

DMC

DETROIT MEDICAL CENTER

VHS OF MICHIGAN, INC

**2017 ANNUAL REPORT
TO LEGACY DMC**

February 28, 2018

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VHS of Michigan, Inc. hereby presents to the Legacy DMC its 2017 Annual Report. The 2017 Annual Report intends to provide Legacy DMC with a description of the performance through December 31, 2017 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, 2017 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 2017

On behalf of VHS of Michigan, Inc. (VHS), I am pleased to present our 2017 Annual Report, which outlines Detroit Medical Center's (DMC) progress over the past year in meeting the commitments it made as part of the 2010 Purchase and Sale Agreement between DMC and Vanguard Health Systems, Inc.

As you will see in more detail in the report, 2017 marked another year of significant milestones for DMC in satisfying and, in some cases, surpassing the expectations that were set forth in the agreement. In spite of broader industry and local market challenges, DMC continues to live up its commitments to: invest in facilities and other capital improvements, strengthen training for our people, further education and research efforts, expand access to healthcare and enhance care for the Detroit community that we serve.

Among the many 2017 accomplishments outlined in the report, DMC:

- Exceeded its \$850 million capital investment commitment spanning 2011 through 2017 and continues to make investments to enhance facilities and care. The largest project in 2017 was the ongoing construction of the Children's Hospital of Michigan Tower and related renovation of the Carl's Medical Office Building. Portions of the new building opened in 2017 and construction will be complete in 2018.

- Made significant gains in the Watson Health (formerly Truven) 15 Top Health Systems study, improving from the 20th percentile the prior year to the 50th percentile. We look forward to continued improvement in 2018 toward our goal of becoming a Top 15 Academic Medical Center.
- Supported its medical education mission by continuing to employ and train over 1,000 residents and fellows during the 2016-17 academic year. Among many achievements, the 2016-2017 ACGME Resident Survey Report indicated the highest ratings by DMC residents and fellows of their programs in the history of DMC GME, with 85% of trainees rating the training as “positive” or “very positive.”
- Strengthened its research mission, which extends to approximately 1,000 ongoing clinical trials and retrospective research studies at the DMC hospitals. In 2017, DMC engaged in new research services agreements valued at \$4 million, with an additional \$560,000 pending final approval.
- Continued efforts to expand access to healthcare, which resulted in 18,974 enrollments in the Healthy Michigan Medicaid Plan. To date, the DMC's insurance efforts have netted 65,118 Healthy Michigan health insurance enrollments, which is 70% of the total number enrolled in the City of Detroit.
- Completed its 12th summer of sponsoring the Project Genesis Summer Youth Employment Program (PG) in partnership with Detroit Public Schools Community District. DMC developed PG to provide a valuable experience for students interested in healthcare careers, and DMC is proud to employ alumni as registered nurses, physical therapists, pharmacy technicians, and in other occupations.

In summary, 2017 was a year of significant accomplishments for DMC as we continue to live up to our commitments under the 2010 agreement. In 2018, we have embarked on an organization-wide transformation to ensure DMC remains a leading provider of care for the Detroit community. As we make additional investments to strengthen quality of care, improve patient satisfaction and offer more convenient care services, we are building an organization that is more efficient, effective and accountable. I look forward to updating you on these and other accomplishments in the future.

Indigent and Low Income Care (Section 12.2)

In compliance with Section 12.2 of the Agreement, during 2017 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 2017 and trends from 2011 to 2017.

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 with 2015 being the first full year of expanded Medicaid coverage. Consequentially, charity care and uncompensated care write-offs reported on the financial statements of the DMC in 2015 declined significantly.

Charity care and uncompensated care write-offs in 2016 and 2017 have continued at this new, lower rate. (Refer to **Exhibit A**, Page 4-5).

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 2017.

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. The DMC Surgery Hospital facility building was sold to an outside party and the sale was completed on March 30, 2017. DMC has relocated the medical and surgical bed licenses to Children's Hospital of Michigan and the psychiatry bed licenses and services to Sinai-Grace Hospital in 2016.

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.

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 five year period from January 1, 2011 through December 31,

2015. Exhibit C provides information related to Specified Capital Project Expenditures for the seven year period from January 1, 2011 through December 31, 2017 Actual/CY 2018 Forecast.

- *Routine Capital*

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 some carryover into Q1 2016, the \$350M commitment has not only been met but exceeded.

- *Specified Capital Project Expenditures*

Actual expenditures for Specified Capital Projects in the 2017 CY totaled \$38.2 million, for a cumulative total of \$532.8 million since 2011. Cumulative spending through 2017 now exceeds the \$500 million threshold in the Purchase Agreement. The largest project in 2017 was the continuing construction of the Children’s Hospital of Michigan Tower Project, which includes the renovations and backfill of the Carl’s Medical Office Building. Portions of the new building opened in 2017 and construction will be complete in 2018.

DMC management projects that total spending on Specified Capital Projects will exceed the commitment amount by \$52M by the end of 2018.

DMC reached an agreement with the Legacy DMC Board regarding timing of spending on Specified Capital Projects. Though the DMC has exceeded the \$500 million commitment, the completion of Children’s Hospital Tower has continued beyond the five year time period. The DMC has spent an additional \$2.3 million on emergency, surgical, and neurological equipment items at DMC’s two safety-net hospitals, Detroit Receiving and Sinai-Grace.

Exhibit C includes:

- Specified Capital Expenditures CY 2011-2017 Actual/CY 2018 Forecast
- Specified Capital Projects – Forecasted Requirements CY 2018
- Specified Capital Project Expenditure Schedule
- Projected Specified Capital Forecast By Project/By Quarter

- *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 D to assist in the evaluation of DMC’s annual compliance for CY 2017 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 resulting in a current principal amount of \$0.

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 2016-17 academic year.

DMC is the Institutional Sponsor for more than 100 GME training programs. In 2016-2017, the Annual Institutional Review (AIR) subcommittee of the DMC GME met throughout the course of the year to review DMC's Institutional Performance as required by the Accreditation Council for Graduate Medical Education.

DMC GME accreditation outcomes in 2016-2017 demonstrate outstanding accreditation results for the DMC Sponsoring Institution and DMC GME residency and fellowship programs. Highlights of these exceptional accreditation outcomes include DMC Sponsoring Institution Continued Accreditation "with commendations" for all years of ACGME reviews of DMC GME; more than 36% of ACGME accredited programs with ACGME Continued Accreditation with "commendations for demonstrated compliance with ACGME requirements and zero citations"; ZERO programs on ACGME warning or probation; and 82% of ACGME accredited programs with ZERO citations. The 2016-2017 ACGME Resident Survey Report indicated the highest ratings by DMC residents and fellows of their programs in the history of DMC GME with 85% of trainees rating their DMC training as "positive" or "very positive" and survey compliance at or above the national means for all resident survey constructs. Similarly, 98% of DMC GME faculty rated their GME programs as "positive" or "very positive."

The DMC GME Office completed the following improvements in the 2016-2017 academic year:

1. Utilized the DMC GME Performance Dashboard to identify “at risk programs” and areas of potential non-compliance and subsequently ensured appropriate interventions at the program and institutional levels. The DMC GME Performance Dashboard includes measurement of key performance indicators and monitoring of program and institutional level performance throughout the academic year. Results of this evolving measurement and monitoring system include the best accreditation outcomes in the history of DMC GME in 2016-2017 academic year.
2. Implemented training programs for Program Directors and Program Coordinators to increase knowledge and skills in management of medical education programs. Highlights include a “New Program Director” regional workshop that was facilitated in collaboration with the Southeast Michigan Medical Education Consortium under the direction of Dr. Heidi Kromrei, DMC Assistant Vice President for Academic Affairs. All DMC Program Directors appointed in the past 2 academic years attended as did Associate Program Directors and other faculty members interested in academic leadership in GME. The DMC developed and supports a “Program Coordinator Council” inclusive of peer-elected Program Coordinator representative who advise the DMC GME efforts in Program Coordinator education and training.
3. The DMC GME office, in conjunction with the DMC Resident Council, developed and implemented a plethora of wellness programs available to residents, fellows, faculty, and GME program administrators. See attached presentation for a list of current and planned wellness activities.
4. The DMC GME accreditation team analyzed data from the 2 ACGME Clinical Learning Environment Review (CLER) audits and utilized findings to generate action items for institutional improvement. Transitions of care protocols, policies and supervision will be reviewed for all programs in the 2017-2018 academic year in conjunction with DMC hospital leadership. Plans for improvement will be generated, implemented and monitored to improve the provision of highest quality patient care and full compliance with ACGME requirements. The DMC GME Executive Committee monitors CLE activities at the DMC.

Attached as Exhibit E is the Annual Report for Academic Year 2016 -2017 which provides a summary of the status of Graduate Medical Education Programs at the DMC.

Action plans for DMC GME improvement in the 2017-2018 academic year:

1. Continued development and implementation of DMC GME physician wellness program.
2. Evaluation of all DMC GME program “Transition of Care” processes, protocols, supervision, and measures of competence to ensure provision of highest quality care and full compliance with regulatory requirements.

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, but not limited to, pharmacists, dieticians, and pastoral care.

Commitment to Research Mission (Section 12.9)

The continued commitment of DMC to its historic research mission extends to an approximate 1,000 ongoing clinical trials and retrospective research studies at the DMC hospitals. The DMC supports a broad spectrum of research related to Quality and Patient Safety conducted by the DMC Medical, Nursing, Pharmacy, Allied Health Professionals, and their respective Fellows, Residents and Students. A listing of the Clinical Research Studies, Prospective Registries with or without Clinical Intervention and Retrospective Registries ongoing in the DMC is available for viewing upon request.

The DMC maintains a valued collaborative relationship with Wayne State University (WSU) Researchers. The DMC and Wayne State University are engaged in 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 "Gateway Project" continues to be a dynamic 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. The project is in its last year of a three year, \$10 million research grant.

Harper/Hutzel Hospital continues to house the only NIH Perinatal Research Branch (PRB) outside of Bethesda Maryland. The PRB is a DMC and WSU Fellowship in Maternal-Fetal Research and has assisted over 20,000 at-risk mothers. A 10 year \$165.9 million grant was renewed in 2013.

In 2017, the DMC engaged in new research services agreements valued at \$4,000,000 with an additional \$560,000 pending final approval. Of this, \$1,330,000 is attributed to research at the DMC Heart Hospital's Cardiovascular Research Program.

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, 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 which led to litigation which was subsequently resolved via a Settlement Agreement executed on October 7, 2015.

With the execution of the Settlement Agreement, the Court dismissed the litigation. Among the Settlement Agreement terms are:

1. The continuation of long-term Purchase Service (clinical and non-clinical), laboratory and IT agreements between KCC and the DMC with options for renewal. In 2017, DMC and KCC reviewed the latest terms and conditions of the agreement, jointly selected and obtained a FMV review opinion (PWC) for all components of the agreement and executed agreement(s) accordingly;
2. 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 that may arise. That Oversight Committee (with three members from both KCC and DMC) have met quarterly and have been actively focusing on any quality, operating issues and opportunities to improve access/care for the oncology patients we jointly serve in the community;
3. Finally, as part of the settlement, DMC and KCC/McLaren committed to evaluating additional adult cancer service partnerships at both DMC and McLaren facilities within the market(s) served. The Settlement Agreement did not require such partnerships, and

there will not be a breach of terms and conditions if no new partnerships develop and the DMC pursues adult cancer services independently. In the fall of 2017, both DMC and KCC committed resources to this effort and are in the active process of evaluating additional oncology access and service opportunities. DMC and KCC/McLaren continue to work as good stewards of the community on plans to increase access, service and quality to meet the needs of Southeast Michigan and beyond that require world class oncological care.

Health and Wellness Initiatives (Section 12.11)

In 2017, we discontinued the Path to Health brand and external campaign efforts. We continued with Conifer presence within the Emergency Department and our in-house operations across the system which resulted in 18,974 enrollments in the Healthy Michigan Medicaid Plan as noted on page 4 of the handout (Exhibit F). To date, the DMC's insurance efforts have netted a total of 65,118 Healthy Michigan health insurance enrollments which is 70% of the total number enrolled in the City of Detroit.

We also partnered with Conifer to ensure patients ineligible for Medicaid were made aware of the Marketplace Open Enrollment period right at the bedside. The patients were referred to a Certified Application Counselor to obtain assistance to enroll into a Marketplace plan or to discuss other options.

We dedicated over \$100,000 to implement a 30-day PR/Marketing campaign for the 2017 Health Insurance Marketplace. The campaign was driven by four major mainstream and contemporary radio stations targeting ages 25-54 year olds as noted on page 11 of the handout (Exhibit F). The goal was to increase awareness within the community particularly since the open enrollment period was cut shorter. The PR campaign caused an uptick in calls and visits to the hospital by individuals inquiring about health insurance.

In addition, we continued our marketing efforts of the Healthy Michigan Plan which is offered year around. We disseminated monthly emails to market our health insurance enrollment efforts to over a 100 community groups, block clubs and neighborhood organizations which are referenced on pages 7-10 of the DMC Health Insurance Operations handout. (Exhibit F).

Going forward, we will continue to provide access to Certified Application Counselors across the system for health insurance enrollment and partner with the State of Michigan supporting their efforts to engage Healthy Michigan Plan enrollees in healthy behaviors.

Supplier Diversity Program (Section 12.12)

The DMC continues to support its Supplier Diversity Program. There have been no amendments or changes made to the Supplier Diversity Program Policy over the past year. Overall Tier 1 diversity spend for FY 2017 was \$15.8 million which is down \$7.1 million from FY 2016 where Tier 1 spend was \$ 22.9 million. This change is attributable to a \$6.3 million

drop in construction and a \$.8 million drop in services, supplies and Information Service expenses.

With respect to the Specified Capital projects, the DMC has met the requirements of the Renaissance Zone Agreement. Due to the completion of the majority of the projects in 2016, the DMC met two 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)	57%
25% of all hours worked on construction projects will be by City of Detroit Residents	15%
50% of all hours worked on construction projects will be by Wayne County Residents	34%
25% of all hours worked on construction projects will be by Minority workers	20%
25% of all hours worked by apprentices on construction projects will be by Minority apprentices	25%

Project Genesis (Section 12.13)

Detroit Medical Center (DMC) completed its 12th summer of sponsoring the Project Genesis Summer Youth Employment Program (PG) in partnership with Detroit Public Schools Community District (DPSCD) (Exhibit G – DMC 2017 Community and School Programs Annual Report).

DMC designed and developed this program to provide a valuable summer employment experience for students interested in a career in healthcare.

Project Genesis incorporates the core elements of successful youth-development and practices of real job expectations. Project Genesis also provides greater awareness of various healthcare careers and opportunities for career instruction.

PG gives students the opportunity to explore their interests in the healthcare field. Within the thirty hour work week students receive weekly training in areas such as leadership and work readiness. An important part the program includes mentorship from DMC professionals in the field who help them to learn how to network and build connections.

One hundred promising students are placed in patient care and business areas throughout DMC. Students work 30 hours per week for eight consecutive weeks.

Students attend new employee orientation. Those assigned to work in patient care areas attend a three-day clinical orientation led by DMC Nurse Educators. In addition, students complete HealthStream modules, attend weekly Career Development Sessions (where students are given an opportunity to interact with various DMC healthcare professionals), and participate in community outreach assignments.

Project Genesis Alumni are employed at DMC as registered nurses, physical therapists, pharmacy technicians, and other occupations.

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 first meeting in the City of Detroit in December, 2013. Additional Board Meetings are anticipated to be held in Detroit by senior executives of Tenet with DMC C.E.O.s starting in 2018. Tenet maintains an office in Detroit for the management of DMC and its operations in Chicago and, until its divestiture in January, 2018, Philadelphia.

Naming Conventions (Section 12.16)

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

2017 Annual Report to Legacy DMC

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