

MIKE KREIDLER  
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON



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**FILED**  
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Olympia, WA 98504-0259  
Fax: (360) 586-2022

OFFICE OF  
INSURANCE COMMISSIONER

2014 JUL 30 A 9:06

June 24, 2014

STUART P HENNESSEY  
SENIOR VP OF LEGAL AFFAIRS  
PEACEHEALTH  
115 SE 164<sup>TH</sup> AVENUE (DEPT 302)  
VANCOUVER, WA 98683

Re: Form A Filing dated February 13, 2014 – Proposed Acquisition of Control of  
Columbia United Providers Inc. ("CUP")

Dear Mr. Hennessey:

During our pre hearing conference call for the upcoming hearing, we indicated that we will review the Form A filing to provide a complete up-to-date filing prior to the hearing. No amendment was received since it was originally filed on February 18, 2014. Please respond in the order as presented in this letter.

The Form A filing requires the following items as required by RCW 48.31B.015. Please submit these items as referenced below.

1. Item 3 – Please provide a listing of the current directors and officers of PeaceHealth Networks and PeaceHealth and their affiliation within or outside of the holding company system.
2. Item 7 – Please provide a current listing of the current and proposed directors and officers of CUP as of today. Please include each person's affiliation within or outside the holding company system.
3. Item 12 – Please provide the unaudited consolidated financial statement of PeaceHealth as of March 31, 2014, and also provide the unaudited financial statement of PeaceHealth Networks as of the same date.

We also request the following items for discussion to be submitted in the order to obtain a better understanding about this filing. Please submit these items as referenced below:

4. Please provide an executive summary of the Form A filing with a brief history regarding the PeaceHealth/PeaceHealth Networks affiliation, their reorganization, and any effect of the affiliation and reorganization on CUP as of

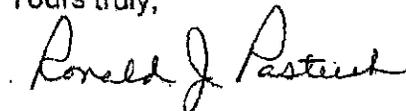


Stuart P. Hennessey  
June 24, 2014  
Page 2 of 2

- today. Please include before and after organizational charts of the PeaceHealth and PeaceHealth Networks holding company system with this executive summary.
5. In concert with Item #4, please provide an explanation of the effect of reorganization on the 2010 affiliation arrangement between PeaceHealth and PeaceHealth Networks including the first amendment to the affiliation agreement.
  6. Please discuss any plans by PeaceHealth regarding the minority shareholders of CUP after the proposed acquisition.
  - ~~7. Please provide any information regarding any pending or ongoing litigation between CUP, PeaceHealth, or its affiliates against any Washington State agency.~~
  8. Please provide any information regarding any pending or ongoing litigation by any CUP current shareholders against CUP, PeaceHealth, or any of its affiliates.
  9. Please provide any information about the stock buyback program instituted by the former Southwest Washington Health System board during 2010 and its current status.
  10. Please provide the names of the attorneys representing CUP and PeaceHealth and PeaceHealth Networks for the upcoming hearing.

If you have any questions, please feel free to contact me at (360) 725-7211.

Yours truly,



RONALD J. PASTUCH, CPA  
Holding Company Manager  
Company Supervision Division  
E-Mail: RonP@oic.wa.gov

Cc: William R. Michels, MBA, CPA, CFE, Company Supervision Division  
Marsha Stickler, Staff Attorney, Legal Affairs

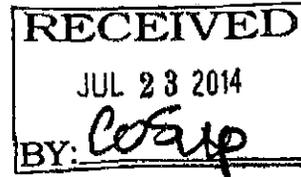


PeaceHealth

FILED

Shared Services Center

2014 JUL 30 A 9:06



July 18, 2014

Ronald Pastuch, Holding Company Manager  
Office of the Insurance Commissioner  
State of Washington  
5000 Capitol Blvd.,  
Tumwater, WA 98501

RE: Form A Filing dated February 13, 2014 -- proposed acquisition of control of  
Columbia United Providers, Inc. ("CUP")

Dear Mr. Pastuch:

Per your letter of June 24, 2014, I am providing the following items, which are numbered  
as referenced in your letter:

1. Please see attachment 1A for the list of the current directors and officers of PeaceHealth Networks. Please see attachment 1B for the list of all current directors and officers of PeaceHealth. You will note that exactly the same officers and directors serve for both companies. None of the officers and directors have any other affiliations, except that Mr. Prill and Mr. Yordy also serve on the CUP board of directors.
2. Please see attachment to 2 for a current list of all directors and officers of CUP. Attachment 2 also includes each person's affiliation within or outside of CUP.
3. Please see attachment 3 for the unaudited consolidated financial statement of PeaceHealth as of March 31, 2014. PeaceHealth Networks has no unaudited financial statement as of March 31, 2014 because it neither received any funds nor incurred any expenditures during the current fiscal year.
4. In 2010 PeaceHealth and Southwest Washington Health System ("SWHS") announced their intention to affiliate. SWHS owned 92% of the stock in CUP, which was a Healthcare Services Contractor operating in Clark County Washington. The Washington State Office of the Insurance Commissioner ("OIC") formally advised PeaceHealth and SWHS that the affiliation would constitute a change of control over CUP and therefore a Form A approval would

be required. PeaceHealth and SWHS were reluctant to make public their affiliation agreement through such an approval process, however, because it contained competitively sensitive information. In order for the affiliation to take place at the time planned, PeaceHealth and SWHS amended the affiliation agreement, agreeing that PeaceHealth would not exert any control over CUP until such time as a Form A had been approved. The affiliation occurred on January 1, 2011, with PeaceHealth becoming the sole member of SWHS, holding reserved powers over SWHS, but not exercising any of its powers over SWHS with regard to CUP.

Subsequently, PeaceHealth, itself, executed a Letter of Intent pursuant to which all of its assets would be contributed to a joint venture with a larger national healthcare company called Catholic Health Initiatives. Negotiations and due diligence pursuant to that Letter of Intent lasted approximately 9 months.

PeaceHealth requested a stay on the Form A approval process during that time because it anticipated having to amend the Form A application to reflect the new legal structure of the joint venture with Catholic Health Initiatives. Ultimately, negotiations between PeaceHealth and Catholic Health Initiatives were not successful and the Letter of Intent was terminated.

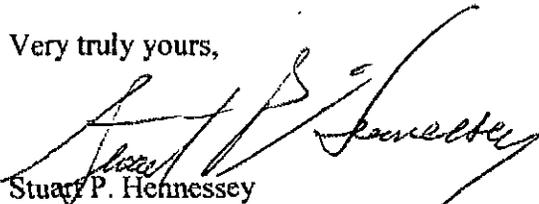
PeaceHealth then renewed the Form A approval process at the request of the OIC. During the renewed process, however, PeaceHealth completed a corporate reorganization in which SWHS and PeaceHealth reversed roles so that SWHS became the member corporation of PeaceHealth. SWHS also changed its name to "PeaceHealth Networks."

Because of the corporate reorganization, the former Form A application was withdrawn and a new application was filed in February 2014. The purpose of the new application was to explain the series of transactions which now result in PeaceHealth Networks (formerly known as SWHS) being the parent corporation and PeaceHealth being a subsidiary. Thus, after the passage of 4 years the situation has reverted to what it was before the 2010 affiliation, with PeaceHealth having no control over PeaceHealth Networks (formerly known as SWHS). Attached hereto as exhibit 4A is a chart depicting the corporate structure from January 1, 2011 through December 31, 2013. Attached hereto as exhibit 4B is a chart depicting the corporate structure from January 1, 2014 to the present.

5. Please see the description in paragraph 4, above.
6. PeaceHealth Networks (formerly known as SWHS) has no plans to make any changes regarding the minority shareholders of CUP.
7. There is no pending or ongoing litigation between or among CUP, PeaceHealth Networks, PeaceHealth, or any of their affiliates against any Washington State agency.

8. There is no pending or ongoing litigation by any CUP current shareholders against CUP, PeaceHealth Networks, PeaceHealth or any of their affiliates.
9. There is no active stock buyback program instituted by SWHS or PeaceHealth Networks concerning CUP. The CUP bylaws provide for stock buyback from owners under certain conditions, which generally have to do with retirement from medical practice or death. Several such transfers have occurred over the last 4 years but they involved minimal amounts of stock.
10. Stuart P. Hennessey is appearing as the attorney representing PeaceHealth Networks and PeaceHealth. Jerry Coe is appearing as the attorney representing CUP.

Very truly yours,



Stuart P. Hennessey  
Counsel for PeaceHealth Networks and PeaceHealth

cc: William R. Michels, Company Supervision Division  
Marsha Stickler, Staff Attorney, Legal Affairs  
Jerry Coe

**PEACEHEALTH NETWORKS  
BOARD OF DIRECTORS (14)**

**July 1, 2014 – June 30, 2015**

Norah Clarke, CSJP

Brett Bryant

Bob De Vita

Margaret Dimond, CSJP

Anne Hayes, CSJP

Lee Kearney

Dieter Morich, M.D.

Andrea Nenzel, CSJP (Chair of PeaceHealth Networks Board)

Gretchen Pierce

Ronald Prill

Kathleen Pruitt, CSJP

Carol Sheridan

Barney Speight

Roland Trenouth, M.D.

## **PEACEHEALTH NETWORKS OFFICERS**

**July 1, 2014 – June 30, 2015**

Alan Yordy, President

Andrea Nenzel, CSJP, First Vice President/Congregation Leader Designee

Anne Hayes, CSJP, Secretary

Ron Prill, Treasurer

Stuart P. Hennessey, Assistant Secretary

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Board of Directors Chair: Andrea Nenzel, CSJP

Board of Directors Vice Chair: Dieter Morich, M.D.

**PEACEHEALTH  
BOARD OF DIRECTORS (14)**

**July 1, 2014 – June 30, 2015**

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**Alan Yordy, President**

**Andrea Nenzel, CSJP, First Vice President/Congregation Leader Designee**

**Anne Hayes, CSJP, Secretary**

**Ron Prill, Treasurer**

**Stuart P. Hennessey, Assistant Secretary**

---

**Board of Directors Chair: Andrea Nenzel, CSJP**

**Board of Directors Vice Chair: Dieter Morich, M.D.**



## CUP Board of Directors 2014

Colleen Fox, M.D.	Chair	Employee, PeaceHealth Medical Group (affiliate)
Ron Prill	Vice-chair	Retired from private business, Board member of PeaceHealth and PeaceHealth Southwest Medical Center (affiliate)
Gerald Coe	Treasurer	Private attorney, CUP legal counsel
George Dechet, M.D.	Secretary	Physician, Retired (minority shareholder)
David Ruiz, M.D.		Employee, PeaceHealth Southwest Medical Center (affiliate)
Tom Sanchez		Employee, Vancouver Clinic, Inc. (minority shareholder)
Patricia Wooden, M.D.		Employee of PeaceHealth Medical Group
Richard Seekins		Businessman, Portland OR
Aidan deRenne, M.D.		Physician, Evergreen Pediatric Clinic
Alfred Seekamp, M.D.		Physician, The Vancouver Clinic
Alan Yordy		President and Chief Mission Officer, PeacHealth
John White		Berger/Abam

### Non Board Officers:

Karen Lee	Interim CEO & President	Employee of CUP
Regina Badger	COO & Vice President	Employee of CUP
Dr. Tanya Dansky	Chief Medical Officer	Employee of CUP
Janice Finley	Controller	Employee of CUP

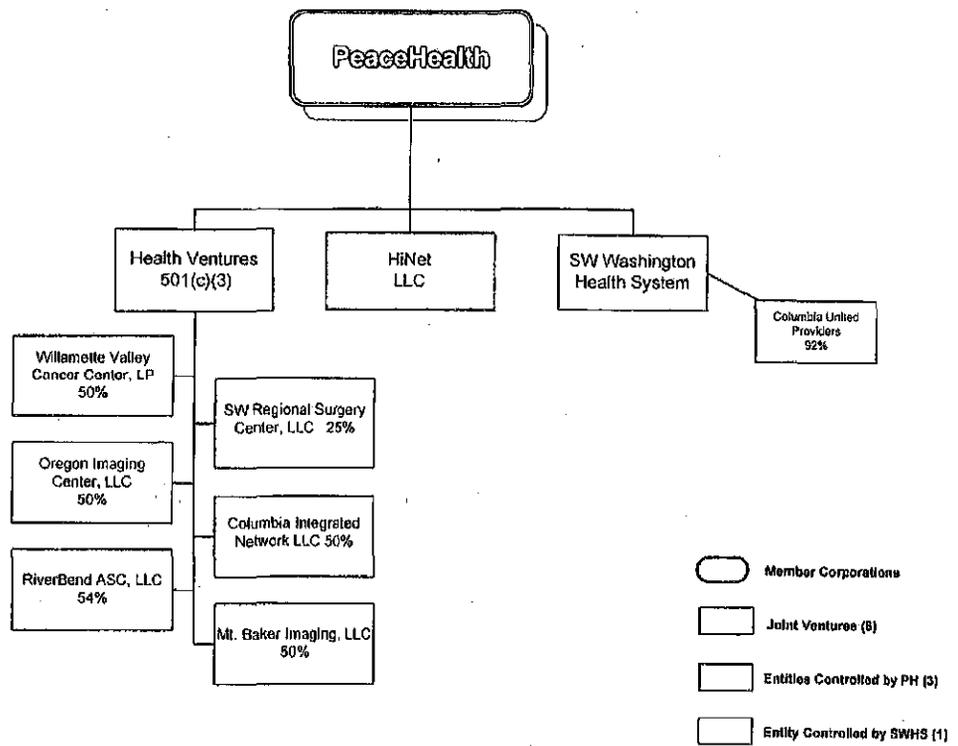
PeaceHealth										
Income Statement										
Fiscal period ending: March 31, 2014										
Consolidated	Current Month					Year-To-Date				
	Mar-14 Actual	Mar-14 Budget	Variance	Var %	Mar-13 Actual	Mar-14 Actual	Mar-14 Budget	Variance	Var %	Mar-13 Actual
<b>Patient Revenue</b>										
Inpatient	223,408,240	220,686,215	2,710,025	1.2%	217,704,688	1,840,322,740	1,824,402,260	15,920,480	0.8%	1,824,517,214
Outpatient	170,452,235	164,475,781	5,976,445	3.6%	154,878,545	1,450,316,817	1,478,783,082	(28,436,275)	-1.9%	1,378,387,938
Other Patient Revenue	50,841,081	49,068,842	1,772,239	3.6%	44,408,142	400,231,566	418,104,058	(17,862,492)	-4.3%	387,538,785
Total Patient Revenue	444,700,457	434,230,847	10,469,610	2.4%	416,991,375	3,790,871,122	3,821,349,400	(30,478,278)	-0.8%	3,690,451,915
<b>Deductions From Revenue</b>										
Charity Care	8,336,829	14,358,184	(6,021,355)	-41.9%	14,740,714	115,774,777	125,811,925	(10,037,148)	-8.0%	120,357,011
Contractual Allowances	252,378,082	226,854,005	(25,524,077)	-11.3%	221,543,881	2,070,588,149	2,008,055,434	(61,542,715)	-3.1%	1,959,881,126
Bad Debt	542,370	13,846,228	(13,303,858)	-96.1%	12,704,227	91,574,281	122,101,848	(30,527,567)	-25.0%	118,044,499
Total Deductions From Revenue	291,257,281	255,058,417	(36,198,864)	-12.4%	249,088,822	2,277,947,197	2,256,969,207	(20,977,990)	-0.9%	2,198,289,636
<b>Net Patient Revenue</b>	153,443,176	179,172,430	(25,729,254)	-14.3%	167,902,553	1,512,923,925	1,564,380,193	(51,456,268)	-3.3%	1,502,168,380
Other Operating Revenue	16,609,727	18,510,312	(1,900,585)	-10.3%	22,140,635	132,807,684	171,160,683	(38,352,999)	-22.4%	152,340,246
<b>Total Operating Revenue</b>	169,052,903	197,682,742	(28,629,839)	-14.5%	189,043,188	1,645,731,609	1,735,541,068	(89,809,459)	-5.2%	1,654,508,626
<b>Operating Expenses</b>										
Salaries, Wages & Contract Labor	90,715,062	83,890,621	(6,824,441)	-7.5%	88,165,689	760,430,789	751,658,590	(8,772,189)	-1.2%	740,558,430
Payroll Taxes and Benefits	21,658,702	25,854,349	(4,195,647)	-19.0%	22,828,922	183,568,811	231,973,360	(48,404,549)	-20.8%	215,528,031
Professional Fees	2,060,832	1,768,751	(292,081)	-14.2%	2,272,517	17,876,090	13,699,960	(4,176,130)	-23.3%	16,343,574
Medical Supplies	16,559,846	16,378,508	(181,338)	-1.1%	15,237,570	136,489,809	140,982,616	(4,492,807)	-3.2%	141,409,284
Drugs & Pharmaceuticals	8,720,786	7,575,565	(1,145,221)	-13.1%	7,456,837	72,782,428	71,863,852	(918,576)	-1.3%	64,237,485
Other Supplies	2,348,188	2,282,387	(65,801)	-2.8%	2,377,831	19,280,489	19,391,653	(111,164)	-0.6%	21,443,875
Purchased Services	25,039,328	20,521,843	(4,517,485)	-18.0%	19,370,001	168,805,443	183,311,777	(14,506,334)	-8.4%	150,618,266
Intercompany Management Fees	-	1	1	100.0%	314,000	1	5	4	77.2%	3,028,704
Travel and Education	1,083,284	1,714,838	(631,554)	-57.8%	884,545	7,881,324	13,688,535	(5,807,211)	-41.8%	7,071,237
Insurance	9,704,183	7,656,390	(2,047,793)	-21.1%	8,803,068	88,408,982	87,081,492	1,327,490	1.5%	59,169,855
Other Expenses	6,841,828	7,879,778	(1,037,950)	-14.6%	8,477,213	65,314,640	88,284,125	(22,969,485)	-26.8%	77,139,708
<b>Operating Expenses (Before ITDA)</b>	184,727,746	175,618,530	(9,109,216)	-5.0%	171,878,992	1,488,493,715	1,582,805,868	(94,312,153)	-6.3%	1,487,443,509
<b>Operating EBITDA</b>	14,324,176	22,073,734	(7,749,558)	-35.1%	18,064,206	149,237,884	152,735,100	(3,497,216)	-2.3%	157,085,117
Interest	5,865,395	3,875,704	(1,989,691)	-33.9%	3,874,188	26,113,087	32,988,837	(6,875,750)	-20.8%	31,448,884
Taxes	-	-	-	0.0%	(303,322)	(184,808)	-	184,808	0.0%	385,578
Depreciation & Amortization	10,747,556	12,028,640	(1,281,084)	-10.7%	12,255,339	98,885,187	109,368,825	(10,483,638)	-9.5%	110,083,916
Accretion	67,328	66,249	(1,079)	-1.6%	63,082	605,980	590,225	(5,755)	-0.9%	601,870
<b>Total ITDA</b>	18,110,280	15,771,802	(2,338,478)	-13.0%	15,889,287	129,229,408	142,938,887	(13,709,479)	-9.5%	142,531,249
<b>Income From Operations</b>	(2,186,104)	6,302,133	(8,488,237)	-134.7%	2,176,909	24,008,477	9,765,213	(14,243,236)	-145.1%	14,533,872
<b>Non-Operating Income</b>										
Investment Income & Change in Fair Value	3,888,348	851,880	(3,036,468)	-78.1%	6,419,226	89,348,355	6,585,291	(82,763,074)	-105.9%	62,939,874
Change in Valuation of Interest Rate Swaps	4,304,808	3,889,456	(415,352)	-9.6%	(789,485)	(5,892,674)	35,005,104	(40,897,778)	-116.8%	20,844,828
Gain(Loss) on Sale of Assets	-	-	-	0.0%	-	913,543	-	913,543	0.0%	(2,023,584)
<b>Total Non-Operating</b>	8,193,156	4,841,155	(3,352,001)	-40.9%	5,629,741	84,369,224	43,570,395	(40,798,829)	-48.3%	81,860,938
<b>Excess of Revenue Over Expenses</b>	6,007,052	11,143,288	(5,136,236)	-46.1%	7,798,649	118,377,710	53,365,609	(65,012,103)	-54.9%	86,394,710
Other Allocated Expenses	-	-	-	0.0%	0	-	-	-	0.0%	(0)
Other Changes in Net Assets	2,151,313	(2,252,000)	(4,403,313)	-195.5%	5,724,357	6,147,001	(20,288,000)	(26,435,001)	-430.3%	477,502,719
<b>Change in Unrestricted Net Assets</b>	8,158,365	8,891,288	(732,923)	-8.2%	13,522,007	124,524,712	33,077,609	(91,452,104)	-73.4%	573,897,429

IS-Consolidated

PeaceHealth									
Balance Sheet									
Fiscal period ending: March 31, 2014									
Consolidated	Mar-14	Jun-13	Variance	Jun-12	Mar-14	Jun-13	Variance	Jun-12	
<b>ASSETS</b>					<b>LIABILITIES AND NET ASSETS</b>				
<b>Current Assets:</b>					<b>Current Liabilities:</b>				
Cash and Cash Equivalents	164,303,835	90,772,884	73,531,251	110,204,384	Current Maturity of Long-Term Debt	31,907,031	20,633,438	11,223,595	14,771,343
Short-term Cash Investments	358,951,702	278,978,091	81,972,811	300,925,588	Accounts Payable	22,565,688	27,527,550	(4,961,862)	16,670,158
Current Assets limited as to use:	30,408,031	29,770,365	837,666	32,825	Accrued Payroll	132,665,298	206,646,613	(73,981,315)	101,240,039
					Accrued Expenses	59,558,738	51,577,078	7,981,660	88,022,482
Patient Accounts Receivable	781,888,768	878,122,424	(96,233,656)	420,787,858	Other Accrued Liabilities	34,874,955	38,558,831	(3,683,876)	38,772,118
Allowance for Uncollectibles	(483,714,673)	(413,760,956)	(69,953,718)	(236,604,908)	Third Party Payables	10,241,506	12,272,349	(2,030,843)	12,248,353
Net Patient Accounts Receivable	298,174,095	464,361,468	(166,187,373)	184,182,950	Total Current Liabilities	291,813,214	355,266,857	(63,453,643)	251,724,483
Third Party Settlements	1,343,816	2,504,303	(1,160,486)	3,482,701	Other Liabilities:				
Current Receivables	39,545,149	37,435,831	2,109,318	23,288,801	Other Liabilities 1	264,161,588	206,308,483	57,852,113	208,634,486
Inventory	37,109,801	39,580,883	(2,471,082)	28,388,880	Total Other Liabilities	264,161,588	206,308,483	57,852,113	208,634,486
Prepaid Expenses	15,030,566	18,380,760	(3,350,194)	10,246,127	Long-Term Debt	1,061,315,584	905,816,598	155,498,986	683,188,895
Other Current Assets	(6,191,305)	4,231,850	(10,423,155)	32,782,569	Total Liabilities	1,617,280,395	1,467,395,939	149,884,456	1,124,647,874
Total Current Assets	935,673,987	760,898,255	174,775,732	697,594,981					
<b>Assets Limited as to Use</b>					<b>Net Assets:</b>				
Trusted Assets	1,206,533	10	1,206,523	17,504	Fund Balance	1,670,640,480	1,568,747,258	101,893,221	575,709,845
Board Designated Investments - Cash	952,217,864	845,538,182	106,679,782	385,582,951	Net Income				
Board Designated Investments - NonCash	34,876,442	32,242,855	2,633,587	(419,287,280)	Restricted-Temporary	47,441,455	27,158,460	20,283,035	2,040,780
Total Assets Limited as to Use	988,104,939	877,781,047	110,323,892	(33,889,826)	Restricted-Permanent	28,592,566	19,619,630	8,972,935	(1,727,401)
Property and Equipment:					Total Net Assets	1,744,674,540	1,615,525,548	129,148,991	576,023,024
Land	128,673,287	127,239,880	1,433,387	75,506,031	Total Liabilities and Net Assets	3,361,954,934	3,082,921,488	279,043,447	1,700,570,897
Property and Equipment:	2,288,726,855	2,244,618,895	44,107,960	1,731,728,568					
Less: Accumulated Depreciation	(1,147,876,405)	(1,062,713,136)	(85,163,269)	(867,481,447)					
PPE - Net of Accumulated Depreciation	1,268,521,717	1,309,484,439	(42,962,722)	899,744,152					
Construction In Progress	53,432,088	27,747,310	25,684,757	47,008,602					
Net Property and Equipment	1,319,853,703	1,336,993,749	(17,140,046)	986,752,764					
<b>Other Assets:</b>									
Other Long Term Assets	118,232,225	107,248,437	10,983,788	50,000,269					
Total Other Assets	118,232,225	107,248,437	10,983,788	50,000,269					
Total Assets	3,361,864,934	3,082,921,488	279,043,447	1,700,570,897					

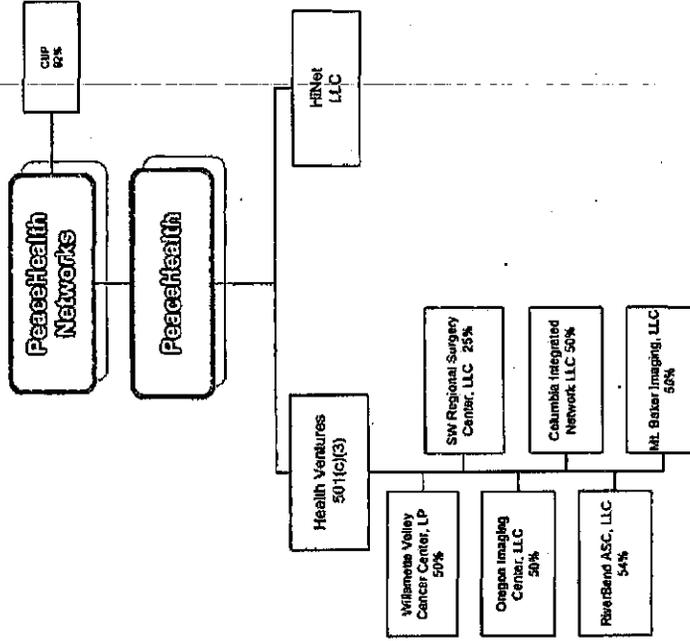
BS-Consolidated

# Legal Entity Chart



Legal/McGee/PH Org Charts/2011 Legal Entity Org Chart

Legal Entity Chart



- Member Corporations
- Joint Ventures (J)
- Entities Controlled by PH (C)
- Entity Controlled by SWHS (N)

Effective as of  
January 2014  
Alan Young, CEO & President

Legal/000000PH Org Chart/2014 Legal Entity Org Chart



PeaceHealth

PeaceHealth  
1115 SE 164th Avenue Dept 302  
Vancouver, WA 98683



Ronald Pastuch  
Office of the Insurance Commissioner  
P.O. Box 40259  
Olympia, WA 98504

Co Sup.

Received  
JUL 23 2014  
Insurance Commission



PeaceHealth



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Ronald Pastuch  
Office of the Insurance Commissioner  
P.O. Box 40859  
Olympia, WA 98504

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