



VHS OF MICHIGAN, INC

**2015 ANNUAL REPORT
TO LEGACY DMC**

March 16, 2016

VHS of Michigan, Inc. hereby presents to the Legacy DMC its 2015 Annual Report. The 2015 Annual Report intends to provide Legacy DMC with a description of the performance through December 31, 2015 by VHS of Michigan, Inc. (“VHS” or “DMC”) in maintaining compliance with the various covenants assumed by DMC.

This report has been prepared and is being delivered for the calendar year period ending December 31, 2015 in accordance with Section 12.17 of the Purchase and Sale Agreement by and among the Detroit Medical Center, Harper-Hutzel Hospital, Detroit Receiving Hospital and University Health Center, Children’s Hospital of Michigan, Rehabilitation Institute of Michigan, Inc., Sinai Hospital of Greater Detroit, Huron Valley Hospital, Inc., Detroit Medical Center Cooperative Services, DMC Orthopedic Billing Associates, LLC, Metro TPA Service, Inc., Michigan Mobile PET CT, LLC, DMC Primary Care Services II and Healthsource, as Seller, and VHS of Michigan, Inc., VHS Harper-Hutzel Hospital, Inc., VHS Detroit Receiving Hospital, Inc., VHS Children’s Hospital of Michigan, Inc., VHS Rehabilitation Institute of Michigan, Inc., VHS Sinai-Grace Hospital, Inc., VHS Huron Valley-Sinai Hospital, Inc., VHS Detroit Businesses, Inc., VHS Detroit Ventures, Inc., VHS University Laboratories, Inc., VHS Physicians of Michigan and CRNAS of Michigan, as Buyer, and Vanguard Health Systems, Inc. dated as of December 31, 2010 (the “Agreement”).

As in prior years, this Annual Report has been organized by section of the Agreement relating to a specific covenant assumed by DMC. Various documents and information supporting DMC’s performance or providing detail related to a particular matter are included as Exhibits to this Annual Report.

Management Overview of 2015

2015 was another year of continued improvement since the Vanguard acquisition of Detroit Medical Center in 2011. Both operationally and financially the leadership and staff at DMC and Tenet demonstrated their commitment to Detroit, the patients we serve as well as our physicians and employees. Management and Leadership Development initiatives gained focus and momentum as we worked on improving our culture around high quality and efficient patient care. Indeed, on the Tenet balanced scorecard (measures metrics of finance, quality, employee turnover, volume growth and patient experience) the Detroit Market led the way for Tenet overall including very high patient quality scores.

For 2016, we plan to build on this momentum with our “Path to the Top” campaign. Our stated goal is to be one of the Top 15 Academic Medical Centers in the United States as measured by Truven (a nationally recognized benchmarking/consulting company) scoring.

Following, are the specifics of DMC compliance to the acquisition agreement.

Indigent and Low Income Care (Section 12.2)

In compliance with Section 12.2 of the Agreement, during 2015 DMC has maintained compliance with the Vanguard Health System charity care policy in place on June 10,

2010, as was required under Schedule 12.2-a to the Agreement. This charity care policy has remained in effect through the acquisition of Vanguard Health System by Tenet Healthcare Corporation ("Tenet") in 2013.

Exhibit A provides information related to charity care and uncompensated care or bad debt for 2015 and trends from 2011 to 2015.

As reported in the 2014 Annual Report to Legacy DMC, The DMC's *Path to Health* campaign experienced greater success than projected. This program was a significant effort to enroll uninsured residents in Southeast Michigan in Medicaid and, if unqualified for Medicaid, with Exchange plans.

The increase in the number of insured patients receiving services continued in 2015. Consequentially, charity care and uncompensated care write-offs reported on the financial statements of the DMC in 2015 declined significantly.

DMC's uninsured patient population is now less than 2% vs 6-7% prior to Healthy Michigan legislation being passed April, 2014.

However, the financial effects of Medicaid expansion must be balanced, in 2015 and over time, with the federal reductions in Medicare DSH, the future reductions in Medicaid DSH ceilings and in targeted State reductions in support for programs directly beneficial to the DMC. Examples of the reductions are the loss of special Medicaid funding to Hutzel Women's Hospital at \$20M and continued pressure on Graduate Medical Education funding.

Commitments to Maintain the Hospitals and Provide Core Services (Section 12.3)

As required by the Agreement, DMC continues to maintain each of its Hospitals as a general acute hospital licensed in the State of Michigan or, in the case of the Rehabilitation Institute of Michigan, as a rehabilitation hospital licensed under the laws of the State of Michigan. DMC continued to provide the Core Services as listed on Schedule 12.3 of the Agreement throughout 2015.

On August 11, 2014, an historic rainfall in Southeast Michigan caused flooding which resulted in significant damage to the Detroit Surgery Hospital in Madison Heights, including damage to its power plant, HVAC, central sterile processing and food service areas, and contamination to large areas of its basement. This event forced the relocation of all patients and clinical services from the Detroit Surgery Hospital to other DMC in-patient and out-patient facilities and the cessation of services at that site. Service restoration is not anticipated at this time. Final resolution of the building is to be determined. DMC still controls the bed licenses and is evaluating moving these to other DMC sites for psychiatry and medical/surgical services.

At the time of execution of the Agreement the Detroit Surgery Hospital was part of the Harper-Hutzel Hospital tax identification number and services it rendered were billed under that number. For that reason, the Detroit Surgery Hospital was not separately listed as a

hospital in the definition of a “Hospital” under the Agreement, but was instead a separately listed component comprising part of Harper-Hutzel Hospital under the Agreement.

Capital Expenditures (Section 12.4)

Under Section 12.4 of the Agreement, DMC is obligated to make certain “Routine” and “Specified” Capital Project Expenditures within prescribed periods. Exhibit B provides information related to Routine Capital Expenditures for the 5 year period from January 1, 2011 through December 31, 2015. Exhibit C provides information related to Specified Capital Project Expenditures for the 5 year period from January 1, 2011 through December 31, 2015 Actual/CY 2016-2017 Forecast.

- *Routine Capital Expenditures*

Routine Capital Expenditures (also called “Non-Specified” Project Capital in certain reports), which are governed by Section 12.4(a) of the Agreement, totaled \$346.1 million over the five year period from January 1, 2011 through December 31, 2015. The requirement per the Agreement was \$350M and with a diligent effort in 2015, routine capital expenditures totaled \$126M with some carryover into Q1 2016. The \$350M commitment has not only been met but exceeded. Carryover spending of \$16.9 million is forecasted for CY 2016, which will bring cumulative spending since January 1, 2011 over the \$350 million commitment amount.

- *CY 2015– Routine Capital Expenditures*

The Routine/Infrastructure/Equipment category includes hospital oriented capital often related to patient safety and quality, including patient monitors, beds, endoscopes and operating room equipment and generators/elevators.

IT projects in 2015 included continued upgrades to the Cerner EMR, continued rollout of ambulatory EMRs for hospital based clinics, Cerner Power Chart Maternity, Rehab Institute EMR/Central Scheduling, continued tech refreshes and ICD-10 related upgrades.

Significant infrastructure projects in 2015 at Detroit Receiving included generator replacement, tile drainage repair, and phase 4 and 5 of roof replacement. Harper infrastructure projects included fire sprinkler replacement, electrical substation replacements and upgrades, and elevator replacement. Sinai Grace Infrastructure projects included elevator replacement, dehumidification upgrade, generator/switchgear replacement, boiler replacement and window replacement.

Other large projects in 2015 included the Ronald McDonald House relocation; build-out of Children’s observation unit, Huron Valley 2 West nursing unit renovation, and at Sinai Grace 1 East nursing unit renovation, and Cath Lab renovation.

Construction continued in 2015 on the Children’s Hospital of Michigan Troy – David K. Page Building. The building opened in February 2016. This project is a key element of the overall plan to provide pediatric health services to children throughout Southeast Michigan.

This project also allowed for the Children’s Tower Project to be redesigned with greater emphasis on higher acuity and subspecialty services.

- *CY 2016 Routine Capital Expenditures Carryover*

Below is a summary of projects scheduled to be completed in 2016 and their carryover amounts:

Routine Capital Expenditures CY 2016 Carryover	Dollar Amount (millions)
CHM Troy Specialty Center	\$ 4.6
Harper Generator Replacement	\$3.6
Harper Pharmacy	\$0.8
CVI Ortho Operating Rooms	\$1.6
CVI EP Lab	\$1.9
CVI Access Center	\$0.5
Retail Pharmacy	\$0.2
Brush Retail Court	\$0.3
Signage Project	\$0.5
All Others	\$2.9
Total	\$16.9

- *Specified Capital Project Expenditures*

Actual expenditures for Specified Capital Projects in the 2015 CY totaled \$60.0 million, for a cumulative total of \$419.5 million since 2011. DMC management projects that we will be at \$500M by end of 2016 and will then exceed the commitment amount by \$45M by the end of 2017. Please see attached letter (Exhibit D) on DMC notification to Legacy board on two year extension of \$500M commitment.

In 2015, a number of the Specified Capital Projects were completed or substantially completed. These included:

- Huron Valley Sinai Hospital ICU Expansion
- Sinai Grace Hospital ICU, Facade Projects, and new Lobby
- Harper Hospital Unified Lobby

Additionally, the following projects are underway and scheduled to be completed in 2016:

- Harper Hospital Unified Lobby Phase II
- Harper Hospital Ground Floor Master Plan

In addition, in 2015 the build out of orthopedic clinics was completed within the Heart Hospital, and these will continue and are scheduled to be completed in 2016. Space for cardiac clinics and CVI recovery bays are included in the project. Also progressing in 2016 will be the construction of the Children's Hospital of Michigan Tower Project, which includes the renovations and backfill of the Carl's Medical Office Building. Exhibit C includes:

- Specified Capital Expenditures CY 2011-2015 Actual/CY 2016-2017 Forecast
 - Projected Specified Capital Forecast By Project/By Quarter
 - Specified Capital Projects – Forecasted Requirements CY2016-2017
 - Specified Capital Project Expenditure Schedule
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- *Agreed Upon Procedures Report*

Pursuant to Section 12.17(a) of the Agreement, the Deloitte & Touche Independent Accountant's Report on applying Agreed-Upon Procedures has been prepared and is attached as Exhibit E to assist in the evaluation of DMC's annual compliance for CY 2015 with the requirements of section 12.4 of the Agreement. The Report on Applying Agreed-Upon Procedures Report is made solely for the information and use of the specified parties and is included as part of the confidential portion of this report.

Warrant (Section 12.5)

At Closing, Vanguard delivered to the Escrow Agent an initial Warrant Certificate for the Warrant. In connection with Vanguard's initial public offering of its common stock in June 2011, Vanguard delivered to the Escrow Agent (in exchange for the Warrant Certificate then in the possession of the Escrow Agent) the Note in the original principal amount of \$500,000,000. In accordance with Section 12.5 of the Purchase and Sale Agreement, the principal amount of the Note is automatically reduced on a continuous basis by the amount of any reduction in the Remaining CapEx Commitment under the Agreement.

No Sale of Hospitals (Section 12.7)

There has been no sale of VHS of Michigan, Inc. d/b/a Detroit Medical Center. VHS of Michigan, Inc. continues to be a wholly-owned subsidiary of Vanguard Health Systems, Inc. Vanguard Health Systems, Inc. became a wholly-owned subsidiary of Tenet Healthcare Corporation on October 1, 2013, a Permitted Transferee of the Hospitals under Section 12.7 of the Agreement.

Commitment to Education Mission (Section 12.8)

Throughout the preceding year, DMC fully supported its historic medical education mission in satisfaction of its commitment under Section 12.8 of the Agreement. DMC continued to employ and train over 1,000 residents and fellows during the 2014-15 academic years.

DMC is the Institutional Sponsor for the DMC training programs. In 2014, an Annual Institutional Review (AIR) subcommittee of the DMC GMEC was formed in response to the ACGME requirement for Annual Institutional Review.

The DMC GME AIR committee met seven times during the academic year to discuss issues related to institutional oversight and to evaluate DMC GME Institutional performance.

The DMC GME AIR Committee generated the following action plan for the 2015-2016 academic year:

1. Increase monitoring and oversight of ACGME Resident/Faculty Surveys and develop protocols to support program improvements
2. Increase duty hour monitoring and oversight to decrease number of violations and identify problem rotations earlier
3. Reinstitute the DMC GME Score Card in 2015-2016 and improve APE compliance and oversight
4. Redesign the Resident Remediation & Probation protocols
5. Initiate Procedure Competence Verification through New Innovations

Attached as Exhibit F is the Annual Report for Academic Year 2014 -2015, which reviews in detail the status of the Graduate Medical Education Program.

DMC remains affiliated for undergraduate medical education with Wayne State University School of Medicine and Michigan State University College of Osteopathic Medicine. DMC continues to be a member in the Detroit Wayne County Health Authority Consortium which partners with local area hospitals and health care systems in training its residents.

The largest licensed group of health care professionals in the State of Michigan is Registered Nurses, with nearly 170,000 licensed nurses providing the majority of healthcare services to the people of the State. The Detroit Medical Center has a nursing workforce of approximately 3,200 registered nurses providing direct patient care. The DMC, with over fifty academic partners and access to numerous specialty areas, provides a wide range of clinical experiences for nursing students. These clinical rotations are provided to students pursuing degrees from the Associate through Doctoral levels of study. DMC employed Advanced Practice Nurses serve as clinical preceptors, adjunct faculty and guest lecturers for the graduate nursing programs of nine colleges and universities. Staff nurses of the DMC are encouraged to pursue opportunities for professional and academic development. This is facilitated through financial support for tuition reimbursement. This represents organizational efforts to comply with the Institute of Medicine (IOM) recommendation to increase the proportion of nurses with baccalaureate degrees to 80% by the year 2020.

DMC also functions as a placement site for other allied health professions, including, without limitation, pharmacists, dieticians, and pastoral care.

Commitment to Research Mission (Section 12.9)

The continued commitment of DMC to its historic research mission extends to the approximately 1000 ongoing clinical trials and retrospective research reviews at the DMC hospitals, the commitment to nurse-led research where over a dozen studies were ongoing in 2015, and the engagement of DMC medical and pharmacy residents in a structured annual research program under which 240 research projects were conducted in 2015 related to Quality and Patient Safety. A listing of the Open Research Studies and Retrospective Research Studies ongoing in the DMC is contained in Exhibit G and Exhibit H.

The DMC and Wayne State University finalized a Master Research Services Agreement, which establishes a relationship that fosters continued coordination and integration between the University and the DMC. The affiliation agreement acknowledges a shared mission in the pursuit of academic and clinical research.

The DMC Heart Hospital's Cardiovascular Research implemented several new research protocols in 2015. Additional protocols are currently under review with expected approval in the first quarter of 2016.

A three year, \$10 million research grant was awarded to Dr. Suzanne White and the DMC for the "Gateway Project" in 2014 and continues to be a robust program. This transformational project creates four Patient Centered Medical Homes adjacent to DMC emergency department. Focusing on a subset of people who are regular visitors to Detroit emergency rooms because they do not have access to a primary care provider, this project will test whether an integrated care model will achieve improved medical outcomes and decreased utilization.

Karmanos Cancer Center (Section 12.10)

Section 12.10 of the Agreement states VHS of Michigan ("Buyer") is committed to supporting DMC's ("Seller") historic partnership with Karmanos Cancer Center ("KCC") and, to that end, VHS of Michigan, Inc. d/b/a Detroit Medical Center assumed all contracts with KCC.

On October 30, 2013, the President and CEO of KCC notified DMC that KCC and its sole member, Karmanos Cancer Institute ("KCI", collectively "Karmanos") had executed a written agreement with McLaren Health Care Corporation ("McLaren"). Under that agreement, McLaren became the sole member of KCI, McLaren would use the "Karmanos" name in its marketing, and KCC would enter into clinical affiliations with McLaren hospitals. KCC did not seek DMC's consent to this arrangement. This led to litigation by both parties which was subsequently settled.

The DMC believes that its historic partnership with KCC remains framed and governed by the terms of the various agreements between KCC and DMC, including provisions that

KCC claims to be unenforceable. The parties have continued to seek resolution to their claims under those agreements. The foregoing notwithstanding, DMC and KCC have continued to forge a working relationship that assures the best care for DMC and KCC patients receiving care from both institutions. While the key elements of new purchased service agreements will require resolution of the outstanding litigation to complete, the DMC remains a party to existing agreements to provide services to KCC.

Throughout 2015, the DMC and McLaren / KCC continued to negotiate an out of court settlement to the ongoing litigation between the parties. On October 7, 2015 the parties agreed to and executed an overall Settlement Agreement, and with the execution on the Agreement, the Court dismissed the litigation. Among the Settlement Agreement terms are: 1) The continuation of long-term Purchase Service, Laboratory and IT agreements between KCC and the DMC; 2) Clarification on the use of the Karmanos name and DMC's cancer marketing activities; 3) Selection of an external consultant to verify existing purchase service rates; and 4) Establishment of a Services Oversight Committee with executives from all parties to review the relationship and status of various agreements between the parties, and to resolve any potential issues which may arise. Resulting from the settlement discussions and ongoing interaction – all parties have been working cooperatively in supporting the various agreements.

Health and Wellness Initiatives (Section 12.11)

The DMC "Path to Health Campaign" took a slightly different turn in 2015 and implemented some non-traditional insurance recruitment efforts. Instead of focusing on the usual population such as the high utilizers and hot leads, the DMC invested time and resources in cultivating and building relationships with the 16,456 individuals insured in 2014.

It was evident during the previous enrollment period that most people trusted those they had relationships with and were more likely to follow their advice or recommendations when it came to healthcare decisions. As a result, the DMC created the Community Ambassador Program. The DMC sent letters to engage the 16,000 + enrollees as potential ambassadors. They were invited to orientation sessions held at five area churches in targeted zip-codes. The attendees were provided an overview of the program, the basics of the Healthy Michigan Plan and learned the benefits of becoming a Community Ambassador. This initiative produced 1,440 DMC Community Ambassadors which resulted in 698 insurance enrollments.

In addition to these efforts, the DMC partnered with FM 105.9 radio station to try yet another grassroots approach to health insurance enrollment. We promoted health insurance in neighborhood Coney Island restaurants in specific targeted zip codes. This hugely successful venture produced 728 enrollments over a five month period. We touched nearly 3,000 people with this effort. The DMC also partnered with a local radio station and local Beauty and Barbershops to enroll shop owners and their clients into health insurance. We were able to build relationships with the salon owners who invited us to return next year.

Using Conifer's presence in the Emergency Rooms and In-Hospital operations coupled with our external Path to Health team's community, ecumenical and retail efforts the DMC was able to enroll 25,271 individuals for 2015. The details of the 2015 campaign are contained in Exhibit I.

The DMC will continue its "Path to Health initiative in 2016. Based on key learning's from 2015, the campaign will build on the Community Ambassador Program and enhance the Coney Island efforts and focus more on population health. We will continue to partner with local churches and organizations to facilitate enrollment. We will support the Center for Medicaid and Medicare's "Coverage to Care" initiative to ensure those covered are receiving the care they need.

Supplier Diversity Program (Section 12.12)

The DMC continues to support "Seller's Supplier Diversity Program". There have been no amendments or changes made to the Supplier Diversity Program Policy since January 1, 2011. Overall diversity spending for FY 2015 was \$32.6 million. This is down from the prior year as a result of the completion of certain construction projects and the significant, commensurate reduction in construction expenditures from 2014 to 2015.

With respect to the Specified Capital projects, DMC has met the requirements of the Renaissance Zone Agreement. In 2015, DMC exceeded all goals under the Renaissance Zone Agreement related to Community Participation.

Goal	Result
30% of all construction dollars awarded to minority-owned (MBE), women-owned, (WBE) and Detroit-based businesses, (DHB, DBB)	46%
25% of all hours worked on construction projects will be by City of Detroit Residents	26%
50% of all hours worked on construction projects will be by Wayne County Residents	43%
25% of all hours worked on construction projects will be by Minority workers	29%
25% of all hours worked by apprentices on construction projects will be by Minority apprentices	56%

Project Genesis (Section 12.13)

DMC completed its 11th year of sponsoring the Project Genesis Summer Youth Employment Program in 2015. In partnership with Detroit Public High Schools and HEART (Health Education and Related Technology) Academy, DMC designed and developed this program to provide a valuable summer employment experience incorporating the core elements of successful youth-development and practice of real job expectations, while providing greater awareness of various healthcare careers and opportunities for career instruction.

One hundred promising students were recruited from Detroit area high schools and colleges and were placed in various departments throughout DMC. Each student worked 30 hours per week for 8 consecutive weeks. In 2015, students were processed through the DMC New Employee Orientation, attended a three-day Clinical Orientation (for interns who desired to work in patient care areas), completed DMC Net Learning modules, and participated in at least one community outreach assignment. Students were also required to attend Career Development Sessions where they are given an opportunity to interact with various DMC healthcare professionals each Tuesday and Thursday.

Detroit Based Systems (Section 12.14)

In compliance with Section 12.14 of the Agreement, the DMC continues to operate its hospitals as a Detroit-based system with its regional headquarters located in the City of Detroit, Michigan.

National Support Centers (Section 12.15)

Senior representatives of Tenet have regularly returned to Michigan and the DMC to assess opportunities to implement and develop beneficial growth strategies and investments. Since the closing of the acquisition of Vanguard Health Systems, Inc. in 2013, senior executives of Tenet have also visited Detroit frequently to meet with DMC management and local, municipal, and state officials. Tenet's Board of Directors held its December, 2013 meeting in the City of Detroit.

Naming Conventions (Section 12.16)

The DMC continues to honor all naming conventions as designated in donor agreements.

EXHIBITS

- Exhibit A: Indigent and Low Income Care (Confidential)
- Exhibit B: Routine Capital Expenditures CY 2011 - 2015
- Exhibit C: Specified Capital Expenditures CY 2011-2015 Actual/
CY 2016-2017 Forecast

Projected Specified Capital Forecast By Project/By Quarter

Specified Capital Projects – Forecasted Requirements
Expenditure Schedule

Specified Capital Project Expenditure Schedule
- Exhibit D: DMC Notification to Legacy Board Letter
- Exhibit E: Deloitte & Touche LLP Independent Accountants Report
(Confidential)
- Exhibit F: Graduate Medical Education Annual Report for
Academic Year 2014-2105
- Exhibit G: VHS Market Report Clinical Research Studies
- Exhibit H: Retrospective Research Studies
- Exhibit I: DMC Path to Health 2015 Summary