



Lake Huron Medical Center

February 13, 2018

Attorney General
525 W. Ottawa – 7th Floor
Lansing, MI 48933
VIA FEDERAL EXPRESS OVERNIGHT

and

Department of Attorney General
Corporate Oversight Division
Charitable Trust Section Attorney – Time Sensitive
525 W. Ottawa, 6th Floor
Lansing, MI 48933
VIA FEDERAL EXPRESS OVERNIGHT

**RE: Prime Healthcare Services – Port Huron, LLC's Second Annual
Monitoring Report**

Dear Mr. Bloomfield:

The purpose of this letter is to provide Prime Healthcare Services – Port Huron, LLC's Second Annual Report on the status of each of the Post Closing Covenants contained in the Asset Purchase Agreement (APA) dated November 19, 2014. This report covers the second post-closing calendar year, from January 1, 2017 to December 31, 2017. This report is issued pursuant to the requirements of the Monitoring Compliance and Enforcement Agreement (MCE Agreement) among the Department of Attorney General, Trinity Health-Michigan (THM), Prime Healthcare Services – Port Huron, LLC (LHMC), Prime Healthcare Services, Inc. (PHS), Prime Healthcare Foundation, Inc. (PHF), and Stout Risius Ross (SRR).

Under this MCE Agreement, LHMC is tasked with monitoring the compliance of PHS with the Post-Closing Covenants contained in the Asset Purchase Agreement dated November 19, 2014 (a copy of the Post Closing Covenants is attached as **Exhibit 1**). This monitoring consists of reviewing PHS compliance on a quarterly basis and generating an annual written report.

The following is a summary of LHMC's observations on the Post Closing Covenants.

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Certain Employee Matters – Section 12.1

Section 12.1 requires a listing of employees of THM subject to employment offer from PHS, including annual salary/hourly wage of such employees prior to the transaction. Attached as **Exhibit 2** is a copy of the THM employees immediately prior to the closing date. Also attached as **Exhibit 3** is a copy of the memorandum sent to all THM employees advising that they were now employees of PHS/LHMC and a list of employees that were transitioned to PHS/LHMC. Finally, attached as **Exhibit 4** is a copy of the Employee Transition Services Agreement, including a list of employees transitioned to PHS/LHMC and the benefits administration summary.

Capital Commitment – Section 12.3

Section 12.3 of the APA requires that PHS have a current capital plan in place. Attached as **Exhibit 5** is a copy of the PHS/LHMC capital plan/spend for the monitoring period of January 1, 2017 through December 31, 2017. Proof of the approval of the capital plan is completed on a corporate level and can be obtained through PHS.

In addition to having a current capital plan in place, Section 12.3 requires that PHS/LHMC present evidence of the annual capital spend for the current monitoring period. Listed below (and attached as noted) are the categories of the strategic master capital plan required for monitoring.

a. Physician Recruitment and Retention

During the monitoring period, PHS and LHMC have made a concerted effort to recruit physicians and retain the members of its current medical staff. During the monitoring period, LHMC has employed 20 physicians. LHMC has also employed four advanced practice nurses or physician assistants. In addition, PHS/LHMC has credentialed or re-credentialed all of the physicians in the attachment included in **Exhibit 6**. Attached as **Exhibit 6** is a list of employed physicians and physicians that have been credentialed or re-credentialed during the monitoring period.

b. Increasing the Number and Scope of Medical Service Offerings

PHS and LHMC increased the number and scope of medical services it offers during the second annual reporting period. PHS and LHMC increased the number of medical services by adding wound care and hyperbaric chamber and acquiring a DaVinci surgical robot which brings leading edge surgical care to Port Huron and the surrounding communities. In addition, PHS and LHMC increased the scope of several of our service offerings, including, but not limited to, surgical services wound care, emergency services, urgent care clinic, inpatient and outpatient wound care and internal and family medicine. Attached as **Exhibit 7** is a listing of the LHMC service offerings from the 2016 AHA Annual Report (the 2017 AHA report has not yet been submitted as of the date of this letter).

c. Investment in Information Systems

Attached as **Exhibit 5** is a list of the capital expenditures in the above-listed categories. Some of the highlights of the capital expenditures include the further purchase of equipment and software necessary for a new electronic medical record system and numerous other upgrades to other hospital hardware and software that will enhance patient care and safety. These include upgrades in radiology, laboratory and surgery software and hardware and equipment.

d. New Equipment (Purchased or Leased)

During the monitoring period, as mentioned above, and as set forth in the above **Exhibit 5** (capital expenditures), PHS and LHMC purchased a new CT scanner and control room, new surgical saws and instruments, updated several patient room beds, among other listed equipment which will enhance patient safety and help us serve the community.

e. Facilities Repair, and Maintenance (Excluding Routine Expenses)

See above **Exhibit 5** (capital expenditures) for evidence of expenditures for facilities repair and maintenance (excluding routine expenses) of PHS and LHMC during the monitoring period. Included, among other expenses, are renovations to the flooring in the Wound Center and the Women's Center, improvements in the HVAC system, including new rooftop units, and.

f. Facility Renovations

See above **Exhibit 5** (capital expenditures) for evidence of expenditures for facility renovations of PHS and LHMC during the monitoring period. Included is a renovation to the north building and renovations to the physical therapy suites and medical office suites.

g. New Facilities

PHS and LHMC did not purchase any facilities during the second annual reporting period.

h. New or Renovated Medical Office Space

PHS and LHMC did not purchase and new office space, but LHMC renovated several office space suites in the North Campus during the second annual reporting period.

i. Information Systems

Attached as **Exhibit 5** in paragraph c., above, is a list of the capital expenditures for information systems. As mentioned above, some of the highlights of the capital expenditures include the further purchase of equipment and software necessary for a new electronic medical record system and numerous other upgrades to other hospital hardware

and software that will enhance patient care and safety. These include upgrades in laboratory, laboratory and surgery software and hardware.

j. Other Capital Improvements

See above **Exhibit 5** (capital expenditures) for evidence of all capital expenditures of PHS and LHMC during the monitoring period.

Section 12.3 also requires PHS/LHMC provide documentation showing required advisory board approval for capital expenditures provided in response to the previous request consistent with the authority matrix described in Section 12.11 below. The minutes of the LHMC advisory board and the Bylaws for the Governing Board are attached below under Section 12.11, at **Exhibit 8**.

Governance – Section 12.11

The APA requires that PHS shall constitute and maintain an advisory board for the operation of the LHMC, subject to the authority of PHS's corporate board, comprised of physicians, community service members and LHMC executives to provide oversight and guidance regarding the operation of LHMC. Attached as **Exhibit 8**, are the minutes of the LHMC Board evidencing board activity and composition from meetings conducted during the Monitoring Period.

Maintenance of Acute Care Hospital – Section 12.12

The MCE states that PHS shall maintain the Hospital as an acute care, with an open accessible emergency department, for no less than five (5) years after the Closing date.

PHS has maintained substantially consistent service offerings, and has maintained an active, accessible emergency department. A copy of LHMC emergency department activity log is attached as **Exhibit 9**.

In addition, PHS has maintained and continues to maintain LHMC as an acute care hospital. A copy of the current State of Michigan license is attached as **Exhibit 10**.

Charity Care and Community Benefit – Section 12.15

Under Section 12.15, a copy of the Seller's Charity Care Policy active immediately prior to the closing is attached as **Exhibit 11**. A copy of the Buyer's Charity Care Policy and Discount Program for Financially Qualified Patients, dated 10/1/2016, was adopted by LHMC and has been in effect since that time. This policy is also included as **Exhibit 12**. LHMC represents that the Charity Care Policy adopted 10/1/2016 is no less favorable than the previous policy in effect prior to closing.

Also attached as **Exhibit 13**, is a listing of all charity care provided to the community from January 1, 2017 through December 31, 2017, pursuant to the Hospital's charity care policy.

Information regarding the People's Clinic is described below in the paragraph titled "Protection of Charitable Assets Agreement Section II.D: Operation of the People's Clinic".

Covenant Not to Sell Hospital – Section 12.17

The MCE provides that, for a period of five (5) year following the closing date, PHS shall not sell the assets of the hospital to a third party, and LHMC shall remain a direct or indirect subsidiary of PHS. PHS represents that no assets of the hospital have been transferred to a third-party.

A copy of the interim financial statements¹ covering the monitoring period are attached as **Exhibit 14**. No assets of the hospital were sold or transferred.

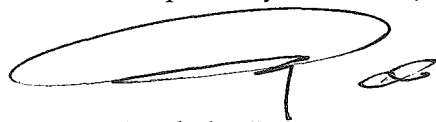
Protection of Charitable Assets Agreement Section II.D: Operation of the People's Clinic

The MCE requires that the charitable assets of the People's Clinic are sufficiently protected. Attached as **Exhibit 15** are operational and financial reports related to the Peoples' Clinic, including but not limited to financial statements, covering the Monitoring Period. Additionally, the MCE requires evidence of funding provided for the operation of the People's Clinic during the Monitoring Period. Said evidence is attached as **Exhibit 16**. Finally, the MCE requires evidence of Trinity Health-Michigan's level of funding for the People's Clinic for the two years prior to the Closing (See **Exhibit 17**, attached).

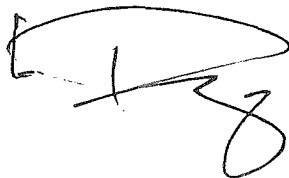
Conclusion

In conclusion, PHS and LHMC are confident that the Monitor will find that they have met their obligations under the Post-Closing Covenants in the Purchase Agreement. LHMC is also confident in the premise that precipitated the purchase by PHS; that the purchase of LHMC by PHS, and the investments made, therein, has ensured that LHMC will have the ability to serve as a community hospital for the foreseeable future.

Respectfully submitted,



Jay de los Reyes
Chief Executive Officer
Prime Healthcare Services – Port Huron, LLC



¹ Audited financial statements for the monitoring period are not yet completed, but are expected to be completed by April 30, 2018.

Cc: Don Thompson
General Counsel
Prime Healthcare Services

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