



October 4, 2023

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**Re: Prospect Medical Holdings Inc. Hospital Conversion Monitorship
for the quarter ended September 30, 2021**

Dear Ms. Weizenbaum, Esq.:

RSM US LLP (“RSM” or “we” or “us,” or “our”) was engaged to assist Rhode Island Office of Attorney General (“Attorney General”, “you”, “your”), pursuant to our engagement letter dated August 23, 2021 (the “Engagement Letter”), with respect to your monitorship of Chamber Inc.; Ivy Holdings Inc.; Ivy Intermediate Holdings, Inc.; Prospect Medical Holdings, Inc.; Prospect East Holdings, Inc.; Prospect East Hospital Advisory Services, LLC; Prospect CharterCARE, LLC; Prospect CharterCARE SJHSRI, LLC; Prospect CharterCARE RWMC, LLC (collectively “the Entities”) in connection with your Hospital Conversions Act Decision dated June 1, 2021, (the “Decision”).

The Attorney General retained RSM as hospital conversion monitoring consultant (“Consultant”) to assist the Attorney General in monitoring compliance of the conditions of approval of the Decision not limited to assessing whether the transaction is implemented as proposed, all financial commitments, operating covenants, and board and other governance requirements are met, and all appropriate notices are timely received. As the Consultant we were asked to assist you in your assessment as to whether the Entities met certain conditions relative to the approved buy-out of the majority shareholders of the parent corporation to Prospect Medical Holdings, Inc. (“Prospect”) and Prospect’s control of the facilities now known as Roger Williams Medical Center (“RWMC”), Our Lady of Fatima Hospital (“OLF”) (collectively “Rhode Island Hospitals”).

We performed procedures, as described in the attached report, to assess Prospect’s compliance for those conditions subject to quarterly testing for the quarter ended September 30, 2021 with respect to Conditions 5 through 11 and 13 (as outlined in the publicly available portions of the Decision). The buyout of the 15% CCCB ownership in Prospect CharterCARE, LLC (“PCC”) occurred on August 18, 2021. Accordingly, we also evaluated Prospect’s compliance with Conditions 28, 29 and 30.

Our procedures, observations, and recommendations are provided further within the body of the report. Our analysis was reliant on information and representations from Prospect. The procedures performed do not constitute an audit, review or compilation of Prospect’s financial statements or any part thereof.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

Greg Naviloff
Partner

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III. Evaluation of Compliance

I. Background

This report contains the results of RSM US, LLP (“RSM”, or “we” or “us,” or “our”), as hospital conversion consultant engaged to assist the Rhode Island Office of Attorney General (“Attorney General”, “you”, or “your”), with your evaluation of Prospect Medical Holdings, Inc. (“Prospect” or “PMH”) compliance with requirements as of September 30, 2021, pursuant to the Attorney General’s Hospital Conversions Act Decision dated June 1, 2021 (“Decision”).¹ Specifically, this report contains the results of our evaluation of Prospect’s compliance with Conditions 5 through 11, and 13 (as outlined in the publicly available portions of the Decision²) for Prospect’s quarter ended September 30, 2021. The buyout of the 15% CCCB ownership in Prospect CharterCARE, LLC (“PCC”) occurred on August 18, 2021. Accordingly, we evaluated Prospect’s compliance with the Conditions 28, 29 and 30 related to the buyout for this report. The definition of these Conditions are presented in Exhibit 1

II. Executive Summary

Based upon the procedures that we performed, discussions with and concurrence by the Attorney General, Prospect’s compliance status with the applicable conditions are as follows:

Condition	Measure of Success	Compliance Status
5.1	Were the escrows and/or Letters of Credit as set forth in Condition 6 provided by Leonard Green?	N/A – See applicable Observations and Finding below
5.2	Did Prospect pay all operating expenses and pay all net operating loss for the applicable time period?	Pending – final financial information is subject to Prospect’s completion of their standard year-end process
5.3	1) Did Prospect spend the required amounts on CAPEX for the applicable periods? 2) Were reductions properly applied pursuant to Condition 6.4?	N/A – Not subject to quarterly testing
5.4	Did Prospect only utilize up to \$27 million of PACE financing towards its CAPEX requirements?	N/A – Not subject to quarterly testing

¹ The Attorney General’s Hospital Conversions Act Decision dated June 1, 2021 involves the entities Chamber Inc.; Ivy Holdings Inc.; Ivy Intermediate Holdings, Inc.; Prospect Medical Holdings, Inc.; Prospect East Holdings, Inc.; Prospect East Hospital Advisory Services, LLC; Prospect CharterCARE, LLC; Prospect CharterCARE SJHSRI, LLC; Prospect CharterCARE RWMC, LLC (collectively “the Entities”).

² All references to the Decision are to publicly-available portions, and do not reference any information redacted by your office.

III. Evaluation of Compliance

Condition	Measure of Success	Compliance Status
6.1	No Measures of Success applicable as Condition was to be met prior to Closing of the Proposed Transaction.	Compliant
6.2	<ol style="list-style-type: none"> 1) Do the letters of credit set forth the correct amounts? 2) Do the terms of the letters of credit reflect the requirements under Section 6.2 and 6.6? <ol style="list-style-type: none"> a. Are the Letters of Credit funded by means other than PCC's revenue, a loan secure by PCC's assets, or collateralized by PCC's assets? b. Do the Letters of Credit list the Agent/Trustee as the beneficiary? c. Are the Letters of Credit irrevocable standby letters of credit in a form acceptable to the Attorney General? 3) When drawn upon- <ol style="list-style-type: none"> a. For CAPEX, does it meet the requirement CAPEX Escrow/LOC Reduction Schedule set forth in Condition 6.4? b. Was it at the written direction of the Attorney General, if, as determined by the Attorney General: (i) Prospect fails to comply with its obligations under II. Financial Conditions (Conditions 5-11) or Condition 22 (Continuity of Services) and/or (ii) an Insolvency Event occurs? c. Did the Attorney General provide written instructions, in accordance with these Conditions, to the financial institution issuing the Letters of Credit regarding the reduction in the Letters of Credit? 	N/A – See applicable Observations and Finding below
6.3	<ol style="list-style-type: none"> 1) Do the escrow agreements or letters of credit set forth the correct amounts? 2) Do the escrow agreements or letters of credit reflect the requirements under Conditions 6.3, 6.5 and 6.6? 3) In the event letter or credit is drawn upon or an escrow reduced, does it meet the requirements under Condition 6.4? 	N/A – See applicable Observations and Finding below
6.4	No Measures of Success applicable as condition is monitored by the Attorney General.	N/A – See applicable Observations and Finding below
6.5	No Measures of Success applicable as condition is monitored by the Attorney General.	N/A – See applicable Observations and Finding below

III. Evaluation of Compliance

Condition	Measure of Success	Compliance Status
6.6	No Measures of Success applicable as letter of credit condition is monitored by the Attorney General.	N/A – See applicable Observations and Finding below
6.7	No Measures of Success applicable as condition is monitored by the Attorney General.	N/A – See applicable Observations and Finding below
6.8	Were all deficiencies cured within 30 business days of written notice from the Attorney General?	Compliant
6.9	Were all fees and costs associated with the Escrows and Letters of Credit paid by Prospect and Leonard Green?	N/A – See applicable Observations and Finding below
6.10	Was the Agent/Trustee Agreement executed within 5 business days of Attorney General's approval?	N/A – See applicable Observations and Finding below
7.1	<ol style="list-style-type: none"> 1) Were all payroll costs, including salaries, retirement contributions and benefits, payroll taxes, state taxes, hospital taxes and fees and workers compensation paid by Prospect CharterCARE, LLC ("PCC") on a timely basis? 2) If amounts were not paid on a timely basis, were past due amount cured within 30 days of notification of the delinquency? 	Compliant
7.2	1) If any accounts payable amount are more than 90 days past due, did PMH provide funding to PCC so that accounts payable is less than 90 days at the next quarterly measurement?	Noncompliant
8	1) Did Prospect provide a guarantee for the satisfaction of, and pay, all obligation owed to Rhode Island Hospitals for PACE financing, including all debt service payments, fines, penalties and any other PACE related costs and expenses prior to the closing of the Proposed Transaction?	Compliant
9.1	1) Did Prospect provide a guarantee for the satisfaction of, and pay, all Medicare Accelerated and Advance Payments ("MAAP") Obligations of all the provider organizations within PCC, including the Rhode Island Hospitals, prior to closing of the Proposed Transaction?	Compliant
9.2	1) Did Prospect provide the Attorney General with the terms of the agreement for repayment of all of the	Compliant

III. Evaluation of Compliance

Condition	Measure of Success	Compliance Status
	MAAP Obligations of all provide organizations within PCC, including the Rhode Island Hospitals?	
10	<ol style="list-style-type: none"> 1) Did Prospect extend the maturity of the TRS Note, as defined herein, to April 30, 2026 prior to the closing of the Proposed Transaction? 2) Does the TRS Note amendment reflect use of PCC assets? 3) Post – May 1, 2021, have any PCC assets the subject of sale lease-back arrangement? 	Compliant
11	<ol style="list-style-type: none"> 1) Was the PCC Management Services Agreement terminated at the sooner of (i) the consummation of the buy-out of the 15% CharterCARE Community Board (“CCCB”) ownership in PCC or (ii) September 30, 2021? 2) Are local hospitals, including the Rhode Island Hospitals being charged for their share of PCC corporate level expenses? 	Compliant
13	<ol style="list-style-type: none"> 1) Were quarterly financial statements, quarterly balance sheets, quarterly statement of operations and quarterly statement of cash flows for Prospect and PCC and any other evidence documenting compliance with Conditions 5-11 and Condition 22 for the preceding quarter provided within 50 days after the end of each fiscal quarter? 2) Were the statements above certified as accurate the Prospect's Chief Financial Officer and the PCC board minutes? 	Compliant
28	<ol style="list-style-type: none"> 1) Was the corporate document that functions as bylaws for PCC amended to require the majority of all board members for all matters that were previously listed in Section 8.3 of the Prospect CharterCARE LLC Agreement, dated June 20, 2014? 2) Was the document amended within thirty days of Prospect's buyout of the 15% CCCB ownership in PCC? 	Compliant
29	<ol style="list-style-type: none"> 1) Does the PCC board include Samuel Lee and consist of 40-49% Community Directors? 2) Are all Community Directors (a) independent of and not employed by or affiliated with Prospect or its affiliates, and (b) not an elected official or an individual that is subject to the Code of Ethics. 3) Was the corporate document that functions as the bylaws amended to reflect the above conditions within 30 days of Prospect's buyout of the 15% CCCB ownership in PCC? 4) Were all PCC board minutes provided to the Attorney General with the quarterly reporting set forth in Condition 13? 	Compliant

III. Evaluation of Compliance

Condition	Measure of Success	Compliance Status
30	1) Did PCC notify the Attorney General of the initial board members with thirty days of the implementation of Condition 29? 2) Did PCC notify the Attorney General of any change in board members within thirty days of such change?	Compliant

We set forth procedures, developed in conjunction with and approved by the Attorney General, to assess whether Prospect meets each of the Conditions of the Decision, i.e., “Measures of Success”. Our procedures are designed to determine if the Measures of Success, established for each of the following relevant Conditions, have been met in evaluating compliance. We evaluated compliance associated with the Conditions by performing such procedures.

Condition 5.1

Provide for the Escrows and/or Letters of Credit as set forth in Condition 6.

Measure of Success

- 1) Were the escrows and/or Letters of Credit as set forth in Condition 6 provided by Leonard Green?

Procedures

- 1) Obtain and inspect related transaction documents.

Observations and Finding

RSM did not obtain and inspect related transaction documents, rather inquired with the Attorney General as to the status of the Escrows and/or Letters of Credit. The Attorney General indicated that the Initial Escrows were provided, but the letter of credit requirements are still being negotiated with Prospect, so RSM cannot determine compliance at this time.

Condition 5.2

Ensure payment of all of PCC’s operating expenses and pay the difference between PCC’s total net revenue and total operating expenses (net operating loss) on an ongoing basis.

Measure of Success

- 1) Did Prospect pay all operating expenses and pay all net operating loss for the applicable time period?

Procedures

- 1) Inquired with Prospect as operating losses are funded, when applicable
 - a. Obtained and gained an understanding of funding agreement or plan between PCC and local hospitals.
 - b. Inquired with local Rhode Island Hospital management and Prospect to gain an understanding of financial planning and analysis process.
- 2) Analyzed the unaudited financial statements of Prospect CharterCare, LLC for the quarter ended September 30, 2021.

Observations and Finding

All organizations must have the financial ability to meet ongoing obligations to successfully operate a business. Hospitals are particularly vulnerable given the volatility of the healthcare market stemming from the COVID 19 pandemic. Hospital operations are further hampered when they are not operating from a strong financial position. As noted in the Decision, assets of the Rhode Island Hospitals were used to secure financing to fund operating expenses and capital needs of the Rhode Island Hospitals, as well as other hospitals and medical facilities owned by Prospect.

III. Evaluation of Compliance

Prospect has had to make up the difference between the Rhode Island Hospitals' revenues and expenses between Fiscal Year 2015 and Fiscal Year 2019, the cumulative loss experienced by RWMC was [REDACTED] and by OLF was [REDACTED]. PCC has lost a cumulative [REDACTED] from Fiscal Year 2015 to Fiscal Year 2020. The average annual amount that Prospect has contributed to the Rhode Island Hospitals is [REDACTED].³ This continued support is necessary for the continued existence of PCC and the Rhode Island Hospitals.

Under this Condition, Prospect is obligated to fund the "net operating loss" as a result of PCC's "total operating expenses" exceeding "total net revenues" to ensure that there is no disruption in, or reduction of the services provided.

Prospect submitted PCC's consolidated balance sheet (internally prepared - unaudited) as of September 30, 2021, consolidated income statement (internally prepared - unaudited) for the quarter and year ended September 30, 2021 and Prospect's consolidated balance sheet (internally prepared - unaudited) as of September 30, 2021, consolidated income statement (internally prepared - unaudited) and consolidated statements of cash flows (internally prepared - unaudited) for the quarter ended September 30, 2021. Further, Prospect submitted other⁴ documents that Prospect believes demonstrates compliance with each of the Financial Conditions contained in the Decision ("Quarterly Financial Package"). PCC's Chief Financial Officer certifies and attests that the quarterly financial information is interim (i.e., financial information is preliminary and subject to change). Furthermore, he states "Due to the standard year-end process this financial information will not be complete until February 2022. Accordingly, the information has not been presented to the PCC Board of Directors."⁵ As a result, we are unable to complete our evaluation of compliance for this condition until the financial information is complete. We will report on compliance for this condition in our report for the fiscal year ended September 30, 2021.

Condition 5.3

Beginning in Fiscal Year 2020 through the end of Fiscal Year 2026, spend not less than \$72.0 million on CAPEX for the Rhode Island Hospitals only, unless otherwise approved by the Attorney General, which shall be spent according to the following schedule:

- (a) For the period covering Fiscal Year 2020 and the first three quarters of fiscal year 2021, not less than \$12.0 million; and
- (b) For the period between October 1, 2021 and September 30, 2026, not less than \$60 million shall be spent as follows:
 - i. not less than \$10.0 million during each fiscal year;
 - ii. not less than \$24 million in CAPEX shall be spent by September 30, 2023; and
 - iii. not less than \$48 million in CAPEX shall be spent by September 30, 2025.

Procedures

- 1) Understand governance, policies and procedures and controls over execution of these transactions.
- 2) Obtain and understand capital budget.
- 3) Understand capital planning at PCC and at the local level.
- 4) Obtain and read capitalization accounting policy.
- 5) Obtain schedule of capital expenditures.
- 6) Agree capital expenditures to general ledger fixed asset accounts.

³ See page 27 of the Decision.

⁴ Other documentation includes a schedule of Medicare Accelerated and Advanced Payment liabilities and representation letters whereby Prospect attests to compliance for the reported Conditions.

⁵ Per page 5 of the Rhode Island Compliance Attestation provided to the Attorney General as part of required reporting per Condition 13.

III. Evaluation of Compliance

- 7) Obtain and inspect invoices related to capital expenditures.
- 8) Evaluate whether treatment of capital expenditures is consistent with capitalization accounting policy.

Observations and Finding

This Condition is subject to annual testing and therefore not subject to quarterly reporting.

Condition 5.4

No more than \$27 million of PACE financing may be applied against the minimum CAPEX requirement.

Measures of Success

- 1) Inquire funding source for capital expenditures.
- 2) If financed through PACE, obtain and read related loan documents and other transaction related documents (e.g. settlement statements, etc.)

Observations and Finding

This Condition is subject to annual testing and therefore not subject to quarterly reporting.

Condition 6.1

6.1 Interim Escrows. Pursuant to one or more escrow agreements acceptable to the Attorney General, Prospect, its parent entities and/or principal shareholders and Leonard Green shall, prior to Closing of the Proposed Transaction, fund three (3) escrow accounts as follows (collectively the "Interim Escrows"):

- (a) The amount of \$12,000,000, of which Prospect shall fund \$4,000,000 and Leonard Green shall fund \$8,000,000 ("the Global Conditions Escrow");
- (b) The amount of \$41,000,000 (the "CAPEX Escrow"), of which Prospect shall fund \$14,200,000 and Leonard Green shall fund \$26,800,000;
- (c) The amount of \$27,000,000, funded entirely by Prospect ("MAAP Escrow");
- (d) The Interim Escrows shall comply with, among other things, the terms set forth in Condition 6.5;
- (e) All funds that Leonard Green is required to provide for the Interim Escrows shall be paid directly by Leonard Green; and
- (f) The Interim Escrows shall remain in place until replaced as set forth in Conditions 6.2 and 6.3, and the Attorney General shall provide written instructions to the escrow agent for the Interim Escrows to release the funds in the Interim Escrows for the purpose of providing the Letters of Credit and/or Escrows required by Conditions 6.2 and 6.3.
- (g) In the event a draw or a reduction is required from the Interim Escrows, such draw or reduction shall take place in accordance with the provisions of Conditions 6.4 or 6.5 as applicable.

Procedures

Procedures not applicable as funding occurred prior to Closing of the Proposed Transaction.

Measures of Success

No Measures of Success reflected as funding occurred prior to Closing of the Proposed Transaction.

Observations and Finding

III. Evaluation of Compliance

RSM did not obtain and inspect related transaction documents, rather inquired with the Attorney General as to the status of the Interim Escrows, which were reported to have been funded prior to Closing of the Proposed Transaction. Since the Interim Escrows were funded prior to Closing of the Proposed Transaction, Prospect is compliant with Condition 6.1.

Condition 6.2:

Prospect Letters of Credit. Prospect, its parent entities and/or principal shareholders shall, on or before August 15, 2021, provide three (3) irrevocable standby letters of credit (collectively the "Prospect Letters of Credit"), in accordance with and subject to Condition 6.6, as follows:

- (a) A \$4,000,000 letter of credit that shall not expire until the Attorney General has determined that Prospect has complied with all Conditions through September 30, 2026 ("Prospect Global Conditions LOC").
- (b) A \$14,200,000 letter of credit (the "Prospect CAPEX LOC") that shall be reduced in accordance with the CAPEX Escrow/LOC Reduction Schedule set forth in Condition 6.4.
- (c) A \$27,000,000 letter of credit (the "MAAP LOC") that shall not expire until the Attorney General has determined that all of PCC's MAAP Obligations have been satisfied in full. The MAAP LOC shall, among other things, secure Prospect's guaranty of PCC's MAAP Obligations (see Condition 9). The MAAP LOC shall be reduced quarterly, only upon the written determination of the Attorney General, by the amount of the PCC's MAAP obligations that have been satisfied in the preceding quarter.

Measure of Success

- 1) Do the letters of credit set forth the correct amounts?
- 2) Do the terms of the letters of credit reflect the requirements under Section 6.2 and 6.6?
 - a. Are the Letters of Credit funded by means other than PCC's revenue, a loan secure by PCC's assets, or collateralized by PCC's assets?
 - b. Do the Letters of Credit list the Agent/Trustee as the beneficiary?
 - c. Are the Letters of Credit irrevocable standby letters of credit in a form acceptable to the Attorney General?
- 3) When drawn upon-
 - a. For CAPEX, does it meet the requirement CAPEX Escrow/LOC Reduction Schedule set forth in Condition 6.4?
 - b. Was it at the written direction of the Attorney General, if, as determined by the Attorney General: (i) Prospect fails to comply with its obligations under II. Financial Conditions (Conditions 5-11) or Condition 22 (Continuity of Services) and/or (ii) an Insolvency Event occurs?
 - c. Did the Attorney General provide written instructions, in accordance with these Conditions, to the financial institution issuing the Letters of Credit regarding the reduction in the Letters of Credit?

Procedures

- 1) Understand governance, policies and procedures and controls over execution of these transactions.
- 2) Obtain letters of credit and understand terms.

Observations and Finding

Per discussions with the Attorney General the letter of credit requirements are still being negotiated with Prospect, therefore RSM is unable to determine compliance at this time.

Condition 6.3:

Leonard Green Obligations. Leonard Green shall, on or before August 15, 2021, either fund Escrows or provide irrevocable standby Letters of Credit, in accordance with and subject to Conditions 6.5 and 6.6, provided that Leonard Green shall use reasonable commercial efforts to obtain the Letters of Credit as set forth in this Condition 6.3.

III. Evaluation of Compliance

- (a) Provide an Escrow or a Letter of Credit in the amount of \$8,000,000 that shall not expire until the Attorney General has determined that Prospect has complied with all Conditions through September 30, 2026 (“LG Global Conditions Escrow/LOC”).
- (b) Provide an Escrow or a Letter of Credit in the amount of \$26,800,000 (the “LG CAPEX Escrow/LOC”) that shall be reduced in accordance with the CAPEX Escrow/LOC Reduction Schedule set forth in Condition 6.4.

Measure of Success

- 1) Do the escrow agreements or letters of credit set forth the correct amounts?
- 2) Do the escrow agreements or letters of credit reflect the requirements under Conditions 6.3, 6.5 and 6.6?
- 3) In the event letter or credit is drawn upon or an escrow reduced, does it meet the requirements under Condition 6.4?

Procedures

- 1) Understand governance, policies and procedures and controls over execution of these transactions.
- 2) Obtain irrevocable standby letters of credit and understand terms.
- 3) If escrows are funded, obtain and review escrow agreements.
- 4) Review funding of escrows at closing either through settlement statements or other proof of payment.

Observations and Finding

Per discussions with the Attorney General the letter of credit requirements are still being negotiated with Prospect, therefore RSM is unable to determine compliance at this time.

Condition 6.4:

“CAPEX Escrow/LOC Reduction Schedule” shall mean the following reductions in the Prospect CAPEX LOC and the LG CAPEX Escrow/LOC (collectively the “CAPEX Funds”) based on the following conditions:

- (a) An \$8 million reduction in the CAPEX Funds, with 40% of the reduction returning to Prospect and 60% of the reduction returning to Leonard Green, on the later to occur of September 30, 2021, or the date upon which all of the following conditions have been satisfied: (a) the Attorney General has determined in writing, based upon documentation provided by Prospect no later than July 30, 2021, that Prospect has spent not less than \$12.0 million in CAPEX for the Rhode Island Hospitals between October 1, 2019, and June 30, 2021, (provided that none of the foregoing CAPEX payments shall be included in the calculation of the minimum CAPEX requirement set forth in Condition 5.3(b)); (b) Prospect has provided Letters of Credit in accordance with Condition 6.2; and (c) Leonard Green has provided Escrows or Letters of Credit in accordance with Condition 6.3.
- (b) A \$6.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2022, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.
- (c) A \$7.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2023, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.
- (d) A \$7.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2024, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.

III. Evaluation of Compliance

(e) A \$7.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2025, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.

(f) A \$6.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2026, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.

(g) If Prospect fails to comply with a mandated condition in a given fiscal year, the scheduled reduction for that fiscal year shall not occur until the Attorney General has determined in writing that Prospect has remedied the failure.

(h) The term "Reduction Percentages" shall mean 66.67% to the LG CAPEX Escrow/LOC and 33.3% to the Prospect CAPEX LOC.

Measure of Success

See Condition 5.3 for related Measures of Success needed to be met prior to reduction in CAPEX Funds. No further Measures of Success applicable as reductions of CAPEX Funds are performed by the Attorney General.

Procedures

See Condition 5.3 for related procedures performed related to Capital Expenditure spending.

Observations and Finding

This Condition is subject to annual testing and therefore not subject to quarterly reporting.

Condition 6.5:

The following terms, among others, shall apply to the Escrows:

(a) The Escrows shall not be funded by PCC's revenue, funded by a loan secured by PCC's assets, or collateralized by PCC's assets;

(b) The funds in the Escrows shall, at the written direction of the Attorney General, be distributed to the Agent/Trustee, if, as determined by the Attorney General (i) Prospect fails to comply with its obligations under II. Financial Conditions (Conditions 5-11) or Condition 22 (Continuity of Services), and/or (ii) an Insolvency Event occurs;

(c) The Attorney General shall provide written instructions, in accordance with these Conditions, to the escrow agent regarding the distribution of funds from the Escrows;

(d) The Escrows shall not be reflected as a liability of PCC or the Hospitals on their financials;

(e) The Escrows, with the exception of the Interim Escrows set forth in Condition 6.1, shall be (i) with an entity that conducts business in the State of Rhode Island, (ii) be subject to Rhode Island law, and (iii) be subject to an agreement that provides, among other things, for disputes to be resolved in the courts of Rhode Island;

(f) The agreements governing the Escrows shall be approved by the Attorney General; and

(g) The escrow agent shall be approved by the Attorney General.

III. Evaluation of Compliance

Measure of Success

No Measures of Success applicable as condition is monitored by the Attorney General.

Procedures

No procedures applicable as Condition is monitored by the Attorney General.

Observations and Finding

Per discussions with the Attorney General, the letter of credit requirements are still being negotiated with Prospect, so RSM cannot determine compliance at this time.

Condition 6.6:

The following terms, among others, shall apply to the Letters of Credit:

- (a) The Letters of Credit shall not be funded by PCC's revenue, funded by a loan secured by PCC's assets, or collateralized by PCC's assets;
- (b) The Letters of Credit shall list the Agent/Trustee as the beneficiary;
- (c) The Letters of Credit shall be irrevocable standby letters of credit in a form acceptable to the Attorney General;
- (d) The Letters of Credit may be drawn upon by the Agent/Trustee, at the written direction of the Attorney General, if, as determined by the Attorney General: (i) Prospect fails to comply with its obligations under II. Financial Conditions (Conditions 5-11) or Condition 22 (Continuity of Services) and/or (ii) an Insolvency Event occurs;
- (e) The Attorney General shall provide written instructions, in accordance with these Conditions, to the financial institution issuing the Letters of Credit regarding the reduction in the Letters of Credit;
- (f) The Letters of Credit shall not be reflected as a liability of PCC or the Hospitals on their financials;
- (g) The Letters of Credit shall be (i) with an entity that conducts business in the State of Rhode Island, (ii) be subject to Rhode Island law, and (iii) be subject to an agreement that provides, among other things, for disputes to be resolved in the courts of Rhode Island;
- (h) The agreements governing the Letters of Credit shall be approved by the Attorney General; and
- (i) The Letters of Credit shall be issued by one or more financial institutions approved by the Attorney General.

Measure of Success

No Measures of Success applicable as condition is monitored by the Attorney General.

Procedures

No procedures applicable as Condition is monitored by the Attorney General.

Observations and Finding

Per discussions with the Attorney General, the letter of credit requirements are still being negotiated with Prospect, so RSM cannot determine compliance at this time.

III. Evaluation of Compliance

Condition 6.7:

Reduction determinations with respect to the CAPEX Escrows and the Letters of Credit, as applicable, will be made by the Attorney General within thirty (30) days after documentation provided by Prospect to support a reduction is deemed complete by the Attorney General, such completeness determination not to be unreasonably withheld.

Measure of Success

No Measures of Success applicable as condition is monitored by the Attorney General.

Procedures

No procedures applicable as Condition is monitored by the Attorney General.

Observations and Finding

None reflected as reductions are determined by the Attorney General.

Condition 6.8:

(a) If the Attorney General determines in writing, as provided in Condition 6.7, that Prospect has failed to comply with any of the required Conditions at any time in a given fiscal year, the Attorney General shall provide Prospect with written notice specifying in reasonable detail the Condition(s) that the Attorney General has determined has not been satisfied and the reasons therefor, and Prospect shall have thirty business days to cure any and all deficiencies with respect to such specified Condition(s). If Prospect has cured any and all deficiencies with respect to such Condition(s) within thirty (30) days of such written notice, the Attorney General shall make the scheduled reduction determination as provided in Condition 6.7.

(b) The Attorney General shall notify Prospect ten (10) days prior to any draw of the Escrows or Letters of Credit pursuant to Conditions 6.5(b) or 6.6(d), respectively, such notification to specify in reasonable detail the Condition(s) that the Attorney General has determined has not been satisfied and the reasons therefor, unless exigent circumstances exist, including but not limited to significant service disruptions or imminent closure of either of the Rhode Island Hospitals which require an immediate draw, in which case the Attorney General shall so inform Prospect, and may proceed with the draw within two (2) business days.

Measure of Success

1) Were all deficiencies cured within 30 business days of written notice from the Attorney General?

Procedures

1) Obtain and review documents related to curing issue.

Observations and Finding

Attorney General did not provide any notice of non-compliance during the quarter ended September 30, 2021, therefore Prospect is in compliance.

Condition 6.9:

Prospect and Leonard Green shall pay all fees and costs associated with the Escrows and Letters of Credit.

Measure of Success

No Measures of Success applicable as condition is monitored by the Attorney General.

Procedures

No procedures applicable as Condition is monitored by the Attorney General.

III. Evaluation of Compliance

Observations and Finding

None reflected as determinations of compliance regarding fees and costs associated with the Escrows and Letters of Credit are made by the Attorney General.

Condition 6.10

Agent/Trustee Agreement. Any of the funds from the Escrows and/or the Letters of Credit that are delivered to the Agent/Trustee shall be governed by the Agent/Trustee Agreement. Prospect and Leonard Green shall execute the Agent/Trustee Agreement within five (5) business days of its approval by the Attorney General.

Measure of Success

- 1) Was the Agent/Trustee Agreement executed within 5 business days of Attorney General's approval?

Procedures

- 1) Obtain executed agreements.
- 2) Note agreements were executed timely.

Observations and Finding

Per discussions with the Attorney General the letter of credit requirements are still being negotiated with Prospect, therefore RSM is unable to determine compliance at this time.

Condition 7.1:

PCC shall ensure all payroll, including salaries, retirement contributions and benefits, payroll taxes, property taxes, sales taxes, hospital taxes and fees and workers compensation is paid on a timely basis. In the event that any such payments are delinquent by more than 15 days, PMH shall provide funding in an amount equal to the delinquency and cure the delinquency within thirty (30) days upon notification of the delinquency.

Measure of Success

- 1) Were all payroll costs, including salaries, retirement contributions and benefits, payroll taxes, state taxes, hospital taxes and fees and workers compensation paid by PCC on a timely basis?
- 2) If amounts were not paid on a timely basis, were past due amount cured within 30 days of notification of the delinquency?

Procedures

- 1) Obtain and read applicable policies and procedures ("P&P").
- 2) Discuss processes, policies and procedures with Prospect.
- 3) Obtain and inspect detail of all payroll expenses including salaries, retirement contributions and benefits, payroll taxes, property taxes, sales taxes, hospital taxes and fees and workers compensation.
- 4) Obtain evidence that show liabilities were timely satisfied.

Observations and Finding

As discussed above, the continued existence of PCC and the Rhode Island Hospitals is dependent on Prospect. Without this continued support, Prospect will be unable to timely meet its ongoing obligation related to operating expenses, including payroll, payroll taxes and benefits, applicable state and local taxes, and workers compensation.

This Condition requires that PCC ensure all payroll, including salaries, retirement contributions and benefits, payroll taxes, property taxes, sales taxes, hospital taxes and fees and workers compensation is paid on a timely basis. In the event that any such payments are delinquent by more than fifteen days,

III. Evaluation of Compliance

PMH is required to provide funding in an amount equal to the delinquency and cure the delinquency within thirty days upon notification of the delinquency.

We requested the following: (a) general ledger entries recording wages and salaries, payroll taxes and benefits; (b) accrued payroll liability schedule (i.e., a schedule detailing the amounts that PCC determined that in needed to pay) and supporting calculations that contained payroll expenses, retirement contributions and benefits, payroll taxes and workers compensation; and (c) proof of payroll payment (e.g., bank transfers from operating account for payment to third-party payroll processor, remittance of payroll taxes, remittance of retirement of retirement contributions and withholding to Plan Administrator).

Prospect satisfied our aforementioned request by providing a payroll funding summary for each payroll period from payroll reports prepared by ADP, a third-party payroll processor. The payroll funding summary contains the net payroll and withholdings, such as garnishment, employee taxes, 401K contributions. The payroll funding summary also contains employers' share of payroll taxes. In addition, Prospect provided wire confirmation from ADP and bank statements for July, August and September.

We then verified the funding of net payroll, garnishment, employee and employer taxes, and 401K contributions by comparing payroll funding summary to wire confirmations sent by ADP for each of the payroll paid for the quarter ended September 30, 2021. Additionally, we agreed amounts in the wire confirmations received from ADP to debit entries in the bank statements and noted timely funding. Finally, we compared salaries and wages, payroll taxes and retirement benefits from the general ledger to the payroll funding summary to ensure that all obligations related to payroll, including payroll taxes and benefits were satisfied for the quarter ended September 30, 2021.

The salaries and wages, payroll taxes and retirement benefits per general ledger do not include amounts for workers compensation as those amounts are not funded in a similar manner to other benefits. Through extensive discussions held with PCC, workers compensation is managed by Prospect for all of their medical facilities in order to provide better administration of workers compensation benefits. The annual premium amount is sent to PCC via intercompany account from Prospect and is recorded as a prepaid expense. There was no indication during our discussions and subsequent responses provided by Prospect of any delay in the payment of workers compensation. The funding of other employee benefits is pending additional information from Prospect.

Table 7.1.1

	<u>July</u>	<u>August</u>	<u>September</u>	<u>Total</u>
Salaries and wages, payroll taxes and retirement benefits per general ledger (A)				
Payroll Funding Summary from ADP payroll reports (B):				
Direct Deposit				
Check				
Garnishment				
Employer/Employee Taxes				
401k				
Grand Total				
Variance (B)-(A)				

III. Evaluation of Compliance

General ledger salaries and wages, payroll taxes and benefits expenses for the month of September included an accounting journal entry adjustment decreasing the expense by [REDACTED]. This adjustment is a net total that includes a total of [REDACTED] related to manual recording of monthly 401K employer matching contribution from December 2020 through September 2021. 401K employer matching contribution expense was also recorded systematically each month within PCC's new general ledger application. As a result, salaries and wages, payroll taxes and benefits were overstated by the duplicate 401K employer contribution expense. Further, RSM noted that PCC systematically recorded monthly 401K employer contribution expenses totaling [REDACTED] that were not properly captured in the correct general expense account.

PCC's salaries and wages, payroll taxes and benefits for the quarter ended September 30, 2021, as shown in In Table 7.1.1, are presented without the effect of the overstatement of the 401K employer matching contribution applicable to the quarter then ended.

Salaries and wages, payroll taxes and retirement benefits were funded timely, on or before the payroll date, without exception. An unreconciled variance of 0.9% of salaries and wages, payroll taxes and benefits did not warrant further inquiry.

Based on the procedures performed, Prospect paid timely payroll, including salaries, retirement contributions and benefits, and payroll taxes for the quarter ended September 30, 2021; and therefore, is in compliance with this Condition. State taxes, hospital taxes and fees were tested as part of Condition 7.2 below and no issues were noted. Therefore, based on the procedures performed, Prospect paid timely payroll, including salaries, retirement contributions and benefits, payroll taxes, property taxes, sales taxes, hospital taxes and fees and workers compensation and is in compliance with this Condition.

Condition 7.2:

PCC shall ensure its vendors are paid on a timely basis. In the event accounts payable days outstanding is greater than 90 days, PMH shall provide funding to PCC so that accounts payable are less than 90 days at the next quarterly measurement.

Measure of Success

- 1) If any accounts payable amount are more than 90 days past due, did PMH provide funding to PCC so that accounts payable is less than 90 days at the next quarterly measurement?

Procedures

- 1) Obtain and read applicable P&P.
- 2) Obtain and inspected schedule of accounts payable and accrued expenses
- 3) For outstanding amounts greater than 90 days:
 - a. Inquire reason for non-payment, such as dispute
 - b. If outstanding amount is unrelated to disputes, assess whether subsequent funding was timely received from PMH.

Observations and Finding

The Rhode Island Hospitals' ability to provide consistent and effective services to the community depend not only on PCC's ability to pay its employees and vendors but also on a timely basis. As noted above, continued support from Prospect is necessary for the continued existence of PCC and the Rhode Island Hospitals.

III. Evaluation of Compliance

This Condition requires that PCC ensure its vendors are paid on a timely basis. In the event accounts payable days outstanding is greater than 90 days, Prospect shall provide funding to PCC so that accounts payable are less than 90 days at the next quarterly measurement.

We requested the following: (a) accounts payable aging and schedule of other accrued liabilities as of September 30, 2021; (b) list of accrued expenses as of September 30, 2021, including date of invoice and payment due date; and (c) uninvoiced purchase orders (goods or services received but invoices have not been received). We read the policy titled, "Expense Recognition, Accounts Payable and Accrued Liabilities" and discussed certain items within the policy with Prospect on November 17, 2021. We observed that Prospect's aging schedules for RWMC and OLF contains cumulative amounts of past due vendor invoices, grouped and summed by the number of months the unpaid invoice is past the payment due dates found on the invoice, (e.g., 1 month, 2 months, 3 months and over 3 months) as of September 30, 2021.

Table 7.2.1

	Total Unpaid Amount	1 Month Overdue	2 Months Overdue	3 Months and Greater Overdue	Unallocated Amount ⁶
RWMC					
OLF					
Total					

We agreed the balances per the aging schedules to the balances per general ledger. The balance per the aging schedule for OLF was higher than the balance per general ledger by [REDACTED]. The difference was considered minor and not further investigated. The balance per the aging schedule for RWMC was less than the balance per the general ledger by [REDACTED] due to an accounting error. The variance was corrected in December 2021.

We inspected the aging schedules and noted that there were, in aggregate, [REDACTED] of unpaid invoices that were 3 months past due and [REDACTED] of unpaid invoices that were over 3 months past due. We subsequently requested and Prospect provided aging schedules for the quarter ended December 31, 2021 to ascertain if funding was necessary to maintain accounts payable less than 90 days. For the quarter ended December 31, 2021, accounts payable aging are as follows:

Table 7.2.2

	Total Unpaid Amount	1 Month Overdue	2 Months Overdue	3 Months and Greater Overdue	Unallocated Amount ⁷
RWMC					
OLF					
Total					

The following vendors were owed amounts more than 90 days past due as of the quarter ended September 30, 2021 and remain unpaid as of the quarter ended December 31, 2021:

⁶ According to Prospect, the amount listed in the Unallocated Column can be the result of the following: (i) The amount is not within the range of the defined aging buckets for payment due; (ii) the outstanding amount for the invoice and the installment do not match. This can happen when one of the amounts is displayed as a positive amount and the other as a negative amount; or (iii) the payment amount is greater than the invoice amount, which can happen when the invoice distributions have different accounting dates, and the invoice or installment has been paid in between the accounting dates.

⁷ Supra. See note 12.

III. Evaluation of Compliance

Table 7.2.3

<u>Vendor</u>	<u>Location</u>	<u>Unpaid Amount</u>	<u>Over 3 Months Overdue</u>
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total		[REDACTED]	[REDACTED]

Amounts past due to Roger Williams Medical Center are related to Medicare reimbursements due to CharterCare Health Partners prior to the 2014 acquisition of CharterCare Health Partners by Prospect. Since CharterCare Health Partners held a 15% interest in the acquiring entity after the acquisition, these amounts have remained outstanding. According to Prospect, the aforementioned amount as well as other amounts due to/from CharterCare Health Partners related to the original acquisition will be settled with the acquisition of the remaining 15% ownership interest owned by CharterCare Health Partners.

[REDACTED]

We did not inquire about the past due amounts from the other vendors listed above because of the balances relative to the total balance.

To further assess whether there were additional unpaid amounts (e.g., amounts owed for which invoice amounts had not been received), we requested a list of accrued expenses as of September 30, 2021. This listing typically would contain expenses associated with goods and services received for which invoices have not yet been received. These expenses also have to be considered in assessing compliance with the terms of Condition 7.2.

Accrued expense information received is summarized as follows:

Table 7.2.4

Account	RWMC	OLF	Total
(A) Other Accrued Expenses Payable	[REDACTED]	[REDACTED]	[REDACTED]
(B) Escheatment Payable	[REDACTED]	[REDACTED]	[REDACTED]
(C) Sales Tax Payable	[REDACTED]	[REDACTED]	[REDACTED]
(D) Fees Payable - Other	[REDACTED]	[REDACTED]	[REDACTED]
(E) Property Taxes Payable	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]

III. Evaluation of Compliance

We agreed the balances on the list of accrued expenses to the general ledger balances. We then inspected the content of each schedule noting the counterparty, the nature of the obligation and the payment terms (when available). We also reviewed the activity from October 2021 to December 2021 for any subsequent payments and accruals. No issues were noted in the accrued expenses that impacted compliance with the Condition. We observed the following details with respect to each accrued expense account:

[REDACTED]

Our understanding of this condition, confirmed through discussion with the Attorney General, is that vendor invoices be paid in less than 90 days. Consequently, Prospect is not in compliance as there were invoices totaling [REDACTED] that were more than 90 days past due as of the quarter ended September 30, 2021 and there remain unpaid invoices totaling [REDACTED] (Table 7.2.3 above) as of the quarter ended December 31, 2021.

Condition 8:
PACE Obligation: Prospect shall guarantee the satisfaction of, and pay, all obligations owed by the Rhode Island Hospitals for PACE financing, including all debt service payments, fines, penalties and any other PACE related costs and expenses during the period of Prospect’s ownership of Prospect CharterCARE and the Rhode Island Hospitals, and shall enter into an agreement prior to closing of the Proposed Transaction to meet this obligation.

III. Evaluation of Compliance

Measure of Success

- 1) Did Prospect provide a guarantee for the satisfaction of, and pay, all obligation owed by Rhode Island Hospitals for PACE financing, including all debt service payments, fines, penalties and any other PACE related costs and expenses prior to the closing of the Proposed Transaction?

Procedures

- 1) Reviewed documents provided relating to Prospect's guarantee of Rhode Island Hospitals' Pace financing.
- 2) Confirmed that the guarantee was made prior to the closing of the transaction.
- 3) Obtained repayment schedule and assessed whether payments were made timely.

Observations and Finding

As noted in the Decision, cash from all the hospitals owned by Prospect are swept into an account managed by Prospect. This factor along with the Rhode Island Hospitals' dependence on Prospect for their continued existence creates a risk for delinquent PACE financing payments.

This Condition requires that Prospect guarantee the satisfaction of, and pay, all obligations owed by the Rhode Island Hospitals for PACE financing, including all debt service payments, fines, penalties and any other PACE related costs and expenses during the period of Prospect's ownership of PCC and the Rhode Island Hospitals, and enter into an agreement prior to closing of the Proposed Transaction to meet this obligation.

In the previous quarter, RSM obtained and read the PACE Payment and Reimbursement Agreement, dated May 27, 2021 ("PACE Agreement"). Section 1 of the PACE Agreement states, "PMH hereby agrees to directly pay or reimburse: (i) RWMC for all amounts payable by RWMC under or with respect to the RWMC PACE Agreements as and when payable from the date of this Agreement through PMH's ownership, directly or indirectly, of any interest in RWMC, and (ii) SJHSRI for all amounts payable by SJHSRI under or with respect to the SJHSRI PACE Agreements as and when payable from the date of this Agreement through PMH's ownership, directly or indirectly, of any interest in SJHSRI." We also obtained and read the PACE Financing Agreements.

Based on the Installment Payment Schedule contained in the PACE Financing Agreements, July required payment was paid timely, as previously reported in our report for the quarter ended June 30, 2021 and there were no scheduled repayments for August and September 2021. As such, Prospect is in compliance with this Condition.

Condition 9.1:

Prospect shall guarantee the satisfaction of, and pay, all MAAP Obligations of the provider organizations within PCC, including the Rhode Island Hospitals and shall enter into an agreement prior to closing of the Proposed Transaction to meet this obligation.

Measure of Success

- 1) Did Prospect provide a guarantee for the satisfaction of, and pay, all MAAP Obligations of all the provider organizations within PCC, including the Rhode Island Hospitals, prior to closing of the Proposed Transaction?

Procedures

- 1) Reviewed documents relating to Prospect's guarantee of all MAAP Obligations of the provider organizations within PCC, including the Rhode Island Hospitals.
- 2) Confirmed that the guarantee was made prior to the closing of the transaction.
- 3) Obtained evidence of payment of all MAAP obligations for the quarter ended September 30, 2021.

Observations and Findings

III. Evaluation of Compliance

MAAP obligations are at risk for delinquent payments because of the factors noted above as relating to Condition 8. This risk is mitigated to a certain extent by the repayments of the obligation that are deducted from the Medicare Reimbursements.

This Condition requires that Prospect guarantee the satisfaction of, and pay, all MAAP Obligations of the provider organizations within PCC, including the Rhode Island Hospitals and enter into an agreement prior to closing of the Proposed Transaction to meet this obligation.

For the quarter ended June 30, 2021, we obtained and read the MAAP Payment and Reimbursement Agreement, dated May 27, 2021 (“MAAP Agreement”). Section 1 of the MAAP Agreement states, “PMH hereby agrees to directly pay or reimburse the Providers for all amounts (a) due and payable as of the Effective Date by the Providers for MAAP Obligations, which shall include recoupments, fines, penalties and any other related costs and expenses and/or (b) for the amount of any MAAP recoupments made by the Centers for Medicare & Medicaid Services (“CMS”) after the Effective Date from Medicare reimbursements made to the Providers.”

For the quarter ended September 30, we requested evidence of payment of all MAAP obligations for the quarter then ended. We then confirmed recoupments made to the monthly Provider Payment Summary Report from CMS, which shows the reimbursement claim, adjustments to the claim, allowed amount and amount paid to the provider. The payment or “recoupment” is deducted in arriving at the amount paid to the provider. The recoupments of 25% were made in accordance with the CMS Fact sheet dated October 8, 2020.

The following are the recoupments of the advances under the Medicare Accelerated and Advance Payments Program from Medicare reimbursements. We confirmed the “Monthly Repayments” shown in the table below with amounts shown in CMS Provider Payment Summary Reports provided to us by Prospect.

Table 9.1.1

	July 31, 2021	August 31, 2021	September 30, 2021
Prospect CharterCare Physicians	\$ [REDACTED]	[REDACTED]	[REDACTED]
Prospect Charter Home Health and Hospice, LLC	[REDACTED]	[REDACTED]	[REDACTED]
Roger Williams Medical Center	[REDACTED]	[REDACTED]	[REDACTED]
Our Lady of Fatima	[REDACTED]	[REDACTED]	[REDACTED]
Total MAAP Obligations	[REDACTED]	[REDACTED]	[REDACTED]
Monthly Repayments Reported by Prospect	[REDACTED]	[REDACTED]	[REDACTED]
Cumulative Repayments Reported by Prospect	[REDACTED]	[REDACTED]	[REDACTED]
Monthly Repayments per CMS Reports	[REDACTED]	[REDACTED]	[REDACTED]
Cumulative Repayments per CMS Reports	[REDACTED]	[REDACTED]	[REDACTED]
Variance	[REDACTED]	[REDACTED]	[REDACTED]
Cumulative Variance	[REDACTED]	[REDACTED]	[REDACTED]

As noted in our report, dated March 24, 2022, on Prospect’s compliance with Conditions 9.1 and 9.2, the variance between amounts reported by Prospect and amounts per CMS reports are due to erroneous accounting for recoupments in the CMS Reports that consists of overstatements of recoupments totaling \$185,374 in July and September related to Roger Williams Medical Center and Our Lady of Fatima, and

III. Evaluation of Compliance

understatements totaling \$13,832 in September related to Prospect Charter Home Health and Hospice, LLC (i.e., included in the CMS Reports but not included in the amounts reported by Prospect).

Based on the procedures performed, Prospect is in compliance with the Condition and repaid a total of \$3,667,446. As such, Prospect additionally met the requirement under Condition 6.2(C) for the release of funds in amounts equal to the Monthly Repayments per CMS Reports, as noted in Table 9.1.1.

Condition 9.2:

Prospect shall use its best efforts to obtain favorable terms for the repayment of all of the MAAP Obligations of all the provider organizations within PCC, including the Rhode Island Hospitals, and provide the Attorney General with the terms of any such agreement.

Measure of Success

- 1) Did Prospect provide the Attorney General with the terms of the agreement for repayment of all of the MAAP Obligations of all provide organizations within PCC, including the Rhode Island Hospitals?

Procedures

- 1) Inquired about status of negotiation.
- 2) If successful in negotiating terms, obtained and read amendment(s) to agreement(s).

Observations and Finding

Given the historically financial losses of PCC and the Rhode Island Hospitals noted in the Decision, when possible, more favorable terms should be obtained for repayment of all obligations, including the MAAP Obligation.

This Condition requires that Prospect use its best efforts to obtain favorable terms for the repayment of all of the MAAP Obligations of all the provider organizations within PCC, including the Rhode Island Hospitals, and provide the Attorney General with the terms of any such agreement.

MAAP Funds were provided under the CARES Act, which is a federal government program with stated terms that are not subject to negotiation. However, the Continuing Appropriations Act, 2021 and Other Extensions Act, enacted on October 1, 2020, provided for more favorable terms to providers and suppliers. Otherwise, funds provided would have had to have been repaid 120 days after receipt of funds.

By virtue of the enactment of the Continuing Appropriations Act, 2021 and Other Extensions Act , Prospect obtained favorable terms for the repayment of the MAAP Obligation. Since these terms were created by statute, there was no additional avenue for Prospect to obtain more favorable terms than those provided under the statute. Therefore, Prospect is in compliance with the Condition.

Condition 10:

TRS Note and MPT Amendments⁸: Prospect shall extend the maturity of the TRS Note to five (5) years from April 30, 2021, and none of the PCC assets shall be used to satisfy the TRS Note during said five (5) year period, including through a sale/lease-back of said assets. Thereafter, any transfer of the PCC assets, including through a sale/lease-back, shall not occur unless and until approved by the Attorney General pursuant to the Hospital Conversion Act, R.I. Gen. Laws § 23-17.14-1 *et seq.* Prospect shall

⁸ See page 32 of the Decision, "PMH entered into three transactions with Medical Properties Trust, Inc. ("MPT") in 2019. In the first of these, PMH sold its hospitals in Connecticut, Pennsylvania, and all but one of its hospitals in California to MPT for approximately \$1.4 billion. MPT then leased these hospitals back to PMH. PMH, according to its agreement with MPT, will pay rent for at least the next 15 years in order to continue operating in facilities it owned until recently. In the second transaction, PMH took out a \$51 million mortgage on one of its California hospitals; this mortgage is at a 7.5% interest rate per annum and matures in 2034. And in the third transaction, PMH signed a promissory note in exchange for \$113 million from MPT, referred to herein as the "TRS Note." Interest on the note is 7.5% per annum and subject to an annual escalation clause. PMH must pay back the full note amount by July 2022."

III. Evaluation of Compliance

amend the TRS Note to reflect these Conditions and execute it prior to the closing of the Proposed Transaction.

Measure of Success

- 1) Did Prospect extend the maturity of the TRS Note to April 30, 2026 prior to the closing of the Proposed Transaction?
- 2) Does the TRS amendment reflect use of PCC assets.
- 3) Post – May 1, 2021, have any PCC assets the subject of sale lease-back arrangement?

Procedures

- 1) Obtained amendment to TRS note.
- 2) Confirmed that TRS note maturity date was extended to April 30, 2026.
- 3) Confirmed that the TRS note amendment contains terms specifying that no PCC assets shall be used to satisfy the note during the five (5) year period (April 30, 2021 to April 30, 2026), including through a sale/lease-back of PCC assets.

Observations and Finding

Given the financial condition of Prospect and its hospitals⁹, Prospect needs to find sources of funding for its continuing operating losses and debt service payments. As previously discussed herein, Real property is the single biggest asset of the Rhode Island Hospitals.

This condition requires that Prospect extend the maturity of the TRS Note to five (5) years from April 30, 2021, and none of the PCC assets be used to satisfy the TRS Note during said five (5) year period, including through a sale/lease-back of said assets. Thereafter, any transfer of the PCC assets, including through a sale/lease-back, cannot occur unless and until approved by the Attorney General pursuant to the Hospital Conversion Act, R.I. Gen. Laws § 23-17.14-1 *et seq.* Prospect is required to amend the TRS Note to reflect these Conditions and execute it prior to the closing of the Proposed Transaction.

We requested, received and read the Amendment to Promissory Note (“TRS Loan”), dated May 27, 2021, between Prospect Medical Holdings, Inc., as borrower, and MPT TRS Lender PMH, LLC, as lender. Section 2. (a) of the amendment states, “Section 6(b) of the Original Note is hereby amended and restated in its entirety to read as follows: (b) As used herein, the term “Maturity Date” shall mean April 30, 2026.” Pursuant to Section 3. (b) of the amendment, the parties agree that “that the Closing of the Special Condition Property shall not occur until satisfaction of the Special Conditions (*as such term is defined in the Purchase Agreement* [emphasis added]), which includes approval of the Rhode Island Office of the Attorney General and Rhode Island Department of Health. The Closing of the Special Condition Property shall not occur until a date after April 30, 2026, and until satisfaction of the Special Conditions.”

The maturity date of the note was extended to April 30, 2026 and the amendment specifies that no PCC assets shall be used to satisfy the note during the 5-year period of April 30, 2021 to April 30, 2026. Therefore, Prospect is in compliance with the Condition.

Condition 11:

Management Fees: Upon consummation of the contemplated buy-out of the 15% CCCB ownership in Prospect CharterCARE as approved by the courts or September 30, 2021, whichever is sooner, the Prospect CharterCARE Management Services Agreement shall be terminated and no management fees shall be assessed to or collected from PCC, including prior accrued management fees. During the Conditions and Monitoring Period, no management fees or other similar charges and assessments of any type pertaining to Prospect’s central office functions shall be levied against Prospect CharterCARE or the Rhode Island Hospitals.

⁹ See page 30, b. Overview of PMH’s Finances, of the Decision.

III. Evaluation of Compliance

Measure of Success

- 1) Was the PCC Management Services Agreement terminated at the sooner of (i) the consummation of the buy-out of the 15% CCCB ownership in PCC or (ii) September 30, 2021?
- 2) Are local hospitals, including the Rhode Island Hospitals being charged for their share of PCC corporate level expenses?

Procedures

- 1) Obtained evidence of the termination of the PCC Management Services Agreement.
- 2) Ensured that agreement was terminated at the earlier of the consummation of the buyout of the 15% CCCB ownership in PCC or September 30, 2021.
- 3) Scanned general ledger for payments to affiliates that may appear to be a disguised payment of a management fee (e.g. overhead allocation, or construction fee, etc.)
- 4) Reviewed management fee expense account and ensure that no management fees were charged during the relevant period.

Observations and Finding

Prospect was collecting a management fee from PCC until April 2021.

The buyout of the 15% CCCB ownership in PCC occurred on August 18, 2021 and as noted above no management fee expense was assessed to or collected from PCC during the Conditions and Monitoring Period. As such, Prospect is in compliance with the Condition.

Condition 13:

Not later than the fiftieth (50th) day after the end of each fiscal quarter, Prospect shall provide the Monitor and the Attorney General with quarterly financial statements, quarterly balance sheet, quarterly statement of operations and quarterly statement of cash flows (including accounts payable and any amounts due to or due from affiliates), for Prospect Medical Holdings and Prospect CharterCARE and any other evidence documenting compliance with II. Financial Conditions (Conditions 5-11) and Condition 22 for the preceding quarter, which documents shall be certified as accurate by Prospect's Chief Financial Officer, and the PCC board minutes (Condition 29).

Measure of Success

- 1) Were quarterly financial statements, quarterly balance sheets, quarterly statement of operations and quarterly statement of cash flows for Prospect Medical Holdings and Prospect CharterCare and any other evidence documenting compliance with Conditions 5-11 and Condition 22 for the preceding quarter provided within 50 days after the end of each fiscal quarter?
- 2) Were the statements above certified as accurate the Prospect's Chief Financial Officer and the PCC board minutes?

III. Evaluation of Compliance

Procedures

- 1) Obtain quarterly financial statements, quarterly balance sheet, quarterly statement of operations and quarterly statement of cash flows (including accounts payable and any amounts due to or due from affiliates), for Prospect Medical Holdings and Prospect CharterCARE and any other evidence documenting compliance with II. Financial Conditions (Conditions 5-11) and Condition 22 for the preceding quarter, which documents shall be certified as accurate by Prospect's Chief Financial Officer, and the PCC board minutes (Condition 29) ("Quarterly Financial Package").

Observations and Finding

Prospect provided its Quarterly Financial Package which included quarterly financial statements, quarterly balance sheets, quarterly statement of operations and quarterly statement of cash flows for Prospect Medical Holdings and Prospect CharterCare, and an attestation of compliance for Conditions 5 -11 and Condition 22 made by Prospect's Chief Financial Officer. As noted above, PCC's Chief Financial Officer certified and attested that the quarterly financial information was interim. As noted in Condition 5.2, due to the interim nature of the information provided, we will report compliance with Condition 5.2 in our report for the fiscal year ended September 30, 2021. The financial information was noted as interim since the year end audit process was occurring and therefore the year end financials were not finalized. The Quarterly Financial Package was provided on November 30, 2021. The date the Quarterly Financial Package was provided was 11 days after the deadline prescribed by the Condition, i.e., November 19, 2021. The delay was due to a misunderstanding by Prospect related to the documentation required for the last quarter of the fiscal year. Prospect was under the assumption that the reporting required under Condition 14¹⁰ was the only documentation need to be provided at fiscal year end. After conferring with the Attorney General, Prospect indicated they would be providing the Quarterly Financial Package each quarter. Upon agreement with the Attorney General, Prospect promptly provided the required Quarterly Financial Package for the quarter ended September 30, 2021 and therefore Prospect is in compliance with the Condition.

Condition 28:

Within thirty (30) days of Prospect's buyout of the 15% CCCB ownership in Prospect CharterCARE, the corporate document that functions as bylaws for Prospect CharterCARE shall be amended to require approval of the majority of all board members, for all matters that were previously listed in Section 8.3 of the Prospect CharterCARE LLC Agreement, dated June 20, 2014

Measure of Success

- 1) Was the corporate document that functions as bylaws for PCC amended to require the majority of all board members for all matters that were previously listed in Section 8.3 of the Prospect CharterCARE LLC Agreement, dated June 20, 2014?
- 2) Was the document amended within thirty days of Prospect's buyout of the 15% CCCB ownership in PCC?

Procedures

- 1) Upon occurrence of transaction, obtain and review amendment to bylaws.
- 2) Obtain and review required notice sent to RIAG.
- 3) Determine if it was sent timely.

¹⁰ Not later than February 15th of each year, Prospect shall furnish the Monitor and the Attorney General with the audited annual financial statements of Prospect Medical Holding and Prospect CharterCARE, including but not limited to: (a) documentation of compliance with II. Financial Conditions (Conditions 5-11) and Conditions 16-29 for the preceding fiscal year, including any and all supporting documents for expenditures, including but not limited to general ledgers, current contracts, invoices, receipts, and (b) providing a projected capital budget for PCC for the next three (3) years.

III. Evaluation of Compliance

Observations and Finding

As indicated in the Decision, there were concerns that the prior PCC board members were not observing best practices expected of the governing body.¹¹ The board of directors should be a vital part of any organization and can provide oversight that other parts of the organization are unable to provide. Examples of the Board's oversight responsibilities include strategic planning, supervision of operations and capital and operating budgeting. In order for the Board to have the ability to provide such supervision, documentation reflecting the Board's responsibility is required.

Prospect's purchase of the 15% CCCB ownership in PCC occurred on August 18, 2021. We obtained and read the corporate document that functions as the bylaws, the Amended & Restated Limited Liability Company Operating Agreement of Prospect CharterCARE, LLC ("Operating Agreement") is dated September 17, 2021 which is within 30 days of the date of the Buyout.

The Operating Agreement thresholds for approval are consistent with those previously listed in Section 8.3 of the Prospect CharterCARE LLC Agreement dated June 20, 2014. Most matters requiring majority board member approval previously listed still require majority board member approval, except the following listed items were eliminated in the Operating Agreement:

- a) Item (m) – Requests for the Prospect Member to make an additional Capital Contribution to the Company in connection with its Long-Term Capital Commitment, as provided in Section 4.2(b), above, from the Original Agreement.
- b) Item (n) – Request for the Members to make Additional Capital Contributions to the Company, as provided in Section 4.2(e) above" from the Original Agreement.

Section 4.2, Additional Capital Contributions, was also deleted in the Operating Agreement.

Prospect is compliant with the Condition.

Condition 29:

Following Prospect's buyout of the 15 % CCCB ownership in Prospect CharterCARE, and through completion of the Conditions and Monitoring Period, the board shall include Samuel Lee, a licensed and practicing physician, and consist of 40-49% Community Directors. All of the Community Directors shall: (1) be independent of and not employed by or affiliated with Prospect or its affiliates; and (2) not be an elected official or an individual that is subject to the Code of Ethics. The corporate document that functions as the bylaws shall be amended to reflect this Condition within thirty (30) days of Prospect's buyout of the 15% CCCB ownership in Prospect CharterCARE. Prospect shall produce all PCC board minutes to the Attorney General with the quarterly reporting set forth in Condition 13.

Measure of Success

- 1) Does the PCC board include Samuel Lee and consist of 40-49% Community Directors?
- 2) Are all Community Directors (a) independent of and not employed by or affiliated with Prospect or its affiliates, and (b) not an elected official or an individual that is subject to the Code of Ethics.
- 3) Was the corporate document that functions as the bylaws amended to reflect the above conditions within thirty days of Prospect's buyout of the 15% CCCB ownership in PCC?
- 4) Were all PCC board minutes provided to the Attorney General with the quarterly reporting set forth in Condition 13?

Procedures

- 1) Upon occurrence of transaction, obtain and review amendment to bylaws.
- 2) Obtain and review required notice sent to RIAG.
- 3) Determine if it was sent timely.

¹¹ See p. 60-63 of the Decision, "Additional Concerns: Prospect CharterCARE Board".

III. Evaluation of Compliance

Observations and Finding

As indicated in the Decision,¹² there were also concerns about the Board's composition, specifically related to local representation. Without local representation there is a risk that the needs of the community at large are not fully understood by the board. The inclusion of local representation within the board of directors should provide a necessary perspective for those members who are not part of the local community.

The Operating Agreement states that the Board composition will include Samuel Lee, President and Chief Executive Officer of PMH, a licensed and practicing physician, community directors, and other natural persons. Community directors are required to constitute a minimum of forty percent of the Board but are to be independent of and not be employed by or affiliated with PCC or its affiliates; and may not be elected officials or individuals subjected to the Rhode Island Code of Ethics.

The buyout of the 15% CCCB ownership in PCC occurred on August 18, 2021 and the Attorney General was notified on August 19, 2021. The Operating Agreement was amended on September 17, 2021 which was within thirty days of the buyout. It is noted that there were no Board meetings during the quarter ended September 30, 2021. The PCC board was elected on October 6, 2021 and included four community directors out of the nine board members.

Prospect is in compliance with the Condition.

Condition 30:

Prospect CharterCARE shall notify the Attorney General of the initial board members within thirty (30) days of the implementation of Condition 29 and, during the Conditions and Monitoring Period, shall notify the Attorney General of any change in board members board within thirty (30) days of such change.

Measure of Success

- 1) Did PCC notify the Attorney General of the initial board members with thirty days of the implementation of Condition 29?
- 2) Did PCC notify the Attorney General of any change in board members within thirty days of such change?

Procedures

- 1) Upon occurrence of transaction, obtain and review amendment to bylaws.
- 2) Obtain and review required notice sent to RIAG.
- 3) Determine if it was sent timely.

Observations and Finding

As noted in Condition 29, the PCC board was elected or re-elected on October 6, 2021, which was within 30 days of the Operating Agreement. Notice was provided to the Attorney General on October 8, 2022 by Patricia K. Rocha, Adler Pollock & Sheehan, legal counsel for Prospect.

Prospect is in compliance with the Condition.

¹² See p. 63 of the Decision, "The Attorney General continues to recognize the importance of maintaining local representation on the PCC board, especially with an out-of-state parent, but the board members must be fully engaged and honor their fiduciary duties."

Exhibit 1 – Applicable Conditions

VI. Conditions, Definitions

The following definitions apply to the terms used in the Conditions:¹³

- (1) “Agent/Trustee” as that term is used in these Conditions shall mean a third party, selected by the Attorney General, who, in the event that any escrow or letter of credit funds are delivered to the Agent/Trustee pursuant to Conditions 6.5 or 6.6, respectively: (a) shall act as a fiduciary for the Rhode Island Hospitals and other PCC providers included in these Conditions, (b) who shall hold the funds from the Escrow Accounts and/or Letters of Credit, as applicable, in trust for the Rhode Island Hospitals and other PCC providers included in these Conditions, and (c) shall have duties and powers specific to the holding and distribution of funds delivered to the Agent/Trustee pursuant to Conditions 6.5 and 6.6 as set forth in the Trustee Agreement. The Agent/Trustee may be replaced at any time at the direction of, or with the approval of, the Attorney General.
- (2) “Agent/Trustee Agreement” as that term is used in these Conditions shall mean the document that sets forth the Agent/Trustee’s powers and duties specific to the holding and distribution of any funds delivered to the Agent/Trustee pursuant to Condition 6. The Agent/Trustee Agreement and any amendments or modifications thereto shall be subject to the approval of the Attorney General. The Agent/Trustee Agreement shall be approved by the Attorney General no more than sixty (60) days after the closing.
- (3) “CAPEX” shall mean routine and strategic capital investments recognized by GAAP that are limited to the following, unless otherwise approved by the Attorney General: new equipment, equipment replacement, facility renovation, new facilities, construction in progress, medical office space, implementation of new services, information systems and licenses, physician practice acquisitions up to but no greater than \$5 million during the Conditions and Monitoring Period, and shall include commitments incurred pursuant to capital financing leases.
- (4) “Community Director” shall be defined as an individual who resides or works within the Prospect CharterCARE Service Area and has the appropriate skill sets to serve on a hospital board of directors. See R.I. Gen. Laws § 23-17.14-7(25)(viii).
- (5) “Conditions” shall mean Conditions 1-34 and all subparts as set forth herein.
- (6) “Conditions and Monitoring Period” shall begin upon issuance of the Decision and extend through September 30, 2026 of Fiscal Year 2026 and such time thereafter up to reversion of funds pursuant to Condition 6.
- (7) “Essential Health Care Services” to be provided by PCC and its subsidiaries shall mean the following:
 - a) A 24-hour emergency department;
 - b) Medical/Surgical Services and Intensive/Coronary Care Unit;
 - c) Acute Dialysis Services;
 - d) Inpatient and Outpatient Rehabilitation Services, including Sub-acute;
 - e) Ambulatory Care Services;
 - f) Emergency Services, including emergency behavioral health services;
 - g) Inpatient and Outpatient Psychiatric/Mental Health/Addiction Medicine Services;
 - h) Diagnostic Imaging and Interventional/Radiology Services, including diagnostic Cardiac Catheterization;
 - i) Laboratory/Pathology;
 - j) Inpatient and Outpatient Cancer Services including Blood and Marrow Transplantation/ Surgical and Radiation Oncology;
 - k) Sleep Lab;
 - l) Wound Care/Hyperbaric Services;
 - m) Homecare/Hospice services; and,
 - n) Any other primary care service, as defined by R.I. Gen. Laws § 23-17.14- 18 and under Rhode Island Department of Health regulations related to said statute, not listed herein.
- (8) An “Insolvency Event” shall occur if Prospect or any of its subsidiaries and/or affiliates shall: (a) file a voluntary bankruptcy petition, (b) be the subject of an involuntary bankruptcy petition that is

¹³ Terms not defined below shall be defined in accordance with the Decision.

Exhibit 1 – Applicable Conditions

not dismissed within forty-five days of its filing, (c) suffer, request or acquiesce in the appointment of a receiver, guardian, conservator, trustee, custodian, liquidator or other similar official over such entity or substantially all of the property or assets of such entity that is not reversed or vacated within forty-five days of such appointment, or (d) make an assignment for the benefit of creditors, or I seek or be the subject of any case seeking relief under any federal, state or other statute, law or regulation relating to the creditor/debtor relationship other than as is described in clauses (a) to (d) above (each, a “Proceeding”); provided, however, that it shall not be an Insolvency Event hereunder if the aggregate revenues of the entity or entities subject to the Proceeding (each, an “Affected Entity”) do not exceed 5% of the consolidated revenues of Prospect and all of its consolidated subsidiaries for any of the preceding three fiscal years; and provided further, that the preceding proviso shall not be applicable if, as a direct or indirect result of the Proceeding, Prospect or any of its other subsidiaries or affiliates either (i) lose access to cash in the ordinary course of business in an amount greater than the revenues of the Affected Entity or Entities, or (ii) suffer a material disruption to their operations in the ordinary course of business, in each case, for a period greater than seven (7) days.

(9) “Leonard Green” shall mean Green Equity Investors V, L.P. (“GEI V”), Green Equity Investors Side V, L.P. (“GEI Side V”), and Ivy LGP Co-Invest LLC (“LGP Co-Invest”).

(10) “MAAP Obligations” shall mean PCC’s obligations under the CMS Accelerated and Advance Payment Program or Medicare Advance Payment Program, including all recoupments, fines, penalties and any other related costs and expenses.

(11) “PCC” or “Prospect CharterCARE” shall mean, collectively, Prospect CharterCARE, LLC and its subsidiaries in existence as of as of the date of the Decision; provided that neither Prospect CharterCARE Elmhurst, LCC nor Prospect CharterCARE Ancillary Services, LLC, shall be included in the definition of PCC or Prospect CharterCARE

VI. Conditions – II. Financial Conditions

5. Financial Commitment: Leonard Green, solely with respect to Condition 5.1, and Prospect shall provide the following support (collectively, the “Financial Commitment”) to PCC:

5.1 Provide for the Escrows and/or Letters of Credit as set forth in Condition 6.

5.2 Ensure payment of all of PCC’s operating expenses and pay the difference between PCC’s total net revenue and total operating expenses (net operating loss) on an ongoing basis.

5.3 Beginning in Fiscal Year 2020 through the end of Fiscal Year 2026, spend not less than \$72.0 million on CAPEX for the Rhode Island Hospitals only, unless otherwise approved by the Attorney General, which shall be spent according to the following schedule:

- (a) for the period covering Fiscal Year 2020 and the first three quarters of fiscal year 2021, not less than \$12.0 million; and
- (b) For the period between October 1, 2021 and September 30, 2026, not less than \$60 million shall be spent as follows:
 - i. not less than \$10.0 million during each fiscal year;
 - ii. not less than \$24 million in CAPEX shall be spent by September 30, 2023; and
 - iii. not less than \$48 million in CAPEX shall be spent by September 30, 2025.

5.4 No more than \$27 million of PACE financing may be applied against the minimum CAPEX requirement.

6. Escrow/Letters of Credit: Prospect, its parent entities and/or principal shareholders shall fund the following escrow accounts (collectively the “Escrows”) and provide the following irrevocable standby letters of credit (the “Letters of Credit”):

6.1 Interim Escrows. Pursuant to one or more escrow agreements acceptable to the Attorney General, Prospect, its parent entities and/or principal shareholders and Leonard Green shall, prior to Closing of

Exhibit 1 – Applicable Conditions

the Proposed Transaction, fund three (3) escrow accounts as follows (collectively the “Interim Escrows”):

- (a) The amount of \$12,000,000, of which Prospect shall fund \$4,000,000 and Leonard Green shall fund \$8,000,000 (“the Global Conditions Escrow”);
- (b) The amount of \$41,000,000 (the “CAPEX Escrow”), of which Prospect shall fund \$14,200,000 and Leonard Green shall fund \$26,800,000;
- (c) The amount of \$27,000,000, funded entirely by Prospect (“MAAP Escrow”);
- (d) The Interim Escrows shall comply with, among other things, the terms set forth in Condition 6.5;
- (e) All funds that Leonard Green is required to provide for the Interim Escrows shall be paid directly by Leonard Green; and
- (f) The Interim Escrows shall remain in place until replaced as set forth in Conditions 6.2 and 6.3, and the Attorney General shall provide written instructions to the escrow agent for the Interim Escrows to release the funds in the Interim Escrows for the purpose of providing the Letters of Credit and or Escrows required by Conditions 6.2 and 6.3.
- (g) In the event a draw or a reduction is required from the Interim Escrows, such draw or reduction shall take place in accordance with the provisions of Conditions 6.4 or 6.5 as applicable.

6.2 Prospect Letters of Credit. Prospect, its parent entities and/or principal shareholders shall, on or before August 15, 2021, provide three (3) irrevocable standby letters of credit (collectively the “Prospect Letters of Credit”), in accordance with and subject to Condition 6.6, as follows:

- (a) A \$4,000,000 letter of credit that shall not expire until the Attorney General has determined that Prospect has complied with all Conditions through September 30, 2026 (“Prospect Global Conditions LOC”).
- (b) A \$14,200,000 letter of credit (the “Prospect CAPEX LOC”) that shall be reduced in accordance with the CAPEX Escrow/LOC Reduction Schedule set forth in Condition 6.4.
- (c) A \$27,000,000 letter of credit (the “MAAP LOC”) that shall not expire until the Attorney General has determined that all of PCC’s MAAP Obligations have been satisfied in full. The MAAP LOC shall, among other things, secure Prospect’s guaranty of PCC’s MAAP Obligations (see Condition 9). The MAAP LOC shall be reduced quarterly, only upon the written determination of the Attorney General, by the amount of the PCC’s MAAP obligations that have been satisfied in the preceding quarter.

6.3 Leonard Green Obligations. Leonard Green shall, on or before August 15, 2021, either fund Escrows or provide irrevocable standby Letters of Credit, in accordance with and subject to Conditions 6.5 and 6.6, provided that Leonard Green shall use reasonable commercial efforts to obtain the Letters of Credit as set forth in this Condition 6.3.

- (a) Provide an Escrow or a Letter of Credit in the amount of \$8,000,000 that shall not expire until the Attorney General has determined that Prospect has complied with all Conditions through September 30, 2026 (“LG Global Conditions Escrow/LOC”).
- (b) Provide an Escrow or a Letter of Credit in the amount of \$26,800,000 (the “LG CAPEX Escrow/LOC”) that that shall be reduced in accordance with the CAPEX Escrow/LOC Reduction Schedule set forth in Condition 6.4.

6.4 CAPEX Escrow/LOC Reduction Schedule” shall mean the following reductions in the Prospect CAPEX LOC and the LG CAPEX Escrow/LOC (collectively the “CAPEX Funds”) based on the following conditions:

- (a) An \$8 million reduction in the CAPEX Funds, with 40% of the reduction returning to Prospect and 60% of the reduction returning to Leonard Green, on the later to occur of September 30, 2021, or the date upon which all of the following conditions have been satisfied: (a) the Attorney General has determined in writing, based upon documentation provided by Prospect no later than July 30, 2021, that Prospect has spent not less than \$12.0 million in CAPEX for

Exhibit 1 – Applicable Conditions

- the Rhode Island Hospitals between October 1, 2019, and June 30, 2021, (provided that none of the foregoing CAPEX payments shall be included in the calculation of the minimum CAPEX requirement set forth in Condition 5.3(b)); (b) Prospect has provided Letters of Credit in accordance with Condition 6.2; and (c) Leonard Green has provided Escrows or Letters of Credit in accordance with Condition 6.3.
- (b) A \$6.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2022, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.
 - (c) A \$7.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2023, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.
 - (d) A \$7.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2024, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.
 - (e) A \$7.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2025, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.
 - (f) A \$6.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2026, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.
 - (g) If Prospect fails to comply with a mandated condition in a given fiscal year, the scheduled reduction for that fiscal year shall not occur until the Attorney General has determined in writing that Prospect has remedied the failure.
 - (h) The term “Reduction Percentages” shall mean 66.67% to the LG CAPEX Escrow/LOC and 33.3% to the Prospect CAPEX LOC.

6.5 The following terms, among others, shall apply to the Escrows:

- (a) The Escrows shall not be funded by PCC’s revenue, funded by a loan secured by PCC’s assets, or collateralized by PCC’s assets;
- (b) The funds in the Escrows shall, at the written direction of the Attorney General, be distributed to the Agent/Trustee, if, as determined by the Attorney General (i) Prospect fails to comply with its obligations under II. Financial Conditions (Conditions 5-11) or Condition 22 (Continuity of Services), and/or (ii) an Insolvency Event occurs;
- (c) The Attorney General shall provide written instructions, in accordance with these Conditions, to the escrow agent regarding the distribution of funds from the Escrows;
- (d) The Escrows shall not be reflected as a liability of PCC or the Hospitals on their financials;
- (e) The Escrows, with the exception of the Interim Escrows set forth in Condition 6.1, shall be (i) with an entity that conducts business in the State of Rhode Island, (ii) be subject to Rhode Island law, and (iii) be subject to an agreement that provides, among other things, for disputes to be resolved in the courts of Rhode Island;
- (f) The agreements governing the Escrows shall be approved by the Attorney General; and
- (g) The escrow agent shall be approved by the Attorney General.

6.6 The following terms, among others, shall apply to the Letters of Credit:

- (a) The Letters of Credit shall not be funded by PCC’s revenue, funded by a loan secured by PCC’s assets, or collateralized by PCC’s assets;
- (b) The Letters of Credit shall list the Agent/Trustee as the beneficiary;
- (c) The Letters of Credit shall be irrevocable standby letters of credit in a form acceptable to the Attorney General;

Exhibit 1 – Applicable Conditions

- (d) The Letters of Credit may be drawn upon by the Agent/Trustee, at the written direction of the Attorney General, if, as determined by the Attorney General: (i) Prospect fails to comply with its obligations under II. Financial Conditions (Conditions 5-11) or Condition 22 (Continuity of Services) and or (ii) an Insolvency Event occurs;
- (e) The Attorney General shall provide written instructions, in accordance with these Conditions, to the financial institution issuing the Letters of Credit regarding the reduction in the Letters of Credit;
- (f) The Letters of Credit shall not be reflected as a liability of PCC or the Hospitals on their financials;
- (g) The Letters of Credit shall be (i) with an entity that conducts business in the State of Rhode Island, (ii) be subject to Rhode Island law, and (iii) be subject to an agreement that provides, among other things, for disputes to be resolved in the courts of Rhode Island;
- (h) The agreements governing the Letters of Credit shall be approved by the Attorney General; and
- (i) The Letters of Credit shall be issued by one or more financial institutions approved by the Attorney General.

6.7 Reduction determinations with respect to the CAPEX Escrows and the Letters of Credit, as applicable, will be made by the Attorney General within thirty (30) days after documentation provided by Prospect to support a reduction is deemed complete by the Attorney General, such completeness determination not to be unreasonably withheld.

6.8 (a) If the Attorney General determines in writing, as provided in Condition 6.7, that Prospect has failed to comply with any of the required Conditions at any time in a given fiscal year, the Attorney General shall provide Prospect with written notice specifying in reasonable detail the Condition(s) that the Attorney General has determined has not been satisfied and the reasons therefor, and Prospect shall have thirty business days to cure any and all deficiencies with respect to such specified Condition(s). If Prospect has cured any and all deficiencies with respect to such Condition(s) within thirty (30) days of such written notice, the Attorney General shall make the scheduled reduction determination as provided in Condition 6.7.

(b) The Attorney General shall notify Prospect ten (10) days prior to any draw of the Escrows or Letters of Credit pursuant to Conditions 6.5(b) or 6.6(d), respectively, such notification to specify in reasonable detail the Condition(s) that the Attorney General has determined has not been satisfied and the reasons therefor, unless exigent circumstances exist, including but not limited to significant service disruptions or imminent closure of either of the Rhode Island Hospitals which require an immediate draw, in which case the Attorney General shall so inform Prospect, and may proceed with the draw within two (2) business days.

6.9 Prospect and Leonard Green shall pay all fees and costs associated with the Escrows and Letters of Credit.

6.10 Agent/Trustee Agreement. Any of the funds from the Escrows and/or the Letters of Credit that are delivered to the Agent/Trustee shall be governed by the Agent/Trustee Agreement. Prospect and Leonard Green shall execute the Agent/Trustee Agreement within five (5) business days of its approval by the Attorney General.

7.1 PCC shall ensure all payroll, including salaries, retirement contributions and benefits, payroll taxes, property taxes, sales taxes, hospital taxes and fees and workers compensation is paid on a timely basis. In the event that any such payments are delinquent by more than 15 days, PMH shall provide funding in an amount equal to the delinquency and cure the delinquency within thirty (30) days upon notification of the delinquency.

7.2 PCC shall ensure its vendors are paid on a timely basis. In the event accounts payable days outstanding is greater than 90 days, PMH shall provide funding to PCC so that accounts payable are less than 90 days at the next quarterly measurement.

Exhibit 1 – Applicable Conditions

8. PACE Obligation: Prospect shall guarantee the satisfaction of, and pay, all obligations owed by the Rhode Island Hospitals for PACE financing, including all debt service payments, fines, penalties and any other PACE related costs and expenses during the period of Prospect's ownership of Prospect CharterCARE and the Rhode Island Hospitals, and shall enter into an agreement prior to closing of the Proposed Transaction to meet this obligation.

9.1 Prospect shall guarantee the satisfaction of, and pay, all MAAP Obligations of the provider organizations within PCC, including the Rhode Island Hospitals and shall enter into an agreement prior to closing of the Proposed Transaction to meet this obligation.

9.2 Prospect shall use its best efforts to obtain favorable terms for the repayment of all of the MAAP Obligations of all the provider organizations within PCC, including the Rhode Island Hospitals, and provide the Attorney General with the terms of any such agreement.

10. TRS Note and MPT Amendments: Prospect shall extend the maturity of the TRS Note to five (5) years from April 30, 2021, and none of the PCC assets shall be used to satisfy the TRS Note during said five (5) year period, including through a sale/lease-back of said assets. Thereafter, any transfer of the PCC assets, including through a sale/lease-back, shall not occur unless and until approved by the Attorney General pursuant to the Hospital Conversion Act, R.I. Gen. Laws § 23-17.14-1 *et seq.* Prospect shall amend the TRS Note to reflect these Conditions and execute it prior to the closing of the Proposed Transaction.

11. Management Fees: Upon consummation of the contemplated buy-out of the 15% CCCB ownership in Prospect CharterCARE as approved by the courts or September 30, 2021, whichever is sooner, the Prospect CharterCARE Management Services Agreement shall be terminated and no management fees shall be assessed to or collected from PCC, including prior accrued management fees. During the Conditions and Monitoring Period, no management fees or other similar charges and assessments of any type pertaining to Prospect's central office functions shall be levied against Prospect CharterCARE or the Rhode Island Hospitals.

VI. Conditions – IV. Benefits, Governance and Continuity of Services

22. During the Conditions and Monitoring Period, Prospect and PCC shall keep the Rhode Island Hospitals open and operational and maintain and continue to provide at each Hospital and all non-hospital settings the full complement of Essential Health Care Services. PCC shall continue to provide access to quality healthcare services and maintain good standing status with all state and federal licensing and regulatory requirements and shall meet all accreditation standards. There shall be no suspension, termination, or material reduction of Essential Health Care Services currently provided by PCC without the prior approval by the Rhode Island Department of Health.

28. Within thirty (30) days of Prospect's buyout of the 15% CCCB ownership in Prospect CharterCARE, the corporate document that functions as bylaws for Prospect CharterCARE shall be amended to require approval of the majority of all board members, for all matters that were previously listed in Section 8.3 of the Prospect CharterCARE LLC Agreement, dated June 20, 2014.

29. Following Prospect's buyout of the 15 % CCCB ownership in Prospect CharterCARE, and through completion of the Conditions and Monitoring Period, the board shall include Samuel Lee, a licensed and practicing physician, and consist of 40-49% Community Directors. All of the Community Directors shall: (1) be independent of and not employed by or affiliated with Prospect or its affiliates; and (2) not be an elected official or an individual that is subject to the Code of Ethics. The corporate document that functions as the bylaws shall be amended to reflect this Condition within thirty (30) days of Prospect's buyout of the 15% CCCB ownership in Prospect CharterCARE. Prospect shall produce all PCC board minutes to the Attorney General with the quarterly reporting set forth in Condition 13.

30. Prospect CharterCARE shall notify the Attorney General of the initial board members within thirty (30) days of the implementation of Condition 29 and, during the Conditions and Monitoring Period, shall notify the Attorney General of any change in board members board within thirty (30) days of such change.

Exhibit 2 – Photographs of Facilities



Exhibit 2.1 Exterior view – Emergency entrance

Exhibit 2 – Photographs of Facilities



Exhibit 2.2 Interior view – hallway at Roger Williams Medical Center

Exhibit 2 – Photographs of Facilities



Exhibit 2.3 Interior view – main entrance at Roger Williams Medical Center

Exhibit 2 – Photographs of Facilities



Exhibit 2.4 Interior view – Roger Williams Medical Center

Exhibit 2 – Photographs of Facilities



Exhibit 2.5 Interior view – Roger Williams Medical Center

Exhibit 2 – Photographs of Facilities



Exhibit 2.6 Interior view – Intensive Care Unit at Roger Williams Medical Center

Exhibit 2 – Photographs of Facilities



Exhibit 2.7 Interior view – pharmacy at Roger Williams Medical Center

Exhibit 2 – Photographs of Facilities



Exhibit 2.8 Interior view – patient room at Our Lady of Fatima

Exhibit 2 – Photographs of Facilities



Exhibit 2.9 Interior view – emergency generators at Our Lady of Fatima Medical Center

Exhibit 2 – Photographs of Facilities



Exhibit 2.10 Interior view – emergency generators at Our Lady of Fatima Medical Center