

**Report on Prime Healthcare Services – Port Huron, LLC
Compliance with
Asset Purchase Agreement**

May 31, 2018

Pursuant to:

Monitoring, Compliance and Enforcement Agreement



– This Page Intentionally Left Blank –



**Report on Prime
Healthcare Services –
Port Huron, LLC
Compliance with Asset
Purchase Agreement**

May 31, 2018

Table of Contents

I.	Overview and Background	2
II.	Compliance with Specific APA Commitments	3
III.	Assumptions and Limiting Conditions	7



I. Overview and Background

Compliance Monitoring Overview

1. This Compliance Monitoring Report represents Stout Risius Ross, LLC's (the "Monitor") assessment of whether Prime Healthcare Services – Port Huron, LLC ("PHS Port Huron") is in compliance with specific provisions of the Asset Purchase Agreement ("APA") that Prime Healthcare Services, Inc. executed in acquiring substantially all of the assets of Trinity Health-Michigan. Based upon our review and related testing procedures, the Monitor will assess PHS Port Huron's compliance with each of its APA commitments as detailed in the Monitoring, Compliance and Enforcement Agreement (the "Monitoring Agreement").

Background of the Monitor's Monitoring of PHS Port Huron

2. In 2014, PHS Port Huron submitted a bid to acquire substantially all of the assets of the non-profit Trinity Health-Michigan (the "Transaction"). In connection with its review of the Transaction, the Michigan Department of Attorney General (the "AG") entered into the Monitoring Agreement with PHS Port Huron 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 Port Huron's compliance with specific provisions of the APA. This includes monitoring PHS Port Huron's compliance with APA commitments regarding certain employee matters, capital expenditures, governance, charity care, restrictions on sale or closure of the hospital, and maintenance of its acute care hospital status and operation of the People's Clinic (the "APA Commitments").



May 31, 2018

II. Compliance with Specific APA Commitments

3. In 2017 and 2018, the Monitor requested information and documents relevant to PHS Port Huron's compliance with the APA Commitments subject to monitoring. PHS Port Huron was delinquent in reporting during the initial reporting year. This was due to the PHS Port Huron initial compliance team's inadequate communication with, and responsiveness to, the Monitor. This delinquency has been rectified within the last year through a transition of responsibility to new personnel within Prime Healthcare and PHS Port Huron. 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 Port Huron understands the requisite documentation and timing in order to fully satisfy future reporting requirements.
4. The Monitor reviewed the information PHS Port Huron submitted, requested clarification of certain aspects of the information, and reviewed PHS Port Huron's responses to those subsequent requests, among other things. Based on our procedures performed related to the Monitoring Periods covering September 2015 through year-end 2017, the Monitor will determine PHS Port Huron'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 November 19, 2014, and three (3) related Amendments;
 - The Monitoring, Compliance and Enforcement Agreement;
 - Employee Listings and related employee communications;
 - PHS Port Huron's Charity Care Policy;
 - Financial Assistance Application files;
 - Capital expenditure listings and related invoices;
 - PHS Port Huron charge reports and performed procedures listings;
 - A review of available information regarding the services offered to the community; and
 - Prime Healthcare Services, Inc.'s Annual Report.
6. We address PHS Port Huron's compliance with each of the specific APA Commitments below:

Certain Employee Matters

7. The APA included a commitment by PHS Port Huron to offer employment to all of the employees who were assigned to the operations of Hospital or were eligible to be hired upon as of the Closing Date.
8. As part of its analysis, the Monitor identified those personnel employed at St. Joseph Mercy Port Huron as of the Closing date, August 31, 2015, and reviewed PHS Port Huron's initial employee report. Additionally, PHS Port Huron conducted numerous town hall meetings with employees to explain the transition



May 31, 2018

process and to address any questions or concerns raised by employees in advance of the transition. The process of transitioning employees consisted of a mass migration of employee records to PHS Port Huron's system, with all titles, roles, and employment status remaining unchanged.

9. Based upon the Monitor's review of related personnel files, active employee listings, communications during the transition, discussion with PHS Port Huron's HR personnel, and a review of a sample of employee records during the transition, the Monitor has determined that PHS Port Huron was in compliance with its commitment to offer employment to all legacy St. Joseph Mercy Port Huron employees, and therefore has satisfied this APA Commitment.

Capital Commitment

10. The APA included a commitment that PHS Port Huron would spend or commit to spend the specified minimum amount of \$20 million in capital improvements or related expenditures, within the first three years following the APA Closing. PHS Port Huron has reported significant investments in its delivery system infrastructure through projects undertaken or planned via its Capital Plan implemented to meet its APA commitment regarding capital expenditures.
11. PHS Port Huron has represented that it spent \$5,694,020 toward its capital commitment in from Closing through 2016, and \$4,686,317 in 2017, for a combined total of \$10,380,337. Based upon our review of the documents provided in support of these expenditures and discussions with PHS Port Huron personnel, the Monitor has confirmed the capital expenditures reported by PHS Port Huron for the period beginning September 2015 through year-end 2017.
12. Based on reported expenditures, PHS Port Huron is behind schedule to comply with their three-year, \$20 million capital expenditure commitment, when analyzed on an average yearly basis. However, as the deadline has not been reached, the Monitor cannot draw a conclusory opinion until the final testing year. Therefore, this Report highlights expenditures and demonstrates significant investment by PHS Port Huron during the 2016 and 2017 Reporting Periods, but does not assess whether the spending commitment has been fully satisfied.

Governance

13. The APA included a commitment that PHS Port Huron would establish and maintain an advisory board for the operation of the Hospital, comprised of physicians, community members, and Hospital executives to provide oversight and guidance regarding the operation of the Hospital.
14. Based on our review of Prime Healthcare Services, Inc.'s Annual Report, and the Board Meeting Minutes provided, the Monitor has determined that the advisory board has been properly established and maintained pursuant to this commitment.
15. Additionally, the APA included a commitment that PHS Port Huron would establish and maintain a local advisory board to oversee the Restricted Assets requirements related to the operation of The Peoples' Clinic for Better Health.



May 31, 2018

16. Based on our review of the Lake Huron Foundation Board Meeting Minutes provided, the Monitor has determined that the advisory board has been properly established and maintained pursuant to this APA Commitment.

Maintenance of Acute Care Hospital

17. The APA included a commitment that PHS Port Huron would continue to maintain service offerings consistent with those offered to the community prior to the acquisition throughout the Commitment Period.
18. Based on our review of PHS Port Huron's reported emergency department volumes for the period from September 2015 through year-end 2017 and state licensing paperwork, the Monitor has determined that PHS Port Huron has maintained its status as an acute care hospital, and continued to operate an open and accessible emergency department throughout the Reporting Periods. Therefore, PHS Port Huron is in compliance with this APA Commitment for the 2016 and 2017 Monitoring Periods.

Charity Care & Community Benefit

19. The APA included a commitment by PHS Port Huron to institute and maintain a charity care policy no less favorable than the Policy in effect at the Hospital immediately prior to the Transaction. Based on our review of the Charity Care Policy, active at PHS Port Huron for the 2016 and 2017 Reporting Periods, the Monitor has determined that it is consistent with the pre-Transaction policy, and therefore compliant with this APA Commitment.
20. As part of the charity care testing, the Monitor has also reviewed PHS Port Huron's adherence to the Policy guidelines in its handling of financial assistance applicants. Based on our testing of a random representative sample of financial assistance applicants from October 1, 2016 through year-end 2017, the Monitor has determined that PHS Port Huron followed its Charity Care Policy throughout that period.
21. PHS Port Huron and the Monitor are in the process of working with the Trinity Health entity in order to obtain the necessary supporting documentation for the Monitor to assess the charity care provided by PHS Port Huron from September 1, 2015 through September 30, 2016, for which the records were maintained on the legacy system housed with Trinity Health. The Monitor will report on PHS Port Huron's compliance with this initial period of the Charity Care APA Commitment through its 2018 Monitoring Period testing.

Operation of the People's Clinic

22. The APA included a commitment by PHS Port Huron to provide continuing support for the indigent care clinic commonly known as The Peoples' Clinic for Better Health, including an annual contribution of \$150,000.
23. Based on the Monitor's review of the financial statements of the People's Clinic, as well as payment documentation in support of funding provided to the People's Clinic, the Monitor has determined that PHS Port Huron is in compliance with this APA Commitment.



Restrictions on Sale of Hospital

24. Based on the Monitor’s review of available Prime Healthcare, Inc.’s Form 10-Ks, and the representation made by HS Port Huron in its Compliance Certificate, it is apparent that PHS Port Huron continues to retain ownership and operation of the PHS Port Huron hospital and related assets, and therefore is compliant regarding this APA Commitment.



Report on Prime
Healthcare Services –
Port Huron, LLC
Compliance with Asset
Purchase Agreement

May 31, 2018

Assumptions and Limiting Conditions

25. We have not been requested to assess, and our Report does not in any manner address PHS Port Huron's compliance with any portion or covenant of the APA, except as specifically set forth herein. Furthermore, no opinion, counsel or interpretation is intended 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 Port Huron personnel through the date of this report.
26. No one that worked on this engagement has any known financial interest in PHS Port Huron or the outcome of the monitoring. Further, the Monitor's compensation is neither based nor contingent on the results of the analysis.
27. 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