to have access to a hospital's proposed services, the department requires applicants to provide a copy of its current or proposed admission policy, non-discrimination policy, charity care policy, and any other applicable policies.

In its evaluation of the CON applications, the department concluded this access criterion was met, based on agreement to specific conditions.

Based on the above analysis and with the applicant's agreement to the related conditions within CON evaluations, the department concludes **this sub-criterion is met.**

<u>(e) Sufficient safeguards are included to avoid conflict of interest in patient referral.</u>

RCCH/Capella provided the following information related to this sub criterion in their application:

"Capella operates each of its hospitals, and will do the same for the Facilities, with a compliance program that includes a Code of Conduct which prohibits any conflicts of interest, requires all employees to maintain impartial relationships with vendors and suppliers, and prohibits the payment for referrals or the acceptance of payment for referrals to other entities. Specifically, the Code of Conduct prohibits employees or their families from accepting any gifts (except those of nominal value), special discounts or loans, excessive entertainment, or substantial favors from any organization or individual that conducts business with the Facilities. The Code of Conduct also requires that all agreements for the payment or receipt of money, goods, services, or anything of value with physicians be in writing and comply with all federal and state laws including the Stark provisions and the Anti-Kickback statute.

Further, Capella will include language prohibiting any employee from entering into side agreements with physicians. All employees will be required to annually to sign an acknowledgment indicating they have received a copy of the Code of Conduct, and that they have read and understand it.

Further, no RCCH facility pays for referrals and none accept payment for referrals made to other entities. All payments made to physicians or other entities are made pursuant to current written agreements and are at fair market value for actual services performed. RCCH does not consider the value or volume of referrals, or other business generated between the parties." [source: Application p12]

To substantiate these claims, the department conducted research into RCCH/Capella's practices nationwide. This research did not result in any findings of non-compliance with Stark provisions or the Anti-Kickback statute. The department did find that RCCH/Capella has policies in effect in other states that reinforce the assertions above. This information and these statements are sufficient for the department to determine **this sub-criterion is met.**

C. WAC 246-312-050(3)

Based on the source information reviewed, the department determines the applicant has met criteria in WAC 246-312-050(3)

<u>(***3) The department may only approve an acquisition if it also determines that the acquisition will not detrimentally affect the continued existence of accessible, affordable health care that is responsive to the needs of the community where the hospital being acquired is located.***</u>

RCCH/Capella provided the background information related to the sale of both Lourdes Medical Center and Lourdes Counseling Center – referred to collectively as the "Facilities" throughout their applications. The summary of this information provided by the applicant is below:

"Per LHN, it completed a ministry positioning process in 2013 to identify a primary, long-term, sustainable model of healthcare delivery for its future. The ministry positioning process, conducted by the LHN Board of Directors (the "Board"), revealed that LHN's sustainable role was being a community provider of unique high-quality health services that were needed by the local community. During the ministry positioning work, the Board identified the need for LHN to develop a regional affiliation to expand its market presence, obtain scale and increase access to care. With those goals in mind, the Board decided to enter into a Catholic-guided decision making process, referred to as the discernment process, in order to determine what model of alignment would best enable LHN to fulfill its mission and values. The Board initiated the discernment process in September 2014.

Although LHN recognized many positive aspects of its affiliation with Ascension Healthcare, LHN and Ascension Healthcare mutually decided that the goals of LHN, and the healthcare needs of the community it served, would be better met by aligning the Facilities with a regional partner. The Board reviewed and discussed the findings of the discernment process at its November 25, 2014 meeting and determined that an affiliation with a health system with a more regional presence was desirable and in the best long term interest of the Facilities and the community.

Utilizing its national relationships, Ascension Healthcare retained, on behalf of LHN, Kaufman, Hall & Associates ("Kaufman Hall") to serve as an advisor to identify potential acquirers for the Facilities, and Bradley, Arant, Boult, Cummings, LLP to serve as legal advisor to LHN. Both firms are experienced healthcare transaction advisors. Following the discernment process, Kaufman Hall initiated a Request for Proposal ("RFP") process in which twenty-two (22) organizations were contacted. These organizations included nonprofit, for-profit, and faith-based health systems.

Six (6) organizations elected to participate in the process and submitted initial proposals. The Board evaluated the organizations taking into account a number of factors, including the proposed purchase price for the assets, capital commitments, governance, employee matters, the continuance of charity care and community benefit programs, medical staff matters and mission preservation.

Ultimately, three (3) organizations were selected to continue in the process. LHN leadership conducted discussions with each of the three (3) organizations. In addition, each of the three (3) organizations conducted market and facility tours, and each made presentations to the Board for consideration. Following the in person meetings and presentations to the Board, the Board deliberated and selected Capella; in part because of its growing regional presence and its alignment with LHN's focus and vision. Shortly thereafter the terms and conditions of the proposed Transaction were negotiated between the parties. A letter of intent was signed on June 12, 2015, and several months later, the Board met to review the final draft of the APA. The parties signed the APA on September 28, 2016." [source: Application pp3-4]

Within their applications, RCCH/Capella has outlined their commitment to wholly adopt the policies in effect at both Lourdes facilities, to make $18 million in capital expenditures over the next five years, to continue to operate the facilities, to continue to maintain all employees and

medical staff in good standing, to continue participation in the Medicare and Medicaid programs, maintain current service lines, and to continue to have a local board of trustees.

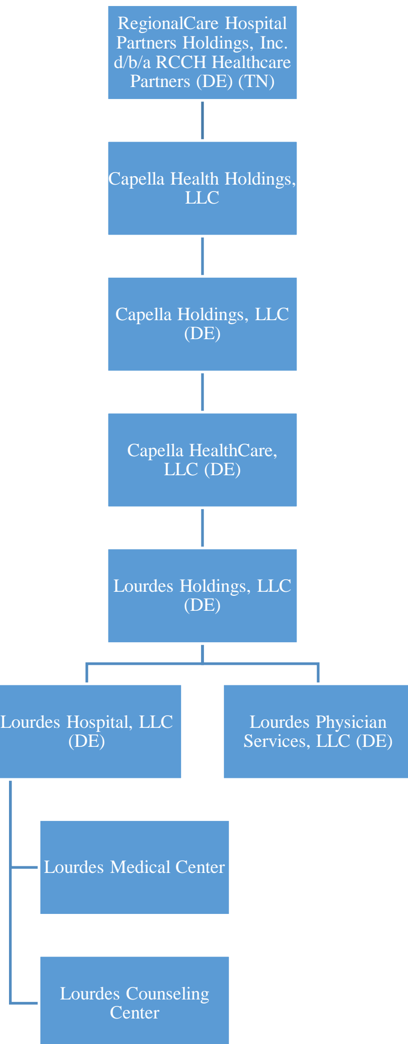
On March 19, 2018, the department conducted two separate public hearings related to RCCH/Capella's proposed purchase of the two hospitals. Both public hearings were well attended by residents of the Benton and Franklin County communities and surrounding areas. The majority of comments provided by those in attendance recognized the importance of the continued operation of both facilities. Many comments received by the department focused on the $18 million investment RCCH/Capella has committed to investing over the next five years. Public comment demonstrated strong support for maintaining these two hospitals. [source: written and oral comments provided by community members]

Within the Certificate of Need review, the department identified conditions related to the continued operation of both hospitals, including their provision of essential services and participation in the Medicare and Medicaid programs. Prior to receiving Certificates of Need, RCCH/Capella must agree to these conditions.

The department reviewed the Ascension discernment process, the ECG valuation report, public comments received, and the AG opinion. Based on this review the department concluded that the conversion of Lourdes Medical Center and Lourdes Counseling from non-profit to for-profit will likely not have a detrimental effect on the continued existence of accessible, affordable health care for the residents of the Benton and Franklin County communities and surrounding areas.

Based on the above analysis and agreement to the conditions under the Certificate of Need review, the department concludes **this criterion is met.**

APPENDIX A


RegionalCare Hospital Partners Holdings, Inc. d/b/a RCCH Healthcare Partners (DE) (TN)
Capella Health Holdings, LLC
Capella Holdings, LLC (DE)
Capella HealthCare, LLC (DE)
Lourdes Holdings, LLC (DE)
Lourdes Hospital, LLC (DE)
Lourdes Physician Services, LLC (DE)
Lourdes Medical Center
Lourdes Counseling Center

APPENDIX B

CONFIDENTIAL
DISCUSSION DRAFT

TO: Nancy Tyson
Executive Director
Health Facilities and Certificate of Need
WA State Department of Health

Janis Snoey
Assistant Attorney General
Office of the Attorney General
Agriculture and Health Division
PO Box 40109
Olympia, WA 98504-0109

FROM: ECG Management Consultants

DATE: May 18, 2018

RE: Business Valuation of Lourdes Health Network

This document describes the key material assumptions that guide our analysis in the accompanying valuation schedules. These assumptions supplement the accompanying valuation exhibits and impact the overall concluded value of Lourdes Health Network.

1. ECG was not given access to Lourdes management, and as a result had to base its analysis on what was known and knowable as of the valuation date, May 10, 2018. As such, we have made the following assumptions regarding operations:
   a. There is no undue or excessive reliance on key personnel
   b. There are no major, material changes to patient reimbursement and payor contracts
   c. There are no major changes to contracts with supplies and vendors.
2. Investments in unconsolidated entities and restricted assets were identified in the analysis as nonoperating, excess assets.
3. This analysis covers only Lourdes Medical Center, Lourdes Counseling Center, and Lourdes Physician Practices. Lourdes Foundation was excluded from the analysis.
4. In RCCH HealthCare Partners' acquisition of Lourdes from Ascension, Ascension is expected to retain all debt associated with Lourdes. As a result, debt was excluded from the analysis.

5. Ascension charges a management fee to Lourdes, budgeted as a percent of total operating revenue. As this is an expense specific to Ascension's management of Lourdes, it was excluded from the forecast periods.
6. We assumed a maintenance level of capital expenditures is required to maintain fixed inventory, and no large capital expenditure purchases are expected.
7. We assumed net working capital will continue at levels consistent with the most recent historical period and in line with industry averages.
8. We are assuming that there was no material seasonality or other short-term effects associated with the results for the first half of fiscal year ended June 30, 2018 and the results for the second half will be in line with the first half of the year.
9. We are assuming there is no new competition in the surrounding areas that would materially affect Lourdes financial performance.

CONFIDENTIAL

Washington State Department of Health

The Fair Market Value of Lourdes Health Network

Concerning Business Appraisal Report Prepared by Deloitte as of November 10, 2017

Appraisal Review Report

As of May 18, 2018

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Table of Contents

		Page
I.	**Introduction**	1
A.	**Definitions**	1
B.	**Opinion**	2
C.	**Objectives and Scope of Appraisal Review**	2
D.	**Selection of Valuation Date**	2
E.	**Relevance of Selected Methodologies**	3
F.	**Lack of Care in Producing Certification**	5
G.	**Appraisal Review Assumptions and Conditions**	5
H.	**Sources of Information Relied Upon**	6
I.	**Certification**	7

I. Introduction

Deloitte was retained by Ascension Health ("Ascension" or "the Company") to estimate the fair market value (FMV) of the invested capital of Lourdes Health Network (LHN). We understand that the Company had entered into a Letter of Intent (LOI) dated June 12, 2015, to sell certain assets of LHN, a wholly owned subsidiary of the Company, to Capella Healthcare. It is our understanding that the appraisal was to be used by Ascension internally to assist it in meeting management planning requirements.

Ascension has provided ECG with the full report and associated valuation schedules (the "Appraisal") performed by Deloitte. The Appraisal, in its entirety, is included as appendix A to this Appraisal Review.

A. Definitions

"Credibility": The concept of credibility utilized in this engagement is grounded on consideration and inclusion of all known facts and circumstances in a business appraisal report.

Credibility can be defined by seven basic processes:

» *Adequate Disclosures:* Refers to the requirement that the appraisal process present information not only on known facts and circumstances about the appraisal process undertaken, but also on sufficient, informative, and relevant disclosures to allow stakeholders in the appraisal process to understand the foundation of the appraiser's opinion.

» *Completeness:* Requires that the data, assumptions, and explanations presented in the appraisal report are described in enough detail to allow a user to understand and duplicate the appraisal results presented and used in forming a basis for the opinion proffered by the appraiser.

» *Generally Accepted Appraisal Practices in the United States of America*: Refers to those approaches, related methodologies, and procedures thereunder that have been peer reviewed, have been exposed to publication, and can be reasonably expected to be used by appraisers regularly conducting engagements under similar facts and circumstances.

» *Nonadvocacy:* Refers to the Institute of Business Appraisers Standard 1.4, Nonadvocacy vs. Advocacy. Nonadvocacy requires that an appraiser maintain a high level of objectivity in the formulation of their own independent, expert opinion throughout all aspects of the appraisal process undertaken as well as in the appraisal review process. These requirements also apply to the reviewer and the review process undertaken.

» *Relevance:* Refers to the specific relationship of an appraiser's analytical nexus to a particular appraisal standard, method, or procedure forming a supportive and probative basis of the opinion of value offered by the appraiser.

» *Reliability:* Requires that the appraisal review procedures performed by a reviewer allow for replication of the original results obtained by the reviewer and that the methods used by the appraiser were determined to be reliably applied.

» *Transparency:* Refers to the inclusion and assessment of facts and circumstances known to the appraiser, without limitation or exclusions.

B. Opinion

ECG was engaged by the State of Washington Department of Health (DOH) to provide a qualified, independent third-party FMV opinion regarding the certificate of need applications for the transfer of ownership and conversion of Lourdes Medical Center and Lourdes Counseling Center, together referred to as LHN. ECG is conducting an Appraisal Review of the valuation approach and assumptions included in the original FMV opinion rendered by Deloitte as of the valuation date of June 12, 2015. ECG will then prepare an updated, consolidated FMV range for the LHN facilities based on current financial performance.

This Appraisal Review was conducted for the purpose of determining whether the approaches and methodologies utilized by Deloitte were relevant to the objectives and purpose and applied on a reliable basis consistent with generally accepted appraisal practices in the United States as of June 12, 2015. An Appraisal Review does not entail an opinion of value with regard to the subject assets. Therefore, this Appraisal Review should not be construed to be an opinion of value.

In my opinion, subject to the assumptions and limiting conditions discussed in the Appraisal Review Report, the opinion presented by Deloitte, as incorporated herein as appendix A, has deficiencies that weaken the credibility of its conclusions. Based solely on the information provided in the report, it is not reliable. However, it is possible that Deloitte could provide additional support from its workpapers to correct the deficiencies observed.

Adam J. Klein, CVA

C. Objectives and Scope of Appraisal Review

While ECG believes this report has deficiencies in its application of appraisal methodologies, it does generally conform to development standards normally utilized by business appraisers in the United States, as promulgated by the *Uniform Standards of Professional Appraisal Practice* (*USPAP*). ECG has identified gaps in preparation and disagrees with aspects of the methodology used in the development of the Appraisal.

D. Selection of Valuation Date

The Appraisal is dated November 10, 2017; however, the valuation date is as of June 12, 2015. Although it is mentioned in Deloitte's report that the Company entered into a LOI dated June 12, 2015, it is not clear why this date was selected as the valuation date as opposed to a more current date.

The projected cash flows relied upon by Deloitte for 2015, 2016, and partial year 2017 were materially below the actual realized cash flows during that period. This discrepancy was knowable on the date Deloitte transmitted its report; however, these subsequent events were disregarded. Nonetheless, while a different effective date would have produced a different conclusion of value, the projected cash flows may have represented reasonable expectations for the future as of June 12, 2015.

E. Relevance of Selected Methodologies

The Appraisal clearly defines which methods were used in developing the opinion of value. The appraiser considered four indications of value:

» Income Approach: A value indication was derived by discounted multiple years of projections.

» Guideline Public: A value indication was derived by application of certain price-to-earnings ratios observed in public companies engaged in similar lines of business.

» Guideline Transactions: A value indication was derived by application of certain price-to-earnings ratios observed in nonpublic companies engaged in similar lines of business.

» Cost Approach: A value indication was derived based on the amalgamation of assets used to generate cash flows in the subject business.

Deloitte selected a 75% relevance weight to the income approach and a 25% relevance weight to the guideline transaction method. The appraiser stated that the reason for this selection was "because the quantity and quality of related information supported **full confidence** in the developed value indication." Given the limited availability of information, ECG believes it is unreasonable to have full confidence in the income approach. Additionally, after we performed a comparison of projected financials with now-realized historical financials, it is evident that LHN management's projected financials, utilized by the appraiser, differed significantly from actual operating results. Furthermore, asserting full confidence in the income approach implies a 100% relevance weighting, which is inconsistent with the actual weighting of 75% applied.

Regarding the exclusion of the guideline public company method, the appraiser stated, "we considered, but did not rely upon guideline company method because public health systems **operate on a much larger scale, level of profitability and with a different mode of reimbursement thereby limiting the development of credible results**."

1. Observations on Income Approach

PROJECTED CASH FLOWS

The forecast was developed utilizing fiscal year 2014 as the normalized period. Typically, the most recent financial data is relied upon unless there is a reason not to utilize the most current year. No such reason was provided. At a minimum, Deloitte's model included data through May 31, 2015. We would have expected the forecast to take into account the more recent performance. When the most

recent financials are unaudited, they can be less reliable; however, common procedures exist to determine the extent to which unaudited financials are likely to be representative of actual performance. We are not aware of any steps taken by Deloitte to evaluate the credibility of the more recent, unaudited financials.

DISCOUNT RATE

In development of the discount rate used to discount the cash flows in the DCF method, the appraiser discusses selection of an equity discount rate, stating, "FCFE is typically discounted using an equity discount rate, which can be quantified using the build-up method, the Capital Asset Pricing Model ("CAPM"), or other methods." Ultimately, the appraiser estimated the cost of equity based on the application of the CAPM.

A key input used in the CAPM is beta, a measure of systematic risk, which represents the covariance of expected rate of return on an equity investment with the rate of return on the market. The selected beta was estimated using unlevered equity betas of the guideline public companies, including Community Health Systems, LifePoint Healthcare, Tenet Healthcare Corp., Universal Health Services, and HCA Healthcare, relevered based on the hospital's marginal tax rate and estimated target capital structure. While the CAPM approach is generally considered an acceptable approach to estimate the cost of equity, ECG questions the consistency of utilizing the CAPM when the appraiser applied no weighting to the guideline public company approach.

The appraiser's opinion was that public companies were not relevant for valuing the subject company because they **operate on a much larger scale and level of profitability, and with a different mode of reimbursement.** As such, we note the internal inconsistency of relying on public companies for developing a discount rate, yet rejecting their relevance for applying market multiples.

Additionally, in the development of the weighted average cost of capital, the appraiser applied debt and equity weightings based on the average of the guideline public companies. Again, this is inconsistent with the appraiser's stated concerns with the guideline public companies, which are a poor proxy for critical access hospitals given their operating scale and profitability. ECG believes that relying on a broader, industry-based capital structure standard would be more consistent given the identified differences between critical access hospitals and the guideline public companies. Deloitte did not explain in its report whether the capital structure of guideline public companies bears any resemblance to the capital structure common among the hypothetical pool of buyers.

Additionally, in the selection of a company-specific risk premium, the appraiser only addressed the achievability of cash flow projections relative to the competitive environment. Although appraisers commonly consider a much wider range of factors, Deloitte cited no other factors in its selection of a company-specific risk rate.

2. Market Approach

The Appraisal applies a 25% weighting to the guideline transaction method of the market approach in the conclusion of unadjusted business enterprise value. Although the appraiser reviewed several

hundred transactions, they deemed only 16 to be relevant. Of those, five had available price-to-revenue multiples and only one had a price-to-EBITDA multiple. Because there was only one available price-to-EBITDA transaction, the appraiser relied exclusively on the price-to-revenue multiple.

We have multiple concerns with Deloitte's market approach.

» Revenue multiples without regard to profitability are not a commonly accepted method for valuing income-generating hospitals that are viable as going-concern enterprises.

» Based on ECG's review, at the time of Deloitte's Appraisal, there were many other market transactions publicly available for similarly sized hospitals where EBITDA was stated. For example, the appraiser could have expanded the selection to include other similar hospitals with more than 25 beds. Likewise, they could have accessed more databases.

» To our knowledge, Deloitte has relied on public company multiples in its prior appraisals conducted for smaller-scale nonpublic hospitals. It is not clear why it chose to disregard those multiples here.

» No explanation was given for why a 25% reliance was placed on the market approach as opposed to some other relevance weight.

» Price-to-EBITDA multiples are a far more common appraisal method than revenue multiples when valuing hospitals like the subject company. EBITDA is a better proxy for cash flows, which are ultimately what the investor is purchasing. On the other hand, revenue bears an inconsistent and less predictable relationship to cash flows. Revenue multiples are typically considered only in instances when businesses do no generate positive cash flows, or when cash flows cannot be accurately estimated. Neither of those facts apply to the subject company.

» In light of Deloitte's stated belief that "the quantity and quality of related information supported full confidence in the developed [income approach] value indication," it is unclear why any reliance would have been placed on the market approach. The limited market information and lack of applicability to the subject arrangement should have excluded consideration of their indication from the guideline transactions method.

» ECG believes that combining a reliable indication (income approach) with an unreliable one (market approach) will produce a less relevant value than sole reliance on the reliable indication. Deloitte likely agrees, based on the fact that it placed no weight on the guideline public company approach or the cost approach.

F. Lack of Care in Producing Certification

The Appraisal certification was included, as required by *USPAP*; however, the report is signed "11-10-18," one full year after the date of the report. This is inconsistent with *USPAP* SR 4-3 and SVP: SR C-3. The date of the appraisal certification should align with the appraisal date.

G. Appraisal Review Assumptions and Conditions

» Information, estimates, and opinions contained in this Appraisal Review Report were obtained from sources represented to be reliable. However, we assume no liability for the accuracy of such information.

» Possession of this report or a copy thereof does not carry with it the right of publication of any part of it, nor may it be used for any other purpose than as stated in this report.

» This Appraisal Review engagement is limited to the production of this report, conclusions, and opinions contained herein. The reviewer has no obligation to provide future Appraisal Review services. The reviewer is not required to give testimony in court, or to attend any hearings or depositions.

» This Appraisal Review engagement is valid only for the specified purpose and intended for use only by the State of Washington DOH, its financial advisers, tax preparers, and the Internal Revenue Service in connection with the purpose stated herein.

» The reviewer has assumed that there is full compliance with all applicable federal, state, and local regulations and laws unless otherwise specified in this report.

» This report was prepared under the sole direction of the reviewer. Neither the professional who worked on this engagement nor any employees of ECG have any present or contemplated future interest in the appraisal subject, nor any personal interest with respect to the parties involved, or any other interest that might prevent the reviewer from performing an unbiased Appraisal Review.

» The reviewer's compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions provided in this report.

» The reviewer is not a law firm, and none of its employees are licensed to practice law in any jurisdiction.

» All documents provided to the reviewer are known to be true copies of the originals.

» The appraisal report prepared by Deloitte as of November 10, 2017, was relied upon by the reviewer to represent the appraiser's opinion of value of the subject assets, and it is incorporated herein as an integral part of this Appraisal Review Report.

» The appraiser did not perform any subsequent analysis, amendments, or changes to the appraisal report.

» The appraiser has not given any testimony in court, depositions, hearings, or proceedings of any type regarding the subject interest discussed in the appraisal report.

» The appraiser is not subject to any disciplinary actions or proceedings in connection with their appraisal practice or the subject matter contained in the appraisal report.

H. Sources of Information Relied Upon

The sources of information relied upon by this reviewer included:

» The appraisal report prepared by Deloitte as of November 10, 2017.

I. Certification

I certify that, to the best of knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinion, and conclusions are limited only by the reported assumptions and limiting conditions stated in this review report and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
- I have no (or the specified) present or prospective interest in the property that is the subject of the work under review and no (or the specified) personal interest with respect to the parties involved.
- I have performed no (or the specified) services, as an appraiser or in any other capacity, regarding the subject of the work under review within the three-year period immediately preceding acceptance of this assignment.
- I have no bias with respect to the property that is the subject of the work under review or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation is not contingent on an action or event resulting from the analyses, opinion, or conclusions in this review or from its use.
- My compensation for completing this assignment is not contingent upon the development or reporting of predetermined assignment results or assignment results that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal review.
- My analyses, opinion, and conclusions were developed and this review report was prepared in conformity with USPAP.
- I have not made a personal inspection of the subject property under review.
- Karen Kole, ASA, Jana Sizemore, ASA, and Nate O'Brien, CVA, provided significant appraisal, appraisal review, or appraisal consulting assistance to the person signing this certification.

Adam J. Klein, CVA
May 18, 2018

Adam J. Klein
Principal
Provider Financial Services

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Adam leads ECG's Financial Services practice. Since 1997, he has conducted appraisals of tangible and intangible assets, as well as valuations of business enterprises, clinical and administrative compensation, coverage stipends, leases, management services, joint ventures, and accountable care funds flows. His valuation studies allow parties to understand how and why conclusions were reached so that they are best able to achieve fair and defensible agreements.

Summary of Expertise

Adam is an expert in the areas of economic valuation and appraisal of healthcare business arrangements, healthcare clinical and administration compensation, and healthcare financial modeling. His practice primarily focuses on payor and provider businesses and collaborative arrangements, and its clients include for-profit and not-for-profit enterprises in both academic and community settings. Adam has a reputation for developing innovative and effective compensation and business structures that incorporate traditional and emerging payment models. His transaction experience includes acquisitions, business formations, consolidations, restructurings, and divestitures. In addition, Adam helps design and implement governance, management, operations, and finance systems that allow hospitals, payors, physicians, and ancillary service providers to work more effectively to establish, synthesize, and meet mutual objectives.

Prior to joining ECG in 2008, Adam worked as the director of strategic analytics for the healthcare practice of a national management consulting firm and as the manager of special projects at DaVita throughout the financial turnaround of its U.S. dialysis business.

Affiliations

Adam is a Certified Valuation Analyst with the National Association of Certified Valuators and Analysts, a member of the American Society of Appraisers, and qualified by the Institute of Business Appraisers to perform business appraisal reviews. He contributes to member briefings for the American Health Lawyers Association's Hospitals and Health Systems and Physician Organizations Practice Groups and the Fair Market Value Affinity Group.

Education

Adam holds a master of business administration degree from the UCLA Anderson School of Management and a bachelor of arts degree in econometrics from the University of Massachusetts Amherst.

Speeches and Publications

Adam speaks and writes regularly on healthcare transactions and various valuation topics. He recently presented at the National Investment Center's Investment Forum on valuation trends in healthcare enterprises, as well as at the UCLA Anderson School of Management Healthcare Conference on changes in the health insurance landscape and their impact on patient care.

Karen I. Kole
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Karen is a transaction and financial adviser whose career has focused on the healthcare industry. Karen provides fair market value (FMV) opinions for mergers and acquisitions, divestitures, joint ventures, and hospital-physician arrangements. She has extensive financial modeling experience and a deep understanding of the evolving healthcare landscape. As Karen's clients contemplate enterprise-defining decisions, they appreciate her comprehensive approach to fair market valuations and her ability to present the most complex financial matters in a clear, meaningful way.

Summary of Expertise

Prior to joining ECG, Karen served as a valuation consultant and transaction adviser with Huron Consulting Group and its broker dealer, Huron Transaction Advisory. In these roles, she provided transaction and valuation services to multiple provider types, including community hospitals, for-profit and nonprofit health systems, ancillary providers, and physician practices. Her work included:

- Advising a large national Catholic healthcare provider on the acquisition of an ownership interest in a 15-hospital system in the Midwest. The client closed the transaction in 2013 based on the price in the valuation.
- Creating a five-year financial forecast of the Affordable Care Act's impact on a county-owned hospital on the West Coast, which included projecting state and patient revenue sources.
- Advising a 74-bed specialty hospital in the South on a major transaction, which included due diligence, pro forma analysis, development of the confidential information memorandum, and contacting prospective partners. The hospital successfully sold its majority ownership interest.
- Providing a valuation of a 120-physician cardiology practice in the Midwest that included heart hospitals and a management company. Based on the FMV opinion, the practice sold all assets to a national nonprofit health system.

Professional Affiliations

Karen holds an Accredited Senior Appraiser designation from the American Society of Appraisers. She is a member of the American College of Healthcare Executives and the American Health Lawyers Association.

Education

Karen has a bachelor of science degree in finance from the University of Illinois at Urbana-Champaign.

Selected Articles and Speeches

American Health Lawyers Association's *Business Law and Governance Newsletter*, March 2014: "Hospitals Eye Service Line Transactions to Cut Costs and Boost Revenue."

Illinois Hospital Association's Small and Rural Healthcare Conference, June 17, 2014: "Addressing Physician Compensation within Rural Healthcare."

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Jana has extensive experience in developing valuation opinions of businesses and intangible assets for healthcare clients. Since 2007, she has provided financial advisory services regarding and conducted appraisals of business enterprises, leases, management services, joint ventures, and mergers and acquisitions. She also conducts assessments of provider compensation arrangements. Jana strives to help healthcare organizations minimize risk and ensure that financial arrangements meet the complex requirements related to fair market value (FMV). Her valuation engagements provide management and leadership with the particularly specific tools they need for business planning purposes and compliance efforts.

Summary of Expertise

Prior to joining ECG's Valuation Services practice, Jana worked at national healthcare valuation firms, managing business valuation appraisals for physician practices, hospitals, and other healthcare facilities. She also led financial advisory and due diligence efforts for clients. Jana's prior client work includes:

» Advising a large regional healthcare provider on a joint venture with a large multispecialty physician practice in the Midwest.

» Creating a dynamic financial forecast of an imaging center joint venture for a healthcare system and radiology group, which included projecting the volume impact from site closures, as well as shifting modalities between centers.

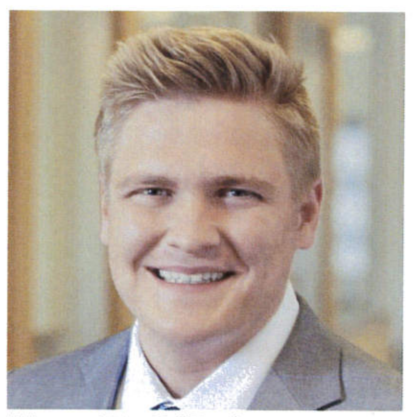
» Providing an FMV opinion of various ancillary services owned by a community hospital, which resulted in a sale to a regional nonprofit health system.

Professional Affiliations

Jana is an Accredited Senior Appraiser by the American Society of Appraisers, with a focus on business valuation. She is an active member of the Colorado Healthcare Financial Management Administration Chapter and currently serves on the chapter's Membership Committee. She also regularly attends Colorado Health and Strategy Management monthly meetings.

Education

Jana holds a master of business administration degree from the University of Denver's Daniels College of Business and a bachelor of science degree in actuarial science from Butler University in Indianapolis.



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Nate works on a wide array of fair market value (FMV) and commercial reasonableness (CR) assessments of business enterprise valuations and physician compensation arrangements for clinical, administrative, and call coverage services. His analytical background enables him to conduct studies that provide clients with unique and innovative answers to complex valuation topics and achieve fair and defensible agreements.

Summary of Expertise

At ECG, Nate's focus is on valuation opinions primarily related to healthcare mergers and acquisitions, compensation arrangements, and other financial transactions. These opinions include:

- Valuations of controlling and minority interests in health systems, hospitals, physician practices, and other healthcare-related businesses.
- FMV and CR opinions on a diverse range of provider compensation plans, employment agreements, and professional services arrangements.

Nate is experienced in the valuation of business enterprises, intangible assets, capital stock, and equity interests. Prior to joining ECG, he worked as a financial analyst at a business valuation firm, where he focused on valuations of business enterprises for financial reporting and tax planning purposes.

Nate has experience utilizing innovative valuation solutions to provide FMV opinions for business enterprises and intangible assets featuring complex and unique circumstances that influence value consideration.

Professional Affiliations

Nate is a Certified Valuation Analyst with the National Association of Certified Valuators and Analysts. Additionally, he has passed Level II of the CFA program.

Education

Nate holds a bachelor of science in business administration degree with a focus in finance from Xavier University.

CONFIDENTIAL
DISCUSSION DRAFT
5-18-18

ECG Management Consultants

Fair Market Value of Lourdes Health Network as of May 10, 2018

Business Valuation Exhibits

Confidential Discussion Draft, Prepared on May 18, 2018

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ECG MANAGEMENT CONSULTANTS

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ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

TABLE OF CONTENTS

Exhibits	Exhibit Number
Valuation Summary	**I**
Transaction Value	I-A
Financial Statement Analysis	**II**
Historical Balance Sheets	II-A
Historical Income Statements	II-B
Operating Metrics	II-C
Historical Financial Ratios	II-D
Forecasted Income Statements	II-E
Growth Metrics	II-F
Common Size Based on Revenues	II-G
Income Approach	**III**
Discounted Cash Flow Method	III-A
Weighted Average Cost of Capital	III-B
Company-Specific Risk Premium	III-C
Market Approach – Guideline Transactions Method	**IV**
Summary	IV-A
Calculation of Multiples	IV-B
Market Approach – Guideline Public Company Method	**V**
Summary	V-A
Business Descriptions	V-B
Calculation of Multiples	V-C

CONFIDENTIAL
DISCUSSION DRAFT
5-18-18

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

VALUATION SUMMARY – TRANSACTION VALUE

	Valuation Method	Fair Market Value as of 5/10/2018	
	($ Thousands)	Lower Indication	Upper Indication
[1]	Discounted Cash Flow	$ 32,000	$ 35,000
[2]	Guideline Transactions	44,000	48,000
[3]	Guideline Public Company	37,000	41,000
[4]	**Concluded Business Enterprise Value (BEV)**	**$ 32,000**	**$ 35,000**
[5,6]	Add: Nonoperating Assets	$ 5,270	$ 5,270
[5,7]	Less: Working Capital Deficit.	(614)	(614)
	Market Value of Invested Capital	**$ 36,650**	**$ 39,650**

[1] See exhibits III-A through III-C related to the Income Approach.

[2] See exhibits IV-A and IV-B related to the Market Approach – Guideline Transactions Method.

[3] See exhibits V-A through V-C related to the Market Approach – Guideline Public Company Method.

[4] The discounted cash flow method was the only method ECG applied given this represents the estimated future cash flow of the business. BEV is interest-bearing debt plus total equity minus nonoperating assets.

[5] Nonoperating assets and the working capital surplus/(deficit) have been added for FMV purposes. Nonoperating assets include restricted assets and investments in unconsolidated entities.

[6] The following assets and liabilities are not included given not enough detail information is known: (i) net capitalized computer software costs (ii) other miscellaneous assets, and (iii) other noncurrent liabilities.

[7] Current portion other liabilities is not considered as part of working capital.

CONFIDENTIAL
DISCUSSION DRAFT
5-18-18

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

FINANCIAL STATEMENT ANALYSIS – HISTORICAL BALANCE SHEETS

($ Thousands)	As of June 30, 2013	2014	2015	2016	2017
ASSETS					
Current Assets					
Cash and Investments	$ 249	$ 543	$ 747	$ 2,936	$ 482
Accounts Receivable Less Allowance for Doubtful Accounts	13,796	13,756	13,441	14,576	14,138
Estimated Third-Party Payer Settlements	853	373	657	844	1,030
Inventories	1,544	2,043	2,116	2,177	2,049
Other	1,409	2,951	1,797	2,366	1,201
Total Current Assets	**17,851**	**19,666**	**18,758**	**22,899**	**18,900**
Total Property and Equipment	**$ 18,709**	**$ 20,311**	**$ 20,553**	**$ 20,744**	**$ 21,812**
Other Assets					
Interest In Investments Held by Ascension	$ 24,692	$ 16,777	$ 23,991	$ 28,170	N/A
Investments in Unconsolidated Entities	7,426	6,703	6,909	7,449	5,253
Deferred Compensation Investments	1,824	2,038	2,349	2,408	N/A
Intangible Assets, Net	1,941	2,636	3,057	2,247	N/A
Self-Insurance Receiveables	417	698	671	324	N/A
Other	129	20	23	3	3,921
Restricted Assets	2,270	3,716	2,488	541	17
Total Assets	**$ 75,259**	**$ 72,565**	**$ 78,799**	**$ 84,785**	**$ 49,903**
Current Liabilities					
Current Portion of Long-Term Debt	$ 175	$ 172	$ 146	$ 153	$ 153
Accounts Payable and Accrued Liabilities	11,626	9,715	10,765	10,269	9,427
Estimated Third-party payor Settlements	2,046	1,569	1,042	2,637	2,576
Current Portion of Self-Insurance Liabilites	-	121	208	458	-
Other Current Liabilities	-	408	486	654	12,494
Total Current Liabilities	**$ 13,847**	**$ 11,985**	**$ 12,647**	**$ 14,171**	**$ 24,651**
Long-Term Liabilities					
Long Term Debt	$ 12,015	$ 11,843	$ 11,693	$ 11,540	$ 11,385
Self Insurance Liabilities	726	1,006	975	597	-
Deferred Compensation	1,824	2,038	2,349	2,408	-
Deferred Revenue	-	-	4,696	8,126	-
Other	837	884	246	236	15,411
Total Long-Term Liabilities	**$ 15,402**	**$ 15,771**	**$ 19,959**	**$ 22,907**	**$ 26,797**
Total Liabilities	**$ 29,249**	**$ 27,756**	**$ 32,606**	**$ 37,078**	**$ 51,448**
Net Assets					
Urestricted	$ 45,651	$ 43,238	$ 45,852	$ 47,257	$ (1,563)
Restricted	359	1,571	341	450	17
Total Net Assets	**$ 46,010**	**$ 44,809**	**$ 46,193**	**$ 47,707**	**$ (1,545)**
Total Liabilities & Capital	**$ 75,259**	**$ 72,565**	**$ 78,799**	**$ 84,785**	**$ 49,903**

Source: Financial statements for fiscal years ended June 30, 2013 through 2017 provided by management. 2013-2016 are audited.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

FINANCIAL STATEMENT ANALYSIS – HISTORICAL INCOME STATEMENTS

($ Thousands)	Fiscal Years Ended June 30, 2013	2014	2015	2016	2017	Note	Adjustment	Normalized
REVENUES								
Net Patient Service Revenue	$ 101,343	$ 95,610	$ 109,456	$ 120,053	$ 132,682		$ -	$ 132,682
Provision for Doubtful Accounts	-	-	2,364	3,188	5,861		-	5,861
Net Patient Service Revenue Less Doubtful Accounts	**$ 101,343**	**$ 95,610**	**$ 107,092**	**$ 116,865**	**$ 126,821**		**$ -**	**$ 126,821**
Income From Unconsolidated Entities-Operations	-	-	-	-	503	1	(503)	-
Other Revenue	1,152	3,275	3,105	4,004	4,805		-	4,805
Total Operating Revenue	**$ 102,495**	**$ 98,885**	**$ 110,197**	**$ 120,869**	**$ 132,129**		**$ (503)**	**$ 131,626**
Operating Expenses								
Salaries and Wages	$ 44,778	$ 41,394	$ 44,544	$ 48,414	$ 53,664		$ -	$ 53,664
Employee Benefits	13,210	11,822	13,632	15,639	18,065		-	18,065
Purchased Services	11,151	11,457	14,400	14,700	13,874		-	13,874
Professional Fees	5,696	6,320	7,197	7,542	7,470		-	7,470
Supplies	13,856	14,031	15,084	16,165	17,739		-	17,739
Insurance	311	397	571	573	635		-	635
Other	9,601	9,291	9,175	11,261	12,518		-	12,518
Total Operating Expenses	**$ 98,603**	**$ 94,712**	**$ 104,603**	**$ 114,294**	**$ 123,965**		**$ -**	**$ 123,965**
EBITDA	**$ 3,892**	**$ 4,173**	**$ 5,594**	**$ 6,575**	**$ 8,164**		**$ (503)**	**$ 7,661**
Depreciation and Amortization	3,099	2,808	3,562	3,977	4,044		-	4,044
Operating Income (EBIT)	**$ 793**	**$ 1,365**	**$ 2,032**	**$ 2,598**	**$ 4,120**		**$ (503)**	**$ 3,617**
Income Taxes	-	-	-	-	220	2	434	760
Net Operating Profit After Tax	**$ 793**	**$ 1,365**	**$ 2,032**	**$ 2,598**	**$ 3,900**		**$ (937)**	**$ 2,857**
Other Income								
Gain on Sale or Disposal of Assets	$ (284)	$ (648)	$ 206	$ 740	$ -	3	$ -	$ -
Net Assets Released from Restriction for Operations	143	112	168	81	256	3	(256)	-
Non-Recurring Expenses	(314)	(2,269)	14	(70)	203	3	(203)	-
Interest Income (Expense)	1,098	1,947	(268)	(724)	(405)	3	405	-
Total Other Income	643	(858)	120	27	54		(54)	-
Net Income	**$ 1,436**	**$ 507**	**$ 2,152**	**$ 2,625**	**$ 3,954**		**$ (991)**	**$ 2,857**

Source: Financial statements for 2013 through 2016 based on audited financials. 2017 based on information provided by management.
[1] Omitted revenue from investments in unconsolidated entities.
[2] Based on estimated taxes of 21.0%.
[3] Omitted as nonrecurring or nonoperating income or expense items.

CONFIDENTIAL
DISCUSSION DRAFT
5-18-18

EXHIBIT II-C

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

FINANCIAL STATEMENT ANALYSIS – OPERATING METRICS

	12 Months Ended June 30,			
Component	**2014**	**2015**	**2016**	**2017**
Lourdes Medical Center				
Admissions	1,816	1,953	2,037	2,097
Outpatient Visits	N/A	N/A	34,338	30,820
ED Visits	N/A	N/A	29,480	26,188
Total Patient Days	6,775	7,148	7,686	6,410
Average Length of Stay	3.73	3.66	3.77	3.06
Average Daily Census	18.56	19.58	16.20	17.60
FTEs	N/A	N/A	356.40	359.10
FTE per Occupied Bed	N/A	N/A	N/A	8.43
Payor Mix				
Medicare	39%	38%	39%	39%
Medicaid	18%	22%	21%	21%
Private - No Insurance	5%	3%	3%	3%
Insurance - Other	31%	27%	24%	24%
HMO	0%	0%	0%	0%
Other	8%	11%	13%	13%
Total	100%	100%	100%	100%
Lourdes Counseling Center				
Admissions	571	571	542	520
Avg Length of Stay	9.74	9.77	10.91	11.47
Outpatient Visits	N/A	N/A	121,674	143,308
Total Patient Days	5,563	5,576	5,912	5,965
Avg Length of Stay	9.74	9.77	10.91	11.47
Avg Daily Census	15.24	15.28	16.20	16.30
FTEs	N/A	N/A	171.50	214.80
Payor Mix				
Medicare	24%	18%	17%	17%
Medicaid	49%	59%	61%	61%
Private - No Insurance	4%	3%	2%	2%
Insurance - Other	18%	14%	13%	13%
HMO	0%	0%	0%	0%
Other	6%	7%	6%	6%
Total	100%	100%	100%	100%

Source: Case volume and productivity reports as provided by management.

CONFIDENTIAL
DISCUSSION DRAFT
5-18-18

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

FINANCIAL STATEMENT ANALYSIS – HISTORICAL FINANCIAL RATIOS

	12 months ended June 30,					
	2013	2014	2015	2016	2017	Industry Median [1]
Growth (Year Over Year)						
Net Patient Revenue	N/A	-5.7%	12.0%	9.1%	8.5%	NA
EBITDA	N/A	7.2%	34.1%	17.5%	24.2%	NA
Total Assets	N/A	-3.6%	8.6%	7.6%	-41.1%	NA
Activity Ratio						
Inventory Turnover	66.4	48.4	52.1	55.5	64.5	56.1
Days of Inventory on Hand	5.5	7.5	7.0	6.6	5.7	6.5
Accounts Receivable Turnover	7.4	7.2	8.2	8.3	9.3	6.5
Days in Accounts Receivable	49.1	50.8	44.5	44.0	39.1	55.9
Accounts Payable Turnover	1.2	1.4	1.4	1.6	1.9	NA
Days in Accounts Payable	306.3	252.7	260.5	231.9	194.0	NA
Fixed Asset Turnover	5.48	4.87	5.36	5.83	6.06	2.4
Total Asset Turnover	1.36	1.36	1.40	1.43	2.65	1.05
Liquidity						
Current Ratio	1.29	1.64	1.48	1.62	0.77	2.50
Quick Ratio	1.01	1.19	1.12	1.24	0.59	NA
Cash / Net Revenue	0.2%	0.6%	0.7%	2.5%	0.4%	NA
Cash / Debt	0.02	0.05	0.06	0.25	0.04	NA
Net Working Capital / Net Revenue	0.04	0.08	0.06	0.06	0.05	NA
Days Cash on Hand	0.92	2.09	2.61	9.38	1.42	50
Leverage						
Debt / Total Assets	0.16	0.17	0.15	0.14	0.23	0.28
Debt / EBITDA	3.13	2.88	2.12	1.78	1.41	NA
Times Interest Earned	9.16	10.78	14.92	17.92	20.16	1.85
Profitability						
EBIT Margin	0.8%	1.4%	1.8%	2.1%	3.1%	-3.50%
EBITDA Margin	3.8%	4.2%	5.1%	5.4%	6.2%	8%
Net Profit Margin	1.4%	0.5%	2.0%	2.2%	3.0%	NA
Return on Assets	1.9%	0.7%	2.7%	3.1%	7.9%	1.3%
Return on Equity	3.1%	1.1%	4.7%	5.5%	NA	2.2%

Source: Patient stats are from internal financial documents.

[1] Almanac of Hospital Financial and Operating Indicators. Hospital Almanac uses EBIDA instead of EBITDA for related ratios.

CONFIDENTIAL
DISCUSSION DRAFT
5-18-18

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

FINANCIAL STATEMENT ANALYSIS – FORECASTED INCOME STATEMENTS

	Normalized	Projected 12 Months Ended 06/30				
($ Thousands)	2017	2018	2019	2020	2021	2022
REVENUES						
[1] Net Patient Service Revenue	$ 132,682	$ 135,999	$ 139,399	$ 142,884	$ 146,456	$ 150,118
[2] Provision for Doubtful Accounts	5,861	6,008	6,158	6,312	6,469	6,631
Net Patient Service Revenue Less Doubtful Accounts	**$ 126,821**	**$ 129,992**	**$ 133,241**	**$ 136,572**	**$ 139,987**	**$ 143,486**
[1] Other Revenue	4,805	4,925	5,048	5,174	5,304	5,436
Total Operating Revenue	**$ 131,626**	**$ 134,917**	**$ 138,290**	**$ 141,747**	**$ 145,290**	**$ 148,923**
Operating Expenses						
[3] Salaries and Wages	$ 53,664	$ 55,006	$ 56,381	$ 57,790	$ 59,235	$ 60,716
[4] Employee Benefits	18,065	18,517	18,980	19,454	19,940	20,439
[3] Purchased Services	13,874	14,221	14,576	14,941	15,314	15,697
[3] Professional Fees	7,470	7,657	7,848	8,044	8,245	8,452
[3] Supplies	17,739	18,182	18,637	19,103	19,581	20,070
[5] Insurance	635	651	667	684	701	718
[5] Other	12,518	12,831	13,152	13,481	13,818	14,163
Total Operating Expenses	**$ 123,965**	**$ 127,064**	**$ 130,241**	**$ 133,497**	**$ 136,834**	**$ 140,255**
EBITDA	**$ 7,661**	**$ 7,853**	**$ 8,049**	**$ 8,250**	**$ 8,456**	**$ 8,668**
EBITDA Margin	*5.8%*	*5.8%*	*5.8%*	*5.8%*	*5.8%*	*5.8%*
[6] Depreciation and Amortization	4,044	2,818	3,286	3,766	4,258	4,763
Operating Income (EBIT)	**$ 3,617**	**$ 5,035**	**$ 4,762**	**$ 4,484**	**$ 4,198**	**$ 3,905**
[7] Income Taxes	760	1,057	1,000	942	882	820
Net Operating Profit After Tax	**$ 2,857**	**$ 3,977**	**$ 3,762**	**$ 3,542**	**$ 3,316**	**$ 3,085**
Other Income						
Gain on Sale or Disposal of Assets	-	-	-	-	-	-
Net Assets Released from Restriction for Operations	-	-	-	-	-	-
Non-Recurring Expenses	-	-	-	-	-	-
Interest Income (Expense)	-	-	-	-	-	-
Total Other Income	-	-	-	-	-	-
Net Income	**$ 2,857**	**$ 3,977**	**$ 3,762**	**$ 3,542**	**$ 3,316**	**$ 3,085**

[1] Based on annual growth rate during forecast period (2.5%).
[2] Based on normalized period provision for doubtful accounts as a percentage of net patient revenue.
[3] Estimated as a percentage of operating revenue over the forecast period, and based on normalized period expense as a percentage of operating revenue.
[4] Estimated at 33.7% of salary and wages expense over the forecast period.
[5] Assumed to grow at an inflationary rate of 2.5% annually throughout the forecast period.
[6] Based on existing equipment being straight-line depreciated over seven years and new equipment being straight-line depreciated over seven years.
[7] Taxes are calculated at 21.0% of operating income.

CONFIDENTIAL
DISCUSSION DRAFT
5-18-18

EXHIBIT II-F

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

FINANCIAL STATEMENT ANALYSIS – GROWTH METRICS

	12 Months Ended June 30,				*Historical*	Projected 12 Months Ended June 30,					
($ Thousands)	2014	2015	2016	2017	*Average*	Normalized	2018	2019	2020	2021	2022
REVENUES											
Net Patient Service Revenue	(5.7%)	14.5%	9.7%	10.5%	7.3%	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Provision for Doubtful Accounts	NA	NA	34.9%	83.8%	59.4%	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Net Patient Service Revenue Less Doubtful Accounts	**(5.7%)**	**12.0%**	**9.1%**	**8.5%**	**6.0%**	**0.0%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**
Other Revenue	184.3%	(5.2%)	29.0%	20.0%	57.0%	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Total Operating Revenue	**(3.5%)**	**11.4%**	**9.7%**	**9.3%**	**6.7%**	**(0.4%)**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**
Operating Expenses											
Salaries and Wages	(7.6%)	7.6%	8.7%	10.8%	4.9%	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Employee Benefits	(10.5%)	15.3%	14.7%	15.5%	8.8%	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Purchased Services	2.7%	25.7%	2.1%	(5.6%)	6.2%	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Professional Fees	11.0%	13.9%	4.8%	(1.0%)	7.2%	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Supplies	1.3%	7.5%	7.2%	9.7%	6.4%	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Insurance	27.7%	43.8%	0.4%	10.8%	20.7%	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Other	(3.2%)	(1.2%)	22.7%	11.2%	7.4%	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Total Operating Expenses	**(3.9%)**	**10.4%**	**9.3%**	**8.5%**	**6.1%**	**0.0%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**
EBITDA	**7.2%**	**34.1%**	**17.5%**	**24.2%**	**20.7%**	**(6.2%)**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**
Depreciation and Amortization	(9.4%)	26.9%	11.7%	1.7%	7.7%	0.0%	NA	(5.4%)	(5.9%)	(6.4%)	(7.0%)
Operating Income (EBIT)	**72.1%**	**48.9%**	**27.9%**	**58.6%**	**51.9%**	**(12.2%)**	**(30.3%)**	**NA**	**NA**	**NA**	**NA**
Income Taxes	NA	NA	NA	NA	NA	245.3%	39.2%	NA	NA	NA	NA
Net Operating Profit After Tax	**72.1%**	**48.9%**	**27.9%**	**50.1%**	**49.7%**	**(26.7%)**	**39.2%**	**(5.4%)**	**(5.9%)**	**(6.4%)**	**(7.0%)**
Other Income											
Gain on Sale or Disposal of Assets	128.2%	(131.8%)	259.2%	(100.0%)	38.9%	NA	NA	NA	NA	NA	NA
Net Assets Released from Restriction for Operations	(21.7%)	50.0%	(51.8%)	216.0%	48.1%	(100.0%)	NA	NA	NA	NA	NA
Non-Recurring Expenses	622.6%	(100.6%)	(600.0%)	(390.0%)	(117.0%)	(100.0%)	NA	NA	NA	NA	NA
Interest Income (Expense)	77.3%	(113.8%)	170.1%	(44.1%)	22.4%	(100.0%)	NA	NA	NA	NA	NA
Total Other Income	(233.4%)	(114.0%)	(77.5%)	100.0%	(81.2%)	(100.0%)	NA	NA	NA	NA	NA
Net Income	**(64.7%)**	**324.5%**	**22.0%**	**50.6%**	**83.1%**	**(27.7%)**	**39.2%**	**(5.4%)**	**(5.9%)**	**(6.4%)**	**(7.0%)**

Source: Financial statements for 2013 through 2015 based on audited financials. 2016-2018 based on information provided by management.
[1] Financials for fiscal year ended June 30, 2018, based on annualized year-to-date December 31, 2017, financials.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

FINANCIAL STATEMENT ANALYSIS – COMMON SIZE BASED ON REVENUES

	Actual 12 Months Ended 06/30					Historical	Normalized	Projected 12 Months Ended 06/30				
	2013	2014	2015	2016	2017	Average	2017	2018	2019	2020	2021	2022
REVENUES												
Net Patient Service Revenue	98.9%	96.7%	99.3%	99.3%	100.4%	98.9%	100.8%	100.8%	100.8%	100.8%	100.8%	100.8%
Provision for Doubtful Accounts	0.0%	0.0%	2.1%	2.6%	4.4%	1.8%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Net Patient Service Revenue Less Doubtful Accounts	**98.9%**	**96.7%**	**97.2%**	**96.7%**	**96.0%**	**97.1%**	**96.3%**	**96.3%**	**96.3%**	**96.3%**	**96.3%**	**96.3%**
Other Revenue	1.1%	3.3%	2.8%	3.3%	3.6%	2.8%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
Total Operating Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Operating Expenses												
Salaries and Wages	43.7%	41.9%	40.4%	40.1%	40.6%	41.3%	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%
Employee Benefits	12.9%	12.0%	12.4%	12.9%	13.7%	12.8%	13.7%	13.7%	13.7%	13.7%	13.7%	13.7%
Purchased Services	10.9%	11.6%	13.1%	12.2%	10.5%	11.6%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
Professional Fees	5.6%	6.4%	6.5%	6.2%	5.7%	6.1%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%
Supplies	13.5%	14.2%	13.7%	13.4%	13.4%	13.6%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%
Insurance	0.3%	0.4%	0.5%	0.5%	0.5%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Other	9.4%	9.4%	8.3%	9.3%	9.5%	9.2%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Total Operating Expenses	**96.2%**	**95.8%**	**94.9%**	**94.6%**	**93.8%**	**95.1%**	**94.2%**	**94.2%**	**94.2%**	**94.2%**	**94.2%**	**94.2%**
EBITDA	**3.8%**	**4.2%**	**5.1%**	**5.4%**	**6.2%**	**4.9%**	**5.8%**	**5.8%**	**5.8%**	**5.8%**	**5.8%**	**5.8%**
Depreciation and Amortization	3.0%	2.8%	3.2%	3.3%	3.1%	3.1%	3.1%	2.1%	2.4%	2.7%	2.9%	3.2%
Operating Income (EBIT)												
Income Taxes	0.0%	0.0%	0.0%	0.0%	0.2%	0.0%	0.6%	0.8%	0.7%	0.7%	0.6%	0.6%
Net Operating Profit After Tax	**0.8%**	**1.4%**	**1.8%**	**2.1%**	**3.0%**	**1.8%**	**2.2%**	**2.9%**	**2.7%**	**2.5%**	**2.3%**	**2.1%**
Other Income												
Gain on Sale or Disposal of Assets	-0.3%	-0.7%	0.2%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Assets Released from Restriction for Operations	0.1%	0.1%	0.2%	0.1%	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Non-Recurring Expenses	-0.3%	-2.3%	0.0%	-0.1%	0.2%	-0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest Income (Expense)	1.1%	2.0%	(0.2%)	(0.6%)	(0.3%)	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Other Income	0.6%	-0.9%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	**1.4%**	**0.5%**	**2.0%**	**2.2%**	**3.0%**	**1.8%**	**2.2%**	**2.9%**	**2.7%**	**2.5%**	**2.3%**	**2.1%**
Revenues	*$ 102,495*	*$ 98,885*	*$ 110,197*	*$ 120,869*	*$ 132,129*	*$ 112,915*	*$ 131,626*	*$ 134,917*	*$ 138,290*	*$ 141,747*	*$ 145,290*	*$ 148,923*

Source: Common-sized statistics based on audited financials for 2013 - 2015 and 2016-2018 based on information provided by management.
[1] Financials for fiscal year ended June 30, 2018, based on annualized year-to-date December 31, 2017, financials.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

INCOME APPROACH – DISCOUNTED CASH FLOW METHOD

($ Thousands)

Discounted Cash Flow Analysis	Assumption	2018	2019	2020	2021	2022	Terminal Year
		Projected 12 Months Ended June 30,					
REVENUES							
Total Net Revenues		$ 134,917	$ 138,290	$ 141,747	$ 145,290	$ 148,923	152,646
[1] *Growth Rate*		*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*
Total Operating Expenses		$ 127,064	$ 130,241	$ 133,497	$ 136,834	$ 140,255	$ 143,761
EBITDA		**$ 7,853**	**$ 8,049**	**$ 8,250**	**$ 8,456**	**$ 8,668**	**$ 8,884**
EBITDA Margin		*5.8%*	*5.8%*	*5.8%*	*5.8%*	*5.8%*	*5.8%*
Depreciation and Amortization		$ 2,818	$ 3,286	$ 3,766	$ 4,258	$ 4,763	$ 3,663
Operating Income (EBIT)		**$ 5,035**	**$ 4,762**	**$ 4,484**	**$ 4,198**	**$ 3,905**	**$ 5,221**
EBIT Margin		*3.7%*	*3.4%*	*3.2%*	*2.9%*	*2.6%*	*3.4%*
[4] Income Taxes	21.00%	$ 1,057	$ 1,000	$ 942	$ 882	$ 820	$ 1,096
Net Operating Profit After Tax (NOPAT)		**$ 3,977**	**$ 3,762**	**$ 3,542**	**$ 3,316**	**$ 3,085**	**$ 4,125**
[2] Add: Depreciation and Amortization		$ 2,818	$ 3,286	$ 3,766	$ 4,258	$ 4,763	$ 3,663
[3] Capital Expenditures	2.40%	(3,238)	(3,319)	(3,402)	(3,487)	(3,574)	(3,663)
[5] Debt-Free Net Working Capital (DFNWC)	5.34%	(176)	(180)	(185)	(189)	(194)	(199)
Net Available Cash Flow		**$ 3,382**	**$ 3,550**	**$ 3,722**	**$ 3,899**	**$ 4,080**	**$ 3,926**
[6] **Residual Cash Flows**							**$ 34,137**
Partial Period Factor		0.1397	1.0000	1.0000	1.0000	1.0000	1.0000
Discounting Periods		0.0699	0.6397	1.6397	2.6397	3.6397	3.6397
[7] Discount Factor	14.00%	0.9909	0.9196	0.8067	0.7076	0.6207	0.6207
Present Value of Cash Flows		**$ 468**	**$ 3,264**	**$ 3,002**	**$ 2,759**	**$ 2,532**	**$ 21,189**

Present Value of Discrete Cash Flows	$ 12,026
Present Value of Terminal Period	21,189
BEV	**$ 33,214**

WACC	*Long-term Growth Rate* 1.50%	2.00%	2.50%	3.00%	3.50%
15.00%	$ 29,482	$ 30,071	$ 30,706	$ 31,394	$ 32,143
14.50%	$ 30,555	$ 31,205	$ 31,908	$ 32,673	$ 33,507
14.00%	$ 31,714	$ 32,433	$ 33,214	$ 34,067	$ 35,000
13.50%	$ 32,969	$ 33,768	$ 34,639	$ 35,593	$ 36,642
13.00%	$ 34,334	$ 35,224	$ 36,198	$ 37,271	$ 38,456

[1] Terminal year growth rate based on expected normalized growth of 2.5%.
[2] See exhibit II-B for an explanation of adjustments made to normalize historical financial results and exhibit II-E for forecast assumptions.
[3] Depreciation was estimated based on seven-year, straight-line depreciation for new capital expenditures. No material purchases are needed; as such, capital expenditures were projected at a maintenance level of 2.4% of sales, consistent with 2015 and 2016 spending levels. Given the expected low-inflation environment, we assumed depreciation will be equal to capital expenditures in perpetuity.
[4] Represents the blended, marginal federal and state tax rates.
[5] DFNWC assumption is based on the most recent historical period, which is consistent with historical levels and industry averages.
[6] Residual cash flows represent the value of cash flows beyond 2023 based on the Gordon Growth Perpetuity Model, which is equal to cash flow in the first future year ÷ (discount rate - growth
[7] See exhibit III-B for detailed calculations behind the weighted-average cost of capital.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

INCOME APPROACH – WEIGHTED AVERAGE COST OF CAPITAL

Discount Rate Component	Assumption	Source Notes
Cost of Equity		
Risk-Free Rate	3.0%	Federal Reserve Statistical Release h.15 (*http://www.federalreserve.gov/releases/h15/*).
Equity Risk Premium	6.9%	Duff & Phelps 2017 Valuation Handbook, Historical ERP.
Industry Risk Premium	(0.8%)	Duff & Phelps 2017 Valuation Handbook, SIC 80 Industry premium for the Historical ERP.
Size Premium	5.6%	Duff & Phelps 2017 Valuation Handbook, 10th decile.
Company-Specific Risk Premium	3.0%	Based on ECG's assessment of the unsystematic risk of the subject company, exclusive of size.
Cost of Equity Capital	**17.8%**	
Cost of Debt		
BBB Corporate Bond Yield	4.3%	Long-term BBB corporate bond yield as of 5/10/2018 as shown in the Federal Reserve Economic Data.
Tax Rate	21.0%	Represents the blended marginal federal and state tax rates.
After-Tax Cost of Debt	**3.4%**	
Weighted Average Cost of Capital		
Equity-to-Capital Ratio	75.0%	Based on debt-to-capital and equity-to-capital ratios per 2017 Almanac of Hospital Financial and Operating Indicators, *Optum 360*.
Debt-to-Capital Ratio	25.0%	
Weighted Average Cost of Capital	**14.0%**	

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5-18-18

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

INCOME APPROACH – COMPANY-SPECIFIC RISK PREMIUM

Company-Specific Risk Premium	Risk Assessment
Mercer	
Key Person, Management	
Absolute Size	
Financial Structure	
Product/Geographical Diversification	+++
Customer Diversification	+
Earnings: Margins and Historical Predictability	+
Other Specific Risks	+
Implied Company-Specific Risk Premium	**3.00%**
Warren Miller	
Negative Risk Factors	
Operating History	+
Lack of Management Depth	
Lack of Access to Capital Resources	
Overreliance in Key Persons	
Lack of Size and Geographical Diversification	+++
Lack of Marketing Resources in Light of Competition	+
Lack of Purchasing Power and Other Economies of Scale	+
Lack of Product and Market Development Resources	
Overreliance on Vendors and Suppliers	
Limitations of Distribution Systems	
Limitations on Financial Reporting and Controls	
Positive Risk Factors	
Long-Term Contracts With Customers or Unique Product or Niche Market	
Patents, Copyrights, Franchise Rights, and Proprietary Products	
Implied Company-Specific Risk Premium	**3.00%**
Company-Specific Risk Premium	
Selected Company-Specific Risk Premium	**3.00%**

Notes:
The company-specific risk premium is used to quantify nonsystematic risks associated with running the subject business. For this analysis, a company-specific risk premium was used to capture the risk associated with the categories listed above.

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5-18-18

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

MARKET APPROACH – GUIDELINE TRANSACTIONS METHOD – SUMMARY

($ Thousands)

Guideline Transaction Method Results	Conclusions	
	BEV/Revenue	BEV/EBITDA
[1] Financial Metric	$ 131,626	$ 7,661
[2] Selected Multiple	0.35x	6.00x
[3] **Indicated Business Enterprise Value**	**$ 46,069**	**$ 45,966**
Concluded Business Enterprise Value	**$ 46,018**	

[1] Financial metrics are the normalized levels shown in exhibit II-B.

[2] See exhibit IV-B for the calculation of transaction multiples. The selected revenue multiple slightly below the average (and median) of featured transactions (i.e., similar size) due to the lower profitability (compared to the median), and the selected EBITDA multiple is near the average (and median) of the featured transactions.

[3] The weighting of indications is based on ECG's assessment of the relevance and reliability of the indications of value.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

MARKET APPROACH – GUIDELINE TRANSACTIONS METHOD – CALCULATION OF MULTIPLES

Note	Target	Closing Date	Status	Location	Acquirer	Beds	Revenue per Bed	EBITDA per Bed	Implied BEV/MVIC	Target LTM Revenues	Target LTM EBITDA	LTM EBITDA Margin	(BEV/MVIC)/ Revenue	(BEV/MVIC)/ EBITDA
	Trinity Health Hospitals (Three Catholic Hospitals in New Jersey)	Dec 16, '17	Nonprofit	NJ	Undisclosed	NA	NA	NA	2,000,000,000	555,000,000	NA	NA	3.60 x	NA
	Hahnemann University Hospital; St. Christopher's Hospital	Sep 5, '17	Private	PA	Paladin Healthcare (American Academic Health S	568	1,390,845	(26,408)	170,000,000	790,000,000	(15,000,000)	-1.9%	NA	NA
	Memorial Health University Medical Center	Apr 19, '17	Nonprofit	GA	HCA Management Services	NA	NA	NA	280,000,000	581,000,000	NA	NA	0.48 x	NA
1	Sistersville General Hospital (WV)	Mar 1, '17	Nonprofit	WV	Wheeling Hospital	25	474,104	NA	5,500,000	11,852,609	NA	NA	0.70 x	NA
1	Pioneer Community Hospital	Dec 27, '16	Private	NC	LifeBrite Hospital Group LLC	25	723,187	(204,531)	400,000	18,079,681	(5,113,268)	-28.3%	0.02 x	NA
1	2 Hospitals in Washington State	Dec 13, '16	Public (NYSE: CYH)	WA	Sunnyside Community Hospital & Clinics	277	514,749	37,452	45,000,000	142,585,339	10,374,160	7.3%	0.32 x	4.34 x
	Rockwood Health System	Nov 17, '16	Public (NYSE: CYH)	WA	MultiCare Health System	511	746,545	84,119	425,000,000	381,484,509	42,985,033	11.3%	1.11 x	9.89 x
1	Scott County Hospital (TN)	Oct 27, '16	Private	TN	Rennova Healthcare	25	100,650	NA	1,000,000	2,516,251	NA	NA	0.40 x	NA
	2 Oklahoma Hospitals	Oct 26, '16	Public (NYSE:HCA)	OK	University Hospitals Authority and Trust	688	1,339,263	152,323	750,000,000	921,413,050	104,798,435	11.4%	0.81 x	7.16 x
	Susquehanna Health	Oct 18, '16	Nonprofit	PA	UPMC	320	2,501,235	194,363	500,000,000	800,395,164	62,196,063	7.8%	0.62 x	8.04 x
	Greater Waterbury Health Network, Inc.	Sep 30, '16	Private	CT	Prospect Medical Holdings, Inc.	600	439,050	7,417	45,100,000	263,430,000	4,450,000	1.7%	0.17 x	10.13 x
	Eastern Connecticut Health Network, Inc.	Sep 30, '16	Private	CT	Prospect Medical Holdings, Inc	190	1,730,316	84,263	105,000,000	328,760,000	16,010,000	4.9%	0.32 x	6.56 x
	USMD Holdings, Inc.	Aug 30, '16	Public (NASDAQ: USMD)	TX	WellMed Medical Management	42	3,198,064	734,309	310,000,000	134,318,690	30,840,998	23.0%	2.31 x	10.05 x
	Chestatee Regional Hospital	Aug 19, '16	Private	GA	Unidentified Buyer	38	598,695	16,367	15,000,000	22,750,407	621,934	2.7%	0.66 x	24.12 x
	Charlotte Hungerford Hospital	Aug 5, '16	Nonprofit	CT	Hartford HealthCare	109	1,127,866	37,171	76,000,000	122,937,353	4,051,642	3.3%	0.62 x	18.76 x
1	West Shore Medical Center	Jul 25, '16	Nonprofit	MI	Munson Healthcare	45	1,442,944	82,309	25,000,000	64,932,492	3,703,921	5.7%	0.39 x	6.75 x
	Lakeside Women's Hospital	Jul 22, '16	Private	OK	Carter Validus Mission Critical REIT II, Inc	23	1,225,319	162,932	19,840,000	28,182,332	3,747,428	13.3%	0.70 x	5.29 x
1	Pioneer Community Hospital of Stokes (NC)	Jul 21, '16	Nonprofit	NC	LifeBrite Hospital Group	25	724,515	NA	1,700,000	18,112,874	NA	NA	0.09 x	NA
	Gardens Regional Hospital and Medical Center (CA) - Deal Canceled	Jul 21, '16	Nonprofit	CA	KPC Group	107	-	-	19,500,000	-	-	NA	4.38 x	NA
	Unity Medical and Surgical Hospital	Jul 15, '16	Private	IN	Medical Facilities Corporation	29	1,076,798	(22,778)	53,630,000	31,227,146	(660,550)	-2.1%	1.72 x	NA
	Coshocton County Memorial Hospital (OH)	Jun 30, '16	Nonprofit	OH	Prime Healthcare Services	90	633,477	NA	10,000,000	57,012,953	NA	NA	0.10 x	NA
	Floyd Memorial Hospital and Health Services	Jun 28, '16	Nonprofit	IN	Baptist Health	211	1,546,881	32,061	276,000,000	326,391,900	6,764,964	2.1%	0.85 x	40.80 x
1	Mercy Hospital Carthage (MO)	Jun 15, '16	Nonprofit	MO	Mercy (MO)	25	1,423,929	NA	9,500,000	35,598,228	NA	NA	0.41 x	NA
	Saint Michael's Medical Center, Inc.	May 2, '16	Private	NJ	Prime Healthcare Services, Inc.	357	449,020	NA	50,000,000	160,300,000	NA	NA	0.31 x	NA
	TrustPoint Hospital	May 1, '16	Nonprofit	TN	Acadia Healthcare (Joey Jacobs)	NA	NA	NA	62,700,000	25,000,000	NA	NA	2.51 x	NA
	Physicians' Specialty Hospital	Apr 1, '16	Private	AK	Community Health Systems, Inc.	20	1,635,563	259,268	13,000,000	32,711,264	5,185,352	15.9%	0.40 x	2.51 x
	HealthAlliance of the Hudson Valley	Mar 30, '16	Nonprofit	NY	WMC Health	229	797,457	53,153	88,800,000	182,617,735	12,171,934	6.7%	0.49 x	7.30 x
	Capella Healthcare, Inc.	Mar 22, '16	Private	TN	RegionalCare Hospital Partners Inc.	1,153	683,245	82,687	550,000,000	787,781,746	95,338,622	12.1%	0.70 x	5.77 x
	Reynolds Memorial Hospital (WV)	Feb 26, '16	Nonprofit	WV	West Virginia United Health System	90	406,412	(1,148)	15,000,000	36,577,123	(103,308)	-0.3%	1.10 x	NA
1	Bowie Memorial Hospital	Feb 19, '16	Nonprofit	TX	Hashmi Group	37	415,827	(26,358)	1,500,000	15,385,591	(975,233)	-6.3%	0.10 x	NA
	Westlake Regional Hospital	Feb 18, '16	Nonprofit	KY	T.J. Regional Health	73	205,004	13,650	3,350,000	14,965,288	996,432	6.7%	0.22 x	3.36 x
	Doctors' Hospital of Michigan	Feb 2, '16	Private	MI	Sant Partners, LLC	47	281,400	(189,401)	14,500,000	13,225,823	(8,901,857)	-67.3%	1.10 x	NA
	Palm Springs General Hospital	Feb 1, '16	Private	FL	Larkin Community Hospital	247	347,745	7,203	40,000,000	85,893,134	1,779,187	2.1%	0.47 x	22.48 x
1	Memorial Hospital of Salem County (NJ) - Deal Canceled	Dec 1, '15	Private	NJ	Prime Healthcare Services (Foundation)	126	460,039	NA	15,000,000	57,964,957	NA	NA	0.47 x	NA
	Reliant Hospital Partners, LLC	Oct 1, '15	Private	TX,OH, MA	Encompass Health Corporation (NYSE:EHC)	NA	NA	NA	1,076,360,000	245,640,000	80,830,000	32.9%	4.38 x	13.32 x
1	Watertown Regional Medical Center, Inc.	Sep 1, '15	Private	WI	LifePoint Health, Inc. (NasdaqGS:LPNT)	95	967,368	NA	32,900,000	91,900,000	NA	NA	0.36 x	NA
	Capella Holdings, Inc.	Aug 31, '15	Private	TN	MPT Operating Partnership, L.P.	NA	NA	NA	900,000,000	713,400,000	NA	NA	1.26 x	NA
	Lodi Memorial Hospital	Jun 1, '15	Nonprofit	CA	Adventist Health System/West Inc.	190	928,947	NA	140,000,000	176,500,000	NA	NA	0.79 x	NA
	Nason Hospital (PA)	Jan 8, '15	Nonprofit	PA	Lifepoint Hospitals	44	809,476	30,890	NA	35,616,959	1,359,169	4.0%	NA	NA
1	Bell Hospital (MI)	Mar 5, '13	Nonprofit	MI	LifePoint Hospitals	25	2,304,000	140,000	40,664,125	57,600,000	3,500,000	6.6%	0.71 x	11.62 x
1	Portage Health Hospital (MI)	Mar 1, '13	Nonprofit	MI	LifePoint Hospitals	36	2,261,905	288,898	87,969,499	81,428,575	10,400,337	12.8%	1.08 x	8.46 x
1	Muskogee Community Hospital (OK)	Jul 1, '12	Private	OK	Capella Healthcare	25	1,008,000	155,680	21,300,000	25,200,000	3,892,000	15.4%	0.85 x	5.47 x
1	Scott Memorial Hospital (IN)	May 10, '12	Nonprofit	IN	Regional Health Network of Kentucky and Southe	25	836,880	54,560	8,522,410	20,922,000	1,364,000	6.5%	0.41 x	6.25 x
1	Logan Medical Center (OK)	Oct 3, '11	Nonprofit	OK	Mercy Health	25	892,000	40,000	9,566,071	22,300,000	1,000,000	4.5%	0.43 x	9.57 x
1	Bucyrus Community Hospital (OH)	Dec 9, '10	Nonprofit	OH	Avita Health System	25	1,208,545	184,000	10,320,000	30,213,624	4,600,000	15.2%	0.34 x	2.24 x
	Mountain View Hospital (ID)	Apr 9, '10	Private	ID	Symbion	43	1,018,605	409,302	NA	43,800,000	17,600,000	40.2%	NA	NA
1	Athol Memorial Hospital (MA)	Aug 31, '09	Nonprofit	MA	Vanguard Health System	25	880,000	32,000	1,000,000	22,000,000	800,000	3.6%	0.05 x	1.25 x
	Three Rivers Hospital (TN)	Oct 31, '08	Private	TN	Humphreys County Community Health	25	352,000	19,280	NA	8,800,000	482,000	5.5%	NA	NA
	Canton-Inwood Memorial Critical Access Hospital (SD)	Sep 8, '08	Nonprofit	SD	Sanford Health	18	280,000	41,111	NA	5,040,000	740,000	14.7%	NA	NA
	Chatham Hospital (NC)	Jul 1, '08	Nonprofit	NC	UNC Health Care System	25	612,000	32,680	NA	15,300,000	817,000	5.3%	NA	NA
	High					*1,153*	*$ 3,198,064*	*$ 734,309*	*$ 2,000,000,000*	*$ 921,413,050*	*$ 104,798,435*	*40.2%*	*4.38x*	*40.80x*
	Upper Quartile					*190*	*$ 1,225,319*	*$ 143,081*	*$ 140,000,000*	*$ 181,088,301*	*$ 10,400,337*	*12.3%*	*0.90x*	*10.13x*
	Average					*155*	*$ 955,553*	*$ 83,301*	*$ 185,013,825*	*$ 172,921,296*	*$ 13,585,038*	*5.5%*	*0.89x*	*10.06x*
	Median					*44*	*$ 809,476*	*$ 38,726*	*$ 40,000,000*	*$ 50,406,477*	*$ 3,703,921*	*6.1%*	*0.55x*	*7.30x*
	Lower Quartile					*25*	*$ 460,039*	*$ 12,091*	*$ 10,320,000*	*$ 22,075,000*	*$ 740,000*	*2.6%*	*0.35x*	*5.47x*
	Low					*18*	*$ -*	*$ (204,531)*	*$ 400,000*	*$ -*	*$ (15,000,000)*	*-67.3%*	*0.02x*	*1.25x*
1	**Featured Transactions**	N:	17			*52*	*$ 978,744*	*$ 71,274*	*$ 18,637,771*	*$ 42,270,131*	*$ 3,049,629*	*3.9%*	*0.42x*	*6.22x*
	Selected Multiple												**0.35x**	**6.00x**
	Lourdes Health Network					47	$ 2,800,553	$ 163,000	$	131,626,000	$ 7,661,000	5.8%		

[1] Transactions most similar in size as measured by number of beds and revenue were further analyzed when selecting multiples. Specialty hospitals were not included. Outliers were not included.

Source: Irving Levin, Pitchbook, and Capital IQ

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5-18-18

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

MARKET APPROACH – GUIDELINE PUBLIC COMPANY METHOD – SUMMARY

($ Thousands)

Guideline Public Company Method Results	Assumption	Conclusions BEV/Revenue	BEV/EBITDA
[1] Financial Metric		$ 131,626	$ 7,661
[2] Selected Multiple		0.30x	4.00x
Indication of Value		**$ 39,488**	**$ 30,644**
[3] **Indicated Range of Value**		**$ 35,066**	
[4] Less: Debt		(11,391)	
[4] Plus: Cash		1,005	
Minority, Marketable Equity Value		**$ 24,680**	
[5] Control Premium	15.00%	3,702	
Controlling, Marketable Equity Value		**$ 28,381**	
Plus: Debt		11,391	
Less: Cash		(1,005)	
Business Enterprise Value		**$ 38,768**	

[1] Financial metrics are the normalized levels shown in EXHIBIT II-B.

[2] See exhibit V-C for the calculation of guideline public company multiples. The selected revenue multiple is below the median because of the company's lower EBITDA margins. The selected EBITDA multiple is below the median because the company is smaller and less diversified relative to the public companies.

[3] Based on our assessment of relevance and reliability, we placed equal weight on guideline company revenue and EBITDA multiples.

[4] Per December 31, 2017, balance sheet.

[5] The price of publicly traded company shares represents the price of a minority financial interest without the prerogatives of control. As a controlling interest is being sought, we have included a premium over the implied public company multiples to adjust for the benefits of control to be acquired.

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DISCUSSION DRAFT
5-18-18

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

MARKET APPROACH – GUIDELINE PUBLIC COMPANY METHOD – BUSINESS DESCRIPTIONS

Guideline Public Company	Business Description
HCA Management Services, Inc.	Accounting for about 5% of total U.S. hospital admissions, HCA is the largest private hospital owner and operator in the United States. It operates 170 hospitals and 118 outpatient centers, offering a broad range of health services. HCA has operations in 20 states and in England, but a majority of its operations are in the Southern United States, particularly in Florida and Texas. Outpatient services make up about 40% of HCA's patient revenue.
Universal Health Services, Inc.	Universal Health Services owns and operates acute care hospitals, behavior health centers, surgical hospitals, ambulatory surgery centers, and radiation oncology centers. The firm operates in two key segments: Acute Care Hospital Services and Behavioral Health Services. The Acute Care Hospital Services segment includes the firm's acute care hospitals, surgical hospitals, and surgery and oncology centers. Each segment contributes roughly half of the firm's overall revenue. Universal Health Services receives a significant portion of its net patient revenue from Medicare and Medicaid. The largest proportion of the firm's net patient revenue is paid by managed care organizations.
Community Health Systems, Inc.	Community Health Systems is the largest publicly owned hospital operator in the United States. The company owns or leases 123 general acute-care hospitals located in nonurban and urban markets. The company also owns four home health agencies and provides management and consulting services to independent hospitals.
Tenet Healthcare, Inc.	Based in Dallas, Tenet Healthcare is one of the largest acute-care firms in the U.S., accounting for roughly 2% of the country's hospital admissions. It operates over 79 acute-care hospitals with more than 20,000 beds, as well as over 475 ambulatory surgery centers, diagnostic imaging centers, and urgent care centers, and a revenue cycle subsidiary called Conifer. Tenet has facilities in numerous states, with most of its total operations in California, Florida, and Texas. Outpatient services make up about 36% of Tenet's patient revenue.
LifePoint Health, Inc.	LifePoint Health owns and operates community hospitals, regional health systems, physician practices, outpatient centers, and post-acute facilities in the United States. The firm primarily generates revenue through hospital services offered at its facilities. These services include general surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, rehabilitation services, and pediatric services. LifePoint receives the majority of its revenue from health maintenance organizations (HMOs), preferred provider organizations (PPOs), and other private insurers. It receives the next largest proportion of revenue from Medicare and Medicaid.

Source: Pitchbook.

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DISCUSSION DRAFT
5-18-18

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

MARKET APPROACH – GUIDELINE PUBLIC COMPANY METHOD – CALCULATION OF MULTIPLES

(All numbers in millions of dollars, except per share data)

Guideline Company	Cash and Short-Term Investments	Current Debt	Long-Term Debt	Minority Interest	Preferred Stock	Stock Price	Shares Outstanding	Market Value of Equity	BEV
HCA Management Services, Inc.	$ 1,086.0	$ 1,697.0	$ 31,594.0	$ 1,810.0	$ -	$ 101.8	$ 349.3	$ 35,551.7	$ 69,566.7
Universal Health Services, Inc.	73.1	126.2	3,795.1	70.4	-	118.4	94.4	11,174.0	$ 15,092.6
Community Health Systems, Inc.	424.0	37.0	13,855.0	74.0	-	4.4	116.3	507.1	$ 14,049.1
Tenet Healthcare, Inc.	974.0	666.0	14,791.0	2,623.0	-	32.7	102.1	3,335.0	$ 20,441.0
LifePoint Health, Inc.	140.1	22.4	2,894.8	42.4	-	54.8	38.8	2,123.2	$ 4,942.7
High	***$ 1,086.0***	***$ 1,697.0***	***$ 31,594.0***	***$ 2,623.0***	***$ -***	***$ 118.36***	***349.299***	***$ 35,551.7***	***$ 69,566.7***
Upper Quartile	***$ 974.0***	***$ 666.0***	***$ 14,791.0***	***$ 1,810.0***	***$ -***	***$ 101.78***	***116.297***	***$ 11,174.0***	***$ 20,441.0***
Average	***$ 539.4***	***$ 509.7***	***$ 13,386.0***	***$ 924.0***	***$ -***	***$ 62.39***	***140.166***	***$ 10,538.2***	***$ 24,818.4***
Median	***$ 424.0***	***$ 126.2***	***$ 13,855.0***	***$ 74.0***	***$ -***	***$ 54.75***	***102.051***	***$ 3,335.0***	***$ 15,092.6***
Lower Quartile	***$ 140.1***	***$ 37.0***	***$ 3,795.1***	***$ 70.4***	***$ -***	***$ 32.68***	***94.407***	***$ 2,123.2***	***$ 14,049.1***
Low	***$ 73.1***	***$ 22.4***	***$ 2,894.8***	***$ 42.4***	***$ -***	***$ 4.36***	***38.779***	***$ 507.1***	***$ 4,942.7***

Guideline Company	Last Fiscal Year Revenue	Last Fiscal Year EBITDA	Last Fiscal Year EBIT	Last Fiscal Year BEV/Revenue	Last Fiscal Year BEV/ EBITDA	Last 12 Months Revenue	Last 12 Months EBITDA	Last 12 Months EBIT	Last 12 Months BEV/Revenue	Last 12 Months BEV/ EBITDA
HCA Management Services, Inc.	$ 43,614.0	$ 8,202.0	$ 6,071.0	1.60x	8.48x	$ 44,414.0	$ 8,719.0	$ 6,556.0	1.57x	7.98x
Universal Health Services, Inc.	10,409.9	1,716.7	1,268.8	1.45x	8.79x	10,484.5	1,700.9	1,250.7	1.44x	8.87x
Community Health Systems, Inc.	15,353.0	(1,041.0)	(1,902.0)	0.92x	-13.50x	14,557.0	(911.0)	(1,717.0)	0.97x	-15.42x
Tenet Healthcare, Inc.	19,179.0	1,797.0	927.0	1.07x	11.38x	19,065.0	2,033.0	1,180.0	1.07x	10.05x
LifePoint Health, Inc.	7,263.1	659.2	308.6	0.68x	7.50x	7,002.1	553.5	209.4	0.71x	8.93x
High	***$ 43,614***	***$ 8,202***	***$ 6,071***	***1.60x***	***11.38x***	***$ 44,414***	***$ 8,719***	***$ 6,556***	***1.57x***	***10.05x***
Upper Quartile	***$ 19,179***	***$ 1,797***	***$ 1,269***	***1.45x***	***8.79x***	***$ 19,065***	***$ 2,033***	***$ 1,251***	***1.44x***	***8.93x***
Average	***$ 19,164***	***$ 2,267***	***$ 1,335***	***1.14x***	***4.53x***	***$ 19,105***	***$ 2,419***	***$ 1,496***	***1.15x***	***4.08x***
Median	***$ 15,353***	***$ 1,717***	***$ 927***	***1.07x***	***8.48x***	***$ 14,557***	***$ 1,701***	***$ 1,180***	***1.07x***	***8.87x***
Lower Quartile	***$ 10,410***	***$ 659***	***$ 309***	***0.92x***	***7.50x***	***$ 10,485***	***$ 554***	***$ 209***	***0.97x***	***7.98x***
Low	***$ 7,263***	***$ (1,041)***	***$ (1,902)***	***0.68x***	***-13.50x***	***$ 7,002***	***$ (911)***	***$ (1,717)***	***0.71x***	***-15.42x***
Selected Multiple									0.30x	4.00x

Source: Pitchbook.

WASHINGTON STATE DEPARTMENT OF HEALTH
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

COMPARISON OF DELOITTE APPRAISAL - INCOME STATEMENT

Deloitte Projections to Actual

I/S Figures	2015	2016	2017
Total Revenue			
Deloitte	$ 107,948	$ 111,344	$ 114,391
Actual	$ 110,197	$ 120,869	$ 132,129
Total Operating Expenses			
Deloitte	$ 103,398	$ 105,119	$ 108,759
Actual	$ 104,603	$ 114,294	$ 123,965
EBITDA			
Deloitte	$ 4,550	$ 6,225	$ 5,632
Actual	$ 5,594	$ 6,575	$ 8,164
Debt-Free Cash Flow			
Deloitte	$ (3,350)	$ 1,705	$ 1,311
Actual	$ (3,020)	$ (2,938)	$ (2,259)

Projections to Projections

	2018	2019
Total Revenue		
Deloitte	$ 118,710	$ 122,271
ECG	$ 134,917	$ 138,290
Total Operating Expenses		
Deloitte	$ 112,531	$ 115,907
ECG	$ 127,064	$ 130,241
EBITDA		
Deloitte	$ 6,179	$ 6,364
ECG	$ 7,853	$ 8,049
Debt-Free Cash Flow		
Deloitte	$ 1,527	$ 1,624
ECG	$ 3,382	$ 3,550

Note: ECG used annualized financials for 2018 (based on Dec. 31, 2017).

Implied Multiples of Concluded Values	Low	High
Base EBITDA		
Deloitte Valuation		
Projected (based on 2015)	3.89	5.32
Actual (based on 2015)	3.16	4.33
ECG Valuation (based on 2017)	4.67	5.05
One-Year Projected EBITDA		
Deloitte Valuation		
Projected (based on 2016)	2.84	3.89
Actual (based on 2016)	2.69	3.68
ECG Valuation (based on 2018)	4.55	4.93
Two-Year Projected EBITDA		
Deloitte Valuation		
Projected (based on 2017)	3.14	4.30
Actual (based on 2017)	2.17	2.96
ECG Valuation (based on 2019)	4.44	4.81
Five-Year Projected EBITDA		
Deloitte Valuation		
Projected (forecast year 2020)	2.70	3.69
Actual (ECG's Projected 2020 EBITDA)	1.91	2.61
ECG Valuation (based on 2022)	4.23	4.57

Concluded Values	Low	High
Deloitte Value:	$ 17,700	$ 24,200
ECG Value:	$ 36,650	$ 39,650

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DISCUSSION DRAFT
5-18-18

WASHINGTON STATE DEPARTMENT OF HEALTH
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

COMPARISON OF DELOITTE APPRAISAL - WACC

Weighted Average Cost of Capital	Deloitte	ECG
Unlevered Beta	0.8	
Debt to Equity Ratio	100%	
Subject Tax Rate	35%	
Relevered Beta	1.32	
Risk-Free Rate	2.6%	3.0%
Equity Risk Premium	6.5%	6.9%
Industry Risk Premium	n/a	-0.8%
Levered Equity Beta	1.32	
Cost of Equity	**11.2%**	
Size Premium	5.8%	5.6%
Company-Specific Risk Premium	1.0%	3.0%
Cost of Equity Capital	**18.0%**	**17.8%**
Subject's Estimated Pretax Cost of Debt	4.8%	4.3%
Tax Rate	35.0%	21.0%
After-Tax Cost of Debt	**3.1%**	**3.4%**
Debt to Capital	50%	25%
Equity to Capital	50%	75%
Concluded WACC	**10.6%**	**14.0%**

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DISCUSSION DRAFT
5-18-18

WASHINGTON STATE DEPARTMENT OF HEALTH
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF MAY 10, 2018

COMPARISON OF DELOITTE APPRAISAL - MARKET APPROACH

	BEV/LTM Revenue	BEV/LTM EBITDA
Guideline Public Company Method		
Deloitte		
Median	0.43	5.8
Selected	0.18–0.25	3.5–4.5
ECG		
Median	1.07	8.87
Selected	0.30	4.00

	Price/Revenue	Price/EBITDA
Guideline Transactions Method		
Deloitte		
All	0.70	9.10
With EBITDA Margin < 6%	0.34	15.1
Critical Access Hospitals	0.31	N/A
Selected Multiple	0.20–0.25	
ECG		
All Transactions	0.55	7.30
Featured	0.42	6.22
Selected	0.35	6.00

APPENDIX C

M E M O R A N D U M

DATE: May 18, 2018

TO: John Bry, ECG
Janis Snoey, AAG
Nancy Tyson, DOH
Audrey Udashen, AAG

FROM: RCCH Healthcare Partners
Lourdes Health Network

RE: Comments, Observations and Questions Regarding May 16, 2018 Draft Fair Market Value of the Lourdes Health Network

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Thank you for the opportunity to preview the draft of the ECG Management Consultants Fair Market Value of Lourdes Health Network (the "Valuation"). RCCH Healthcare Partners ("RCCH") and Lourdes Health Network ("LHN") appreciate the opportunity to have reviewed the Valuation and to provide you with these comments, questions and observations. We are hopeful that ECG and/or the Department of Health and Attorney General's Office will be able to address many of these in the final Valuation and their respective assessments of the LHN Conversion Application.

1) Time of Valuation.

a) The purchase price and capital commitment were set in 2015 as the culmination of a RFP process. Six organizations submitted responses to the RFP. After an extended process, the LHN Board selected RCCH and the parties signed a letter of intent on June 12, 2015. All pricing issues regarding the transaction have been fixed since that time. See pages 2 and 3 of the May 1, 2017, Conversion Application for a full discussion of the RFP process. The Valuation does not address that this RFP process set an actual market price for LHN at the time at which the transaction was entered. We hope this issue is addressed in ECG's final work product.

b) The Valuation was performed using fiscal year end 2017 data (note that the fiscal year end is 6-30); however, the deal was struck several years prior when EBITDA was significantly lower. For example, the normalized EBITDA used as the basis of the forecast for the Valuation is 83% greater than the 2014 EBITDA, which was the basis of RCCH and other bidders' valuations at the time. Moreover, FY 2017 is not reflective of the current operating performance of LHN. The 12/31/17 financial statements provided to ECG show that LHN's financial performance significantly declined in the 6-month period following 6/30/17. Adjusted and annualized EBITDA based on 12/31/17 is $2.406M, as compared to $8.164m in the Valuation for FY2017. See Exhibit A. If you include data for the 10-month period ending 4/30/18 (that is, FYE 2018 to date), adjusted-annualized EBITDA declines further to $1.226M. See Exhibit A for EBITDA calculation; see Exhibit B for FY2018 data through 4/30/18. A valuation of LHN based on FYE17 does not present a current picture of LHN's performance.

2) ECG Factual Errors and Deficiencies in Assumptions

a) An EBITDA margin of 5.8%, utilized as the baseline for the forecast, is higher than the historical average. The margin increased from 5.4% in FY16 to 6.2% in FY17 due to lower purchased services and professional fees. Is this considered a sustainable reduction or was it due to the 'management services' that were budgeted to be provided by Ascension in FY18 but excluded from valuation model? This 0.4% increase in margins has a $2.8M effect on the present value of the terminal cash flow alone. And as commented on in #1.b. above, this margin is greatly lower in the periods after June 30, 2017.

b) ECG indicates that it dismissed 2018 management fees "assuming it was not for services that are necessary to the operations". Ascension is deliberate and careful in the allocation of costs that are necessary and appropriate to operate each of its hospitals. The allocated cost to LHN is consistent with how Ascension allocates cost to all its hospitals which includes a variable for the relative size of the facility. Very specifically, if this facility operated as a stand-alone facility much of the costs charged to it as management fee, for services provided by Ascension, would have to be purchased from other parties and thus the cost would remain and be included in ordinary operating expenses. Similarly, when RCCH acquires LHN, most of the same services Ascension currently provides and charges for through management fees will be provided by RCCH. There is no basis to exclude these costs which generally represent true cost of business for this facility.

c) There is a significant risk to LHN's continued status as Critical Access Hospital (CAH). There has been various legislative activity in the last two years, at both the federal and state level, that could materially impact the reimbursement available to LHN as a CAH, up to and including the loss of that status. LHN has already received notice from CMS that it will lose its CAH status as of May 3, 2019. See Exhibit C. This is a material factor that should be considered in the discount rates used in the valuation.

d) It appears that the 21% tax rate used in the Valuation has the benefit of 2018 tax reform. This would not have been known at the time of the transaction at which time it would likely have been factored in at a rate around 35%. The difference in the tax rate has $4M effect on the present value of the terminal value alone, not to mention the intervening periods.

e) A significant reduction in Investment in Unconsolidated Entities from 2016 to 2017 could suggest that the investments are underperforming. Therefore, the book value could be significantly overstated compared to the fair value of these entities. Any reduction in the Investment in Unconsolidated Entities would be a dollar-for-dollar decrease in the value of Lourdes.

f) Similarly, the other current liabilities balance is over $12m in 2017 and does not seem to have been factored into the valuation.

3) Final Comments. It should also be noted that LHN is a facility with a 100-year-old infrastructure. The depreciation and capital expenditure forecasts imply a shrinking asset base over the forecast period,

despite a growing business. It's highly likely that this facility will require significant and substantial capital costs in order to maintain or replace in the future and some increased capex should be reflected in reduced free cash flow in out years.

The $39m investment in LHN (both upfront cash and future capital expenditure commitments) by RCCH is substantial and reflected of its current value. LHN and its management remain available for direct communication with ECG.

If you have questions, we are available to discuss and further explain our logic and rationale.

EXHIBIT A

EBITDA CALCULATONS

Lourdes Health Network
2018 EBITDA
Note: Fiscal Year 2018 (July 2017 - June 2018)
(000's)

	6 Mons End Dec 2017	10 Mons End April 2018
Income (Loss) From Recurring Operations	1961	512
Interest	205	347
Income Tax	163	163
Depreciation & Amortization	1650	2776
Reported EBITDA	3979	3798
Exclude One-time Extraordinary Item:		
Gain on Sale of Assets	2776	2776
Adjusted EBITDA	**1203**	**1022**
Annualized EBITDA	**2406**	**1226**

EXHIBIT B

LHN 4/30/18 Financial Statement

ASCENSION

Consolidated Pasco Excluding Discontinued Operations

Summary Consolidating Income Statement at Base of Entity POV

Functional Organization

Actual Year To Date For the Period Ending April FY 2018

(Dollars in Thousands)

	Consolidated Pasco Excluding Discontinued Operations - (WAPasExclDisOps)	System Generated Eliminations	Pasco Adjustments - (14006)	Lourdes Medical Center - (14004)	Lourdes Counseling Center - (14002)	Home Office Corp Overhead - Pasco - (14001)	Lourdes Phys Practices - (14005)	Phys Of Pasco Condo Assoc - (14007)
GROSS PATIENT SERVICE REVENUE:								
Inpatient	$116,701	$0	-	$98,103	$17,310	-	$1,288	-
Outpatient	171,502	-	-	122,256	27,399	-	21,847	-
Total Gross Patient Service Revenue	**$288,203**	**$0**	**-**	**$220,359**	**$44,709**	**-**	**$23,135**	**-**
REVENUE DEDUCTIONS:								
Medicare	$73,585	$0	-	$66,841	$3,986	-	$2,758	-
Medicaid	$49,550	$0	-	$31,966	$14,875	-	$2,709	-
Blue Cross Blue Shield	$16,107	$0	-	$13,533	$1,460	-	$1,114	-
Commercial	$18,594	$0	-	$15,244	$2,045	-	$1,305	-
Uninsured	$8,714	$0	-	$7,511	$627	-	$576	-
Other	$5,823	$0	$0	$6,945	($1,346)	$0	$224	$0
Total Revenue Deductions	**$172,373**	**$0**	**-**	**$142,039**	**$21,648**	**-**	**$8,686**	**-**
Net Patient Service Revenue Before Bad Debts	**$115,831**	**$0**	**-**	**$78,321**	**$23,061**	**-**	**$14,449**	**-**
Total Bad Debts Deductions	**$4,702**	**$0**	**-**	**$4,563**	**($105)**	**$123**	**$121**	**-**
Net Patient Service Revenue	**$111,130**	**$0**	**-**	**$73,758**	**$23,167**	**($123)**	**$14,328**	**-**
OTHER REVENUE:								
Total Other Revenue	$4,433	$210	$191	$3,205	$390	($0)	$437	-
Gain on Sale or Disposal of Assets	2,776	-	-	2,776	-	-	-	-
Income From Unconsolidated Entities-Oper	71	-	-	71	-	-	-	-
Net Assets Released from Restriction, net	83	-	-	6	76	-	1	-
Total Other Operating Revenue	**$7,363**	**$210**	**$191**	**$6,058**	**$466**	**($0)**	**$438**	**-**
Total Operating Revenue	**$118,493**	**$210**	**$191**	**$79,816**	**$23,633**	**($123)**	**$14,766**	**-**
OPERATING EXPENSES:								
Salaries and Wages	$47,861	$0	-	$18,383	$12,016	$5,300	$12,118	$44
Employee Benefits	13,865	-	-	5,985	3,271	1,729	2,880	-
Purchased Services	11,113	-	-	5,251	824	4,333	667	38
Professional Fees	6,985	-	-	5,553	105	391	936	-
Supplies	15,998	-	-	13,982	610	293	1,111	2
Insurance	589	-	-	572	-	17	-	-
Interest	347	-	-	347	0	-	-	-
Income Tax Expense	163	-	-	163	-	-	-	-
Provider Tax Expense	-	-	-	-	-	-	-	-
Depreciation and Amortization	2,766	-	-	2,123	449	-	185	9
Other Operating Expense	18,295	-	-	17,946	6,186	(12,221)	6,345	39
Total Operating Expense	**$117,980**	**$0**	**-**	**$70,304**	**$23,461**	**($159)**	**$24,242**	**$132**
Income (Loss) From Recurring Operations	**$512**	**$210**	**$191**	**$9,512**	**$172**	**$35**	**($9,476)**	**($132)**
Total Self Insur Trust Investment Income	-	-	-	-	-	-	-	-
Inc From Recur Oper B4 Impar/Restrct Exp	**$512**	**$210**	**$191**	**$9,512**	**$172**	**$35**	**($9,476)**	**($132)**
Impairment, Restructuring, NonRecuring	42	-	-	18	-	24	-	-
Income (Loss) from Operations	**$470**	**$210**	**$191**	**$9,494**	**$172**	**$11**	**($9,476)**	**($132)**
NONOPERATING GAINS (LOSSES):								
Total Investment Income	$0	$0	-	-	-	-	-	-
Donations	1,829	(210)	1,879	171	-	(11)	-	-
Fundraising Activities, Net	0	-	-	-	-	-	-	-
Other NonOperating Activity	234	-	-	118	8	-	-	108
NonOperating Gains (Losses), Net	**$2,063**	**($210)**	**$1,879**	**$289**	**$8**	**($11)**	**-**	**$108**
Net Income (Loss)	**$2,533**	**$0**	**$2,070**	**$9,783**	**$180**	**$0**	**($9,476)**	**($24)**
Less Noncontrolling Interests	0	-	-	-	-	-	-	-
Net Income (Loss) Attributable to Controlling Interest	**$2,533**	**$0**	**$2,070**	**$9,783**	**$180**	**$0**	**($9,476)**	**($24)**

Report Name: ISSUMCON1

User ID: CSHAR021

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Application Name: ASCENSION

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EXHIBIT C

CMS Letter

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
Seattle Regional Office
701 Fifth Avenue, Suite 1600, MS 400
Seattle, WA 98104

Western Division of Survey & Certification

Lourdes Medical Center
520 N Fourth Avenue
Pasco, WA 99301

May 7, 2018

Re: Loss of CAH status
CMS Certification Number: 501337

Dear Administrator:

The Department of Health & Human Services, Centers for Medicare & Medicaid Services (CMS), has determined that your Critical Access Hospital (CAH) status will be terminated.

To participate as a provider of services in the Medicare program, a critical access hospital (CAH) must meet all of the provisions of Section 1820 of the Act, be in compliance with each of the conditions of participation established by the Secretary of Health & Human Services at 42 C.F.R. Part 485 Subpart F, be free of hazards to the health and safety of patients, and meet such other requirements as shall be established by law or regulation.

Please recall, a CAH must meet certain location requirements to qualify for designation as a critical access hospital, including those defined at 42 C.F.R. § 485.610(c) "The CAH is located more than a 35-mile drive (or, in the case of mountainous terrain or in areas with only secondary roads available, a 15-mile drive) from a hospital or another CAH, or before January 1, 2006, the CAH is certified by the State as being a necessary provider of health care services to residents in the area".

Why we are taking this action

Prior to a CAH receiving a recertification survey, the CMS Regional Office is required to confirm that the location requirements are met in accordance with the guidance described in the State Operations Manual, Chapter 2, Section 2256A. Lourdes Medical Center no longer meets the location requirements, as evidenced by the following:

Your off-campus provider based locations below are within a 35 mile drive from another hospital or CAH:

1	Lourdes Occupational Health Center 9915 Sandifur Parkway, Pasco, WA 99301	3	Lourdes West Pasco 7425 Wrigley Dr. Pasco, WA 99301
2	Lourdes Urology East 507 N 5th Ave, Pasco WA 99301-5201		
In accordance with 42 C.F.R. §485.610(e)(2):			

If a CAH or a necessary provider CAH operates an off-campus provider-based location, excluding an RHC as defined in §405.2401(b) of this chapter, but including a department or remote location, as defined in §413.65(a)(2) of this chapter, or an off-campus distinct part psychiatric or rehabilitation unit, as defined in §485.647, that was created or acquired by the CAH on or after January 1, 2008….	..**Then** then the off-campus facility must meet the requirement at 42 CFR 485.610(c) to be more than a 35 mile drive (or a 15 mile drive in the case of mountainous terrain or an area with only secondary roads) from another hospital or CAH. Off-campus CAH facilities that were in existence prior to January 1, 2008, are not subject to this requirement.
The CAH off-campus location regulations at §485.610(e)(2) apply to off-campus distinct part units, as defined at §485.647, to departments that are off-campus, to remote locations of CAHs, as defined at §413.65(a)(2), and, on or after October 1, 2010, to off-campus facilities that furnish only clinical diagnostic laboratory tests operating as parts of CAHs. The requirements apply, regardless of whether the CAH is a grandfathered necessary provider CAH or not. The procedures used to determine whether a CAH meets the distance requirements are described in the State Operations Manual, Chapter 2, Section 2256A https://www.cms.gov/Regulations-and-Guidance/Guidance/Manuals/Downloads/som107c02.pdf.	

Therefore, we must terminate your designation as a CAH effective no later than May 3, 2019. You may choose to convert to an acute care hospital prior to that termination date.

You may choose to convert to an acute care hospital prior to the termination date, or confirm that provider based status for the off-site locations has stopped. If you choose to participate in the Medicare program as an acute care hospital, your facility must meet the provisions of Section 1861 of the Act and must be in compliance with each of the applicable regulatory Conditions of Participation for hospitals at 42 C.F.R. Part 482.

If you choose to participate in the Medicare program as an acute care hospital, please submit the CMS Form 855 to your Medicare Administrative Contractor (MAC) to request a change in status, and also notify the State Of Washington (State survey agency) of your change in status request. Upon approval of the CMS Form 855, you may request a survey by either your accrediting organization or the State survey agency to verify compliance with the acute care hospital Conditions of Participation. All Medicare requirements must be met at the time of the survey in order for your facility to convert to an acute care hospital.

CMS review of its determination

A CAH may request that CMS review its determination that a CAH is not a necessary provider if, within 60 days of the date of a letter notifying the CAH that distance requirements have not been met, it submits supplementary evidence to CMS for further consideration. The guidance issued in Survey and Certification Memorandum 16-08-CAH and located at: https://www.cms.gov/Medicare/Provider-Enrollment-and-Certification/SurveyCertificationGenInfo/Downloads/Survey-and-Cert-Letter-16-08.pdf, specifies that the burden is on the CAH to provide qualifying evidence demonstrating that necessary provider designation was

made by the State prior to January 1, 2006, and that the designation was applicable to the specific facility in question.

Please submit evidence to demonstrate that Sunnyside Community Hospital meets the requirement at 42 C.F.R. § 485.610(c) within 60 days of the date of this letter. If Sunnyside Community Hospital is unable to demonstrate that it meets the requirement at 42 C.F.R. § 485.610(c), we must complete the administrative steps to terminate its designation as a CAH in the Medicare program.

Appeal

If you disagree with this status termination action, you or your legal representative may request a hearing before an administrative law judge of the Department of Health and Human Services, Departmental Appeals Board (DAB). Procedures governing this process are set out in 42 CFR 498.40, et seq.

You must file your hearing request electronically by using the DAB's Electronic Filing System (DAB E-File) at https://dab.efile.hhs.gov, no later than sixty (60) days after receiving this letter. (Please submit a copy to: CMS_RO10_CEB@cms.hhs.gov.)

> Note: Requests for a hearing submitted by U.S. mail or commercial carrier are no longer accepted as of October 1, 2014, unless you do not have access to a computer or internet service. In those circumstances you may call the Civil Remedies Division to request a waiver from e-filing and provide an explanation as to why you cannot file electronically or you may mail a written request for a waiver along with your written request for a hearing. A written request for a hearing must be filed no later than sixty (60) days after receiving this letter, by mailing to the following address:

Department of Health & Human Services
Departmental Appeals Board, MS 6132
Director, Civil Remedies Division
330 Independence Avenue, S.W.
Cohen Building – Room G-644
Washington, D.C. 20201
(202) 565-9462

A request for a hearing should identify the specific issues, findings of fact and conclusions of law with which you disagree. It should also specify the basis for contending that the findings and conclusions are incorrect. At an appeal hearing, you may be represented by counsel at your own expense.

If you should have any questions about this action, please contact (206) 615-2313, or CMS_RO10_CEB@cms.hhs.gov, Subject: CAH status.

Sincerely,

Julius P. Bunch Jr.

Julius P. Bunch, Manager
Division of Certification & Enforcement
CMS Regional Office - Seattle

Enclosure
CC: State Of Washington

Excerpts from:

S&C: 15-45-CAH
S&C: 16-08-CAH
S&C: 13-26-CAH

Mountainous Terrain Criteria for Distance From Hospitals/ Other CAHs
A CAH is eligible, based on location in mountainous terrain, to use the shorter minimum distance from a hospital/other CAH standard if over 15 miles of the roads on the travel route(s) from the CAH to any hospital or another CAH:

- Are located in a mountain range; and
- Have either of the following characteristics:
- Consists of extensive sections of roads with steep grades (i.e., greater than 5 percent), continuous abrupt and frequent changes in elevation or direction, or any combination of horizontal and vertical alignment that causes heavy vehicles to operate at crawl speeds for significant distances or at frequent intervals; or
- The roads on the travel route are considered by the State Transportation or Highway agency to be located in mountainous terrain based on significantly more complicated than usual construction techniques required to achieve compatibility between the road alignment and surrounding rugged terrain.
- A letter from the State Transportation or Highway agency specific to the travel route(s) in question is required to support the claim of mountainous terrain.

Examples of documentary evidence to demonstrate necessary provider designation prior to January 1, 2006

A CAH may request the CMS RO to review the determination of its necessary provider CAH status if, within 60 days of the date of a CMS letter that communicates the agency's determination that the CAH distance requirements have not been met, it submits supplementary evidence to the CMS RO for consideration. The burden is on the CAH to provide qualifying evidence demonstrating that NP designation was made by the State prior to January 1, 2006 and that the designation was applicable to the specific facility in question. Note that a CAH does not need to wait before submitting supplementary evidence, but may do so before the CAH is due for a recertification survey or at any other prior time. Some examples of potentially qualifying evidence include:

a. A letter, issued before January 1, 2006, from the appropriate State authority designating the CAH by name as a necessary provider.

b. An edition of the State's Rural Health Plan, published in 2005 or earlier, identifying the CAH by name as a necessary provider.

c. A State's Rural Health Plan, combined with supporting documented evidence that includes **all** of the following:

(i) An edition of the State's Rural Health Plan, published in 2005 or earlier, specifying the State's criteria for a CAH to qualify as a necessary provider; **and**
(ii) At the time of its CAH certification, which must have been prior to January 1, 2006, the CAH met the State's criteria to qualify as a necessary provider in accordance with the applicable edition of the State's Rural Health Plan (published in 2005 or earlier). Acceptable data sources used to support the documented evidence that the CAH met the necessary provider criteria in the State's Rural Health Plan includes, but are not limited to: Health Resources Services Administration (HRSA), U.S. Census Bureau, or data from the applicable State departments; **and**

(iii) A signed statement by the appropriate State authority that the State considers the CAH to have been designated as a necessary provider before January 1, 2006. This statement may be from a date before or after January 1, 2006 when combined with the documented evidence cited above.

d. A State law or regulation with supporting documented evidence that includes **all** of the following:

(i) The law or regulation, enacted prior to January 1, 2006, specifically describes the requirements for necessary provider designation by the State in order to become a CAH, **and**
(ii) At the time of its CAH certification, which must have been prior to January 1, 2006, the CAH met the criteria in the law or regulation to qualify as a necessary provider, **and**
(iii) A signed statement by the appropriate State authority that the State considers the CAH to have been designated as a necessary provider before January 1, 2006. This statement may be from a date before or after January 1, 2006.

Reassessment of Compliance with CAH Location Requirements

We are reminding all parties that S&C-13-20, issued March 15, 2013, updated the interpretive guidelines for §485.610 and §485.610(c) to clarify that a CAH must meet the location and distance requirements not only at the time of its initial conversion to CAH status, but at all times thereafter. The CAH's compliance with these requirements must be reassessed at the time of each recertification (including the recertification of a deemed status CAH whose accreditation has been renewed). We are also making a technical correction in the guidance to reference the appropriate regulation.

Primary Roads

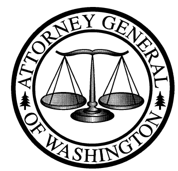
We are updating the guidance in Chapter 2, Section 2256A of the SOM to clarify that a primary road includes any US highway, which includes any road:

- ☐ In the National Highway System, as defined in 23 US Code §103(b);
- ☐ In the Interstate System, as defined in US Code §103(c); or,
- ☐ Which is a US-Numbered Highway (also called "US Routes" or "US Highways"), as designated by the American Association of the State Highway and Transportation Officials (AASHTO), regardless of whether it is also part of the National Highway System.

All of the above are readily identified via signage and on maps by the presence of "US" or "I" above the highway number, with the letters and number appearing on a distinctive, uniform shield background that is called the six point shield, with five points above and one below the letters and number. Although the National Highway System and the U.S. Numbered Highway system largely overlap, they are not identical. According to AASHTO, which has responsibility for the U.S. Numbered Highway system, this system is intended to facilitate the movement of interstate traffic in two or more States with the use of uniform markings.

Given the role all US highways are intended to play in interstate commerce, they are inherently primary roads.

APPENDIX D



Bob Ferguson

ATTORNEY GENERAL OF WASHINGTON

Consumer Protection Division

800 Fifth Avenue • Suite 2000• MS TB 14 • Seattle WA 98104-3188

(206) 464-7745

June 4, 2018

Ms. Beth Harlow
Certificate of Need Analyst

Ms. Janis Sigman
Manager, Facility Certification Program

Nancy Tyson
Executive Director Health Care Facilities, Community Health Systems

Department of Health
PO Box 47890
Olympia, WA 98504-7890

RE: Lourdes Health Network

Dear Mss. Harlow, Sigman, and Tyson:

I. INTRODUCTION

State law requires that the Attorney General provide the Department of Health (the Department) with an opinion as to whether a proposed acquisition of a nonprofit hospital by a for-profit buyer complies with certain statutory criteria. RCW 70.45.060. The Department has received an application from Capella Healthcare, LLC (Capella) and Lourdes Hospital, LLC for the acquisition of specified assets of Our Lady of Lourdes Hospital at Pasco d/b/a Lourdes Health Network (LHN). Hospital Sales Review Application (Application). Capella is a privately owned healthcare provider, organized on a for-profit basis. Capella and Regional Care Hospital Partners, Inc., another for-profit health system, merged in March 2016, and now operate under the name RCCH Health Partners. As of the date of its initial Application, RCCH operated over 17 regional health systems, including Capital Medical Center in Olympia (Capital). Application, Introductory Statement at 4. LHN is a Washington nonprofit corporation that owns Lourdes Medical Center in Pasco, Lourdes Counseling Center in Richland, and other assets. LHN has been part of Ascension Healthcare (Ascension) since 2002. Application, Introductory Statement at 3. Ascension is the

largest nonprofit Catholic health system in the country, with facilities in 23 states and the District of Columbia.

In preparing this opinion, we reviewed the Application and other materials submitted in support of Capella's Application. We also considered comments and analysis from other interested groups and members of the public, as well as the opinion of the independent consultant the Department engaged to value the hospitals.

Our opinion is that the proposed acquisition meets certain requirements in RCW 70.45.070, but fails to satisfy others. Notably, we cannot conclude that LHN will receive fair market value for its assets, as is required by RCW 70.45.070(5).

II. EXECUTIVE SUMMARY

Our review of the proposed acquisition is limited to whether it satisfies the criteria set forth in RCW 70.45.070. RCW 70.45.060(1). This criteria includes whether (a) the proposed acquisition is permitted under chapter 24.03 and other laws governing nonprofit entities, trusts or charities, (b) the nonprofit corporation that owns the hospital being acquired exercised due diligence with regard to the sale, (c) the procedures used by the nonprofit corporation's board of trustees in making decisions fulfilled their fiduciary duties, (d) any conflict of interest exists related to the acquisition, (e) the nonprofit corporation will receive fair market value for its assets, (f) charitable funds will not be placed at unreasonable risk, (g) any management contract under the acquisition will be for fair market value, (h) the proceeds from the acquisition will be controlled as charitable funds independently of the acquiring person or parties to the acquisition, (i) any charitable entity established to hold the proceeds of the acquisition will be broadly based in and representative of the community, and (j) a right of first refusal to repurchase the assets by a successor nonprofit corporation or foundation has been retained.

The sale of nonprofit hospitals, particularly longstanding community institutions such as those at issue in this proposed transaction, to a for-profit business raises a number of public policy questions. In addition, the community in which these institutions are located has a number of interests at stake. The legislature has weighed various policy issues, including the potential effects of such transactions on the preservation of charitable assets and the future provision of health care in the community. RCW 70.45.010 (legislative findings). It has made the public policy decision that the acquisition of nonprofit hospitals by for-profit entities must be approved when the criteria set forth in statute are satisfied. RCW 70.45.060. The question for us, accordingly, is whether this proposal satisfies the statutory criteria.

The Application under review demonstrates that in recent years LHN lacked capital to invest in its facilities and experienced difficulty attracting new physicians. Letter from Howard Wall III to Janis Sigman, (Nov. 13, 2017), Attachment 1, Organizational Ethics Discernment Process, Final

Report (Discernment Report) at 7-8. These challenges caused LHN to lose market share to its regional peers over recent years. *Id.* To address these obstacles, the LHN board and officers participated in a ministry positioning process in 2013, and a discernment process in 2014, to identify a model of healthcare delivery that would foster long-term financial sustainability for LHN. Application, Introductory Statement at 2. Through these processes, LHN's leadership concluded that it needed to develop an affiliation with a health system that had a regional presence and could provide LHN with access to capital. *Id.*

Around the same time, another Ascension-affiliated health system in the Northwest, St. Joseph Regional Medical Center (SJRMC) in Lewiston, Idaho, sought new ownership. Given the two health systems' geographical proximity, Ascension chose to seek one purchaser for both health systems. Ascension retained an outside consultant, Kaufmann Hall & Associates (Kaufmann Hall) to assist LHN and SJRMC in selecting a purchaser. Application, Introductory Statement at 2. Kaufmann Hall conducted a competitive Request for Proposal process to generate a number of different offers for the purchase of LHN and SJRMC. *Id.* Eight parties responded to LHN's solicitation. *Id.* LHN's board of directors developed a comprehensive set of criteria to evaluate proposals for the purchase of its assets. *Id.* Following a lengthy evaluation process, LHN and SJRMC selected Capella to purchase their assets. *Id.* LHN's board and officers selected Capella based on its corporate culture, values, and objectives as measured against the evaluation criteria they selected. Email from Brent Eller to Audrey Udashen (Nov. 9, 2017), Attachment (Gallant Memorandum).

LHN and Capella entered into a letter of intent and then negotiated an Asset Purchase Agreement (APA), through which Capella agrees to purchase LHN and other related assets for $21 million. Application, Introductory Statement at 3-4; Application, Appendix 1, Asset Purchase Agreement at 6.19, 6.23. Capella's offer, as embodied in the APA, includes additional important features, such as a commitment to make $18 million in capital expenditures at LHN within five years after the closing of the transaction and enter into an agreement with the Bishop of Spokane to preserve LHN's Catholic identity. Asset Purchase Agreement at 6.19, 6.23.

The Application submitted by Capella includes a proposal for the provision of the net proceeds of the sale to the Catholic Foundation of Eastern Washington (Catholic Foundation) to provide healthcare to disadvantaged, uninsured, and underinsured residents of Benton and Franklin counties and promote healthcare in these communities. Letter from Howard Wall to Janis Sigman, (Nov. 13, 2017), Attachment 5 (Draft Donation Agreement) at § 2. Based upon an analysis of LHN's liabilities that would need to be discharged as a part of the transaction, it is estimated that the Catholic Foundation will receive approximately $6 million dollars. Letter from Howard Wall to Janis Sigman (Aug. 23, 2017), Attachment 8 (Pro Forma Balance Sheet) at 2.

After Capella's submission of its Application, the Department engaged ECG Management Consultants (ECG) to conduct a valuation of the hospitals. In a report issued on May 31, 2018, ECG concluded that the fair market value of the facilities was between $35,200,000 and

$38,200,000 as of May 10, 2018. *ECG Management Consultants,* Fair Market Value of Lourdes Health Network (May 31, 2018) (ECG Valuation).

Our opinion is that the proposed acquisition meets certain requirements in RCW 70.45.070, but fails to satisfy others. Among our conclusions are the following:

- This transaction is authorized by relevant state laws, including the nonprofit corporations act;
- LHN exercised due diligence in authorizing the sale of its assets, selecting Capella as the acquiring party, and negotiating the terms and conditions of the sale;
- Neither LHN nor Capella have any conflicts of interest related to the transaction;
- LHN will not receive fair market value for the hospitals;
- The net proceeds of the sale will be controlled by a charitable entity which, with certain amendments to the Application, will operate independently of LHN and Capella and which will be broadly based in and representative of the communities in which LHN's assets are located;
- The proceeds of the sale will be used for charitable health purposes consistent with LHN's original purpose and other applicable legal requirements; and
- The Agreement does not provide for a sufficient right of first refusal on the part of the successor nonprofit corporation or foundation to purchase the hospitals if Capella later decides to sell them.

This opinion sets forth our analysis pursuant to RCW 70.45.060(1) of the statutory criteria set forth in RCW 70.45.070. For the reasons explained within the body of this opinion, we conclude that the proposed acquisition fails to fully satisfy the RCW 70.45.070 criteria. We therefore recommend that the Department condition its approval of the Application upon amendment of the Application as follows:

- Amendment of the APA to require Capella to pay fair market value for LHN's assets;
- Amendment of the Donation Agreement between LHN and the Catholic Foundation to require the Catholic Foundation to hold the proceeds in trust and as permanently restricted funds;

- Establishment of a reasonable process for interim partial transfers of the proceeds of the transaction to the Catholic Foundation during the escrow period;
- Establishment of a process for reasonable review of payments from the escrow account to assure that those payments are limited to appropriate liabilities anticipated by the APA;
- Resolution of discrepancies between the Application and the draft Donation Agreement, including resolving the duration of escrow, the precise assets to be conveyed into escrow (and concomitant obligations to be paid from escrow), the terms of the escrow, provisions for interim investment of escrowed funds, and the treatment of post-closing adjustments, all subject to Department of Health and Attorney General approval;

- Vesting of authority in the Catholic Foundation to enforce any and all provisions of this transaction governing charitable funds, including without limitation transfers into or out of the escrow account;
- Vesting of the right of first refusal with the Catholic Foundation, rather than Ascension; and
- Establishment of a mechanism that requires Capella to provide adequate and timely notice to the Catholic Foundation of any potential sale, acquisition, or merger involving the assets so that it may exercise its right of first refusal.

III. PROCEDURAL BACKGROUND

This proposed transaction began with the filing by Capella of an Application for approval of its acquisition of LHN's assets on April 28, 2017. Application. The initial Application included an introductory statement, which provided general background and an overview of the proposed transaction, written explanations of the proposed acquisition's compliance with RCW 70.45 and WAC 246-312-040, and a series of exhibits providing greater detail. *Id.*

The review of the Application began with a "screening" stage, during which the Department, in consultation with the Attorney General's Office, evaluated the Application to determine whether it was complete. RCW 70.45.040(1). This review entailed a determination of whether the applicant fully responded to the information required by the Department's administrative rule governing the application process, including providing all required documentation. *Id.*; WAC 246-312-040 (specifying required documentation). After reviewing the initial Application and supporting materials, and consulting with this Office regarding our review of the same materials, the Department informed Capella that the Application was not complete as originally filed. Letter from Janis R. Sigman to Howard Wall (Jun. 22, 2017). Capella provided incomplete responses to the Department's screening requests on August 23, 2017, November 13, 2017, and December 18, 2017. Letters from Howard Wall to Janis Sigman (Aug. 23, 2017), (Nov.13, 2017), and (Dec. 18, 2017). Capella provided documents and information completing its application on January 12, 2018. Letter from Howard Wall to Janis Sigman (Jan. 12, 2018). The Department deemed the Application complete on February 6, 2018. Letter from Janis Sigman to Howard Wall (Feb. 6, 2018).

Additionally, the Department engaged ECG Management Consultants as an independent consultant to provide expert assistance in evaluating the proposed acquisition, particularly whether the purchase price reflects the fair market value of LHN. On May 31, 2018, we received ECG's final report on the valuation of LHN and the assets that Capella proposes to acquire. *ECG Management Consultants,* Fair Market Value of Lourdes Health Network as of May 10, 2018, (ECG Valuation).

On March 19, 2018, the Department conducted two public hearings, one each in Richland and Pasco, Washington, to receive testimony from members of the public concerning the proposed acquisition. In addition to oral comments, the Department also received written comments from members of the community served by LHN. Finally, Capella provided, at the Department's invitation, a written response to the public testimony. Letter from Howard Wall, III to Beth Harlow, Karen Nidermayer, and Janis Sigman (Apr. 3, 2018) (Response to Public Comments).

IV. FACTUAL BACKGROUND

A. Lourdes' facilities

LHN is a nonprofit corporation that operates Lourdes Medical Center, Lourdes Counseling Center, and numerous other clinics and healthcare facilities in the Tri-Cities area. Application, Introduction. The Sisters of St. Joseph founded Our Lady of Lourdes in 1916. *Id.* LHN became part of Ascension in late 2002, when Carondelet Health System (LHN's corporate parent at the time) affiliated with Ascension. *Id.* Lourdes Medical Center is a 95-bed acute care hospital located in Pasco, Washington, which received a designation as a critical access hospital in 2005. *Id.* Lourdes Counseling Center, located in Richland, is the only provider of inpatient behavioral health services in the Tri-Cities region, serving both adults and children. *Id.* Lourdes Counseling Center is licensed for 32 beds and operated 22 beds at the time of the application. *Id.* LHN operates other facilities in the Tri-Cities area, including an urgent care facility, occupational health treatment center, and a detox facility. *Id.* Together, these facilities offer inpatient, outpatient and emergency care services for the residents of Pasco and its surrounding communities. *Id.*

In addition to LHN, two other health systems serve the Tri-Cities region. These include Kadlec Regional Medical Center (Kadlec) and Trios Health (Trios). Kadlec is a 249-bed nonprofit health system that recently affiliated with Providence Health & Services (Providence) through Providence's secular arm, Western HealthConnect.

Formerly known as Kennewick General Hospital, Trios is a 101-bed public hospital district, primarily serving the Tri-Cities area. Seattle-based UW Medicine established a strategic collaboration agreement with Trios Health in 2015. Trios filed for Chapter 9 bankruptcy protection in June 2017. Reports indicate that Trios and RCCH are finalizing an agreement for the sale of Trios to RCCH once it exits the bankruptcy process.

B. Terms of the Acquisition

Capella and LHN have entered into the APA, under which Capella proposes to purchase substantially all LHN's assets. Asset Purchase Agreement. The financial consideration for this acquisition consists of two parts. First, Capella agrees to pay a base purchase price of $21 million, along with a working capital contribution based on normalized levels at the time of

closing. *Id*. at 9, 11, and ¶ 2.3. Second, the APA includes a commitment that Capella will fund at least $18 million in capital investments at LHN. *Id.* at ¶ 6.23.

The purchase proceeds will be used to satisfy LHN's debts and other liabilities, with any remaining funds to be provided to the Catholic Foundation to disburse and distribute to entities that provide healthcare to the disadvantaged, uninsured, and underinsured and promote health in Benton and Franklin Counties. Asset Purchase Agreement; Draft Donation Agreement. The transfer of the surplus from the sale to the Catholic Foundation is envisioned as the vehicle for preserving the charitable assets currently held by LHN and will promote and/or fund healthcare services in the geographic area LHN primarily serves. *Id.* Based upon the most recent estimate of anticipated liabilities with which we have been provided, estimated funding for the Catholic Foundation is $6 million. Pro Forma Balance Sheet.

The proposed transaction also includes a number of elements beyond its purely financial terms. The Agreement includes commitments by Capella to allow the facilities to be governed by a local board for ten years after closing. Asset Purchase Agreement at § 6.20. Capella also commits to maintaining charity care policies that are generally consistent with LHN's current policies, preserving LHN's core clinical services, and participating in the Medicare and Medicaid programs for ten years after closing of the transaction. Asset Purchase Agreement at § 6.21.

Capella has also committed to taking steps to maintain LHN's Catholic identity by negotiating a Catholic Identity Covenant with the Bishop of the Diocese of Spokane (the Bishop). Letter from Howard Wall III to Janis Sigman (Jan. 12, 2018) Attachment 4 (Catholic Identity Covenant). The Catholic Identity Covenant requires Capella to operate LHN consistently with the Ethical and Religious Directives for Catholic Health Care Services and other tenants of the Roman Catholic Church, allow the Bishop to appoint one board member and approve the Vice President of Mission, and fund a diocesan ethicist to advise Capella in the management of the facilities. *Id.*

V. ANALYSIS OF STATUTORY CRITERIA

A. Overview of Criteria for Attorney General Opinion

State law requires the approval of the Department for any acquisition of a nonprofit hospital. RCW 70.45.030. That approval is ultimately based upon two sets of statutory criteria, specified in both RCW 70.45.070 and .080. The criteria set forth in RCW 70.45.070 generally address concerns related to the preservation of charitable assets. More specifically, they address legal authorization for the transaction, the due diligence exercised by the seller, potential conflicts of interest raised by the transaction, the receipt of fair market value for the assets acquired, proper preservation of charitable assets through an independent foundation, and a right of first refusal in the event of a subsequent sale by the buyer. RCW 70.45.070. The criteria set forth in RCW 70.45.080 address the continued availability of affordable health care in the community after the acquisition, continued hospital privileges for medical staff, safeguards as to continued research

and education, the buyer's commitment to continued health care to the disadvantaged, the uninsured, and the underinsured, and safeguards against conflict of interest in patient referral. RCW 70.45.080.

The role of the Attorney General in evaluating these criteria is limited to providing the Department with a written opinion as to whether the acquisition meets the criteria set forth in RCW 70.45.070. RCW 70.45.060(1). The law does not direct the Attorney General to address the criteria of RCW 70.45.080; rather, those criteria are evaluated by the Department. This means that the aspects of this proposed transaction related to the preservation of *charitable assets* are within the scope of this opinion. RCW 70.45.070. Aspects related to *charity care* do not fall within the scope of this opinion because they relate to the future provision of accessible, affordable medical care addressed solely by the Department by statute. RCW 70.45.080.

This opinion, accordingly, evaluates compliance with the criteria of RCW 70.45.070, but does not address RCW 70.45.080. We evaluate each of the ten criteria of RCW 70.45.070 individually below.

For ease of reference, RCW 70.45.070 is set forth in full as follows:

> **RCW 70.45.070. Department Review—Criteria to Safeguard Charitable Assets.**
>
> The department shall only approve an application if the parties to the acquisition have taken the proper steps to safeguard the value of charitable assets and ensure that any proceeds from the acquisition are used for appropriate charitable health purposes. To this end, the department may not approve an application unless, at a minimum, it determines that:
>
> (1) The acquisition is permitted under chapter 24.03 RCW, the Washington nonprofit corporation act, and other laws governing nonprofit entities, trusts, or charities;
>
> (2) The nonprofit corporation that owns the hospital being acquired has exercised due diligence in authorizing the acquisition, selecting the acquiring person, and negotiating the terms and conditions of the acquisition;
>
> (3) The procedures used by the nonprofit corporation's board of trustees and officers in making its decision fulfilled their fiduciary duties, that the board and officers were sufficiently informed about the proposed acquisition and possible alternatives, and that they used appropriate expert assistance;
>
> (4) No conflict of interest exists related to the acquisition, including, but not limited to, conflicts of interest related to board members of, executives of, and experts retained by the nonprofit corporation, acquiring person, or other parties to the acquisition;

> (5) The nonprofit corporation will receive fair market value for its assets. The attorney general or the department may employ, at the expense of the acquiring person, reasonably necessary expert assistance in making this determination. This expense must be in addition to the fees charged under RCW 70.45.030;
>
> (6) Charitable funds will not be placed at unreasonable risk, if the acquisition is financed in part by the nonprofit corporation;
>
> (7) Any management contract under the acquisition will be for fair market value;
>
> (8) The proceeds from the acquisition will be controlled as charitable funds independently of the acquiring person or parties to the acquisition, and will be used for charitable health purposes consistent with the nonprofit corporation's original purpose, including providing health care to the disadvantaged, the uninsured, and the underinsured and providing benefits to promote improved health in the affected community;
>
> (9) Any charitable entity established to hold the proceeds of the acquisition will be broadly based in and representative of the community where the hospital to be acquired is located, taking into consideration the structure and governance of such entity; and
>
> (10) A right of first refusal to repurchase the assets by a successor nonprofit corporation or foundation has been retained if the hospital is subsequently sold to, acquired by, or merged with another entity.

Statutory Criterion 1. **The acquisition is permitted under RCW 24.03, the Washington Nonprofit Corporation Act, and other laws governing nonprofit entities, trusts, or charities.**

The analysis of the first criterion set forth in RCW 70.45.070 requires us to consider whether the acquisition complies with nonprofit law. We conclude that LHN has properly complied with the nonprofit corporations act, and that, accordingly, this acquisition is permitted under it.

The Application incorporates the corporate documents that demonstrate the current and historical corporate structure of LHN. Application, Appendix. 2. Throughout its history, LHN has been organized as a Washington nonprofit corporation, although its structure has evolved over time. It was originally incorporated on July 6, 1920, by the Sisters of St. Joseph of Pasco. Application at 1-7. LHN is currently governed by the Restated Articles of Incorporation of Our Lady of Lourdes Hospital at Pasco. Application, Appendix 2 at 111-18. A Washington nonprofit corporation can be organized either with, or without, members. RCW 24.03.065. The restated articles specify that LHN has one member, Ascension Health, a Missouri nonprofit corporation. *Id.* at 113.

The general powers granted to a nonprofit corporation, such as LHN, include the power to sell "all or any part of its property and assets." RCW 24.03.035(5) (listing powers of nonprofit

corporations). However, if the corporation proposes to sell all, or substantially all, of its assets, other than in the ordinary course of its business, it must additionally comply with RCW 24.03.215. The proposed transaction contemplates the sale of substantially all of the assets of LHN to Capella, thus invoking RCW 24.03.215. If a corporation has members with applicable voting rights, the directors must submit the proposal to a vote at a meeting of the members and the corporation may only proceed with the sale if the members approve. RCW 24.03.215(1).

LHN and Capella executed the APA on September 28, 2016. Asset Purchase Agreement. John Serle, as chief executive officer of LHN, signed on behalf of LHN. *Id*. This is consistent with authorization in the form of a resolution of the LHN board bearing the same date. Application, Exhibit 1 at 78-79. Ascension Health entered into a Guaranty Agreement in which it committed to guarantee the obligations of LHN under the APA. Application, Exhibit 3. This, in turn, is consistent with a resolution of the Ascension Health Board of Trustees dated September 8, 2016. Letter from Howard Wall III to Janis Sigman (Aug. 23, 2017), Attachment 3 at 15-17.

We therefore conclude that RCW 24.03 permits this sale, and that LHN complied with the terms of RCW 24.03.215.

Statutory Criterion 2. **The nonprofit corporation that owns the hospital being acquired has exercised due diligence in authorizing the acquisition, selecting the acquiring person, and negotiating the terms and conditions of the acquisition.**

RCW 70.45.070 does not define due diligence. Due diligence, absent a more stringent definition, is primarily a reasonableness standard under which the Attorney General's Office is to test the process employed by LHN in deciding to sell substantially all of its assets to Capella. As commonly understood, the due diligence analysis does not permit the substitution of one opinion for another. It does not require LHN to have made the best possible choice in choosing to sell substantially all of its assets to Capella. Black's Law Dictionary defines "due diligence" as "[s]uch a measure of prudence, activity, or assiduity, as is properly to be expected from, and ordinarily exercised by, a reasonable and prudent man under the particular circumstances; not measured by any absolute standard, but depending on the relative facts of the special case" (Black's Law Dictionary 457 (6th ed. 1990)), or "[t]he diligence reasonably expected from, and ordinarily exercised by, a person who seeks to satisfy a legal requirement or discharge an obligation". Black's Law Dictionary, 468 (10th ed. 2014). As one court described the concept, in a different context, "due diligence is not imprisoned within the frame of a rigid standard; it is protean in application." *Osterneck v. E.T. Barwick Indus. Inc.*, 79 F.R.D. 47, 53 (N.D. Ga. 1978) (quoting *Azalea Meats, Inc. v. Muscat*, 386 F.2d 5, 9-10 (5th Cir. 1967) (discussing "due diligence" in the context of applying a statute of limitations)). Due diligence is largely determined upon the facts and circumstances of the particular matter. *See id.*

a. LHN exercised due diligence in determining that an asset sale was the appropriate course

In 2013, after a number of years of breakeven financial performance, LHN found itself unable to make necessary capital investments and attract new physicians. Discernment Report at 2-4. To address these challenges, the LHN board participated in a ministry positioning process in 2013 to identify a model of alignment that would foster long-term financial sustainability for LHN. *Id.*

During the ministry positioning process, the LHN board examined the specific market conditions of the Tri-Cities region. *Id.;* Application at 2, 6, 14, 22. This process revealed that the Tri-Cities area was an extremely fast-growing market, especially in the West Pasco area, keeping healthcare demand ahead of supply in the region. Discernment Report at 7-8. But despite these favorable market conditions, the LHN board found that LHN lost significant market share to its regional peers over recent years. *Id.*

The LHN board also considered LHN's continued success in providing niche healthcare services, including orthopedics and behavioral health, in spite of the competitive pressures it faced. *Id.* Finally, the LHN board discussed LHN's unique role as the only faith-based provider in Pasco, and its superior quality ratings. *Id.*

Because of the growing Tri-Cities market and LHN's unique place in this market, the LHN board concluded that LHN could have a sustainable future as a community provider of high-quality health services to Tri-Cities residents. *Id.* However, in order to provide these services at a competitive scale, the LHN Board decided that LHN needed to strengthen its market presence by developing an affiliation with a regional partner. *Id.*

In September 2014, members of the LHN board and additional leadership members (leadership group) participated in a discernment process to consider what model of alignment would best allow LHN to compete with its regional peers while maintaining its core mission. *Id.* at 5-29. Discussions during the discernment process focused on the need for any new model of alignment to provide for the preservation of (a) LHN's Catholic identity; (b) behavioral health services; (c) local governance; and, (d) allow LHN to gain access to new capital. *Id.*

At the conclusion of the discernment process, the leadership group recommended a number of guiding principles for a future relationship with another healthcare system including:

- Continued emphasis on providing care for the poor and vulnerable;
- Maintenance and expansion of mental health programs and services;
- Preserving the viability of staff retention and competitive wage and benefits;
- Securing greater access to capital;
- Maintaining spiritually based care;

- Retaining strong community connections; and
- Retaining strong physician and other clinical provider relationships.

Id. at 8.

The LHN board reviewed the findings of the discernment process at its November 25, 2014, meeting. Application at 4. The board concluded that the goals of LHN and the healthcare needs of the community would be served by ending its affiliation with Ascension and aligning LHN with a partner with a larger regional presence. *Id.*

For these reasons we conclude that LHN exercised due diligence in authorizing the sale of its assets.

b. LHN exercised due diligence in selecting the acquiring person.

Prior to choosing Capella, LHN thoroughly examined all of its options. LHN evaluated all of its potential purchasers using a set of criteria it determined was most significant in maintaining the objectives and goals of LHN.

i. Request for Proposals

Following LHN's decision to seek new ownership, Ascension retained Kaufman Hall to assist LHN in identifying potential acquirers for its facilities and Bradley, Arant, Boult, Cummings, LLP to serve as legal advisor. Application at 2.

Kaufman Hall launched a Request for Proposal (RFP) process in February 2015. Application at 3. Through this process, Kaufmann Hall solicited offers from a diverse group of twenty-two potential purchasers, including two local not-for-profit systems, five Catholic systems, eight non-for-profit regional systems, and seven for-profits. *Id.* The RFP requested that potential purchasers respond to criteria derived from the guiding principles identified by the leadership group in the discernment process. Application at 23.

Kaufmann Hall presented the results of the RFP process at a joint meeting of the LHN and SJRMC boards on April 13, 2015. Application, Exhibit 5, Potential Partner Proposal Review (Partner Review) at 2. Kaufman Hall circulated materials with matrices comparing the eight offers based on the factors identified by the LHN board. *Id.* at 2-5. These factors included (a) the structure and price of each proposal; (b) the capital commitments offered; (c) commitments made to LHN's employees, including the maintenance of LHN's existing physician network and adoption of the current medical staff bylaws; (d) preservation of LHN's religious identity; (e) charity care commitments and maintenance of existing service lines; and (f) timing of closing. *Id.* LHN's officers also received one-page profiles of each of the potential purchasers in advance of this

meeting. Letter from Howard Wall to Janis Sigman (Dec. 18, 2017), Attachment A (Email from Robert Smith to John Serle dated April 10, 2015).

The LHN and SJRMC boards discussed the potential risks, merits, and strategic reasons for and against each proposal. Partner Review at 2. The LHN board found that Capella's proposal was one of the strongest in each of the six categories it selected. Gallant Memorandum. Capella's offer included the highest base purchase price, largest capital investments, and made substantial commitments to LHN's employees and physicians, the preservation of Catholic identity, and charity care program. Partner Review at 2-5. After comparing the eight offers, the LHN board invited Capella and three other participants, referred to as Offeror B, Offeror D, and Offeror E[1], to the next stage of the selection process (Phase II). Application at 8, 14; Exhibit 7 (Strategic Partnership Selection).

ii. Transactional due diligence stage

In Phase II of the selection process, the four remaining potential purchasers toured LHN's facilities and met with its leadership. Andy Slusser, Vice President of Acquisitions & Development and Rick Charbonneau, Senior Vice President of Business Development and Payor Relations (Capella representatives), visited LHN on Capella's behalf. Letter from Howard Wall II to Janis Sigman (Jan. 12, 2018), Attachment 2 (Partner Site Visit Agenda). Capella submitted a list of topics for discussion in advance of their meeting with LHN leadership. *Id.* These topics were wide-ranging and included LHN's service line development, physician recruitment efforts, the competitive landscape of the Tri-Cities region, and the effect of the Affordable Care Act on LHN's operations. *Id.*

LHN and Ascension leadership assessed Capella's compatibility with LHN's faith-based values by inquiring into other Ascension-affiliated facilities' experience managing joint venture hospitals with Capella. Letter from Howard Wall to Janis Sigman (Dec. 18, 2017), Attachment A (Emails between Michael H Schatzlein and Bonnie Phillips dated May 5, 2015). They received positive feedback regarding Capella's "embrace" of Ascension's faith-based approach, respect for the role of local Bishops, and willingness to comply with the ethical and religious directives that govern Catholic healthcare. *Id.*

[1] The Department agreed that if the Applicant identified all parties who responded to the RFP and described the terms of each offer received, it could de-identify the potential purchaser associated with each offer by referring to them as Offerors A-E. We therefore identify parties who made offers other than Capella as Offerors A-E throughout this opinion.

iii. Selection of Capella

Capella, Offeror D and Offeror B submitted letters of intent for the purchase of LHN.[2] Strategic Partnership Selection, May 12, 2015, at 8. The letters of intent described each potential purchaser's business model, strategic direction, and final offer. *Id.;* Application, Appendix 5. Kaufman Hall invited the three final bidders to present their final proposals to the LHN and SJRMC boards in person on May 12, 2015. Application at 7. Each potential purchaser was given an hour and a half to present. *Id.*

After the three presentations, Kaufman Hall guided the boards into a comparison of the proposals based on the criteria identified in the letters of intent. Strategic Partnership Selection at 7-10. This criteria included purchase price and capital commitments for the facilities, proposed governance structure, charity care and community benefit commitments, contractual commitments to medical staff, willingness to preserve the facilities' Catholic tradition and legacy, and post-closing operations, including the continuity of services, local board control, and use of pre-existing building names. *Id.* Kaufmann Hall used a proposal matrix to compare and contrast the three offers. *Id.* The boards found that Capella's offer ranked highest in each category. *Id.*; Gallant Memorandum. The conclusions that the boards reached, based on their evaluation of Capella's proposal, can be summarized as follows:

Purchase Price - Capella offered the highest base purchase price.[3]

Capital Commitments - Capella's capital commitment was the largest of the three final offers.[4]

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[2] Offeror E's offer only included the purchase of SJRMC. Ascension attempted to persuade Offeror E to extend its offer to include LHN. Letter from Howard Wall to Janis Sigman (Dec. 18, 2017), Attachment A (Emails between Jim Blake, Anthony Speranzo, and and Lauren Colling dated April 2015.) When these efforts were unsuccessful, Kaufman Hall counseled the parties to select a purchaser from Capella, Offeror D, and Offeror B, all of whom "indicated that they would maintain the Catholic identity of the hospital, retain critical services to the community, continue charity care and community benefit programs, and invest in the growth of the HMs [health ministries]." *Id.*

[3] The three final offers included both a base purchase price for the facilities and a working capital contribution. Working capital represents the assets of a business that can be applied to its operations. Working capital measures liquidity and the ability to discharge short-term obligations. Black's Law Dictionary 222 (10th ed. 2014). Offers B and D included a predetermined working capital sum, while Capella offered to pay a working capital amount to be determined based on normalized targets at the time of closing. *Id.* Because Capella's offer provided a method for determining its working capital contribution, rather than an exact sum, its net purchase price offer (base purchase price plus working capital) was lower than Offeror B, who offered a lower purchase price but a predetermined working capital amount. *Id.* Capella later agreed to raise its purchase price to account for its potentially lower net working capital contributions. Letter from Howard Wall to Janis Sigman (Dec. 18, 2017), Attachment A (Email from Jim Blake to Anthony Speranzo dated June 3, 2015).

[4] Capella committed to making a $75 million capital contribution at both LHN and SJRMC. $57 million of this contribution is dedicated to SJRMC and $18 million to LHN.

> **Governance** - Capella committed allowing LHN to be governed by a board comprised of local members for ten years after its sale.
>
> **Employee Matters** - Capella committed to using commercially reasonable efforts to retain all current LHN employees at comparable benefits packages.
>
> **Charity Care And Community Benefit** - Capella agreed to maintain charity care policies generally consistent with LHN's pre-existing practices, subject to the board's approval, and provide financial support for community benefit programs. Capella also committed to growing and expanding the level of clinical services offered by LHN.
>
> **Medical Staff Matters** - Capella agreed to maintain LHN's current network of physicians by assuming and honoring all employment and contractual commitments to medical staff and adopting the current medical staff bylaws. The boards also found that Capella's financial strength would provide the resources necessary for LHN to recruit new physicians.
>
> **Participation In Medicare And Medicaid** - Capella committed to participation in the Medicare and Medicaid programs for ten years after its purchase of the facilities. This commitment was more robust than that provided by the other potential purchasers who only committed to participation for three and five years respectively.
>
> **Mission preservation** - Capella committed to making best efforts to enter into a Catholic tradition agreement with the Bishop of Spokane.
>
> **Post-Closing Operations** - Capella committed to continuing LHN's existing clinical services for five years and using LHN's existing building names for ten years after closing.

Id. at 9-10.

In addition to the criteria identified above, the LHN board found that the "vision and values" Capella articulated during its presentation most closely aligned with LHN's needs and mission. Gallant Memorandum. Most significant to the LHN board was Capella's (a) ability to devote corporate resources to ensuring that LHN followed best practices; (b) expand LHN's services by providing the capital for LHN to purchase new technology, add new services, and recruit new physicians to achieve high customer satisfaction; and (c) decentralized management philosophy, which focused on collaborating with its constituents. *Id.* The LHN board unanimously decided

that Capella had the strongest offer and recommended to the board of Ascension Health that it choose Capella to purchase LHN.[5] Application at 7.

For these reasons, we find that LHN exercised due diligence in authorizing the acquisition and selecting Capella to purchase its facilities.

c. LHN exercised due diligence in negotiating the terms and conditions of the acquisition.

LHN and Capella entered into a letter of intent on June 12, 2015, to sell Capella substantially all of LHN's assets. Application at 9. Subsequently, Ascension, with Kaufmann Hall's assistance, negotiated the terms of the asset purchase. Letter from Howard Wall to Janis Sigman (Dec. 18, 2017), Attachment A. As a result of these negotiations, Capella agreed to raise its purchase price for LHN and SJRMC from $125 to $130 million. *Id.; supra* at n. 3. John Serle kept the LHN board apprised of this process. Application Ex. 1 (LHN Board Minutes).

As a part of the final stages of due diligence, LHN's officers visited Capella facilities in the northwest and reviewed employee satisfaction surveys provided by Capella. Letter from Howard Wall to Janis Sigman (Dec.18, 2017), Attachment A. In addition, LHN officers and Capella representatives met with the Bishop of Spokane (Bishop) to discuss Lourdes' continued operation as a Catholic hospital. LHN Board Minutes (Sept. 1, 2015). As a result of these meetings, Capella negotiated a Catholic Identity Covenant with the Bishop. Catholic Identity Covenant. The Catholic Identity Covenant requires Capella to operate LHN consistently with the Ethical and Religious Directives for Catholic Health Care Services and other tenants of the Roman Catholic Church, allow the Bishop to appoint one LHN board member, approve the Vice President of Mission for LHN, and fund a diocesan ethicist to advise Capella in the management of the facilities. *Id.*

The LHN board reviewed the final draft of the APA at a September 26, 2016 board meeting. LHN Board Minutes (Sep. 26, 2016). The LHN board found that LHN exercised due diligence in authorizing the transaction, selecting Capella as the purchaser, and negotiating the terms of the transaction. *Id.* The LHN board unanimously recommended approval of the transaction to the Ascension Healthcare Board of Trustees. *Id.* The parties signed the APA on September 28, 2016. Asset Purchase Agreement.

For all of these reasons, we conclude that LHN exercised due diligence in negotiating the terms and conditions of the acquisition. We accordingly conclude that the Application satisfies the second statutory criterion without any need for modification.

[5] Ascension is a 501(c)(3) Catholic health system and is the sole member of Ascension Healthcare. Ascension Healthcare is the sole member of LHN, and pursuant to the articles of incorporation and bylaws of LHN, Ascension and Ascension Healthcare must approve the sale or transfer of all or substantially all of the assets of LHN. Application at 2-3.

Statutory Criterion 3. **The procedures used by the nonprofit corporation's board of trustees and officers in making their decisions fulfilled their fiduciary duties, the board and officers were sufficiently informed about the proposed acquisition and possible alternatives, and they used appropriate expert assistance.**

A fiduciary duty is generally defined as "[a] duty to act with the highest degree of honesty and loyalty towards another person and in the best interests of the other person." Black's Law Dictionary 617 (10th ed. 2014). Under the Washington Nonprofit Corporation Act, these duties are codified as follows:

> A director shall perform the duties of a director, including the duties as a member of any committee of the board upon which the director may serve, in good faith, in a manner such director believes to be in the best interests of the corporation, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

RCW 24.03.127. Typically, these duties are referred to as the duty of care,[6] the duty of loyalty, and the duty of obedience. *Shimko v. Guenther*, 505 F.3d 987, 992 (9th Cir. 2007) (listing duties encompassing the fiduciary duty); *see also Washington Recorder Publ'g Co. v. Ernst*, 199 Wash. 176, 189, 91 P.2d 718 (1939) (same); *Diaz v. Washington State Migrant Council*, 165 Wn. App. 59, 77 (2011).[7]

[6] The corporate version of the duty of care, otherwise known as the business judgment rule, is becoming more dominantly applied to nonprofit corporations over the more stringent duty of care under the trust model. Denise Ping Lee, *The Business Judgment Rule: Should it Protect Nonprofit Directors?*, 103 Colum. L. Rev., 925, 944-45 (2003). The Revised Model Nonprofit Corporation Act specifically rejects the trust model, but does not fully adopt the business judgment rule. The business judgment rule is a "presumption that in making a business decision the directors of a corporation acted on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the company." *Aronson v. Lewis*, 473 A.2d 805, 812 (Del. 1984) (citations omitted), *overruled on other grounds*, *Brehm v. Eisner*, 746 A.2d 244 (Del. Supr., 2000).

[7] *See, e.g.,* James J. Fishman, *Checkpoints on the Conversion Highway: Some Trouble Spots in the Conversion of Nonprofit Health Care Organizations to For-Profit Status*, 23 J. Corp. L. 701, 734-35 (1997-1998) (opining that in context of nonprofit corporations, "practical elements" of informed decision making would include: (a) opportunity to hear detailed presentation by management, including written materials if appropriate, explaining rationale for proposed decision and reasons for management's particular recommendation; (b) opportunity to hear advice and recommendation of recognized outside experts, including legal counsel, on subject; (c) opportunity to debate and deliberate on proposal at board level and, if possible, to allow period of days or weeks for reflection and further consideration before requiring vote; (d) gathering of information (where appropriate) from comparable institutions about how they dealt with similar situations; and (e) opportunity to request any additional information deemed relevant by director from management or outside experts, including legal counsel, and time for directors to consider such additional information). *See also* Patrick K. Moore et al., *Legal Issues in Selling and Converting Health Care Organizations*, 20 Whittier L. Rev. 351 (1998).

a. **LHN's board and officers were sufficiently informed about the proposed acquisition and possible alternatives and the procedures they employed satisfied their fiduciary duties.**

The LHN board participated in a ministry positioning process to identify a long term, sustainable model of healthcare delivery for LHN's future. Application at 6; Discernment Report at 6. Through this process, the LHN board determined that LHN needed to strengthen its market presence and obtain scale by developing a regional affiliation. Discernment Report at 8. Building on the ministry positioning process, members of the LHN board and leadership engaged in a discernment process to consider the forms of alignment that would allow LHN to obtain scale while retaining its commitment to its original mission. Discernment Report; Application at 2, 6, 14, and 22.

In order to identify a purchaser of LHN's assets, the LHN board reviewed the results of the RFP process led by Kaufman Hall. Application at 3. The RFP process sought offers from a diverse group of twenty-two potential purchasers who were asked to respond to criteria selected by the LHN board during the discernment process. Discernment Report at 12; Application at 3, 23.

Kaufmann Hall presented the results of the RFP process at a joint meeting of the LHN and SJRMC boards on April 13, 2015. Partner Review. As a means of comparing the eight offers, Kaufmann Hall created a response matrix that compared each potential purchaser's offer in the criteria identified by the LHN board. *Id.* The use of the Response Matrix created a clear procedure to assist the board in focusing on the issues it found most important with regard to choosing a potential purchaser. These elements in the matrix closely aligned with the objectives and goals the LHN board articulated during the ministry positioning and discernment processes. *Id.* The LHN board found that Capella's offer was one of the strongest offers in each of the elements it considered. Gallant Memorandum. From the information received at the April 13 meeting, the LHN board chose to invite Capella and two other potential purchasers to continue to Phase II of the selection process. Gallant Memorandum; Application at 14.

Capella, Offeror D and Offeror B were invited to present their final proposals to the LHN and SJRMC boards in person on May 12, 2015. Application at 7; Strategic Partnership Selection. After the three presentations, Kaufman Hall guided the boards in a comparison of the proposals, making use of another Response Matrix. *Id.*

At the completion of the meeting, the boards chose Capella as the potential strategic partner with which to begin transaction negotiations and final due diligence. Gallant Memorandum; Application at 18. The LHN board found that a transaction with Capella would ensure that LHN would gain immediate access to capital, allowing it to attract physicians and gain a larger regional presence. *Id.* In addition, the board found that Capella was committed to continuing LHN's charity care and community benefit programs, local governance, and Catholic mission through entry of a Catholic Identity Covenant with the Bishop of Spokane. *Id.*

The LHN board decided that it was in the best interest of LHN and was consistent with its charitable purposes to enter into a letter of intent to sell its assets to Capella. Application at 9, 15. On June 12, 2015, a letter of intent was entered which set forth that LHN would sell substantially all of its assets to Capella and that an asset purchase agreement would be negotiated. *Id.*

After significant negotiations and extensive due diligence into the appropriateness of its choice, on September 26, 2016, the LHN board reviewed the final version of the APA. LHN Board Minutes (Sept. 26, 2016). The LHN board determined that the sale to Capella was in the best interest of LHN. *Id.*; Gallant Memorandum. The final APA satisfied the objectives set forth by the LHN board during the selection process. Discernment Report at 12. The APA includes provisions that enable LHN to make significant capital investments, continue to provide charity care to low-income patients, preserve its Catholic identity, and continue its obligations to its current employees. Asset Purchase Agreement.

For all of these reasons, we conclude that LHN's board and officers were sufficiently informed and fulfilled their fiduciary duties.

i. The board and officers used appropriate expert assistance.

Kaufman Hall, a management-consulting firm with expertise in healthcare transactions, and Bradley, Arant, Boult, Cummings, LLP, a law firm that routinely advises healthcare providers in transactional matters, assisted LHN through its selection of Capella and the negotiation of the terms of its sale. Application at 10.

Kaufmann Hall was charged with preparing a written request for proposal that defined the objectives of LHN and SJRMC with respect to a transaction; initiating a solicitation process; receiving, reviewing, and evaluating proposals; engaging in preliminary negotiations with potential partners; creating materials for LHN's and SJRMC's boards and leadership to compare and contrast proposals received by various potential partners; coordinating site visits and discussions between LHN and potential partners; and, assisting in the negotiation and finalization of the APA between LHN and Capella. Application. Bradley, Arant, Boult, Cummings, LLP provided legal advice throughout this process. *Id.*

We find that the LHN board and officers appropriately used the expert assistance of Kaufmann Hall and Bradley, Arant, Boult, Cummings, LLP to consummate the transaction with Capella. We accordingly conclude that the Application satisfies the third statutory criterion without any need for modification.

Statutory Criterion 4. **No conflict of interest exists related to the acquisition, including, but not limited to, conflicts of interest related to board members of, executives of, and experts**

retained by the nonprofit corporation, acquiring person, or other parties to the acquisition.

RCW 70.45.070(4) provides that the department shall not approve an application unless the department determines that "[n]o conflict of interest exists related to the acquisition, including, but not limited to, conflicts of interest related to board members of, executives of, and experts retained by the nonprofit corporation, acquiring person, or other parties to the acquisition."

Each member of the LHN Board of Directors has executed an affidavit attesting to the absence of any conflict of interest in the proposed acquisition. Application, Exhibit 2. In addition, at the September 26, 2016 board meeting, after reviewing the final APA, the LHN board determined that no conflicts of interest relating to the transaction existed. Application at 17; LHN Board Minutes (Sept. 26, 2016). Further, neither Capella, LHN, nor Ascension have any conflicts related to Kaufmann Hall.

There do not appear to exist any conflicts of interest relating to the proposed transaction among board members, officers, key employees at the hospitals and experts retained by LHN and Ascension, or any other party to the proposed transaction. Finally, no member of the public has offered any evidence of any such conflicts. Thus, we conclude that there are no conflicts of interest regarding the proposed acquisition that would warrant disapproval or modification of the acquisition on that basis. We accordingly conclude that the Application satisfies the fourth statutory criterion without need for modification.

Statutory Criterion 5. **The nonprofit corporation will receive fair market value for its assets.**

RCW 70.45.070(5) provides in part that the department shall not approve a conversion application unless "[t]he nonprofit corporation will receive fair market value for its assets." RCW 70.45 does not define "fair market value." However, in other contexts this term has been defined to mean "the amount of money which a purchaser willing, but not obliged, to buy the property would pay an owner willing, but not obligated, to sell it, taking into consideration all uses to which the property is adapted and might in reason be applied." *Donaldson v. Greenwood*, 40 Wn.2d 238, 252, 242 P.2d 429 (1952). *See also In re Estate of Eggert v. State*, 82 Wn.2d 332, 335, 510 P.2d 645 (1973) (When determining fair market value "[a]ll factors and elements which might in reason affect values must be taken into account); Rev. Rul. 59-60, 1959-1 C.B. 237 (federal estate and gift tax regulations "define fair market value, in effect, as the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts."); American Institute of Certified Public Accountants (AICPA) Statement on Standards for Valuation Services No. 1, *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset*, (SSVS No. 1), Appendix B (defining "fair market value" to mean "the price, expressed in terms of cash equivalents, at which property would change hands

between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.").

There are well-established, widely-accepted methodologies for determining the value of nonprofit hospital assets. Specifically, the income, market and cost approaches are most frequently deployed in conducting nonprofit hospital valuations. *See, e.g.,* U.S. General Accounting Office, *Not-For-Profit Hospitals: Conversion Issues Prompt Increased State Oversight* (GAO/HEHS-98-24 Dec. 1997) at 9 (The IRS and valuation consultants cite the income, market, and cost approaches as generally accepted methods for valuing hospital assets); James J. Fishman, *Checkpoints on the Conversion Highway: Some Trouble Spots in the Conversion of Nonprofit Health Care Organizations to For-Profit Status*, 23 J. Corp. L. 701, 719 (1998) (in health care transactions valuation methodologies which have been traditionally utilized are replacement cost or asset valuation, market comparison, and discounted cash flow analysis); James R. Schwartz and H. Chester Horn, Jr., *Health Care Alliances and Conversions—A Handbook for Nonprofit Trustees* (1999) at 67 (valuation methodologies for use in connection with the sale of nonprofit hospitals generally include discounted cash flow method, comparable companies method, and similar-transaction method; discounted cash flow method being "the method that most valuation experts believe is the most reliable in establishing value"); Gerald F. Kominski, *Valuation of Non-Profit Conversion—Techniques for Determining the Value of Health Care Organizations Converting to For-Profit Status,* UCLA Center for Health Policy Research (January 2001) (generally used approaches to valuing nonprofit health care organizations are asset-based analyses, comparable market analyses, and income or cash flow analyses). *See also* AICPA SSVS No. 1 (three most common valuation approaches are "Income (income-based)," "Asset (asset-based)," and "Market (market-based)" approaches).[8]

As noted above, Capella agreed to pay $21,000,000 to purchase substantially all of LHN's assets, subject to certain adjustments for normalized working capital and indebtedness and capital lease liabilities assumed by Capella. Asset Purchase Agreement at §2.3. With that backdrop, we turn to a discussion of the valuation of LHN assets.

[8] Schwartz and Horn, Jr. summarize the income and market comparison methodologies as follows: The discounted cash flow approach "seeks to project future earnings over the near to mid-term by using past earnings, future management projections, or both as a guide. The experts then apply appropriate discount rates and calculate the present value of the projected income stream. An appropriate industry multiple is then applied to that income stream (discounted cash flow) and the result is an estimated value for the hospital." *Health Care Alliances and Conversions—A Handbook for Nonprofit Trustees*, at 67. The similar-transaction (market) approach "attempt[s] to find sales of similar stand-alone hospitals. Appropriate adjustments are then made for size, asset base, profitability, market anomalies, locale, and other relevant factors, and an estimate of value is then reached." *Id.* at 69.

a. The Seller's Valuation Analysis

RCW 70.45.030(2) requires that applications for acquisitions of nonprofit hospitals include, in part, "a financial and economic analysis and report from an independent expert or consultant of the effect of the acquisition under the criteria in RCW 70.45.070." Ascension's Application initially did not include such a report. However, following communications between the Department and Ascension, on November 13, 2017, Ascension submitted to the Department a report from Deloitte Transactions and Business Analytics LLP (Deloitte).[9] Letter from Howard Wall to Janis Sigman (Nov. 13, 2017), Attachment 3 (Ascension—Analysis of the Fair Market Value of the Invested Capital of Lourdes Health Networks as of June 12, 2015) (Deloitte Report).

Deloitte summarized its valuation process as follows:

> We considered and evaluated each of the three traditional approaches to value: the income approach, the market approach, and the asset approach. We relied on the income and market approaches to value because we believe (1) the income and market approaches were appropriate for the Valuation analysis, and (2) sufficient information was available for their use. We did not rely upon the asset approach, we did not consider it to be applicable to the analysis.[10]

Deloitte Report at 7.

Based on its analyses, Deloitte expressed the opinion that "the fair market value of the invested capital of [LHN] on a controlling[11] basis as of June 12, 2015, is reasonably estimated as follows:

[9] Deloitte operates as a subsidiary of Deloitte LLP. Deloitte LLP through its subsidiaries provides audit, tax, consulting, and financial advisory services. The firm's subsidiaries include Deloitte & Touche LLP, Deloitte Consulting LLP, Deloitte Financial Advisory Services LLP, and Deloitte Tax LLP. Deloitte LLP, formerly known as Deloitte & Touche USA LLP, was founded in 1995 and is based in New York, New York. Deloitte LLP operates as a subsidiary of Deloitte Touche Tohmatsu. *Bloomberg*([May 24], 2018), *accessible at: https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=12736281*.

[10] More detailed discussions of Deloitte Advisory's valuation analysis are contained in the addenda to the Deloitte Report.

[11] As explained in Deloitte Report, "[a] control basis reflects the value of an interest in a business having the power to direct the management and policies of that enterprise." Deloitte Report at 2.

Fair Market Value ($000's)

Valuation Method Unadjusted BEV[12]	Weight	Low	High
Discounted Cash Flow Analysis	75.0%	$16,900	$23,700
Guideline Public Comparable Analysis	0.0%	23,000	27,600
Guideline Transactions Analysis	25.0%	22,100	27,600
Indicated Range of Unadjusted BEV, Marketable Basis (Rounded)		$18,200	$24,700
Plus: Excess/(deficient) working capital		(534)	(534)
Adjusted BEV		$17,666	$24,166
Fair Market Value of Invested Capital (Rounded)		$17,700	$24,200

Id.

b. The Department's Valuation Analysis

RCW 70.45.070(5) provides that in determining whether the nonprofit will receive fair market value for its assets, "[t]he attorney general or the department may employ, at the expense of the acquiring person, reasonably necessary expert assistance in making this determination." Pursuant to this provision, the Department issued a request for proposals for a consulting expert contract and executed a contract with ECG Management Consultants.[13] The contract with ECG required it in part to "conduct an initial review of the valuation approach and assumptions included in the original FMV opinion rendered by Deloitte. ECG will then prepare an updated, consolidated FMV range for the Lourdes Health Network facilities based on current financial performance." DOH Contract PRV22771-0, Exhibit A (Statement of Work).

[12] "BEV" refers to LHN's business enterprise value.

[13] ECG Management Consultants provides healthcare management consulting services. The company offers strategy services in the areas of enterprise strategy, facility and capital asset planning, service line strategy, physician strategy and alignment, health reform and accountable care organization strategy, transactions and affiliations, organizational design, and development, and finance services in the categories of business and financial advisory services, payor contracting and reimbursement, provider compensation planning, valuation services, and industry benchmarking. It also provides operations services in the areas of performance improvement, care model transformation, patient access, and revenue cycle optimization, regulatory compliance, technology infrastructure and operations, and digital health. The company serves academic medical centers, health systems, community hospitals, children's hospitals, medical groups, payors, and ambulatory surgery centers. ECG Management Consultants, Inc. was founded in 1973 and is headquartered in Seattle, Washington. *Bloomberg* ([May 24], 2018), *accessible at: https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=11311527*.

On May 18, 2018, ECG provided to the Department an appraisal review report of the Deloitte Report (Appraisal Review Report). *The Fair Market Value of Lourdes Health Network—Concerning Business Appraisal Report Prepared by Deloitte as of November 10, 2017—Appraisal Review Report* (As of May 10, 2018) (Appraisal Review Report). ECG also provided initial exhibits reflecting its own fair market valuation of LHN on May 18, 2018, which it provided in final form on May 31, 2018, to accompany its valuation opinion letter. (ECG Valuation). In its review of the Deloitte Report, ECG identified the following deficiencies, among others:

a) Selection of inappropriate valuation date.
b) Weaknesses in the relevance[14] assigned to certain methodologies.
c) Reliance on past projected cash flows instead of recent actual data.
d) Internal inconsistency in developing a discount rate for discounting cash flows and weighted cost of capital.
e) Methodological weaknesses in the application of the guideline transaction method of the market approach for determining unadjusted business enterprise value.

Appraisal Review Report at 2-5.

In concluding its review of the Deloitte Report, ECG opined that "[T]he opinion presented by Deloitte . . . has deficiencies that weaken the credibility of its conclusions. Based solely on the information provided in the report, it is not reliable. However, it is possible that Deloitte could provide additional support from its work papers to correct the deficiencies observed." *Id.* at 2.

ECG in turn developed its own fair market valuation of LHN's assets. ECG's valuation relied solely on the income (discounted cash flow) approach "given this represents the estimated future cash flow of the business." ECG Valuation, Exhibit I-A n. 4. Based on its analysis, ECG concluded that the fair market value of LHN as of May 10, 2018, was between $35,200,000 and $38,200,000[15] *Id.*

c. Timing of Fair Market Value

RCW 70.45 does not expressly address the question whether fair market value is to be determined as of the time the Department considers the application, or at some earlier time such as when the parties sign an asset purchase agreement. The legislative history associated with RCW 70.45 provides no further insight. *See Final Bill Report SSB 5227* (1997). However, RCW 70.45.070(5) provides that the Department shall not approve a proposed acquisition "unless [t]he nonprofit

[14] Relevance "[r]efers to the specific relationship of an appraiser's analytical nexus to a particular appraisal standard, method, or procedure forming a supportive and probative basis of the opinion of value offered by the appraiser." Appraisal Review Report at 1.

[15] Although ECG ultimately did not rely on the market approach to valuing LHN, its application of the guideline transaction method and guideline public company method resulted in business enterprise values of $46,018,000 and $38,768,000 respectively. ECG Valuation, Exhibits IV-A, V-A.

corporation *will* receive fair market value for its assets" (emphasis added). RCW 70.45.070(5) is written in the future tense, requiring the Department to determine if the nonprofit corporation "*will receive*" fair market value for its assets, not whether it would have received fair market value had the proposed purchase price been paid at some time in the past.

Traditional canons of statutory construction call for all words in a statute to be given full effect. *Overlake Hosp. Ass'n v. Dep't of Health,* 170 Wn.2d 43, 52, 239 P.3d 1095 (2010) ("If a statute's meaning or a rule's meaning is plain and unambiguous on its face, then we give effect to that plain meaning.); *Rivard v. State,* 168 Wn.2d 775, 783, 231 P.3d 186 (2010) ("Statutes must be construed to give effect to all language, so as to render no portion meaningless or superfluous."). We must consider the legislature's decision to use the phrase "will receive" in order to give meaning to all language in RCW 70.45.070(5). The use of this phrase directs the Department's assessment of fair market value to the time the nonprofit corporation actually receives compensation for its assets. Because the Department's review of a conversion application is the closest practical point in time before the sale of the nonprofit's assets at which fair market value can be assessed, we conclude that the valuation of LHN's assets at the time of the Department's review gives effect to all of the language of RCW 70.45.070(5).

This interpretation also comports with the stated purpose of RCW 70.45.070 — to ensure that the parties to a nonprofit conversion "have taken the proper steps to safeguard the *value* of charitable assets . . ." RCW 70.45.070. Statutory terms are to be interpreted consistently with a statute's underlying policy objectives. *Safeco Ins. Cos. v. Meyering,* 102 Wn.2d 385, 392, 687 P.2d 195 (1984) (The paramount concern of statutory construction is to ensure that the regulation is interpreted in a manner that is consistent with the underlying policy of the statute.); *Overlake Hosp. Ass'n v. Dep't of Health,* 170 Wn.2d 43, 52, 239 P.3d 1095 (2010). (Courts read a regulatory term within the context of the regulatory and statutory scheme as a whole, not in isolation.). The value of a nonprofit's assets is most effectively preserved by assessing this value at the time of the asset's sale, when the assets are converted from nonprofit to for-profit status. The public loses access to the benefits provided by the charitable assets at the time of their conversion, not the time of the negotiation of their sale. Therefore, to ensure that the public interest is appropriately compensated for its loss of access to these benefits, we conclude that the Department should measure the value of the nonprofit's assets as close as is practicable to time of their sale.

As discussed at pages 10-19, *supra,* the LHN board engaged Kaufman Hall to assist it in identifying potential purchasers of substantially all of LHN's assets. Kauffman Hall administered a request for proposal process in 2015 in which it contacted twenty-two potential purchasers, including nonprofit, for-profit and faith based health systems, six of which submitted proposals. Capella's offer of $21,000,000[16] for the purchase of the LHN assets, which represented the highest purchase price of all offers received, was the result of this process. The LHN Board's utilization

[16] Subject to a Net Working Capital adjustment and a reduction for any indebtedness or capital lease liabilities assumed by Capella. APA, § 2.3.

of this process and Capella's offer resulting from it provides evidence to support the conclusion that the Board may have received fair market value for the LHN assets had the transaction closed in 2015. *See* Steven R. Hollis, *Strategic and Economic Factors in the Hospital Conversion Process* (Health Affairs – March/April 1997) at 140 (Where assets offered to wide range of potential buyers and multiple independent offers received, market "speaks for itself" and board of nonprofit has "real-world data to determine actual value."); U.S. General Accounting Office, *Not-for-Profit Hospitals: Conversion Issues Prompt Increased State Oversight* (GAO/HEHS-98-24 Dec. 1997) at 12 ("According to the IRS, sellers can more accurately determine the fair market value of their hospitals by soliciting competitive bids though an RFP, which opens bidding to the public."); Appraisal Review Report at 3 ("[P]rojected cash flows relied upon by Deloitte for 2015, 2016, and partial year 2017 . . . may have represented reasonable expectations for the future as of June 12, 2015.").

As explained above, we interpret RCW 70.45.070(5) to require nonprofit corporations to receive fair market value based on current conditions in order for the Department to approve a transaction under RCW 70.45. In addition to the statutory basis for considering the current value of LHN's assets, practical considerations militate in favor of valuation based on current conditions. Both ECG and Deloitte used "income" or "discounted cash flow" methods of valuation of LHN's assets, which measure the estimated future cash flow of LHN. As explained in the Appraisal Review Report, the use of outdated financial data in determining future cash flows is atypical and weakens the credibility of the resulting analysis. *See id.* at 3 ("Typically, the most recent financial data is relied upon" in projecting cash flows.). Further, if the legislature intended any request for proposal process (or an applicant's own fair market value report) to be dispositive of the fair market value of the assets at issue, there would have been no reason for the legislature to have provided for the Department or Attorney General to employ a valuation expert under RCW 70.45.070(5). In this case, reference to recent financial data results in a materially higher conclusion of value than the amount Capella was willing to pay for LHN's assets in 2015 and that which is indicated in the June 15, 2015, Deloitte Advisory valuation. Appraisal Review Report at 3-4.

The parties to the transaction have identified alleged weaknesses in ECG's analysis, asserting in part that ECG should have utilized available financial data for 2018, should not have excluded certain management fees from its analysis, should have acknowledged a risk to LHN's continued status as a Critical Care Hospital, and should have assumed a need for significant infrastructure investment at the hospital in the future. Memorandum from RCCH Healthcare Partners and Lourdes Health Network to John Bry, Janis Snoey, Nancy Tyson and Audrey Udashen (May 18, 2018). It is not evident to us that the dramatic gulf between ECG's and Deloitte's respective valuation ranges can be entirely explained by the alleged weaknesses in ECG's analysis, nor would resolving these concerns address the fact that the applicant's valuation relies on data that is nearly three years old. However, the Department may wish to seek a response from ECG to assist the Department in evaluating these assertions and determining whether variances between the valuations can be reconciled or diminished

To summarize, utilizing actual cash flow data through 2017, ECG concluded that LHN's fair market value as of May 10, 2018 was $35,200,000-$38,200,000. We conclude that ECG's valuation is more reliable than Deloitte's because ECG relied upon current data reflective of actual performance, where Deloitte relied on older data regarding projected cash flows in order to arrive at a valuation as of June 12, 2015. In addition, ECG identified methodological weaknesses in Deloitte's valuation, including inconsistencies and weaknesses in developing a discount rate for discounting cash flows and weighted cost of capital, and the application of the guideline transaction method of the market approach for determining unadjusted business enterprise value. For these and the other reasons discussed above, we cannot conclude that the sale of LHN's assets for $21,000,000 as contemplated in the APA would result in LHN receiving fair market value for those assets. For these reasons, we conclude that the Application does not satisfy the fifth statutory criterion.

Statutory Criterion 6. **Charitable funds will not be placed at unreasonable risk, if the acquisition is financed in part by the nonprofit corporation.**

RCW 70.45.070(6) effectively conditions the Department's approval of an acquisition upon its determination that "[c]haritable funds will not be placed at unreasonable risk, if the acquisition is financed in part by the nonprofit corporation". This criterion is not at issue in this transaction because LHN is not financing any part of the acquisition. Application at 9.

We accordingly conclude that the Application satisfies the sixth statutory criterion without any need for modification.

Statutory Criterion 7. **Any management contract under the acquisition will be for fair market value.**

RCW 70.45.070(7) addresses the situation in which the buyer and the seller have a contract for one to provide management services to the other. If the nonprofit either performs services for which fair market value is not received, or purchases services for a price that exceeds fair market value, then the net purchase price to the seller for the sale of the nonprofit assets effectively might be lower than it should be. This criterion is not at issue in this proposed acquisition because it does not involve a management contract. RCW 70.45.070(7). Application at 9. If a management contract is to be entered into, it will have to be reviewed by this Office.

Statutory Criterion 8. **The proceeds from the acquisition must be controlled as charitable funds independently of the acquiring person or parties to the acquisition, and must be used for charitable health purposes consistent with the nonprofit corporation's original purpose, including providing health care to the disadvantaged, the uninsured, and the**

underinsured and providing benefits to promote improved health in the affected community.

The eighth criterion requires that "[T]he proceeds from the acquisition will be controlled as charitable funds independently of the acquiring person or parties to the acquisition, and will be used for charitable health purposes consistent with the nonprofit corporation's original purpose, including providing health care to the disadvantaged, the uninsured, and the underinsured and providing benefits to promote improved health in the affected community[.]" RCW 70.45.070(8). This criterion has several elements: (a) the control of the proceeds as charitable funds; (b) the independence of the entity holding the charitable funds from the acquiring person or parties to the acquisition; and (c) the dedication of the funds to charitable health purposes. After first summarizing the transaction as it relates to charitable assets, we consider each of these elements in turn.

a. Summary of proposal for charitable assets

i. Transfer of Net Proceeds to Catholic Foundation of Eastern Washington.

The Application provides that the net proceeds of the transaction will be contributed to the Diocese of Spokane for the original charitable purposes for which LHN was formed. Application at 4. The plan for making this distribution involves two steps. At closing, certain of the net proceeds will be distributed into an escrow account,[17] during which time certain claims can be paid from the proceeds. At the end of the escrow period, the remaining funds will be distributed to the Diocese.

The financial transactions to take place at and after closing enlighten this arrangement. The purchase price for LHN is $21 million. Asset Purchase Agreement at 11. At closing, Capella is obligated to pay to LHN the full purchase price, subject to certain adjustments. *Id.* at 19. The price is reduced, first, by "the amount set forth on the Closing Statement with respect to any indebtedness or capital lease liabilities assumed by" Capella. *Id.* The APA then provides for other adjustments to the purchase price, both before and after closing. *Id.* Before closing, the purchase price will be either decreased or increased based upon the difference between a working capital statement prepared for closing and a target working capital statement. *Id.* The purchase price is adjusted again based upon a further working capital statement prepared by Capella within 90 days of closing, calculating LHN's working capital as of closing. *Id.* Depending on that calculation, either LHN refunds money to Capella or Capella pays additional funds to LHN. Asset Purchase

[17] The Application does not provide details regarding the escrow account, but describes it as one to be established "pursuant to an arrangement acceptable to the Department of Health and the Attorney General." Application at 21. To ensure protection of the charitable assets, the Department's approval of this Application should be conditioned upon finalizing the escrow plans and agreement before closing.

Agreement at 20. The purchase price will be further adjusted based upon other defined factors, including the value of joint venture interests and taxes. *Id.*

Further, Capella assumes some, but not all, of LHN's existing financial liabilities at closing. Asset Purchase Agreement at 16-19. A long list of liabilities are excluded from the transaction, meaning that they remain LHN's responsibility. Asset Purchase Agreement at 17-19. Examples include any claims or potential claims for malpractice or general liabilities arising before closing, liabilities arising out of excluded assets, and certain liabilities relating to employees. *Id.*

The temporary transfer into escrow is designed to provide time to resolve certain of LHN's obligations and debts that Capella does not assume under the APA, and which cannot be immediately quantified or which are not immediately due. LHN remains obligated for such liabilities, and must pay them "in due course in accordance with their terms." Asset Purchase Agreement at 17.

The Application therefore explains that at closing "the net proceeds remaining after closing adjustments, payment of expenses, and repayment of any debt not assumed by Capella under the APA will be deposited into an escrow account." Application at 9. Any "indemnification claims" will be paid from the proceeds in the escrow account during its duration.[18] *Id.* The "remaining net proceeds will be contributed to the Diocese" at the end of escrow period. *Id.*[19]

The materials submitted to us are inconsistent with regard to the duration of the escrow period. The Application itself says that the net proceeds of the transaction will be held in escrow for three years following closing, before being conveyed to the Diocese. Application at 9. Capella later provided, in response to a question from the Department, a draft Donation Agreement by which the net proceeds are to be conveyed to the Diocese, in the form of a transfer to the Catholic Foundation. Draft Donation Agreement. The draft Donation Agreement provides for a seven-year escrow period. *Id.* The Applicant has explained to us that the longer, seven-year escrow period is now anticipated.

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[18] The APA obligates LHN to indemnify Capella as set forth in the Agreement. Asset Purchase Agreement at 69-73.

[19] The application materials appear to contain two widely divergent estimates of the amount of money that might be transferred from escrow to charity. The Application estimates the amount as "between $1,500,000 and $2,000,000." Application at 21. The pro forma balance sheet provided in response to a question from the Department estimates the amount as $6,345,394. Pro Forma Balance Sheet. We are informally advised that the latter number is more likely to be close, but in both cases the dollar figure is an estimate. The final value for the net proceeds could also change, of course, depending on resolution over concerns about fair market value discussed with regard to criterion number 5, above, as well. Ongoing transparency is important in this regard, both for the public and for the Diocese.

The draft Donation Agreement provides for transfer of the net proceeds from the escrow account to the Catholic Foundation.[20] The Catholic Foundation is an existing entity, incorporated in 1981 to carry out religious, educational, and other charitable purposes of the Diocese. Letter from Howard Wall to Janis Sigman (Aug. 23, 2017), Attachment 5 at 3. A board of directors governs the Catholic Foundation and is ultimately responsible to the Bishop of Spokane. *Id.* at 5. According to its bylaws, the Catholic Foundation currently administers funds and makes grants for religious education and community outreach. *Id.*, Attachment 6 at 8.

ii. Retention of the Existing Lourdes Foundation

An existing foundation established to support the charitable mission of LHN is excluded from the proposed transaction, but nonetheless raises concerns about the preservation of charitable assets. The Lourdes Foundation held over $2 million in assets invested to support the current mission of LHN as of 2015.[21] The Lourdes Foundation page on LHN's website describes its mission:[22]

> Lourdes Foundation was formed in January 1993 as a means to provide financial resources to strengthen the Mission of Lourdes. Each year we focus on projects that call us to our mission.
> …To support the Mission of our hospital and the values of the Sisters of St. Joseph of Carondelet
> …To strengthen the visibility of the hospital's Mission within our community
> …To broaden the base of friends of Lourdes
> …To provide financial resources to strengthen the Mission of our healthcare services

The Department posed a question during the screening process regarding the future of the Lourdes Foundation. The applicant responded as follows:

> Any interest in, and all the assets of the Lourdes Foundation were excluded from this transaction. Please refer to Section 2.1(b)(xi) of the Asset Purchase Agreement which lists the Lourdes Foundation as an excluded asset. Therefore the Lourdes Foundation and all of its funds shall remain separate and independent from Capella.

Letter from Janis Sigman to Howard Wall (Aug. 23, 2017) at 6.[23]

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[20] The materials supporting the Application refer to the Catholic Foundation of Eastern Washington as simply "the Foundation." We call it the "Catholic Foundation" in order to distinguish it from the Lourdes Foundation, discussed below.

[21] Lourdes Foundation's Form 990 Informational Tax Return for 2015, obtained online from Guidestar.org.

[22] The quoted passage is online at: https://www.yourlourdes.com/foundation/.

[23] This point may explain why the Application asserts that "LHN does not have any restricted gifts or bequests in excess of $10,000." Application at 13. The exclusion of the Lourdes Foundation from the transaction would

b. Application of the Three Requirements of RCW 70.45.070(8)

i. The proceeds from the acquisition will be controlled as charitable funds.

1. The Catholic Foundation

With this understanding of the proposal for the use of the proceeds of the transaction, we consider whether the proposal satisfies RCW 70.45.070(8). We conclude that the proposal would satisfy this provision if certain conditions are satisfied.

The first requirement of RCW 70.45.070(8) is that the "proceeds from the acquisition [must] be controlled as charitable funds." *Id.* The draft Donation Agreement calls for the transfer of the net proceeds of the transaction to the Catholic Foundation following the expiration of the escrow period. Draft Donation Agreement. These assets are "to be used by the Foundation to further the original charitable health purposes for which [LHN] was formed and to benefit the Community historically served by [LHN]." *Id.* The Draft Agreement defines the "Community" as Benton and Franklin Counties, which comports with LHN's historical service area. *Id.* The draft Donation Agreement further limits the use of the charitable funds to:

a) Provide healthcare to the disadvantaged, uninsured and underinsured in the Community;
b) Promote improved health and healthcare in the Community; and
c) Promote the charitable health purposes for which [LHN] was formed as more described in the Restated Articles of Incorporation of [LHN]."

Id. at 152.

We are comfortable that the draft Donation Agreement would thus commit the net proceeds for charitable use. Several features of the Application nonetheless give us pause and suggest that the Department should condition its approval of the transaction. These items might suggest less than a full and robust dedication of the assets to the described charitable use unless they are changed.

Our first concern relates to the characterization of the capacity in which the Catholic Foundation will hold the proceeds of the transaction. The draft Donation Agreement provides, "[t]he parties[24] agree that the monies given to establish the Gift shall be maintained and invested in an account owned by the [Catholic] Foundation." Draft Donation Agreement (footnote added). Further, the

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presumably preclude identifying any assets of the Lourdes Foundation as assets subject to this transaction. We have not been informed as to whether the Lourdes Foundation has any such restricted gifts or bequests.

[24] The parties to the Donation Agreement are LHN and the Catholic Foundation. Draft Donation Agreement.

pro forma balance sheet provided to show the assets the Catholic Foundation may receive describes those assets as "temporarily restricted." Pro Forma Balance Sheet.

We read RCW 70.45.070(8) to require a robust dedication of the proceeds of the transaction to specified charitable uses. We therefore recommend that the Department's approval of the transaction be conditioned upon amending the draft Donation Agreement to provide, "[th]e parties agree that the monies given to establish the Gift shall be maintained and invested in trust in an account ((~~owned by~~)) of the [Catholic] Foundation" (language altered to emphasize that the Catholic Foundation will hold the assets in trust, as not in outright ownership).[25] We also recommend that the Department condition its approval of the transaction upon an alteration in the pro forma balance sheet to indicate that the Catholic Foundation will receive the proceeds of the transaction as permanently restricted funds.

We have several concerns regarding the escrow account that will hold the proceeds of the transaction for an extended period of time before the funds are conveyed to the Catholic Foundation. These concerns include:

- A need for clarity as to what funds will be deposited into the escrow account;
- Who will manage the escrow account, and what principles that entity will apply to investing funds held in escrow and paying funds out of escrow;
- The anticipated length of time funds will be held in escrow, and
- Will funds be paid out of escrow and to the Catholic Foundation when those funds will not reasonably be needed to pay anticipated expenses.

The Application and the draft Donation Agreement seem to reflect different assumptions about what funds will be deposited into the escrow account. The Application appears to indicate that the escrow account will not receive funds needed for LHN to repay "any debt not assumed by Capella under the APA." Application at 9. This seems to suggest an approach under which LHN *retains* funds needed to satisfy certain excluded debts. Elsewhere the Application provides that "[c]oncurrent with the Transaction's closing, LHN will use a portion of the purchase price to defease all of its outstanding debt and pay or otherwise insure or reserve for other of its liabilities that Capella is not assuming as part of the Transaction." *Id.* at 21. This approach does not provide for the treatment of existing liabilities that cannot be quantified at closing. Asset Purchase Agreement at 17.

The draft Donation Agreement, in contrast, describes the assets conveyed to the Diocese as consisting of "the net proceeds from the Transaction remaining after closing adjustments, payment of expenses, and repayment of any debt not assumed by" Capella. Draft Donation Agreement. This assumes that funds used by LHN to pay excluded liabilities were deposited into escrow in the

[25] We would not, however, object if the Catholic Foundation comingles the funds for investment purposes with its other funds, so long as these funds are accounted for separately.

first place. We understand that the parties intend the latter approach, but the matter should be clarified before closing.

The Application does not describe the escrow account, except to say that it will be established subject to the approval of the Department and the Attorney General. Application at 21. This leaves a number of questions unanswered, including who will hold the escrow account, what fees that entity may collect, and what principles and procedures will govern the payment of funds out of the escrow account. The Application also does not specify the principles governing the investment of escrowed funds or the disposition of investment earnings. We recommend that the Department condition its approval of this transaction upon the resolution of these matters, including the express provision that investment earnings on escrowed funds will remain in the escrow account for eventual transfer to the Catholic Foundation. We also recommend that the Department's approval be conditioned on requiring that all transfers out of escrow be timely reported to the Catholic Foundation, with an opportunity for the Catholic Foundation to review those transfers to assure that they are for proper purposes under the APA, and to require repayment if the transfers of the funds should instead have inured to the benefit of the Catholic Foundation's charitable purposes.

As described above, the Application is inconsistent with regard to the anticipated length of time the proceeds of the transaction will be held in escrow. We understand that parties currently anticipate a seven-year escrow. The Application offers no basis for a delay of seven years before conveying any portion of the proceeds of the sale to the Catholic Foundation, and this length of time seems excessive. We recognize that some of the potential liabilities to be paid out of escrow cannot be quantified in advance, but it also seems reasonable that the extent of unquantified potential liabilities will diminish over that seven-year time period. It also seems reasonable to speculate that some liabilities might be covered by insurance in any event, such as potential medical malpractice claims arising before closing. We therefore recommend that the Department's approval of this transaction be conditioned on the establishment of a reasonable process for interim partial transfers of proceeds of the transaction to the Catholic Foundation during the escrow period.

We also note that neither the Application nor the draft Donation Agreement specify the treatment of post-closing adjustments to the purchase price. As noted above, the purchase price may be adjusted either upward or downward 90 days after closing based on final determination of LHN's working capital at the time of closing. Asset Purchase Agreement at 20. We understand that the parties envision paying any adjustment into, or from, the escrow account, and the draft Donation Agreement seems to assume as much. Draft Donation Agreement (referring to the net proceeds "after *all* purchase price adjustments have been made and fully settled." (emphasis added)).

We recommend that the Department condition its approval of these transactions upon the resolution of these discrepancies between the Application and the draft Donation Agreement. This includes resolving the duration of escrow, the precise assets to be conveyed into escrow (and concomitant obligations to be paid from escrow), and the treatment of post-closing adjustments.

Finally, we observe that neither the APA nor the Donation Agreement assign to the Catholic Foundation any authority to enforce Capella's post-closing commitments under the APA. Draft Donation Agreement; Asset Purchase Agreement. As currently written, the APA provides no entity with the authority to enforce its terms against Capella after the transaction closes and LHN no longer operates the facilities. For purposes of this criterion, the statute directs that we advise the Department as to whether "the proceeds of the acquisition will be controlled as charitable funds." RCW 70.45.070(8). We cannot advise that this will occur unless the Agreement contains a mechanism for enforcing the buyer's obligations to transmit the proceeds of the sale to the Catholic Foundation in accordance with the specifications of the APA. The Catholic Foundation would be well positioned to assume this role as the recipient of the charitable funds and as the successor to LHN's charitable mission. We therefore recommend that approval of this transaction be conditioned upon the parties assigning to the Catholic Foundation the authority to enforce Capella's obligations under the APA for the benefit of the community, and to authorize them to do so using proceeds of the transaction if necessary.

This should include vesting authority in the Catholic Foundation to enforce the terms of this Agreement governing the proceeds of the sale, including without limitation transfers into or out of the escrow account. This provision would augment the statutory authority of the Attorney General to enforce the Agreement in certain respects. *See* RCW 70.45.110.

2. Lourdes Foundation

We would like further information regarding the treatment of the existing Lourdes Foundation. As described above, the Lourdes Foundation is an existing organization, established to support LHN's charitable mission. The assets of the Lourdes Foundation are excluded from this transaction, and therefore the proper legal treatment of those assets are not at issue in considering this transaction. We do not recommend conditioning approval of this transaction on any concerns regarding the Lourdes Foundation, but we take this opportunity to advise all concerned that our office will require a report on the disposition and continued operation—if any—of the Lourdes Foundation pursuant to our independent powers. The Attorney General has broad authority under Washington law to enforce the terms of charitable trusts in the interests of the public beneficiaries of those trusts. *See* RCW 11.110.120. The Lourdes Foundation held over $2 million in assets invested to support the current mission of LHN as of 2015. We have examined its publicly-available Form 990 informational tax return for 2015, and note that it identifies the Lourdes Foundation as a tax-exempt charitable organization pursuant to 26 U.S.C. § 501(c)(3), and as a supporting organization for LHN. It appears to hold minimal, if any, endowment funds, but has made cash grants to LHN.[26]

The Lourdes Foundation plainly cannot continue to operate as it has in the past, as a supporting organization for LHN. This is so because LHN will no longer operate the facilities being

[26] The information recited in this paragraph is drawn from Lourdes Foundation's Form 990 Informational Tax Return for 2015, obtained online from Guidestar.org.

transferred in this transaction and the hospital itself will no longer operate as a charitable organization. We see no indication in the materials we have reviewed of the potential disposition of any assets of the Lourdes Foundation. We note that potentially such remaining assets could be distributed to the Catholic Foundation where, combined with the proceeds of this transaction, they could continue to serve the health needs of the community. Or, potentially, these assets may be legitimately spent or directed for charitable uses elsewhere. With no information as to the disposition of the Lourdes Foundation or its assets, we can do no more here than to provide notice of our continuing interest in this matter.

ii. The proceeds from the acquisition will be controlled independently from LHN and Capella.

We next consider the requirement of RCW 70.45.070(8) that the charitable funds be controlled independently of the parties to the transaction. The Application clearly satisfies this requirement. As described, the Catholic Foundation is an existing entity governed by a board of directors that is ultimately responsible to the Bishop of Spokane. Draft Donation Agreement. We trust that the Bishop, and through him the Catholic Foundation, will be sufficiently independent of both LHN and Capella.

iii. The charitable funds will be dedicated to charitable health purposes in the affected community.

The final consideration for purposes of this criterion is whether the charitable benefits of the proceeds of the transaction will be sufficiently directed to the affected community. We are satisfied that they will be, but we must note the basis for this conclusion.

LHN has historically served Benton and Franklin counties. The Catholic Foundation currently serves the geographic area of the Diocese of Spokane. Letter from Howard Wall to Janis Sigman (Aug. 23, 2017), Attachment 5 at 3 (articles of incorporation of the Catholic Foundation). The Diocese of Spokane is, of course, headquartered in Spokane and serves 13 counties. These counties include Franklin but not Benton. Letter from Howard Wall to Janis Sigman (Aug. 23, 2017) at 3. The public comments regarding this transaction, as well as our independent consideration, suggest concerns that the charitable benefit of the proceeds of the transaction could flow to either the 12 counties of the Diocese other than Franklin, or exclude Benton County, or both. *See, e.g.,* written comments of Mark C. Brault, CEO of Grace Clinic (March 18, 2018) (Brault Comments).

The Department posed this very question as part of the process for screening the Application for completeness. In response, the draft Donation Agreement specifies that the charitable proceeds of the transaction are to be used specifically to benefit "the Community." Draft Donation Agreement. The Community is described as Benton and Franklin Counties. *Id.* We therefore conclude that

the Application provides sufficient safeguards to assure that the proceeds of the transaction will be used to serve the community historically served by LHN.

Statutory Criterion 9. **Any charitable entity established to hold the proceeds of the acquisition will be broadly based in and representative of the community where the hospital to be acquired is located, taking into consideration the structure and governance of such entity.**

The ninth criterion requires that the charitable entity established to hold the proceeds of the acquisition will be "broadly based in and representative of the community." RCW 70.45.070(9). The Catholic Foundation is, as just described, headquartered in Spokane and both covers an extensive area outside the community served by LHN and excludes Benton County, which is served by LHN. We believe that this problem could be easily cured through the use of a mechanism, discussed below, that the Catholic Foundation already uses in another context. The same mechanism could also address a different concern expressed in public comment, that the Catholic Foundation has no prior experience making grants related to healthcare. Brault Comments.

The bylaws of the Catholic Foundation currently provide that its Board of Trustees shall determine all distributions. The board has established two distribution committees "for the purpose of making grants from identified endowment funds." Letter from Howard Wall to Janis Sigman (Aug. 23, 2017), Attachment 6 at 8 (By-Laws of Catholic Foundation). One of these committees is the "Religious Education Distribution Committee," and the other is the "Catholic Community Outreach Endowment Distribution Committee." *Id.*

Establishing a third distribution committee to make grants from the proceeds of the transaction would provide a governing mechanism representative of the community to be served and provide expertise in making grants for healthcare purposes. We therefore recommend that the Department condition its approval of the transaction on the agreement of the Catholic Foundation to establish a third distribution committee relating to healthcare grants from the proceeds of the transaction, with membership including residents of both Benton and Franklin counties and possessing the necessary subject matter expertise. The Catholic Foundation expressed a willingness to embrace a similar approach. Letter from Howard Wall III to Janis Sigman (Dec. 18, 2017), Attachment B.

We accordingly conclude that the Application satisfies the ninth statutory criterion, conditioned upon the establishment of a distribution committee as described.

Statutory Criterion 10. **A right of first refusal to repurchase the assets by a successor nonprofit corporation or foundation has been retained if the hospital is subsequently sold to, acquired by, or merged with another entity.**

The Department may not approve an acquisition unless it determines that "[a] right of first refusal to repurchase the assets by a successor nonprofit corporation or foundation has been retained if the hospital is subsequently sold to, acquired by, or merged with another entity." RCW 70.45.070(10). This criterion serves the obvious purpose of providing a means by which the hospital might be acquired if the purchaser subsequently sells it to, or merges with, another entity.

As described in the discussion of Statutory Criterion 8, above, the net proceeds of the transaction are ultimately to be transferred to the Catholic Foundation. The Application, however, vests the right of first refusal in the seller, Ascension, if Capella decides to sell the facilities within ten years of closing. Application at 10. The Guaranty Agreement attached as Exhibit 3 to the APA assigns this right to Ascension, as the parent of LHN. Exhibit 3 to Asset Purchase Agreement at 5.

This arrangement, under which the right of first refusal vests in an entity different from the one that receives the net proceeds of the sale, prompted a question from the Department. That question, and Capella's response, were:

> **Considering Ascension Health leadership has already determined that Lourdes did not fit into their "One Ascension" plans, explain why providing a right of first refusal to Ascension Health should the two LHN hospitals be subsequently sold to, acquired by or merged with another entity fulfills RCW 70.45.070(10).**
>
> Ascension retained the right of first refusal because it has both the resources to exercise the right should the need arise and the expertise to manage the hospitals if it was necessary to repurchase them. However, Ascension is willing to transfer this right to the Diocese of Spokane or another entity acceptable to the Department and Ascension if the Department desires such a transfer.

Letter from Howard Wall to Janis Sigman (Nov. 13, 2017) at 1 (bold in original).

After consideration, we conclude that the right of first refusal should be vested in the Catholic Foundation, rather than in Ascension. RCW 70.45.070(10) provides for assigning the right of first refusal to the successor nonprofit, rather than in the seller. It is counterintuitive to vest the right of first refusal in a different entity than the one that receives the net proceeds of the transaction, especially an entity, like Ascension, which will no longer own or operate hospitals in Washington after the sale of LHN. We see the logic in Capella's response to the Department, but both the statutory language and the belief that the right of first refusal should follow the proceeds of the sale lead us to recommend that the Department condition its approval of the transaction on vesting the right of first refusal in the Catholic Foundation rather than in Ascension. We further recommend that the Department condition its approval on the establishment of a mechanism that requires Capella to provide adequate and timely notice to the Catholic Foundation of any potential sale, acquisition, or merger involving the assets.

I. CONCLUSION

For the reasons set forth above, we conclude that the proposed acquisition meets some of the requirements of the requirements of RCW 70.45.070, but fails to satisfy others.

We trust the foregoing will be of assistance.

Sincerely,

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APPENDIX E

LEADING HEALTHCARE FORWARD

July 31, 2018

CONFIDENTIAL

Nancy Tyson
Executive Director
Health Facilities and Certificate of Need
Washington State Department of Health

Janis Snoey
Assistant Attorney General
Office of the Attorney General
Agriculture and Health Division
PO Box 40109
Olympia, Washington 98504-0109

Dear Nancy and Janis:

ECG has been pleased to assist the Washington State Department of Health (DOH) in the matter of the potential acquisition of Lourdes Health Network (also referred to hereafter as the "Subject Company"). Capella Healthcare, a subsidiary of RegionalCare Hospital Partners Holdings, *dba* RCCH HealthCare Partners, a for-profit corporation based in Brentwood, Tennessee, is seeking to acquire Lourdes from Ascension Health. Pursuant to Washington state law, the DOH requires a review of the transaction to ensure it meets regulatory requirements for fair market value (FMV). ECG was directed to update our FMV analysis originally ordered on March 1, 2018, in which we estimated the FMV of the business enterprise value (BEV) of Lourdes Health Network and reviewed a previously performed appraisal of Lourdes Health Network by Deloitte on November 10, 2017. Our updated analysis focused exclusively on the estimation of the FMV of the business enterprise value of Lourdes Health Network utilizing more recent information.

The effective date of our appraisal (referred to hereafter as the "Valuation Date") is June 30, 2018, which corresponds with the date we substantially completed our analysis using the most current information available to us.

The accompanying summary describes the purpose, use, and scope of ECG's analysis; the methodologies we employed; and the results of our work. The results, advice, recommendations, and conclusions in the report are subject to the Statement of Assumptions and Limiting Conditions (appendix C) and the Appraiser's Certification (appendix D). The qualifications of the principal consultants who developed our opinion are also included (appendix E).

ECG had to rely on the following assumptions, which impact the overall concluded value of Lourdes:

1. Restricted assets were identified in the analysis as nonoperating, excess assets. We did not incorporate any cash flow from these assets in the income approach.
2. This analysis covers only Lourdes Medical Center, Lourdes Counseling Center, and Lourdes Physician Practices. Lourdes Foundation was excluded from the analysis.
3. Interests in joint ventures were not included as these will not be included in the transaction.
4. In RCCH HealthCare Partners' acquisition of Lourdes from Ascension, Ascension is expected to retain all debt associated with Lourdes. As a result, debt was excluded from the analysis.
5. A maintenance level of capital expenditures of $18 million over the next five years is required to maintain fixed assets, and no large capital expenditure purchases are currently budgeted for by management. While it is likely the hospital will require significant capital expenditures in the future, management did not provide ECG with a budget for these expenses, as such, this was considered in the discount rate.
6. Net working capital will continue at levels consistent with the most recent historical period and will be in line with industry averages.
7. The annualized 11 month period ended May 31, 2018 is most reflective of future operations.
8. There is no undue or excessive reliance on key personnel.
9. There are no major, material changes to patient reimbursement and payor contracts.
10. There are no major changes to contracts with suppliers and vendors.
11. There are no onetime items or normalizing adjustments that need to be made in the most recent financial period beyond those noted in exhibit II-B.
12. There is no new competition in the surrounding areas that would materially affect Lourdes' financial performance.
13. Ascension changed its corporate allocation methodology on July 1, 2017. The incremental allocated expenses will not carry forward to LHN operations post-closing and as such were removed from the normalized base period. In addition, another operator will not need to allocate any additional corporate overhead in order to operate the hospital. As Medicare reimbursement at critical access hospitals is tied to the overall cost structure, net patient revenue was also adjusted to offset the decrease in costs.

We relied solely on the income approach, as we could not find enough recent transaction revenue and EBITDA multiples of a comparable size (beds and revenue) and profitability. In addition, the

critical access hospitals that had EBITDA multiples, had higher profitability and as such, were not as applicable.

Based on our review of the information provided, the preceding assumptions, and subsequent research and analysis, ECG's opinion of the FMV of Lourdes is as shown in table 1.

Table 1: FMV Indications

	Lower Indication	Upper Indication
Market Value of Invested Capital	**$21,000,000**	**$24,000,000**

Our summary is to be used solely for the purpose described therein. An appraisal for a different purpose, or as of a different valuation date, could result in a materially different opinion of value. This is not a full narrative valuation report, and one can be provided, if requested.

Appraisal value conclusions are the result of professional judgment, experience, and opinion. Appraisal societies, the courts, and government agencies acknowledge this fact. For example, Internal Revenue Service Revenue Ruling 59-60 (Section 3.01) states the following:

"Often, an appraiser will find wide differences of opinion as to the fair market value of a particular stock. In resolving such differences, [the appraiser] should maintain a reasonable attitude in recognition of the fact that valuation is not an exact science. A sound valuation will be based on all relevant facts, but the elements of common sense, informed judgment and reasonableness must enter into the process of weighing those facts and deciding their aggregate significance."

The appraisal report provides our professional opinion of value. We have performed this appraisal in accordance with recognized appraisal industry practices. We make no further warranty, expressed or implied.

In authorizing us to provide you with our final report, you confirm that (1) to the best of your knowledge and belief, the information you supplied to us for the purpose of this engagement is complete and accurate in all material respects as of the Valuation Date and (2) DOH accepts sole responsibility for the forecasts and assumptions underlying the projections used in our analyses and confirms they are reasonable under the circumstances.

A. Scope of Services

We performed an analysis described as an appraisal within the *Uniform Standards of Professional Appraisal Practice* of the Appraisal Institute, consistent with the *ASA Business Valuation Standards* of the American Society of Appraisers.

In this analysis, we developed an estimate of the FMV of the BEV of the Subject Company on a control basis (referred to hereafter as the "business interest") as of June 30, 2018 (referred to hereafter as the "Valuation Date"). This corresponds with the date we substantially completed our analysis using the most current information available to us. The BEV reflects the sum of common stock, preferred stock, net debt, and other long-term operating liabilities of the enterprise. A control basis reflects the value of an interest in a business having the power to direct the management and policies of that enterprise. In developing our estimate of value, we considered each applicable premium for control, discount for lack of control, or discount for lack of marketability, as well as the presence of nonoperating or excess assets and liabilities.[1]

No other operations, assets, or liabilities were included.[2]

B. Purpose and Use

This report is meant solely for DOH's internal use to assist it in meeting its planning requirements and to document regulatory compliance as of the Valuation Date. No other use is intended. An appraisal for a different purpose, or as of a different valuation date, could result in a materially different opinion of value.

C. Type and Premise of Value

The type of value reflects the highest and best use of each nonfinancial asset or business interest included in the scope of this report.

The premise of value is FMV. For the purposes of our analysis, we used the definition of FMV according to Internal Revenue Service (IRS) Revenue Ruling 59-60 and the Stark II Phase III Final Rule, which we consider to be compatible and equivalent.

---

1 Nonoperating assets have been added for FMV purposes. Nonoperating assets include restricted assets.

2 The following assets and liabilities are not included, given not enough detailed information is known: (i) net capitalized computer software costs, (ii) other miscellaneous assets, and (iii) other long-term liabilities.

The IRS defines FMV as:

> … [the] price at which property would change hands between a willing buyer and willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.[3]

The federal Stark regulations[4] define FMV as follows:

> Fair market value means the value in arm's-length transactions, consistent with the general market value. 'General market value' means the price that an asset would bring as the result of bona fide bargaining between well-informed buyers and sellers who are not otherwise in a position to generate business for the other party, or the compensation that would be included in a service agreement as the result of bona fide bargaining between well-informed parties to the agreement who are not otherwise in a position to generate business for the other party, on the date of acquisition of the asset or at the time of the service agreement. Usually, the fair market price is the price at which bona fide sales have been consummated for assets of like type, quality, and quantity in a particular market at the time of acquisition, or the compensation that has been included in bona fide service agreements with comparable terms at the time of the agreement, where the price or compensation has not been determined in any manner that takes into account the volume or value of anticipated or actual referrals.

The value of each asset, group of assets, or business interest reflects the estimated exit price at which the asset, group of assets, or business interest would exchange in a hypothetical transaction among market participants.

Our conclusions are subject to the Statement of Assumptions and Limiting Conditions (appendix C) and the Appraiser's Certification (appendix D). The Qualifications of Principal Consultants are included as appendix E.

Appraisal value conclusions are the result of professional judgment, experience, and opinion. Appraisal societies, the courts, and government agencies acknowledge this fact. For example, IRS Revenue Ruling 59-60 (section 3.01) states the following:

---

[3] Adapted from IRS Revenue Ruling 59-60, 1959-1, C.B. 237, Section 2.02.

[4] *Federal Register,* Vol. 72, No. 171, September 5, 2007, p. 51081, and 42 CFR 411.351.

> Often, an appraiser will find wide differences of opinion as to the fair market value of a particular stock. In resolving such differences, [the appraiser] should maintain a reasonable attitude in recognition of the fact that valuation is not an exact science. A sound valuation will be based on all relevant facts, but the elements of common sense, informed judgment, and reasonableness must enter into the process of weighing those facts and deciding their aggregate significance.

This appraisal letter provides our professional opinion of value. We have performed this appraisal in accordance with recognized appraisal industry practices. We make no further warranty, expressed or implied.

If you have any questions regarding the results of this appraisal, please contact me at 858-436-3220 or Karen Kole at 312-637-2500.

Very truly yours,

ECG MANAGEMENT CONSULTANTS

Adam J. Klein, CVA
Principal

AJK/ds/455795/0994.002-E2

Enclosures

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Washington State Department of Health

Opinion of Fair Market Value

Valuation Exhibits

As of June 30, 2018

Appendix A

Prepared on July 31, 2018

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Fair Market Value of Lourdes Health Network as of June 30, 2018

Appendix A
Business Valuation Exhibits

Prepared on July 31, 2018

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ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF JUNE 30, 2018

TABLE OF CONTENTS

Exhibits	Exhibit Number
Valuation Summary	**I**
Transaction Value	I-A
Financial Statement Analysis	**II**
Historical Balance Sheets	II-A
Historical Income Statements	II-B
Operating Metrics	II-C
Historical Financial Ratios	II-D
Forecasted Income Statements	II-E
Growth Metrics	II-F
Common Size Based on Revenues	II-G
Income Approach	**III**
Discounted Cash Flow Method	III-A
Weighted Average Cost of Capital	III-B
Company-Specific Risk Premium	III-C
Market Approach – Guideline Transactions Method	**IV**
Summary	IV-A
Calculation of Multiples	IV-B
Market Approach – Guideline Public Company Method	**V**
Summary	V-A
Business Descriptions	V-B
Calculation of Multiples	V-C

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF JUNE 30, 2018

VALUATION SUMMARY – TRANSACTION VALUE

Note	Valuation Method	Fair Market Value as of 6/30/2018	
	($ Thousands)	**Lower Indication**	**Upper Indication**
1	Discounted Cash Flow	$ 21,000	$ 24,000
2	Guideline Transactions	38,000	42,000
3	Guideline Public Company	35,000	39,000
4	**Concluded Business Enterprise Value (BEV)**	**$ 21,000**	**$ 24,000**
5,6	Add: Nonoperating Assets	$ 1	$ 1
	Market Value of Invested Capital	**$ 21,000**	**$ 24,000**

[1] See exhibits III-A through III-C related to the Income Approach.

[2] See exhibits IV-A and IV-B related to the Market Approach – Guideline Transactions Method.

[3] See exhibits V-A through V-C related to the Market Approach – Guideline Public Company Method.

[4] The discounted cash flow method was the only method ECG applied given this represents the estimated future cash flow of the business. We did not utilize the market approach as there were not enough recent transactions of critical access hospitals and the GPCs are signficantly larger. BEV is interest-bearing debt plus total equity minus nonoperating assets.

[5] Nonoperating assets have been added for FMV purposes. Nonoperating assets include restricted assets. Lourdes Foundation related financials are excluded.

[6] The following assets and liabilities are not included as we assumed they are not included in the transaction: (i) net capitalized computer software costs; (ii) other miscellaneous assets; and (iii) other long-term liabilities. If they will be included they should be added based on the value on the balance sheet. In addition we did not include the interest in investments as this will be excluded from the transaction.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF JUNE 30, 2018

FINANCIAL STATEMENT ANALYSIS – HISTORICAL BALANCE SHEETS

($ Thousands)	As of June 30, 2013	2014	2015	2016	2017	As of May 31, 2018
ASSETS						
Current Assets						
Cash and Investments	$ 249	$ 543	$ 747	$ 2,936	$ 482	$ 951
Accounts Receivable Less Allowance for Doubtful Accounts	13,796	13,756	13,441	14,576	14,138	16,660
Estimated Third-Party Payer Settlements	853	373	657	844	1,030	802
Inventories	1,544	2,043	2,116	2,177	2,049	2,210
Other	1,409	2,951	1,797	2,366	1,201	1,174
Total Current Assets	**17,851**	**19,666**	**18,758**	**22,899**	**18,900**	**21,797**
Property and Equipment						
Net Property Plant and Equipment	$ 18,709	$ 20,311	$ 20,553	$ 20,744	$ 21,812	$ 20,830
Total Property and Equipment	**$ 18,709**	**$ 20,311**	**$ 20,553**	**$ 20,744**	**$ 21,812**	**$ 20,830**
Other Assets						
Interest In Investments Held by Ascension	$ 24,692	$ 16,777	$ 23,991	$ 28,170	N/A	$ -
Investments in Unconsolidated Entities	7,426	6,703	6,909	7,449	5,253	5,345
Deferred Compensation Investments	1,824	2,038	2,349	2,408	N/A	-
Intangible Assets, Net	1,941	2,636	3,057	2,247	N/A	682
Self-Insurance Receiveables	417	698	671	324	N/A	-
Other	129	20	23	3	3,921	2,851
Restricted Assets	2,270	3,716	2,488	541	17	123
Total Assets	**$ 75,259**	**$ 72,565**	**$ 78,799**	**$ 84,785**	**$ 49,903**	**$ 51,628**
Current Liabilities						
Current Portion of Long-Term Debt	$ 175	$ 172	$ 146	$ 153	$ 153	$ 173
Accounts Payable and Accrued Liabilities	11,626	9,715	10,765	10,269	9,427	9,844
Estimated Third-party payor Settlements	2,046	1,569	1,042	2,637	2,576	1,623
Current Portion of Self-Insurance Liabilites	-	121	208	458	-	-
Other Current Liabilities	-	408	486	654	12,494	15,093
Total Current Liabilities	**$ 13,847**	**$ 11,985**	**$ 12,647**	**$ 14,171**	**$ 24,651**	**$ 26,733**
Long-Term Liabilities						
Long Term Debt	$ 12,015	$ 11,843	$ 11,693	$ 11,540	$ 11,385	$ 11,218
Self Insurance Liabilities	726	1,006	975	597	-	-
Deferred Compensation	1,824	2,038	2,349	2,408	-	-
Deferred Revenue	-	-	4,696	8,126	-	-
Other	837	884	246	236	15,411	6,957
Total Long-Term Liabilities	**$ 15,402**	**$ 15,771**	**$ 19,959**	**$ 22,907**	**$ 26,797**	**$ 18,175**
Total Liabilities	**$ 29,249**	**$ 27,756**	**$ 32,606**	**$ 37,078**	**$ 51,448**	**$ 44,908**
Net Assets						
Urestricted	$ 45,651	$ 43,238	$ 45,852	$ 47,257	$ (1,563)	$ 6,596
Restricted	359	1,571	341	450	17	124
Total Net Assets	**$ 46,010**	**$ 44,809**	**$ 46,193**	**$ 47,707**	**$ (1,545)**	**$ 6,720**
Total Liabilities & Capital	**$ 75,259**	**$ 72,565**	**$ 78,799**	**$ 84,785**	**$ 49,903**	**$ 51,628**

Source: Financial statements for fiscal years ended June 30, 2013 through 2017 provided by management. 2013-2016 are audited.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF JUNE 30, 2018

FINANCIAL STATEMENT ANALYSIS – HISTORICAL INCOME STATEMENTS

($ Thousands)	Fiscal Years Ended June 30, 2013	2014	2015	2016	2017	Annualized YTD May 31, 2018	Note	Adjustment	Normalized
REVENUES									
Net Patient Service Revenue	$ 101,343	$ 95,610	$ 109,456	$ 120,053	$ 132,682	$ 141,981	1	$ (4,957)	$ 137,024
Provision for Doubtful Accounts	-	-	2,364	3,188	5,861	5,435		-	5,435
Net Patient Service Revenue Less Doubtful Accounts	**$ 101,343**	**$ 95,610**	**$ 107,092**	**$ 116,865**	**$ 126,821**	**$ 136,546**		**$ (4,957)**	**$ 131,589**
Income From Unconsolidated Entities-Operations	-	-	-	-	503	128	2	(128)	-
Other Revenue	1,152	3,275	3,105	4,004	4,805	4,825	3	207	5,032
Total Operating Revenue	**$ 102,495**	**$ 98,885**	**$ 110,197**	**$ 120,869**	**$ 132,129**	**$ 141,499**		**$ (4,877)**	**$ 136,622**
Operating Expenses									
Salaries and Wages	$ 44,778	$ 41,394	$ 44,544	$ 48,414	$ 53,664	$ 58,115	3	$ (60)	$ 58,055
Employee Benefits	13,210	11,822	13,632	15,639	18,065	16,877	3	(26)	16,851
Purchased Services	11,151	11,457	14,400	14,700	13,874	13,509	3	(63)	13,445
Professional Fees	5,696	6,320	7,197	7,542	7,470	8,388	3	(3)	8,385
Supplies	13,856	14,031	15,084	16,165	17,739	19,851	3	(4)	19,847
Insurance	311	397	571	573	635	706		-	706
Other	9,601	9,291	9,175	11,261	12,518	22,775	4	(9,944)	12,831
Total Operating Expenses	**$ 98,603**	**$ 94,712**	**$ 104,603**	**$ 114,294**	**$ 123,965**	**$ 140,221**		**$ (10,101)**	**$ 130,120**
EBITDA	**$ 3,892**	**$ 4,173**	**$ 5,594**	**$ 6,575**	**$ 8,164**	**$ 1,277**		**$ 5,224**	**$ 6,501**
Depreciation and Amortization	3,099	2,808	3,562	3,977	4,044	3,326		-	3,326
Operating Income (EBIT)	**$ 793**	**$ 1,365**	**$ 2,032**	**$ 2,598**	**$ 4,120**	**$ (2,049)**		**$ 5,224**	**$ 3,175**
Income Taxes	-	-	-	-	220	178	5	489	667
Net Operating Profit After Tax	**$ 793**	**$ 1,365**	**$ 2,032**	**$ 2,598**	**$ 3,900**	**$ (2,227)**		**$ 4,735**	**$ 2,508**
Other Income									
Gain on Sale or Disposal of Assets	$ (284)	$ (648)	$ 206	$ 740	$ -	$ 3,028	6	$ (3,028)	$ -
Net Assets Released from Restriction for Operations	143	112	168	81	256	77	6	(77)	-
Non-Recurring Expenses	(314)	(2,269)	14	(70)	203	(46)	6	46	-
Interest Income (Expense)	1,098	1,947	(268)	(724)	(405)	(191)	6	191	-
Total Other Income	643	(858)	120	27	54	2,869		(2,869)	-
Net Income	**$ 1,436**	**$ 507**	**$ 2,152**	**$ 2,625**	**$ 3,954**	**$ 643**		**$ 1,866**	**$ 2,508**

Source: Financial statements for 2013 through 2016 based on audited financials. 2017 and 2018 based on information provided by management. Annualized 2018 financials represent annualized YTD as of May 31, 2018 financials.

[1] ratio.

[2] Omitted revenue from investments in unconsolidated entities as this will not be included in the transaction.

[3] Removed operations related to Lourdes Foundation, which is an excluded asset in the transaction.

[4] Other operating expenses is normalized as this is related to a corporate allocation from Ascension and would not be necessary post transaction.

[5] Based on estimated taxes of 21.0%.

[6] Omitted as nonrecurring or nonoperating income or expense items.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF JUNE 30, 2018

FINANCIAL STATEMENT ANALYSIS – OPERATING METRICS

Component	12 Months Ended June 30,				
	2014	2015	2016	2017	LTM [1]
Lourdes Medical Center					
Admissions	1,816	1,953	2,037	2,097	2,320
Outpatient Visits	n/a	n/a	34,338	30,820	n/a
ED Visits	n/a	n/a	29,480	26,188	23,179
Total Patient Days	6,775	7,148	7,686	6,410	8,794
Average Length of Stay	3.73	3.66	3.77	3.06	3.79
Average Daily Census	18.56	19.58	16.20	17.60	n/a
FTEs	n/a	n/a	356.40	359.10	n/a
FTE per Occupied Bed	n/a	n/a	n/a	8.43	n/a
Payor Mix					
Medicare	39%	38%	39%	39%	43%
Medicaid	18%	22%	21%	21%	20%
Private - No Insurance	5%	3%	3%	3%	0%
Insurance - Other	31%	27%	24%	24%	n/a
HMO	0%	0%	0%	0%	n/a
Other	8%	11%	13%	13%	38%
Total	100%	100%	100%	100%	100%
Lourdes Counseling Center					
Admissions	571	571	542	520	n/a
Avg Length of Stay	9.74	9.77	10.91	11.47	n/a
Outpatient Visits	n/a	n/a	121,674	143,308	n/a
Total Patient Days	5,563	5,576	5,912	5,965	n/a
Avg Length of Stay	9.74	9.77	10.91	11.47	n/a
Avg Daily Census	15.24	15.28	16.20	16.30	n/a
FTEs	n/a	n/a	171.50	214.80	n/a
Payor Mix					
Medicare	24%	18%	17%	17%	15%
Medicaid	49%	59%	61%	61%	62%
Private - No Insurance	4%	3%	2%	2%	0%
Insurance - Other	18%	14%	13%	13%	n/a
HMO	0%	0%	0%	0%	n/a
Other	6%	7%	6%	6%	23%
Total	100%	100%	100%	100%	100%

Source: Case volume and productivity reports as provided by management.
[1] LTM is based on the last four quarters of published data from the Washington Department of Health Financial data.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF JUNE 30, 2018

FINANCIAL STATEMENT ANALYSIS – HISTORICAL FINANCIAL RATIOS

	12 months ended June 30,					Annualized YTD May 31,	
	2013	2014	2015	2016	2017	2018	Industry Median [1]
Growth (Year Over Year)							
Net Patient Revenue	n/a	-5.7%	12.0%	9.1%	8.5%	7.7%	n/a
EBITDA	n/a	7.2%	34.1%	17.5%	24.2%	-84.4%	n/a
Total Assets	n/a	-3.6%	8.6%	7.6%	-41.1%	3.5%	n/a
Activity Ratio							
Inventory Turnover	66.4	48.4	52.1	55.5	64.5	64.0	56.1
Days of Inventory on Hand	5.5	7.5	7.0	6.6	5.7	5.7	6.5
Accounts Receivable Turnover	7.4	7.2	8.2	8.3	9.3	8.5	6.5
Days in Accounts Receivable	49.1	50.8	44.5	44.0	39.1	43.0	55.9
Accounts Payable Turnover	1.2	1.4	1.4	1.6	1.9	2.0	n/a
Days in Accounts Payable	306.3	252.7	260.5	231.9	194.0	181.0	n/a
Fixed Asset Turnover	5.48	4.87	5.36	5.83	6.06	6.79	2.4
Total Asset Turnover	1.36	1.36	1.40	1.43	2.65	2.74	1.05
Liquidity							
Current Ratio	1.29	1.64	1.48	1.62	0.77	0.82	2.50
Quick Ratio	1.01	1.19	1.12	1.24	0.59	0.66	n/a
Cash / Net Revenue	0.2%	0.6%	0.7%	2.5%	0.4%	0.7%	n/a
Cash / Debt	0.02	0.05	0.06	0.25	0.04	0.08	n/a
Net Working Capital / Net Revenue	0.04	0.08	0.06	0.06	0.05	0.07	n/a
Days Cash on Hand	0.92	2.09	2.61	9.38	1.42	2.48	50
Leverage							
Debt / Total Assets	0.16	0.17	0.15	0.14	0.23	0.22	0.28
Debt / EBITDA	3.13	2.88	2.12	1.78	1.41	8.92	n/a
Times Interest Earned	9.16	10.78	14.92	17.92	20.16	3.06	1.85
Profitability							
EBIT Margin	0.8%	1.4%	1.8%	2.1%	3.1%	-1.4%	-3.50%
EBITDA Margin	3.8%	4.2%	5.1%	5.4%	6.2%	0.9%	8%
Net Profit Margin	1.4%	0.5%	2.0%	2.2%	3.0%	0.5%	n/a
Return on Assets	1.9%	0.7%	2.7%	3.1%	7.9%	1.2%	1.3%
Return on Equity	3.1%	1.1%	4.7%	5.5%	n/a	9.6%	2.2%

Source: Patient stats are from internal financial documents.

[1] Almanac of Hospital Financial and Operating Indicators. Hospital Almanac uses EBIDA instead of EBITDA for related ratios.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF JUNE 30, 2018

FINANCIAL STATEMENT ANALYSIS – FORECASTED INCOME STATEMENTS

Note	($ Thousands)	Normalized 2018	Projected 12 Months Ended June 30, 2019	2020	2021	2022	2023
	REVENUES						
1	Net Patient Service Revenue	$ 137,024	$ 140,450	$ 143,961	$ 147,560	$ 151,249	$ 155,030
2	Provision for Doubtful Accounts	5,435	5,571	5,710	5,853	5,999	6,149
	Net Patient Service Revenue Less Doubtful Accounts	**$ 131,589**	**$ 134,879**	**$ 138,251**	**$ 141,707**	**$ 145,250**	**$ 148,881**
1	Other Revenue	5,032	5,158	5,287	5,419	5,555	5,694
	Total Operating Revenue	**$ 136,622**	**$ 140,037**	**$ 143,538**	**$ 147,127**	**$ 150,805**	**$ 154,575**
	Operating Expenses						
3	Salaries and Wages	$ 58,055	$ 59,506	$ 60,994	$ 62,519	$ 64,082	$ 65,684
4	Employee Benefits	16,851	17,273	17,704	18,147	18,601	19,066
3	Purchased Services	13,445	13,782	14,126	14,479	14,841	15,212
3	Professional Fees	8,385	8,594	8,809	9,029	9,255	9,487
3	Supplies	19,847	20,343	20,852	21,373	21,907	22,455
5	Insurance	706	723	742	760	779	799
5	Other	12,831	13,152	13,481	13,818	14,163	14,518
	Total Operating Expenses	**$ 130,120**	**$ 133,373**	**$ 136,708**	**$ 140,125**	**$ 143,629**	**$ 147,219**
	EBITDA	**$ 6,501**	**$ 6,664**	**$ 6,830**	**$ 7,001**	**$ 7,176**	**$ 7,356**
	EBITDA Margin	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*
6	Depreciation and Amortization	3,326	2,844	3,358	3,872	4,387	4,901
	Operating Income (EBIT)	**$ 3,175**	**$ 3,820**	**$ 3,472**	**$ 3,129**	**$ 2,789**	**$ 2,455**
7	Income Taxes	667	802	729	657	586	515
	Net Operating Profit After Tax	**$ 2,508**	**$ 3,018**	**$ 2,743**	**$ 2,472**	**$ 2,204**	**$ 1,939**
	Total Other Income	-	-	-	-	-	-
	Net Income	**$ 2,508**	**$ 3,018**	**$ 2,743**	**$ 2,472**	**$ 2,204**	**$ 1,939**

[1] Based on annual growth rate during forecast period (2.5%).
[2] Based on normalized period provision for doubtful accounts as a percentage of net patient revenue.
[3] Estimated as a percentage of operating revenue over the forecast period, and based on normalized period expense as a percentage of operating revenue.
[4] Estimated at 29.0% of salary and wages expense over the forecast period.
[5] Assumed to grow at an inflationary rate of 2.5% annually throughout the forecast period.
[6] Based on existing equipment being straight-line depreciated over seven years and new equipment being straight-line depreciated over seven years.
[7] Taxes are calculated at 21.0% of operating income.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF JUNE 30, 2018

FINANCIAL STATEMENT ANALYSIS – GROWTH METRICS

($ Thousands)	12 Months Ended June 30,					Historical		Projected 12 Months Ended June 30,				
	2014	2015	2016	2017	2018 [1]	Average	Normalized	2019	2020	2021	2022	2023
REVENUES												
Net Patient Service Revenue	(5.7%)	14.5%	9.7%	10.5%	7.0%	7.3%	3.3%	2.5%	2.5%	2.5%	2.5%	2.5%
Provision for Doubtful Accounts	n/a	n/a	34.9%	83.8%	(7.3%)	59.4%	(7.3%)	2.5%	2.5%	2.5%	2.5%	2.5%
Net Patient Service Revenue Less Doubtful Accounts	**(5.7%)**	**12.0%**	**9.1%**	**8.5%**	**7.7%**	**6.0%**	**3.8%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**
Other Revenue	184.3%	(5.2%)	29.0%	20.0%	0.4%	57.0%	4.7%	2.5%	2.5%	2.5%	2.5%	2.5%
Total Operating Revenue	**(3.5%)**	**11.4%**	**9.7%**	**9.3%**	**7.1%**	**6.7%**	**3.4%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**
Operating Expenses												
Salaries and Wages	(7.6%)	7.6%	8.7%	10.8%	8.3%	4.9%	8.2%	2.5%	2.5%	2.5%	2.5%	2.5%
Employee Benefits	(10.5%)	15.3%	14.7%	15.5%	(6.6%)	8.8%	(6.7%)	2.5%	2.5%	2.5%	2.5%	2.5%
Purchased Services	2.7%	25.7%	2.1%	(5.6%)	(2.6%)	6.2%	(3.1%)	2.5%	2.5%	2.5%	2.5%	2.5%
Professional Fees	11.0%	13.9%	4.8%	(1.0%)	12.3%	7.2%	12.2%	2.5%	2.5%	2.5%	2.5%	2.5%
Supplies	1.3%	7.5%	7.2%	9.7%	11.9%	6.4%	11.9%	2.5%	2.5%	2.5%	2.5%	2.5%
Insurance	27.7%	43.8%	0.4%	10.8%	11.2%	20.7%	11.2%	2.5%	2.5%	2.5%	2.5%	2.5%
Other	(3.2%)	(1.2%)	22.7%	11.2%	81.9%	7.4%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Total Operating Expenses	**(3.9%)**	**10.4%**	**9.3%**	**8.5%**	**13.1%**	**6.1%**	**5.0%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**
EBITDA	**7.2%**	**34.1%**	**17.5%**	**24.2%**	**(84.4%)**	**20.7%**	**(20.4%)**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**
Depreciation and Amortization	(9.4%)	26.9%	11.7%	1.7%	(17.8%)	7.7%	(17.8%)	n/a	(9.1%)	(9.9%)	(10.8%)	(12.0%)
Operating Income (EBIT)	**72.1%**	**48.9%**	**27.9%**	**58.6%**	**(149.7%)**	**51.9%**	**(22.9%)**	**(14.5%)**	**n/a**	**n/a**	**n/a**	**n/a**
Income Taxes	n/a	n/a	n/a	n/a	(19.2%)	n/a	203.1%	20.3%	n/a	n/a	n/a	n/a
Net Operating Profit After Tax	**72.1%**	**48.9%**	**27.9%**	**50.1%**	**(157.1%)**	**49.7%**	**(35.7%)**	**20.3%**	**(9.1%)**	**(9.9%)**	**(10.8%)**	**(12.0%)**
Other Income												
Gain on Sale or Disposal of Assets	128.2%	(131.8%)	259.2%	(100.0%)	n/a	38.9%	n/a	n/a	n/a	n/a	n/a	n/a
Net Assets Released from Restriction for Operations	(21.7%)	50.0%	(51.8%)	216.0%	(69.7%)	48.1%	(100.0%)	n/a	n/a	n/a	n/a	n/a
Non-Recurring Expenses	622.6%	(100.6%)	(600.0%)	(390.0%)	(122.6%)	(117.0%)	(100.0%)	n/a	n/a	n/a	n/a	n/a
Interest Income (Expense)	77.3%	(113.8%)	170.1%	(44.1%)	(52.9%)	22.4%	(100.0%)	n/a	n/a	n/a	n/a	n/a
Total Other Income	(233.4%)	(114.0%)	(77.5%)	100.0%	5,213.1%	(81.2%)	(100.0%)	n/a	n/a	n/a	n/a	n/a
Net Income	**(64.7%)**	**324.5%**	**22.0%**	**50.6%**	**(83.7%)**	**83.1%**	**(36.6%)**	**20.3%**	**(9.1%)**	**(9.9%)**	**(10.8%)**	**(12.0%)**

Source: Financial statements for 2013 through 2015 based on audited financials. 2016-2018 based on information provided by management.
[1] Financials for fiscal year ended June 30, 2018, based on annualized fiscal year-to-date May 31, 2018, financials.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF JUNE 30, 2018

FINANCIAL STATEMENT ANALYSIS – COMMON SIZE BASED ON REVENUES

	Actual 12 Months Ended 06/30						Historical	Normalized	Projected 12 Months Ended 06/30				
	2013	2014	2015	2016	2017	2018 [1]	Average	2018	2019	2020	2021	2022	2023
REVENUES													
Net Patient Service Revenue	98.9%	96.7%	99.3%	99.3%	100.4%	100.3%	98.9%	100.3%	100.3%	100.3%	100.3%	100.3%	100.3%
Provision for Doubtful Accounts	0.0%	0.0%	2.1%	2.6%	4.4%	3.8%	1.8%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Net Patient Service Revenue Less Doubtful Accounts	**98.9%**	**96.7%**	**97.2%**	**96.7%**	**96.0%**	**96.5%**	**97.1%**	**96.3%**	**96.3%**	**96.3%**	**96.3%**	**96.3%**	**96.3%**
Other Revenue	1.1%	3.3%	2.8%	3.3%	3.6%	3.4%	2.8%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
Total Operating Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Operating Expenses													
Salaries and Wages	43.7%	41.9%	40.4%	40.1%	40.6%	41.1%	41.3%	42.5%	42.5%	42.5%	42.5%	42.5%	42.5%
Employee Benefits	12.9%	12.0%	12.4%	12.9%	13.7%	11.9%	12.8%	12.3%	12.3%	12.3%	12.3%	12.3%	12.3%
Purchased Services	10.9%	11.6%	13.1%	12.2%	10.5%	9.5%	11.6%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%
Professional Fees	5.6%	6.4%	6.5%	6.2%	5.7%	5.9%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%
Supplies	13.5%	14.2%	13.7%	13.4%	13.4%	14.0%	13.6%	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%
Insurance	0.3%	0.4%	0.5%	0.5%	0.5%	0.5%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Other	9.4%	9.4%	8.3%	9.3%	9.5%	16.1%	9.2%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%
Total Operating Expenses	**96.2%**	**95.8%**	**94.9%**	**94.6%**	**93.8%**	**99.1%**	**95.1%**	**95.2%**	**95.2%**	**95.2%**	**95.2%**	**95.2%**	**95.2%**
EBITDA	**3.8%**	**4.2%**	**5.1%**	**5.4%**	**6.2%**	**0.9%**	**4.9%**	**4.8%**	**4.8%**	**4.8%**	**4.8%**	**4.8%**	**4.8%**
Depreciation and Amortization	3.0%	2.8%	3.2%	3.3%	3.1%	2.4%	3.1%	2.4%	2.0%	2.3%	2.6%	2.9%	3.2%
Operating Income (EBIT)													
Income Taxes	0.0%	0.0%	0.0%	0.0%	0.2%	0.1%	0.0%	0.5%	0.6%	0.5%	0.4%	0.4%	0.3%
Net Operating Profit After Tax	**0.8%**	**1.4%**	**1.8%**	**2.1%**	**3.0%**	**(1.6%)**	**1.8%**	**1.8%**	**2.2%**	**1.9%**	**1.7%**	**1.5%**	**1.3%**
Other Income													
Gain on Sale or Disposal of Assets	-0.3%	-0.7%	0.2%	0.6%	0.0%	2.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Assets Released from Restriction for Operations	0.1%	0.1%	0.2%	0.1%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Non-Recurring Expenses	-0.3%	-2.3%	0.0%	-0.1%	0.2%	0.0%	-0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest Income (Expense)	1.1%	2.0%	(0.2%)	(0.6%)	(0.3%)	(0.1%)	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Other Income	0.6%	-0.9%	0.1%	0.0%	0.0%	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	**1.4%**	**0.5%**	**2.0%**	**2.2%**	**3.0%**	**0.5%**	**1.8%**	**1.8%**	**2.2%**	**1.9%**	**1.7%**	**1.5%**	**1.3%**
Revenues	***$ 102,495***	***$ 98,885***	***$ 110,197***	***$ 120,869***	***$ 132,129***	***$ 141,499***	***$ 112,915***	***$ 136,622***	***$ 140,037***	***$ 143,538***	***$ 147,127***	***$ 150,805***	***$ 154,575***

Source: Common-sized statistics based on audited financials for 2013 - 2015 and 2016-2018 based on information provided by management.
[1] Financials for fiscal year ended June 30, 2018, based on annualized fiscal year-to-date May 31, 2018, financials.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF JUNE 30, 2018

INCOME APPROACH – DISCOUNTED CASH FLOW METHOD

($ Thousands)

Note	Discounted Cash Flow Analysis	Assumption	2019	2020	2021	2022	2023	Terminal Year
			Projected 12 Months Ended June 30,					
	REVENUES							
	Total Net Revenues		$ 140,037	$ 143,538	$ 147,127	$ 150,805	$ 154,575	158,439
1	*Growth Rate*		*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*
	Total Operating Expenses		$ 133,373	$ 136,708	$ 140,125	$ 143,629	$ 147,219	$ 150,900
	EBITDA		**$ 6,664**	**$ 6,830**	**$ 7,001**	**$ 7,176**	**$ 7,356**	**$ 7,539**
	EBITDA Margin		*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*
	Depreciation and Amortization		$ 2,844	$ 3,358	$ 3,872	$ 4,387	$ 4,901	$ 3,690
	Operating Income (EBIT)		**$ 3,820**	**$ 3,472**	**$ 3,129**	**$ 2,789**	**$ 2,455**	**$ 3,849**
	EBIT Margin		*2.7%*	*2.4%*	*2.1%*	*1.8%*	*1.6%*	*2.4%*
2	Income Taxes	21.00%	$ 802	$ 729	$ 657	$ 586	$ 515	$ 808
	Net Operating Profit After Tax (NOPAT)		**$ 3,018**	**$ 2,743**	**$ 2,472**	**$ 2,204**	**$ 1,939**	**$ 3,041**
3	Add: Depreciation and Amortization		$ 2,844	$ 3,358	$ 3,872	$ 4,387	$ 4,901	$ 3,690
4	Capital Expenditures	2.33%	(3,600)	(3,600)	(3,600)	(3,600)	(3,600)	(3,690)
5	Debt-Free Net Working Capital (DFNWC)	6.33%	(216)	(222)	(227)	(233)	(239)	(245)
	Net Available Cash Flow		**$ 2,045**	**$ 2,280**	**$ 2,517**	**$ 2,758**	**$ 3,002**	**$ 2,797**
6	**Residual Cash Flows**							**$ 24,318**
	Partial Period Factor		1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
	Discounting Periods		0.5000	1.5000	2.5000	3.5000	4.5000	4.5000
7	Discount Factor	14.00%	0.9366	0.8216	0.7207	0.6322	0.5545	0.5545
	Present Value of Cash Flows		**$ 1,916**	**$ 1,873**	**$ 1,814**	**$ 1,743**	**$ 1,664**	**$ 13,485**
	Present Value of Discrete Cash Flows		$ 9,010					
	Present Value of Terminal Period		13,485					
	BEV		**$ 22,495**					

Long-term Growth Rate

WACC	1.50%	2.00%	2.50%	3.00%	3.50%
15.00%	$ 20,135	$ 20,431	$ 20,750	$ 21,096	$ 21,471
14.50%	$ 20,897	$ 21,228	$ 21,586	$ 21,976	$ 22,401
14.00%	$ 21,719	$ 22,091	$ 22,495	$ 22,937	$ 23,420
13.50%	$ 22,610	$ 23,029	$ 23,487	$ 23,988	$ 24,539
13.00%	$ 23,578	$ 24,053	$ 24,573	$ 25,144	$ 25,776

[1] Terminal year growth rate based on expected normalized growth of 2.5%.
[2] Represents the blended, marginal federal and state tax rates.
[3] Depreciation was estimated based on seven-year, straight-line depreciation for new capital expenditures. Given the expected low-inflation environment, we assumed depreciation will be equal to capital expenditures in perpetuity.
[4] No material purchases are needed; as such, capital expenditures were projected at a maintenance level of $3,600 each year of the forecast period. The terminal period capital expenditures were estimated at 2.3% based on year five capital expenditures as a percentage of revenue.
[5] DFNWC assumption is based on the most recent period levels and consistent with the working capital as a percent of revenue of guideline public companies.
[6] Residual cash flows represent the value of cash flows beyond 2023 based on the Gordon Growth Perpetuity Model, which is equal to cash flow in the first future year ÷ (discount rate - growth rate).
[7] See exhibit III-B for detailed calculations behind the weighted-average cost of capital.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF JUNE 30, 2018

INCOME APPROACH – WEIGHTED AVERAGE COST OF CAPITAL

Discount Rate Component	Assumption	Source Notes
Cost of Equity		
Risk-Free Rate	2.9%	Federal Reserve Statistical Release h.15 (*http://www.federalreserve.gov/releases/h15/*).
Equity Risk Premium	6.9%	Duff & Phelps 2017 Valuation Handbook, Historical ERP.
Industry Risk Premium	(0.8%)	Duff & Phelps 2017 Valuation Handbook, SIC 80 Industry premium for the Historical ERP.
Size Premium	5.6%	Duff & Phelps 2017 Valuation Handbook, 10th decile.
Company-Specific Risk Premium	3.0%	Based on ECG's assessment of the unsystematic risk of the subject company, exclusive of size.
Cost of Equity Capital	**17.6%**	
Cost of Debt		
BBB Corporate Bond Yield	4.4%	Long-term BBB corporate bond yield as of 6/29/2018 as shown in the Federal Reserve Economic Data.
Tax Rate	21.0%	Represents the blended marginal federal and state tax rates.
After-Tax Cost of Debt	**3.5%**	
Weighted Average Cost of Capital		
Equity-to-Capital Ratio	75.0%	Based on debt-to-capital and equity-to-capital ratios per 2017 Almanac of Hospital Financial and Operating Indicators, *Optum 360*.
Debt-to-Capital Ratio	25.0%	
Weighted Average Cost of Capital	**14.0%**	

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF JUNE 30, 2018

INCOME APPROACH – COMPANY-SPECIFIC RISK PREMIUM

Company-Specific Risk Premium	Risk Assessment
Mercer	
Key Person, Management	
Absolute Size	
Financial Structure	
Product/Geographical Diversification	+++
Customer Diversification	+
Earnings: Margins and Historical Predictability	+
Other Specific Risks	+
Implied Company-Specific Risk Premium	**3.00%**
Warren Miller	
Negative Risk Factors	
Operating History	+
Lack of Management Depth	
Lack of Access to Capital Resources	
Overreliance in Key Persons	
Lack of Size and Geographical Diversification	+++
Lack of Marketing Resources in Light of Competition	+
Lack of Purchasing Power and Other Economies of Scale	+
Lack of Product and Market Development Resources	
Overreliance on Vendors and Suppliers	
Limitations of Distribution Systems	
Limitations on Financial Reporting and Controls	
Positive Risk Factors	
Long-Term Contracts With Customers or Unique Product or Niche Market	
Patents, Copyrights, Franchise Rights, and Proprietary Products	
Implied Company-Specific Risk Premium	**3.00%**
Company-Specific Risk Premium	
Selected Company-Specific Risk Premium	**3.00%**

Notes:
The company-specific risk premium is used to quantify nonsystematic risks associated with running the subject business. For this analysis, a company-specific risk premium was used to capture the risk associated with the categories listed above.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF JUNE 30, 2018

MARKET APPROACH – GUIDELINE TRANSACTIONS METHOD – SUMMARY

($ Thousands)

Note	Guideline Transaction Method Results	Conclusions	
		BEV/Revenue	BEV/EBITDA
1	Financial Metric	$ 136,622	$ 6,501
2	Selected Multiple	0.30x	6.00x
3	**Indicated Business Enterprise Value**	**$ 40,987**	**$ 39,007**
	Concluded Business Enterprise Value	**$ 39,997**	

[1] Financial metrics are the normalized levels shown in exhibit II-B.

[2] See exhibit IV-B for the calculation of transaction multiples. The selected revenue multiple slightly below the average (and median) of featured transactions (i.e., similar size) due to the lower profitability (compared to the median), and the selected EBITDA multiple is near the average (and median) of the featured transactions.

[3] The weighting of indications is based on ECG's assessment of the relevance and reliability of the indications of value.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF JUNE 30, 2018

MARKET APPROACH – GUIDELINE TRANSACTIONS METHOD – CALCULATION OF MULTIPLES

Note	Target	Closing Date	Status	Location	Acquirer	Beds	Revenue per Bed	EBITDA per Bed	Implied BEV/MVIC	Target LTM Revenues	Target LTM EBITDA	LTM EBITDA Margin	(BEV/MVIC)/ Revenue	(BEV/MVIC)/ EBITDA
	Abrazo Maryvale Campus	Feb 28, '18	Nonprofit	AZ	Maricopa Integrated Health System	228	$ 203,840	$ (17,563)	$ 59,000,000	$ 46,475,606	$ (4,004,375)	-8.6%	1.27 x	(14.73 x)
	2 Presence Health Hospitals	Feb 1, '18	Nonprofit	IL	OSF Healthcare System	380	630,006.56	87,374.04	185,000,000	239,402,494	33,202,137	13.9%	0.77 x	5.57 x
	Memorial Health	Feb 1, '18	Nonprofit	GA	HCA Healthcare (NYSE: HCA)	612	817,025.35	31,180.66	456,700,000	500,019,512	19,082,561	3.8%	0.91 x	23.93 x
	Trinity Health Hospitals (Three Catholic Hospitals in New Jersey)	Dec 16, '17	Nonprofit	NJ	Undisclosed	NA	NA	NA	2,000,000,000	555,000,000	NA	NA	3.60 x	NA
	Hahnemann University Hospital; St. Christopher's Hospital	Sep 5, '17	Private	PA	Paladin Healthcare (American Academic Health System)	568	1,390,845.07	(26,408.45)	170,000,000	790,000,000	(15,000,000)	-1.9%	0.22 x	(11.33 x)
	Memorial Health University Medical Center	Apr 19, '17	Nonprofit	GA	HCA Management Services	NA	NA	NA	280,000,000	581,000,000	NA	NA	0.48 x	NA
1	Sistersville General Hospital (WV)	Mar 1, '17	Nonprofit	WV	Wheeling Hospital	25	474,104.36	NA	5,500,000	11,852,609	NA	NA	0.70 x	NA
	Pioneer Community Hospital	Dec 27, '16	Private	NC	LifeBrite Hospital Group LLC	25	723,187.24	(204,530.72)	400,000	18,079,681	(5,113,268)	-28.3%	0.02 x	(0.08 x)
1	2 Hospitals in Washington State	Dec 13, '16	Public (NYSE: CYH)	WA	Sunnyside Community Hospital & Clinics	277	514,748.52	37,451.84	45,000,000	142,585,339	10,374,160	7.3%	0.32 x	4.34 x
	Rockwood Health System	Nov 17, '16	Public (NYSE: CYH)	WA	MultiCare Health System	511	746,545.03	84,119.44	425,000,000	381,484,509	42,985,033	11.3%	1.11 x	9.89 x
1	Scott County Hospital (TN)	Oct 27, '16	Private	TN	Rennova Healthcare	25	100,650.04	NA	1,000,000	2,516,251	NA	NA	0.40 x	NA
	2 Oklahoma Hospitals	Oct 26, '16	Public (NYSE:HCA)	OK	University Hospitals Authority and Trust	688	1,339,263.15	152,323.31	750,000,000	921,413,050	104,798,435	11.4%	0.81 x	7.16 x
	Susquehanna Health	Oct 18, '16	Nonprofit	PA	UPMC	320	2,501,234.89	194,362.70	500,000,000	800,395,164	62,196,063	7.8%	0.62 x	8.04 x
	Greater Waterbury Health Network, Inc.	Sep 30, '16	Private	CT	Prospect Medical Holdings, Inc.	600	439,050.00	7,416.67	45,100,000	263,430,000	4,450,000	1.7%	0.17 x	10.13 x
	Eastern Connecticut Health Network, Inc.	Sep 30, '16	Private	CT	Prospect Medical Holdings, Inc.	190	1,730,315.79	84,263.16	105,000,000	328,760,000	16,010,000	4.9%	0.32 x	6.56 x
	USMD Holdings, Inc.	Aug 30, '16	Public (NASDAQ: USMD)	TX	WellMed Medical Management	42	3,198,064.05	734,309.48	310,000,000	134,318,690	30,840,998	23.0%	2.31 x	10.05 x
	Chestatee Regional Hospital	Aug 19, '16	Private	GA	Unidentified Buyer	38	598,694.92	16,366.68	15,000,000	22,750,407	621,934	2.7%	0.66 x	24.12 x
	Charlotte Hungerford Hospital	Aug 5, '16	Nonprofit	CT	Hartford HealthCare	109	1,127,865.62	37,171.03	76,000,000	122,937,353	4,051,642	3.3%	0.62 x	18.76 x
1	West Shore Medical Center	Jul 25, '16	Nonprofit	MI	Munson Healthcare	45	1,442,944.27	82,309.36	25,000,000	64,932,492	3,703,921	5.7%	0.39 x	6.75 x
	Lakeside Women's Hospital	Jul 22, '16	Private	OK	Carter Validus Mission Critical REIT II, Inc.	23	1,225,318.78	162,931.65	19,840,000	28,182,332	3,747,428	13.3%	0.70 x	5.29 x
1	Pioneer Community Hospital of Stokes (NC)	Jul 21, '16	Nonprofit	NC	LifeBrite Hospital Group	25	724,514.96	NA	1,700,000	18,112,874	NA	NA	0.09 x	NA
	Gardens Regional Hospital and Medical Center (CA) - Deal Canceled	Jul 21, '16	Nonprofit	CA	KPC Group	107	-	-	19,500,000	-	-	NA	4.38 x	NA
	Unity Medical and Surgical Hospital	Jul 15, '16	Private	IN	Medical Facilities Corporation	29	1,076,798.14	(22,777.59)	53,630,000	31,227,146	(660,550)	-2.1%	1.72 x	(81.19 x)
	Coshocton County Memorial Hospital (OH)	Jun 30, '16	Nonprofit	OH	Prime Healthcare Services	90	633,477.26	NA	10,000,000	57,012,953	NA	NA	0.10 x	NA
	Floyd Memorial Hospital and Health Services	Jun 28, '16	Nonprofit	IN	Baptist Health	211	1,546,881.04	32,061.44	276,000,000	326,391,900	6,764,964	2.1%	0.85 x	40.80 x
1	Mercy Hospital Carthage (MO)	Jun 15, '16	Nonprofit	MO	Mercy (MO)	25	1,423,929.12	NA	9,500,000	35,598,228	NA	NA	0.41 x	NA
	Saint Michael's Medical Center, Inc.	May 2, '16	Private	NJ	Prime Healthcare Services, Inc.	357	449,019.61	NA	50,000,000	160,300,000	NA	NA	0.31 x	NA
	TrustPoint Hospital	May 1, '16	Nonprofit	TN	Acadia Healthcare (Joey Jacobs)	NA	NA	NA	62,700,000	25,000,000	NA	NA	2.51 x	NA
	Physicians' Specialty Hospital	Apr 1, '16	Private	AK	Community Health Systems, Inc.	20	1,635,563.20	259,267.60	13,000,000	32,711,264	5,185,352	15.9%	0.40 x	2.51 x
	HealthAlliance of the Hudson Valley	Mar 30, '16	Nonprofit	NY	WMC Health	229	797,457.36	53,152.55	88,800,000	182,617,735	12,171,934	6.7%	0.49 x	7.30 x
	Capella Healthcare, Inc.	Mar 22, '16	Private	TN	RegionalCare Hospital Partners Inc.	1,153	683,245.23	82,687.44	550,000,000	787,781,746	95,338,622	12.1%	0.70 x	5.77 x
	Reynolds Memorial Hospital (WV)	Feb 26, '16	Nonprofit	WV	West Virginia United Health System	90	406,412.48	(1,147.87)	15,000,000	36,577,123	(103,308)	-0.3%	1.10 x	(145.20 x)
	Bowie Memorial Hospital	Feb 19, '16	Nonprofit	TX	Hashmi Group	37	415,826.78	(26,357.65)	1,500,000	15,385,591	(975,233)	-6.3%	0.10 x	(1.54 x)
	Westlake Regional Hospital	Feb 18, '16	Nonprofit	KY	T.J. Regional Health	73	205,003.95	13,649.75	3,350,000	14,965,288	996,432	6.7%	0.22 x	3.36 x
	Doctors' Hospital of Michigan	Feb 2, '16	Private	MI	Sant Partners, LLC	47	281,400.49	(189,401.21)	14,500,000	13,225,823	(8,901,857)	-67.3%	1.10 x	(1.63 x)
	Palm Springs General Hospital	Feb 1, '16	Private	FL	Larkin Community Hospital	247	347,745.48	7,203.19	40,000,000	85,893,134	1,779,187	2.1%	0.47 x	22.48 x
1	Memorial Hospital of Salem County (NJ) - Deal Canceled	Dec 1, '15	Private	NJ	Prime Healthcare Services (Foundation)	126	460,039.34	NA	15,000,000	57,964,957	NA	NA	0.47 x	NA
	Reliant Hospital Partners, LLC	Oct 1, '15	Private	TX,OH, MA	Encompass Health Corporation (NYSE:EHC)	NA	NA	NA	1,076,360,000	245,640,000	80,830,000	32.9%	4.38 x	13.32 x
1	Watertown Regional Medical Center, Inc.	Sep 1, '15	Private	WI	LifePoint Health, Inc. (NasdaqGS:LPNT)	95	967,368.42	NA	32,900,000	91,900,000	NA	NA	0.36 x	NA
	Capella Holdings, Inc.	Aug 31, '15	Private	TN	MPT Operating Partnership, L.P.	NA	NA	NA	900,000,000	713,400,000	NA	NA	1.26 x	NA
	Lodi Memorial Hospital	Jun 1, '15	Nonprofit	CA	Adventist Health System/West Inc.	190	928,947.37	NA	140,000,000	176,500,000	NA	NA	0.79 x	NA
	Nason Hospital (PA)	Jan 8, '15	Nonprofit	PA	Lifepoint Hospitals	44	809,476.34	30,890.20	NA	35,616,959	1,359,169	4.0%	NA	NA
1	Bell Hospital (MI)	Mar 5, '13	Nonprofit	MI	LifePoint Hospitals	25	2,304,000.00	140,000.00	40,664,125	57,600,000	3,500,000	6.6%	0.71 x	11.62 x
1	Portage Health Hospital (MI)	Mar 1, '13	Nonprofit	MI	LifePoint Hospitals	36	2,261,904.86	288,898.25	87,969,499	81,428,575	10,400,337	12.8%	1.08 x	8.46 x
1	Muskogee Community Hospital (OK)	Jul 1, '12	Private	OK	Capella Healthcare	25	1,008,000.00	155,680.00	21,300,000	25,200,000	3,892,000	15.4%	0.85 x	5.47 x
1	Scott Memorial Hospital (IN)	May 10, '12	Nonprofit	IN	Regional Health Network of Kentucky and Southern Indiana(LifePoi	25	836,880.00	54,560.00	8,522,410	20,922,000	1,364,000	6.5%	0.41 x	6.25 x
1	Logan Medical Center (OK)	Oct 3, '11	Nonprofit	OK	Mercy Health	25	892,000.00	40,000.00	9,566,071	22,300,000	1,000,000	4.5%	0.43 x	9.57 x
1	Bucyrus Community Hospital (OH)	Dec 9, '10	Nonprofit	OH	Avita Health System	25	1,208,544.96	184,000.00	10,320,000	30,213,624	4,600,000	15.2%	0.34 x	2.24 x
	Mountain View Hospital (ID)	Apr 9, '10	Private	ID	Symbion	43	1,018,604.65	409,302.33	NA	43,800,000	17,600,000	40.2%	NA	NA
1	Athol Memorial Hospital (MA)	Aug 31, '09	Nonprofit	MA	Vanguard Health System	25	880,000.00	32,000.00	1,000,000	22,000,000	800,000	3.6%	0.05 x	1.25 x
	Three Rivers Hospital (TN)	Oct 31, '08	Private	TN	Humphreys County Community Health	25	352,000.00	19,280.00	NA	8,800,000	482,000	5.5%	NA	NA
	Canton-Inwood Memorial Critical Access Hospital (SD)	Sep 8, '08	Nonprofit	SD	Sanford Health	18	280,000.00	41,111.11	NA	5,040,000	740,000	14.7%	NA	NA
	Chatham Hospital (NC)	Jul 1, '08	Nonprofit	NC	UNC Health Care System	25	612,000.00	32,680.00	NA	15,300,000	817,000	5.3%	NA	NA
	High					*1,153*	*$ 3,198,064*	*$ 734,309*	*$ 2,000,000,000*	*$ 921,413,050*	*$ 104,798,435*	*40.2%*	*4.38x*	*40.80x*
	Upper Quartile					*228*	*$ 1,212,738*	*$ 113,687*	*$ 173,750,000*	*$ 239,402,494*	*$ 13,131,451*	*12.4%*	*0.96x*	*10.01x*
	Average					*171*	*$ 930,224*	*$ 79,482*	*$ 188,048,377*	*$ 177,961,555*	*$ 13,773,168*	*5.3%*	*0.88x*	*0.74x*
	Median					*46*	*$ 803,467*	*$ 37,452*	*$ 42,832,062*	*$ 57,012,953*	*$ 3,725,675*	*5.7%*	*0.62x*	*6.40x*
	Lower Quartile					*25*	*$ 457,284*	*$ 10,533*	*$ 12,330,000*	*$ 22,300,000*	*$ 710,484*	*2.4%*	*0.35x*	*2.31x*
	Low					*18*	*$ -*	*$ (204,531)*	*$ 400,000*	*$ -*	*$ (15,000,000)*	*-67.3%*	*0.02x*	*-145.20x*
1	**Featured Transactions**	N:	15			*55*	*$ 1,033,309*	*$ 112,767*	*$ 20,996,140*	*$ 45,675,130*	*$ 4,403,824*	*8.6%*	*0.47x*	*6.22x*
	Selected Multiple												**0.30x**	**6.00x**
	Lourdes Health Network					47	$ 2,906,844	$ 138,324		$ 136,621,682	$ 6,501,227	4.8%		

[1] Transactions most similar in size as measured by number of beds and revenue were further analyzed when selecting multiples. Specialty hospitals were not included. Outliers were not included.

Source: Irving Levin, Pitchbook, and Capital IQ

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF JUNE 30, 2018

CALCULATION OF MULTIPLES, MARKET APPROACH – GUIDELINE PUBLIC COMPANY METHOD

Note	Guideline Public Company Method Results	Assumption	Conclusions	
			BEV/Revenue	BEV/EBITDA
1	Financial Metric		$ 136,622	$ 6,501
2	Selected Multiple		0.25x	5.00x
	Indication of Value		**$ 34,155**	**$ 32,506**
3	**Indicated Range of Value**		**$ 33,331**	
4	Less: Debt		(11,391)	
4	Plus: Cash		951	
	Minority, Marketable Equity Value		**$ 22,891**	
5	Control Premium	15.00%	3,434	
	Controlling, Marketable Equity Value		**$ 26,324**	
	Plus: Debt		11,391	
	Less: Cash		(951)	
	BEV		**$ 36,764**	

[1] Financial metrics are the normalized levels shown in EXHIBIT II-B.

[2] See EXHIBIT V-B for the calculation of guideline public company multiples. The selected revenue multiple is lower than the median because of the company's lower EBITDA margins. The selected EBITDA multiple is lower than the median because of the company is smaller and less diversified relative to public companies.

[3] Based on our assessment of relevance and reliability, we placed equal weight on guideline company revenue and EBITDA multiples.

[4] Per May 31, 2018, balance sheet.

[5] The price of publicly traded company shares represents the price of a minority financial interest without the prerogatives of control. As a controlling interest is being sought, we have included a premium over the implied public company multiples to adjust for the benefits of control to be acquired.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF JUNE 30, 2018

CALCULATION OF MULTIPLES, SUMMARY

Guideline Public Company	Business Description
HCA Healthcare, Inc.	HCA Healthcare, Inc., through its subsidiaries, provides health care services. The company operates general, acute care hospitals that offer medical and surgical services, including inpatient care, intensive care, cardiac care, diagnostic, and emergency services; and outpatient services, such as outpatient surgery, laboratory, radiology, respiratory therapy, cardiology, and physical therapy services. It also operates psychiatric hospitals, which provide therapeutic programs comprising child, adolescent and adult psychiatric care, and adolescent and adult alcohol and drug abuse treatment and counseling. In addition, the company operates outpatient health care facilities consisting of freestanding ambulatory surgery centers, freestanding emergency care facilities, urgent care facilities, walk-in clinics, diagnostic and imaging centers, rehabilitation and physical therapy centers, radiation and oncology therapy centers, physician practices, and various other facilities. As of February 12, 2018, it owned and operated 179 hospitals and 120 freestanding surgery centers, and various other healthcare facilities in 20 states and the United Kingdom. The company was formerly known as HCA Holdings, Inc. HCA Healthcare, Inc. was founded in 1968 and is headquartered in Nashville, Tennessee.
Universal Health Services, Inc.	Universal Health Services, Inc., through its subsidiaries, owns and operates acute care hospitals, outpatient facilities, and behavioral health care facilities. The company operates through Acute Care Hospital Services, Behavioral Health Care Services, and Other segments. Its hospital offer general and specialty surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, coronary care, pediatric services, pharmacy services, and/or behavioral health services. As of February 28, 2018, it owned and/or operated 326 inpatient facilities, and 32 outpatient and other facilities located in 37 states, Washington, D.C., the United Kingdom, Puerto Rico, and Virgin Islands. Universal Health Services, Inc. founded in 1978 and is headquartered in King Of Prussia, Pennsylvania.
Community Health Systems, Inc.	Community Health Systems, Inc., together with its subsidiaries, owns, leases, and operates general acute care hospitals in the United States. It offers general acute care, emergency room, general and specialty surgery, critical care, internal medicine, obstetrics, diagnostic, psychiatric, and rehabilitation services, as well as skilled nursing and home care services. The company also provides outpatient services at urgent care centers, occupational medicine clinics, imaging centers, cancer centers, and ambulatory surgery centers. As of December 31, 2017, it owned or leased 125 hospitals, including 123 general acute care hospitals and 2 stand-alone rehabilitation or psychiatric hospitals with an aggregate of 20,850 licensed beds in 19 states. The company was founded in 1985 and is headquartered in Franklin, Tennessee.
Tenet Healthcare Corporation	Tenet Healthcare Corporation operates as a diversified healthcare services company. It operates in three segments: Hospital Operations and Other, Ambulatory Care, and Conifer. The company's general hospitals offer acute care services, operating and recovery rooms, radiology and respiratory therapy services, clinical laboratories, and pharmacies. It also provides intensive and critical care, and coronary care units; physical therapy, orthopedic, oncology, and outpatient services; tertiary care services, including cardiothoracic surgery, neonatal intensive care, and neurosciences; quaternary care in heart, liver, kidney, and bone marrow transplants areas; tertiary and quaternary pediatric, and burn services; and limb-salvaging vascular procedures, acute level 1 trauma services, intravascular stroke care, minimally invasive cardiac valve replacement, imaging technology, and telemedicine access for various medical specialties. In addition, the company operates ambulatory surgery and urgent care centers, imaging centers, and surgical hospitals, as well as Aspen's hospitals and clinics; and offers healthcare business process services in the areas of hospital and physician revenue cycle management, as well as value-based care solutions to healthcare systems, individual hospitals, physician practices, self-insured organizations, health plans, and other entities. Further, it offers accounts receivable and health information management, and revenue integrity and patient financial services; patient communications and engagement services; and clinical integration, financial risk management, and population health management services. As of December 31, 2017, the company operated 76 hospitals, 20 surgical hospitals, and approximately 470 outpatient centers, as well as 247 ambulatory surgery, 34 urgent care, and 23 imaging centers in the United States; and 9 private hospitals and clinics in the United Kingdom. The company was founded in 1967 and is headquartered in Dallas, Texas.
LifePoint Health, Inc.	LifePoint Health, Inc., through its subsidiaries, owns and operates community hospitals, regional health systems, physician practices, outpatient centers, and post-acute facilities in the United States. Its hospitals provide a range of medical and surgical services, such as general surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, coronary care, rehabilitation, and pediatric, as well as specialized services, including open-heart surgery, skilled nursing, psychiatric care, and neurosurgery. The company's hospitals also offer outpatient services comprising same-day surgery, laboratory, X-ray, respiratory therapy, imaging, sports medicine, and lithotripsy. In addition, it owns and operates schools of nursing and other allied health professions. As of December 31, 2017, the company operated 71 hospital campuses with a total of 9,254 licensed beds in 22 states. The company was formerly known as LifePoint Hospitals, Inc. and changed its name to LifePoint Health, Inc. in May 2015. LifePoint Health, Inc. was founded in 1997 and is based in Brentwood, Tennessee.

ECG MANAGEMENT CONSULTANTS
FAIR MARKET VALUE OF LOURDES HEALTH NETWORK AS OF JUNE 30, 2018

CALCULATION OF MULTIPLES, BUSINESS DESCRIPTIONS

(All numbers in millions of dollars, except per share data)

Guideline Company	Ticker	Cash and Short-Term Investments	Current Debt	Long-Term Debt	Minority Interest	Preferred Stock	Stock Price	Shares Outstanding	Market Value of Equity	BEV
HCA Healthcare, Inc.	HCA	$ 1,130.00	$ 1,697.0	$ 31,594.0	$ 1,810.0	$ -	$ 108.0	$ 349.3	$ 37,724.3	$ 71,695.3
Universal Health Services, Inc.	UHS	73.1	126.2	3,795.1	76.5	-	112.7	94.4	10,636.8	14,561.5
Community Health Systems, Inc.	CYH	424.0	37.0	13,859.0	597.0	-	2.7	112.8	305.7	14,374.7
Tenet Healthcare Corporation	THC	974.0	666.0	14,223.0	2,623.0	-	35.1	102.1	3,583.0	20,121.0
LifePoint Health, Inc.	LPNT	140.1	22.4	2,894.8	172.7	-	47.9	38.8	1,857.5	4,807.3
High		*$ 1,130.0*	*$ 1,697.0*	*$ 31,594.0*	*$ 2,623.0*	*$ -*	*$ 112.67*	*349.299*	*$ 37,724.3*	*$ 71,695.3*
Upper Quartile		*$ 974.0*	*$ 666.0*	*$ 14,223.0*	*$ 1,810.0*	*$ -*	*$ 108.00*	*112.817*	*$ 10,636.8*	*$ 20,121.0*
Average		*$ 548.2*	*$ 509.7*	*$ 13,273.2*	*$ 1,055.8*	*$ -*	*$ 61.28*	*139.470*	*$ 10,821.5*	*$ 25,112.0*
Median		*$ 424.0*	*$ 126.2*	*$ 13,859.0*	*$ 597.0*	*$ -*	*$ 47.90*	*102.051*	*$ 3,583.0*	*$ 14,561.5*
Lower Quartile		*$ 140.1*	*$ 37.0*	*$ 3,795.1*	*$ 172.7*	*$ -*	*$ 35.11*	*94.407*	*$ 1,857.5*	*$ 14,374.7*
Low		*$ 73.1*	*$ 22.4*	*$ 2,894.8*	*$ 76.5*	*$ -*	*$ 2.71*	*38.779*	*$ 305.7*	*$ 4,807.3*

		Last Fiscal Year					Last 12 Months				
Guideline Company	Ticker	Revenue	EBITDA	EBIT	BEV/Revenue	BEV/ EBITDA	Revenue	EBITDA	EBIT	BEV/Revenue	BEV/ EBITDA
HCA Healthcare, Inc.	HCA	$ 43,614.0	$ 8,186.0	$ 6,055.0	1.64x	8.76x	$ 44,414.0	$ 8,300.0	$ 6,137.0	1.61x	8.64x
Universal Health Services, Inc.	UHS	10,409.9	1,728.1	1,280.2	1.4	8.4	10,484.5	1,710.3	1,260.1	1.4	8.5
Community Health Systems, Inc.	CYH	15,353.0	901.0	218.0	0.9	16.0	14,556.0	824.0	183.0	1.0	17.4
Tenet Healthcare Corporation	THC	19,179.0	2,259.0	1,389.0	1.0	8.9	19,065.0	2,416.0	1,563.0	1.1	8.3
LifePoint Health, Inc.	LPNT	6,291.4	669.5	307.0	0.8	7.2	6,264.0	667.6	312.3	0.8	7.2
High		*$ 43,614*	*$ 8,186*	*$ 6,055*	*1.64x*	*15.95x*	*$ 44,414*	*$ 8,300*	*$ 6,137*	*1.61x*	*17.45x*
Upper Quartile		*$ 19,179*	*$ 2,259*	*$ 1,389*	*1.40x*	*8.91x*	*$ 19,065*	*$ 2,416*	*$ 1,563*	*1.39x*	*8.64x*
Average		*$ 18,969*	*$ 2,749*	*$ 1,850*	*1.16x*	*9.85x*	*$ 18,957*	*$ 2,784*	*$ 1,891*	*1.16x*	*10.03x*
Median		*$ 15,353*	*$ 1,728*	*$ 1,280*	*1.05x*	*8.76x*	*$ 14,556*	*$ 1,710*	*$ 1,260*	*1.06x*	*8.51x*
Lower Quartile		*$ 10,410*	*$ 901*	*$ 307*	*0.94x*	*8.43x*	*$ 10,485*	*$ 824*	*$ 312*	*0.99x*	*8.33x*
Low		*$ 6,291*	*$ 670*	*$ 218*	*0.76x*	*7.18x*	*$ 6,264*	*$ 668*	*$ 183*	*0.77x*	*7.20x*
Selected Multiple										0.25x	5.00x

Source: CapIQ

CONFIDENTIAL

Washington State Department of Health

Opinion of Fair Market Value

Business Enterprise Valuation of Lourdes Health Network

As of June 30, 2018

Appendices B–D

Prepared on July 31, 2018

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STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

This report, including but not limited to its analyses, opinions, conclusions, and value, is qualified as follows:

» The obligation of ECG is solely a corporate obligation, and no officer, principal, director, employee, agent, shareholder, or controlling person shall be subjected to any personal liability whatsoever to any person or entity, nor will any such claim be asserted by or on behalf of any other party to this Arrangement or any person relying on the opinion.

» The facts described in this report were provided by client management or obtained from independent third parties, published sources, and commercial databases. We have accepted this information without further verification. Our value recommendations assume this information is materially true and correct. Had we audited or reviewed the underlying data, matters may have come to our attention that would have resulted in our using amounts that differ from those provided. Accordingly, we take no responsibility for the underlying data presented or relied upon in this report.

» If material facts have not been disclosed or have been misrepresented, this opinion is void.

» The value recommendations assume competent management in the context of a going concern.

» This report does not consider events or transactions occurring after the date hereof. ECG has no obligation to update the report unless specifically engaged by the intended user(s) of the report to do so.

» No aspect of this report should be construed as providing any legal interpretation, advice, or conclusions with respect to the Arrangement. ECG assumes that the Arrangement described herein is in full compliance with all applicable federal, state, and local regulations and laws unless the lack of compliance is stated, defined, and considered in the report provided. However, ECG acknowledges that we have been engaged to provide an independent, third-party appraisal of the compensation to be paid under the proposed Arrangement to support financial and operational planning and to comply with law.

» This report applies only to the Arrangement described herein and does not take into consideration any of the parties' other arrangements that are relevant to this opinion.

» The analyses, advice, recommendations, opinions, or conclusions contained herein are valid only as of the indicated Valuation Date and only for the indicated purpose by the intended user(s).

» It is our understanding that the intended user(s) does not anticipate any specific change in the internal or external environment that would materially impact FMV.

» While ECG believes the surveys used in this report are among the best sources of data available, the data provided by the surveys is based on voluntary response and is not subject to verification.

A nonresponse bias might also exist within the respondent sample. Moreover, many of the respondents in the survey data may not have transacted at arm's length.

» This report is provided exclusively for the benefit of the intended user(s) in connection with the subject Arrangement and may not be used or relied upon for any other purpose or by any other party, other than compliance with law or legal process.

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APPRAISER'S CERTIFICATION

I certify that to the best of my knowledge and belief:

1. The statements of fact contained in this study are true and correct.

2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limited conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.

3. I and the firm I represent have no present or prospective interest in the property or contract that is the subject of this study and no personal interest with respect to the parties involved.

4. I and the firm I represent have no bias with respect to the property or contract that is the subject of this study or to the parties involved with this assignment.

5. Neither I nor the firm I represent has performed the specified services as an appraiser or in any other capacity regarding the property or contract that is the subject of this report within the three-year period immediately preceding acceptance of this assignment, with the exception of a previously performed appraisal of the subject company and a review of a previously performed appraisal of the subject company. On May 18, 2018, ECG provided a review of Deloitte's appraisal of the subject entity, which had a valuation date of November 10, 2017. On May 31, 2018 ECG provided an appraisal of the subject company, with a valuation date of May 10, 2018.

6. My engagement in this assignment was not contingent upon developing or reporting predetermined results.

7. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.

8. I and the firm I represent hold ourselves out to the public as an appraiser with expertise in the valuation matter that is the subject of this report. Furthermore, we are qualified to render this opinion because we have the requisite expertise and regularly perform valuations of the type of services that are the subject of this report.

9. My analyses, opinions, and conclusions were developed and this report has been prepared in conformity with the *Uniform Standards of Professional Appraisal Practice*.

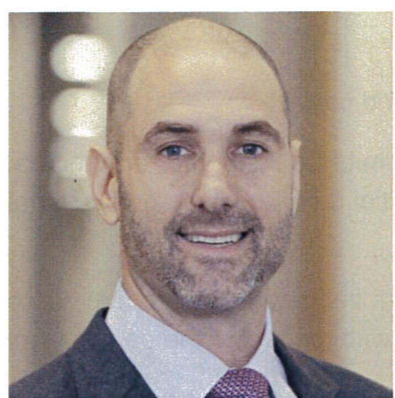
10. No one provided significant valuation assistance to the person signing this certification except for Karen Kole, Jana Sizemore, and Jake Poklop.

Adam J. Klein, CVA

July 31, 2018
Date

ECG MANAGEMENT CONSULTANTS

QUALIFICATIONS OF PRINCIPAL CONSULTANTS



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Adam leads ECG's Financial Services practice. Since 1997, he has conducted appraisals of tangible and intangible assets, as well as valuations of business enterprises, clinical and administrative compensation, coverage stipends, leases, management services, joint ventures, and accountable care funds flows. His valuation studies allow parties to understand how and why conclusions were reached so that they are best able to achieve fair and defensible agreements.

Summary of Expertise

Adam is an expert in the areas of economic valuation and appraisal of healthcare business arrangements, healthcare clinical and administration compensation, and healthcare financial modeling. His practice primarily focuses on payor and provider businesses and collaborative arrangements, and its clients include for-profit and not-for-profit enterprises in both academic and community settings. Adam has a reputation for developing innovative and effective compensation and business structures that incorporate traditional and emerging payment models. His transaction experience includes acquisitions, business formations, consolidations, restructurings, and divestitures. In addition, Adam helps design and implement governance, management, operations, and finance systems that allow hospitals, payors, physicians, and ancillary service providers to work more effectively to establish, synthesize, and meet mutual objectives.

Prior to joining ECG in 2008, Adam worked as the director of strategic analytics for the healthcare practice of a national management consulting firm and as the manager of special projects at DaVita throughout the financial turnaround of its U.S. dialysis business.

Affiliations

Adam is a Certified Valuation Analyst with the National Association of Certified Valuators and Analysts, a member of the American Society of Appraisers, and qualified by the Institute of Business Appraisers to perform business appraisal reviews. He contributes to member briefings for the American Health Lawyers Association's Hospitals and Health Systems and Physician Organizations Practice Groups and the Fair Market Value Affinity Group.

Education

Adam holds a master of business administration degree from the UCLA Anderson School of Management and a bachelor of arts degree in econometrics from the University of Massachusetts Amherst.

Speeches and Publications

Adam speaks and writes regularly on healthcare transactions and various valuation topics. He recently presented at the National Investment Center's Investment Forum on valuation trends in healthcare enterprises, as well as at the UCLA Anderson School of Management Healthcare Conference on changes in the health insurance landscape and their impact on patient care.

Karen I. Kole
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Karen is a transaction and financial adviser whose career has focused on the healthcare industry. Karen provides fair market value (FMV) opinions for mergers and acquisitions, divestitures, joint ventures, and hospital-physician arrangements. She has extensive financial modeling experience and a deep understanding of the evolving healthcare landscape. As Karen's clients contemplate enterprise-defining decisions, they appreciate her comprehensive approach to fair market valuations and her ability to present the most complex financial matters in a clear, meaningful way.

Summary of Expertise

Prior to joining ECG, Karen served as a valuation consultant and transaction adviser with Huron Consulting Group and its broker dealer, Huron Transaction Advisory. In these roles, she provided transaction and valuation services to multiple provider types, including community hospitals, for-profit and nonprofit health systems, ancillary providers, and physician practices. Her work included:

» Advising a large national Catholic healthcare provider on the acquisition of an ownership interest in a 15-hospital system in the Midwest. The client closed the transaction in 2013 based on the price in the valuation.
» Creating a five-year financial forecast of the Affordable Care Act's impact on a county-owned hospital on the West Coast, which included projecting state and patient revenue sources.
» Advising a 74-bed specialty hospital in the South on a major transaction, which included due diligence, pro forma analysis, development of the confidential information memorandum, and contacting prospective partners. The hospital successfully sold its majority ownership interest.
» Providing a valuation of a 120-physician cardiology practice in the Midwest that included heart hospitals and a management company. Based on the FMV opinion, the practice sold all assets to a national nonprofit health system.

Professional Affiliations

Karen holds an Accredited Senior Appraiser designation from the American Society of Appraisers. She is a member of the American College of Healthcare Executives and the American Health Lawyers Association.

Education

Karen has a bachelor of science degree in finance from the University of Illinois at Urbana-Champaign.

Selected Articles and Speeches

American Health Lawyers Association's *Business Law and Governance Newsletter*, March 2014: "Hospitals Eye Service Line Transactions to Cut Costs and Boost Revenue."

Illinois Hospital Association's Small and Rural Healthcare Conference, June 17, 2014: "Addressing Physician Compensation within Rural Healthcare."

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Jana has extensive experience in developing valuation opinions of businesses and intangible assets for healthcare clients. Since 2007, she has provided financial advisory services regarding and conducted appraisals of business enterprises, leases, management services, joint ventures, and mergers and acquisitions. She also conducts assessments of provider compensation arrangements. Jana strives to help healthcare organizations minimize risk and ensure that financial arrangements meet the complex requirements related to fair market value (FMV). Her valuation engagements provide management and leadership with the particularly specific tools they need for business planning purposes and compliance efforts.

Summary of Expertise

Prior to joining ECG's Valuation Services practice, Jana worked at national healthcare valuation firms, managing business valuation appraisals for physician practices, hospitals, and other healthcare facilities. She also led financial advisory and due diligence efforts for clients. Jana's prior client work includes:

- Advising a large regional healthcare provider on a joint venture with a large multispecialty physician practice in the Midwest.
- Creating a dynamic financial forecast of an imaging center joint venture for a healthcare system and radiology group, which included projecting the volume impact from site closures, as well as shifting modalities between centers.
- Providing an FMV opinion of various ancillary services owned by a community hospital, which resulted in a sale to a regional nonprofit health system.

Professional Affiliations

Jana is an Accredited Senior Appraiser by the American Society of Appraisers, with a focus on business valuation. She is an active member of the Colorado Healthcare Financial Management Administration Chapter and currently serves on the chapter's Membership Committee. She also regularly attends Colorado Health and Strategy Management monthly meetings.

Education

Jana holds a master of business administration degree from the University of Denver's Daniels College of Business and a bachelor of science degree in actuarial science from Butler University in Indianapolis.