

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

May 14, 2018

Pursuant to:

Monitoring, Compliance and Enforcement Agreement



– This Page Intentionally Left Blank –



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

May 14, 2018

Table of Contents

I.	Overview and Background	2
II.	Compliance with Certain APA Commitments.....	3
III.	Assumptions and Limiting Conditions	6

I. Overview and Background



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

May 14, 2018

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. 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”).



May 14, 2018

II. Compliance with Certain APA Commitments

3. The Monitor has requested information and documents relevant to PHS Garden City's APA Commitments subject to monitoring for the period beginning July 2014 through year-end 2017. PHS Garden City has been significantly delinquent in providing the required documentation throughout the initial and subsequent two reporting years. This was due to the PHS Garden City initial compliance team's inadequate communication with, and responsiveness to, the Monitor. This delinquency has been rectified within the last reporting year through a transition of responsibility to new personnel within Prime Healthcare and PHS Garden City. After significant correspondence and an on-site visit by the Monitor this reporting year, the Monitor is now satisfied that the current compliance team within PHS Garden City understands the requisite documentation and timing in order to fully satisfy future reporting requirements.
4. The Monitor has reviewed and analyzed the information PHS Garden City submitted, requested clarification of certain aspects of the information, as necessary, and considered PHS Garden City's responses to any subsequent requests, among other things. Based on our procedures performed related to the monitoring periods including July 2014 through calendar year 2017, the Monitor will determine PHS Garden City's compliance with the APA Commitments, which contain ongoing provisions.
5. 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.

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 five (5) years, with no less than \$20 million to be spent in the first two (2) years. PHS Garden City has reported investments in its delivery system infrastructure through



May 14, 2018

projects undertaken or planned, and has aligned its Capital Plan to meet the full-term APA Commitment regarding capital expenditures.

7. PHS Garden City reported that it has spent \$36,735,068 toward its capital commitment, of which \$14,039,783 was spent in 2014, \$7,607,229 was spent in 2015, \$8,983,903 was spent in 2016, and \$6,104,153 was spent in 2017. These expenditures include significant building and sprinkler-system upgrades needed to bring the Hospital up to current fire safety codes, operating room improvements and new endoscopes, the build-out of the Hospital's pharmacy cleanroom and the opening of a senior ER center designed to meet the emergency care needs of the aging population in the community.
8. Through our review of the PHS Garden City Capital Plan, reported expenditures, testing of a random selection of capital expenditures, and discussions with hospital personnel, the Monitor has confirmed PHS Garden City's reported level of capital expenditure through the year-ended 2017. Based on the Monitor's review, PHS Garden City has complied with its annual capital expenditure commitment for the 2014 through 2016 Reporting Periods, as well as the initial 2-year commitment of \$20 million.
9. In 2017, however, PHS Garden City failed to spend the full \$7 million required annually, with a shortfall of \$895,847, triggering an event of Covenant Non-compliance. Upon discussion of this event of Covenant Non-compliance, PHS Garden City personnel have represented that in addition to the reported capital expenditures detailed above, certain capital costs paid at the Prime Healthcare corporate level related to system-wide assets such as the Hospital's time and attendance system and Enterprise Resource Planning (ERP) system, have not yet been allocated to PHS Garden City, which would increase expenditures in certain years. In addition, PHS Garden City elected not to include expenditures for physician recruitment and retention in its current expenditure reporting. The Monitor is working with PHS Garden City to establish a plan to remedy the event of Covenant Non-compliance in 2018, by either covering the shortfall and/or identifying and quantifying the unreported expenditures outlined above. The Monitor will report on the outcome of these efforts.

Maintenance of Acute Care Hospital and Use of Name

10. 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.
11. Based on our review of PHS Garden City's reported procedures performed and related charges for 2014 through 2017, as well as the publicly available information regarding its services offered to the community, among other documentation, the Monitor has determined that services were being provided to the community at substantially consistent levels to those being provided pre-Transaction, including its designation as an acute care hospital, and PHS Garden City maintained an open and accessible emergency department. Therefore, PHS Garden City has been and remains in compliance with this APA Commitment.



May 14, 2018

Charity Care

12. 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.
13. 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.

Covenant Not to Sell Hospital

14. Based on the Monitor's review of Prime Healthcare, Inc.'s Form 10-K, it is apparent 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.



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

May 14, 2018

III. Assumptions and Limiting Conditions

15. 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.
16. 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.
17. 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
Manager
Stout Risius Ross, LLC