

DESCRIPTION OF THE TRANSACTION

Sect. 999.5(d)(1)(A)¹

A full description of the proposed agreement and transaction

Overview and Parties:

The proposed transaction consists of a simple membership substitution. There are two parties – Central California Foundation for Health, a California nonprofit public benefit corporation (the “**Applicant**”), and Adventist Health System/West, a California nonprofit religious corporation (“**Adventist Health**”). As proposed, Adventist Health will become the sole member of Delano.

Central California Foundation for Health. The Applicant was formed in 1990 to acquire all the assets of Delano Regional Medical Center, a general acute care hospital located in Delano, California (the “**Hospital**”). Since its inception, the Applicant’s sole activity has been the ownership and operation of the Hospital and activities incidental thereto. It has two members as that term is defined in Section 5056 of the California Corporations Code – Wesley Bilson and Gregory M. Bilson, both individuals. In 1995, the Internal Revenue Service determined that the Applicant was an organization described in Section 501(c)(3) of the Internal Revenue Code and exempt from federal income taxes, a status that it has maintained ever since. The Applicant also is exempt from California franchise tax under the corresponding provisions of California law. Although the Applicant has no material operating assets other than the land, buildings, fixtures, furnishings and equipment constituting the Hospital campus, it holds cash and investment assets in the range of \$80 million. It has long-term debt of approximately \$19 million.

Adventist Health. Adventist Health is a faith-based integrated health delivery system headquartered in Roseville, California. Adventist Health serves as the sole member and “parent” to a system of operating nonprofit health care corporations serving three states – California, Oregon and Hawaii. System-wide, there are 20 hospitals with more than 3,100 beds, more than 290 clinics, 13 home care agencies, 7 hospice agencies and 4 joint-venture retirement centers. Hospitals within the system are owned and operated by separate corporations, each of which has Adventist Health as its sole corporate member, with the power to appoint all members of its board of directors. However, each typically also has a local “governing board,” comprised of local residents, who serve essentially in an advisory capacity to the board of directors with authority to oversee quality, medical staff, clinical delivery, operations and strategy. The president of Adventist Health (or designee) typically serves as the chair of each local governing board.

Proposed Transaction.

The proposed transaction will be pursuant to and governed by an Affiliation Agreement dated January 4, 2019, by and between the parties (the “**Affiliation Agreement**”). The Affiliation Agreement contemplates a closing to occur upon receipt of written consent to the

¹ All section heading numbers are references to Title 11, Cal. Admin. Code

Central California Foundation for Health
Notice to Attorney General Pursuant to CA Corp. Code Section 5920

proposed transaction from the California Attorney General and other lawfully required consents and approvals, the delivery of various certificates and other documents and other matters. The Affiliation Agreement has a stated term of 10 years.

Basic Transactions. The Affiliation Agreement contemplates the following basic transactions: (i) the existing members of the Applicant will resign, and the Applicant's bylaws will simultaneously be amended to designate Adventist Health the sole member of the Applicant; (ii) immediately thereafter, Adventist Health in its new position as sole member of the Applicant will appoint all new members to the Applicant's board of directors and the existing members of the board will simultaneously resign; (iii) thereupon, Adventist Health and the Applicant's newly appointed board of directors will amend and restate the Applicant's articles of corporation (among other things converting it to a nonprofit religious corporation) and its bylaws; and (iv), finally, pursuant to the newly amended and restated bylaws, Adventist Health will appoint the members of the local governing board, which will serve, roughly, in the capacity as an advisory board to the board of directors with certain designated areas of authority, and adopt "governing board bylaws."

Adventist Health Covenants. The Affiliation Agreement obligates Adventist Health to do and perform the following from and after the contemplated closing under the Affiliation Agreement:

- *New Obstetrics Unit.* Within 5 years of the closing under the Affiliation Agreement, Adventist Health is obligated to develop and open a new inpatient obstetrics and delivery facility on the Hospital campus, housing not less than 12 individual patient rooms with labor, delivery, recovery and postpartum beds and separate Cesarean-section recovery and observation areas.
- *Maintenance of Clinical Services.* Throughout the term of the Affiliation Agreement, Adventist Health is obligated to operate the Hospital as a general acute care hospital with not less than its current licensed bed count (105 general acute care beds and 51 skilled nursing beds), providing not less than the specialty services for which the Applicant is currently licensed, including basic emergency, nuclear medicine, outpatient clinics, diagnostic imaging, OB-GYN, pathology, pediatrics, radiology and others.
- *Governmental Payment Programs.* Adventist Health is obligated to maintain the Applicant's participation in Medicare, Medi-Cal and TRICARE (subject to certain financial limitations).
- *Charity Care.* As of the closing, the Applicant will adopt Adventist Health's charity care policy, set out at Exhibit 3.9(a) (Tab (1)(B) – 2) to the Affiliation Agreement and as the same may be modified from time to time on a system-wide basis.
- *Community Benefit Programs.* Adventist Health is also obligated to continue to support and provide care through the community-based health programs set out in Exhibit 3.9(b) (Tab (1)(B) – 2) to the Affiliation Agreement.