

**Report on Prime Healthcare Services – Garden City, LLC  
Compliance with Asset Purchase Agreement**

April 30, 2019

Pursuant to:

**Monitoring, Compliance and Enforcement Agreement**



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Healthcare Services –  
Garden City, LLC  
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Purchase Agreement**

**April 30, 2019**

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## I. Overview and Background

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### Compliance Monitoring Overview

1. This Compliance Monitoring Report represents Stout Risius Ross, LLC’s (the “Monitor”) assessment of whether Prime Healthcare Services – Garden City, LLC (“PHS Garden City”) is in compliance with certain provisions of the Asset Purchase Agreement (“APA”) that PHS Garden City executed in acquiring substantially all of the assets of Garden City Hospital. Through its review of supporting documentation and analytical testing procedures, the Monitor has assessed PHS Garden City’s compliance with each of these APA commitments as detailed in the Monitoring, Compliance and Enforcement Agreement (the “Monitoring Agreement”).

### Background of the Monitor’s Monitoring of PHS Garden City

2. In July 2014, PHS Garden City agreed to purchase substantially all of the assets of Garden City Hospital (the “Transaction”). In connection with its review of the Transaction, the Michigan Department of Attorney General (the “AG”) entered into the Monitoring Agreement with Garden City Hospital, Prime Healthcare Services – Garden City, LLC, Prime Healthcare Services, Inc., and the Monitor. The Monitoring Agreement is intended to increase the transparency of the Transaction by authorizing the AG and the Monitor to collect information and report on PHS Garden City’s compliance with certain provisions of the APA. This includes monitoring PHS Garden City’s compliance with APA commitments regarding capital expenditures, maintenance of acute care hospital and use of name, charity care, and restrictions on sale or closure of the hospital (“APA Commitments”).



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## II. Compliance with Certain APA Commitments

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3. In 2019, the Monitor requested information and documents relevant to PHS Garden City's compliance with the APA Commitments subject to monitoring. The Monitor reviewed the information PHS Garden City submitted, requested clarification and additional support for certain aspects of the information, and reviewed PHS Garden City's responses to those subsequent requests. The Monitor's review of this information ultimately determines whether PHS Garden City is currently in compliance with the APA Commitments, which contain ongoing provisions.
4. In connection with our analysis, we have made such reviews, analyses, and inquiries as we have deemed necessary and appropriate under the circumstances. The principal sources of information used in performing our analysis included, but were not limited to:
  - The APA dated January 30, 2014, and three (3) subsequent Amendments;
  - The Monitoring, Compliance and Enforcement Agreement;
  - The Garden City Hospital Charity Care Policy;
  - Financial assistance application listings;
  - Financial information regarding patient care costs and financial assistance;
  - Capital expenditure listings and related invoices;
  - PHS Garden City usage and charge reports;
  - A review of available information regarding the services offered to the community;
  - The Board of Directors Meeting Minutes; and
  - Prime Healthcare Services, Inc.'s Annual Report.
5. We address PHS Garden City's compliance with each of the specific APA Commitments below.

### Capital Commitment

6. The APA included a commitment that PHS Garden City would spend or commit to spend the specified minimum amount of \$7 million in capital improvements or related expenditures each year following the APA Closing for a total of 5 years, with no less than \$20 million to be spent in the first 2 years. PHS Garden City has reported investments in its delivery system infrastructure through projects undertaken or planned, and thus appears to be on track with its Capital Plan to meet its APA Commitment regarding capital expenditures.
7. PHS Garden City reported that it has spent \$43,039,783 toward its capital commitment since Closing, of which \$7,163,225 was spent in in 2018. However, because PHS Garden City had a shortfall in its capital commitment spending for Reporting Period 2017, a portion of the 2018 expenditures were allocated to cure that event of Covenant Non-compliance in January and February of 2018. Through its review of the PHS Garden City Capital Plan, reported expenditures, testing of a random selection of capital expenditures, and discussions with PHS Garden City personnel, the Monitor has determined that the remaining



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expenditures during Reporting Period 2018 totaled \$6,267,378, short of the required \$7 million annual commitment.

8. Therefore, in 2018, PHS Garden City failed to spend the full \$7 million required annually, with a shortfall of \$732,622, triggering a new event of Covenant Non-compliance. Upon discussion of this event of Covenant Non-compliance, PHS Garden City personnel have noted, and the Monitor has confirmed, that no physician recruitment expenditures have been allocated to PHS Garden City's capital commitment, which is allowed under the terms of the APA, and would increase expenditures in each previous Reporting Period. PHS Garden City has elected to calculate its physician recruitment expenditures for previous Reporting Periods in order to cure this event of Covenant Non-compliance. The Monitor will evaluate PHS Garden City's calculation and supporting documentation to address this event of Covenant Non-compliance during the 2019 Reporting Period and report its findings to the AG.

#### *Maintenance of Acute Care Hospital and Use of Name*

9. The APA included a commitment that PHS Garden City would maintain the Hospital as an acute care hospital, substantially consistent with the services offered by Garden City Hospital to the community, prior to the Transaction, and with an open accessible emergency department, throughout the Commitment Period.
10. Based on its review of PHS Garden City's reported procedures performed and related charges for 2018, as well as other available information regarding its services offered to the community, the Monitor has determined that PHS Garden City maintained services provided to the community at substantially consistent levels to those being provided pre-Transaction, including its designation as an acute care hospital, and maintained an open and accessible emergency department. As a result of these efforts, the Monitor has concluded that PHS Garden City remains in compliance with this APA Commitment for the 2018 Reporting Period.

#### *Charity Care*

11. The APA included a commitment by PHS Garden City to institute and maintain a Charity Care Policy no less favorable than the Policy in effect at the Hospital immediately prior to the Transaction. The Monitor's review of the policy for indigent care assistance, active at PHS Garden City for the testing periods, shows that it is consistent with the pre-Transaction policy.
12. As part of the indigent care testing, the Monitor has also reviewed PHS Garden City's adherence to the Policy guidelines in its handling of financial assistance applicants. Based on the testing of a random representative sample of financial assistance applicants, the Monitor has determined that PHS Garden City has been and continues to follow its Charity Care Policy, and therefore is in compliance with this APA Commitment for the 2018 Reporting Period.



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**Covenant Not to Sell Hospital**

13. Based on the Monitor’s review of Prime Healthcare, Inc.’s Form 10-K and Garden City Hospital Governing Board Meeting Minutes, it is evident that PHS Garden City continues to retain ownership and operation of the PHS Garden City hospital and related assets, and therefore is compliant regarding the restriction on the sale of assets of the Hospital for the 2018 Reporting Period.



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### **III. Assumptions and Limiting Conditions**

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14. We have not been requested to assess, and our Report does not in any manner address, PHS Garden City's compliance with any portion or covenant of the APA, except as specifically set forth herein. Furthermore, no opinion, counsel or interpretation provided herein is intended for use in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. The Monitor's conclusions are based on the information received from PHS Garden City personnel through the date of this report.
15. No one that worked on this engagement has any known financial interest in PHS Garden City or the outcome of the monitoring. Further, Stout Risius Ross, LLC's compensation is neither based nor contingent on the results of the analysis.
16. The Monitor's conclusions are applicable for the stated date and purpose only, and may not be appropriate for any other date or purpose. This report is solely for use in the cited monitoring, for the purpose stated herein.

A handwritten signature in black ink, reading "Joshua E. Swedlow", written over a horizontal line.

Joshua E. Swedlow  
Senior Manager  
Stout Risius Ross, LLC