

October 30, 2023

Miriam Weizenbaum
Chief, Civil Division
Rhode Island Office of Attorney General
150 South Main Street
Providence, RI 02903

**Re: Prospect Medical Holdings Inc. Hospital Conversion Monitorship
for the year 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 to assess Prospect’s compliance for the fiscal year ended September 30, 2021 with respect to Conditions 5 through 11, 13 through 19 and 21 through 33 (as contained in Sections II, III and IV of the Decision).

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



RSM US LLP
80 City Square
Boston, MA 02129

T +1 617 912 9000

www.rsmus.com

II. Executive Summary

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 Conditions² 5 through 11, 14 through 19 and 21 through 32 (as outlined in the publicly available portions of the Decision³) for Prospect’s fiscal year ended September 30, 2021.

II. Executive Summary

Based upon the procedures 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?	Compliant
5.3	1) Did Prospect spend the required amounts on Capital Expenditures (“CAPEX”) for the applicable periods? 2) Were reductions properly applied pursuant to Condition 6.4?	Compliant
5.4	Did Prospect only utilize up to \$27 million of Property Assisted Clean Energy (“PACE”) loan financing towards its CAPEX requirements?	Compliant
6.1	No Measures of Success applicable as Condition was to be met prior to Closing of the Proposed Transaction.	Compliant
6.2	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?	N/A – See applicable Observations and Finding below

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 Per page 72 of the Decision “Conditions” shall mean Conditions 1-34 and all subparts as set forth herein. As noted in this report each is individually defined herein as a Condition.

³ All references to the Decision are to publicly available portions, and do not reference any information redacted by your office.

II. Executive Summary

Condition	Measure of Success	Compliance Status
	<ul style="list-style-type: none"> 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? <p>3) When drawn upon-</p> <ul 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? 	
6.3	<ul 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
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

II. Executive Summary

Condition	Measure of Success	Compliance Status
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
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	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	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	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	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	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?	Compliant
10	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	1) Was the PCC Management Services Agreement terminated at the sooner of (i) the consummation of the	Compliant

II. Executive Summary

Condition	Measure of Success	Compliance Status
	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?	
13	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
14	Did Prospect furnish not later than February 15 th of the subsequent year audited financial statements of PMH and PCC, including but not limited to: (a) documentation of compliance with Conditions 5-11 and Conditions 16-29 of the preceding year, including but not limited to general ledgers, current contracts, invoices, receipts, and (b) a capital budget for PCC for the next three years?	Compliant
15	Was evidence of board vote of the boards of Prospect and PCC accepting the audited financial statements of both Prospected and PCC provided to the Attorney General annually?	Compliant
16.1	Was notice of any proposed change to the documents related to the MPT Transaction, as defined herein, to the extent the changes concern or will apply to or materially impact any Rhode Island entities provided to the Attorney General no fewer than thirty days prior to the implementation of such change?	Compliant
16.2	Was notice of any activity concerning the TRS Note, including but not limited to repayment, refinancing, default and/or waiver, provided to the Attorney General no fewer than thirty days prior to the implementation of such change?	Compliant
16.3	Were copies of any and all notices provided to or received by a party under the Merger Agreement provided to the Attorney General?	Compliant
16.4	Was notice of any proposed change to the documents related to the obligations owed by the Rhode Island Hospitals for PACE financing provided to the Attorney General no fewer than thirty days prior to the implementation of any such change?	Compliant
16.5	Was notice of any proposed change to the documents related to the MAAP obligations of the provider	Compliant

II. Executive Summary

Condition	Measure of Success	Compliance Status
	organizations within PCC, including the Rhode Island Hospitals, provided to the Attorney General no fewer than thirty days prior to the implementation of any such change?	
16.6	Was notice of any and all Insolvency Event, as defined in the Decision, of Prospect and or any of its subsidiaries provided to the Attorney General?	Compliant
17	Was sixty days' written advance notice of any terminations or material amendments to the internal agreements between the Rhode Island entities and Prospect and its affiliates (e.g., Management Agreement) provided to the Attorney General?	Compliant
18	Was sixty days' written advance notice of any and all new proposed organizational agreements between the Rhode Island entities and Prospect and its affiliates provided to the Attorney General?	Compliant
19	1) Were there sale, transfer, or encumbrance of any real or personal property, including any lines of service, owned by PCC with a value in excess of \$100,000? 2) Was prior notice of at least sixty days provided and approved by the Attorney General?	Compliant
21	1) Was the Attorney General provided any and all notices of investigation, violations, adverse findings, determinations and actions including fines and penalties, or complaints from the Office of Inspector General, Securities and Exchange Commission, Internal Revenue Service, Centers for Medicare and Medicaid Services, United States Department of Justice, any state attorney general, the Rhode Island Department of Health, Rhode Island Medicaid, any other Rhode Island regulatory body, or any hospital accreditation organizations, as well as any and all documents related to the resolution of any notices or complaints? 2) Was the Attorney General also provided any and all notices or complaints received from the state of Rhode Island or a Rhode Island municipality for violations, or potential violations, of state tax law, including but not limited to, any notice for delinquency in payments of taxes? 3) Was the Attorney General provided the aforementioned notices within fifteen days of receipt by Prospect and or PCC?	Noncompliant
22	1) Were the Rhode Island Hospitals open and operational and continue to provide at each hospital and all non-hospital settings the full complement of Essential Health Care Services, as defined in the Decision? 2) Did PCC maintain good standing status with all state and federal licensing and regulatory requirements, and meet all accreditation standards?	Compliant

II. Executive Summary

Condition	Measure of Success	Compliance Status
	3) Were there any suspension, termination, or material reduction of Essential Health Care Services without prior approval provided by the Rhode Island Department of Health?	
23	Was the PCC 401K retirement plan(s) matching contributions funded in accordance with the methodology of the most recent plan year?	Compliant
24	1) Were any changes made to the benefits provided under PCC's current benefit plans, including vacation, sick leave, holiday, health insurance, life insurance and continued COBRA coverage within six months following the issuance of the Decision? 2) Does Prospect continue to provide benefits, including vacation, sick leave, holiday, health insurance, life insurance, and continued COBRA coverage?	Compliant
25	1) Did Prospect and or PCC adopt any resolution or plan to implement a reduction in workforce, layoff, furlough, or other restructuring of the workforce that will lower the number of employed FTEs (full time equivalents) by thirty or more in course of a fiscal year at PCC, or by ten or more clinical staff (physicians and or nurses) at either of the Rhode Island Hospitals? 2) Did Prospect and or PCC provide the Attorney General notice within ten days upon adoption of such plan or resolution? 3) If such plan or resolution was adopted and implemented, did Prospect or PCC provide thirty days' notice to the Attorney General prior to the implementation?	Compliant
26	1) Did PCC continue to provide charity care consistent with its current charity care policy and consistent with all applicable laws and Rhode Island Department of Health Regulations 216-RICR-40-10-23? 2) Did PCC provide the Attorney General with supporting documentation evidencing its charitable and uncompensated care expenditures?	Noncompliant
27	1) Did Prospect and Chamber notify the Attorney General of the initial board members prior to closing of the Proposed Transaction? 2) Did Prospect and Chamber notify the Attorney General of any change in the boards within thirty days of such change?	Compliant
28	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?	Compliant

II. Executive Summary

Condition	Measure of Success	Compliance Status
	2) Was the document amended within thirty days of Prospect's buyout of the 15% CCCB ownership in PCC?	
29	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
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
31	Did all board members of Prospect, Chamber Inc. ("Chamber") and PCC complete fiduciary training on an annual basis and provide a certificate of completion to the Attorney General?	Compliant
32	1) Did all board members of Prospect, Chamber and PCC file conflict of interest statements on a form provided by the Attorney General no later than May 31 of each year? 2) Did any newly appointed board member file a conflict of interest statement within thirty days of appointment?	Compliant
33	Was any and all information requested by RSM to confirm compliance with all Conditions provided by Prospect within a reasonable time?	Noncompliant

III. Evaluation of Compliance

We set forth in our Work Plan,⁴ developed and approved by you, how Prospect would meet each of the Conditions, pursuant to Section VI. 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 financial statements of Prospect CharterCare, LLC for the year 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.

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 ██████████ and by OLF was ██████████. PCC has lost a cumulative ██████████ from Fiscal Year 2015 to Fiscal Year 2020. The average annual amount that Prospect has contributed to the Rhode Island

⁴ State of Rhode Island Office of Attorney General – Prospect/Chamber & Ivy Work Plan.

III. Evaluation of Compliance

Hospitals is [REDACTED].⁵ 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 the consolidated financial statements of PMH and PCC as of and for the years ended September 30, 2021 and 2020, including consolidated balance sheets, consolidated statements of operations, consolidated statements of members’ equity, consolidated statements of cash flows, and related notes to consolidated financial statements, as well as the independent auditor’s reports. In addition, Prospect provided (a) documentation of compliance with Financial Conditions (Conditions 5-11) and Conditions 16-29, including supporting documents for expenditures, including but not limited to general ledgers, current contracts, invoices, receipts, and (b) projected capital budget for PCC for the next three (3) years (“Annual Financial Package”). PMH’s Chief Financial Officer attested and certified that the annual financial information is accurate.

RSM analyzed and compared net loss amounts with cash flow sources contained within the Annual Financial Package to assess whether Prospect paid all operating expenses and all net operating losses.

The following table is a summary of PCC’s operations for the year ended September 30, 2021 from the condensed consolidated statements of operations submitted as part of the Annual Financial Package (all amounts shown are in thousands):

Table 5.2.1

Total net revenues	[REDACTED]
Total operating expenses ⁶	[REDACTED]
Net operating loss	[REDACTED]
Other Expense	[REDACTED]
Net loss	[REDACTED]

PCC prepared the above financial information utilizing the accrual basis of accounting. The accrual basis of accounting requires that organizations record expenses in the period in which they are incurred, which may be a different accounting period than when each expense is ultimately paid. Timing differences occur when goods and services are received on credit (rather than paid on delivery) whereby payment dates are dictated by agreed upon payment terms with vendors.

While Condition 5.2 states that Prospect shall “pay the difference between PCC’s total net revenue and total operating expenses (net operating loss),” due to PCC’s use of accrual-based accounting we believe converting accrual basis “net operating loss” to an equivalent cash basis is an appropriate and effective methodology to assess whether operating loss, as reported by PCC is “paid” by Prospect from quarter to quarter.

Updated Net Loss Amount (Utilizing Cash Basis Accounting)

As such, in order to determine if the net operating loss was funded by Prospect, RSM has converted PCC’s accrual-based calculation of net operating loss has to the cash basis of accounting. RSM determined the net operating amount, using cash basis accounting, as [REDACTED] (as presented in Table 5.2.2). This amount was arrived after adjusting accrual basis net loss by [REDACTED] for a) non-cash items (a

⁵ See page 27 of the Decision.

⁶ Inclusive of “pandemic relief grant income” of \$245 and “Operating income from unconsolidated equity method investments” of \$304.

III. Evaluation of Compliance

decrease in net loss), b) working capital (a decrease in net loss) and c) capital leases (a increase in net loss) follows:

a. Non-Cash Items:

PCC's reported net loss includes the following items that do not use cash (non-cash items) totaling:

- Addition to depreciation and amortization of
- Accretion of interest for asset retirement obligation of \$
- Decrease in undistributed earnings from equity method investments of

b. Working Capital:

Additionally net operating loss must also be adjusted by amounts funded by working capital⁷ that total approximately. Examples of accounts impacting working capital include and the rationale for the adjustment include:

- Patient accounts receivable for the period in question increased by, which indicates that billings exceeded collections. As a result, the change in patient accounts receivable increases the net loss on a cash basis.
- Accounts payable, other accrued liabilities and other long-term liabilities increased by. The increase in these accounts is due to the delay in the payment of expenses. While payment is being delayed to a future period the expenses, under accrual accounting, are being recorded in the current period.
- Other components of working capital decreased by a total which increases the net loss. The non-payment of expenses during the period in question reduces the net loss when measured on a cash basis.

c. Capital leases

Finally, net loss was increased by repayment of capital leases of in arriving at the net cash used in operations and financing activities.

Reconciliation of PCC's Updated Net Loss Amount (Utilizing Cash Basis Accounting) with the Reported Sources of PCC's Funding of these Net Operating Losses

The following table is a summary of PCC's cash flows for the year ended September 30, 2021 from the consolidated statements of cash flows submitted as part of the Annual Financial Package, (all amounts shown are in thousands). These amounts are consistent with and reconcile to RSM's calculation of Net Loss Amount Utilizing Cash Basis Accounting:

Table 5.2.2

Uses

Net cash used in operations and financing activities ⁸	\$	
Cash purchases of property, plant, and equipment		
Cash paid for acquisitions		

⁷ Working capital items included patient accounts receivables, amounts due to/from government payers, refund liability, prepaid expenses, other receivables and other current assets, other assets, and accounts payable, other accrued liabilities and other long-term liabilities.

⁸ Net cash used in operations and financing activities is net cash, cash equivalents and restricted used by operating activities of less financing activities, repayments of capital leases of from page 21 of the Annual Financial Package, Section III PCC Annual Financials – C. FY21 Cash Flow Statement.

III. Evaluation of Compliance

Total cash used	\$	████████
Sources		
Cash	\$	████████
Advances from affiliated companies		████████
Total cash sources	\$	████████

As shown in table 5.2.2 above, PCC used a net total of ██████ of cash to fund operations and financing activities. To reiterate, while PCC's reported accrual based net loss was ██████ (table 5.2.1), this amount far surpassed the ██████ in cash needed to fund operations and financing activities. RSM has reconciled and determined that the variance between these two amounts is largely attributed to non-cash items, such as depreciation and amortization, and changes in operating assets and liabilities associated with accrual accounting.

While inherently difficult to identify and evaluate each cash advance specifically made to cover PCC's shortfall (i.e., when total operating expenses exceeded total net revenues or net operating loss, as defined in this Condition), RSM has determined that Prospect, when necessary, has funded PCC's cumulative shortfalls through the infusion of Prospect's own cash in the amount of ██████ with the remaining amounts drawn from PCC's existing cash balance

In conclusion, RSM observed that for the year ended September 30, 2021, PCC's operating losses have been funded by advances from Prospect and or decreases in PCC's cash reserves and therefore did not incur any new debt. As the operating deficit and non-operating expenditures were funded by Prospect, Prospect is compliant with Condition 5.2.

Conditions 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 not less than \$48 million in CAPEX shall be spent by September 30, 2025.

Measure of Success

- 1) Did Prospect spend the required amounts on CAPEX for the applicable periods?
- 2) Were reductions properly applied pursuant to Condition 6.4?

Procedures

- 1) Obtained and read Prospect's capitalization accounting policy to assess conformity with generally accepted accounting principles ("GAAP").
- 2) Obtained and analyzed Prospect's detailed schedule of capital expenditures.
- 3) Agreed Prospect's claimed capital expenditures to general ledger fixed asset accounts.
- 4) Obtained and inspected relevant capital expenditure documents related to a selection of capital expenditure items totaling approximately \$10,010,000.
- 5) Evaluated whether treatment of capital expenditures is consistent with Prospect's capitalization accounting policy.

III. Evaluation of Compliance

Observations and Finding

As noted above, due to PCC's operating losses and without financial support from Prospect, PCC is at risk of not having the financial ability to meet its ongoing obligations related to operating expenses, as well as capital needs. Typically, entities plan and budget for future capital needs to repair or replace property, plant and equipment. Long term capital planning and spending allows an organization to remain competitive by providing patients with recent healthcare innovation, and or to improve operating efficiencies. Such spending is important for companies to maintain existing property, plant and equipment, and invest in current technology, as well as other assets for growth. The amount of spending depends on the condition of property, plant and equipment, and strategic identification of technology (among other considerations). The ability to set aside funds for future capital needs depends on the profitability and financial position of the operating entity (or its ability to raise capital from lenders and or investors). Hospitals with strong cash balance and working capital position (more current assets than current liabilities) resulting from profitable operations reduces the risk of funding problems. Additionally, hospitals with newer, well-maintained property, plant and equipment typically results in lower overall capital funding requirements (i.e., lower future costs associated with deferred maintenance, replacement of equipment and upgrades to technology infrastructure). Furthermore, a strong financial position (i.e., unencumbered assets) allows for easier access to debt financing at favorable terms. PCC does not meet any of the aforementioned conditions. The Rhode Island Hospitals historically have been operating at a loss.⁹ There are significant deferred capital expenditures at the Rhode Island Hospitals. Consultants to the Attorney General found that only approximately 66% of PCC's annual depreciable value have been replaced from fiscal year 2017 through fiscal 2020.¹⁰

As previously reported to you in our report dated October 18, 2021 (see Exhibit 3), Prospect spent not less than \$12.0 million in CAPEX for the Rhode Island Hospitals required under Condition 5.3(a), for the period from October 1, 2019 through June 30, 2021.

We performed procedures to determine whether the Rhode Island Hospitals spent not less than \$12.0 million in CAPEX for the period from October 1, 2019, through June 30, 2021, including the following:

- Obtained and read Prospect's capitalization accounting policy and concluded that it conforms with generally accepted accounting principles ("GAAP").
- Requested and upon receipt analyzed CAPEX schedules.
- Agreed claimed CAPEX to general ledger accounts. General ledger accounts are the underlying accounting records that support the reported amounts in the financial statements.
- Obtained and inspected relevant capital expenditure documents, such as invoices and contracts (where applicable) for a selection of CAPEX items totaling approximately \$10,010,000.¹¹
- Performed an on-site visit to both RWMC and OLF and inspected various capital projects that were funded during the period from October 1, 2019 through June 30, 2021.

During the course of performing our procedures, we held several discussions with Prospect and PCC's personnel regarding the nature, date, location, and go-live date of CAPEX items. We further analyzed the accounting for each transaction (i.e., where each CAPEX transaction that we tested was recorded within the general ledger). Finally, we evaluated whether treatment of the selection of CAPEX items are consistent with Prospect's capitalization accounting policy.

⁹ Supra. See note 2.

¹⁰ See page 30 of the Decision.

¹¹ While the majority of our selections were in excess of \$100,000, we also selected 25 CAPEX items less than \$100,000 totaling \$601,147 (thereby allowing for the inspection of a haphazard selection of both larger and smaller items).

III. Evaluation of Compliance

In conclusion, RSM observed that for the nine months ended June 30, 2021, PCC's CAPEX exceeded the amounts that Prospect was required to fund. As the CAPEX expenditures that were categorized accurately and funded by Prospect exceeded the minimum requirements, Prospect is compliant with Condition 5.3.

Condition 5.4:

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

Measure of Success

- 1) Did Prospect only utilize up to \$27 million of Property Assisted Clean Energy ("PACE") loan financing towards its CAPEX requirements?

Procedures

- 1) Inquired as to the funding source for all capital expenditures.
- 2) Obtained schedule of use PACE financing proceeds through June 30, 2021.

Observations and Finding

In 2020, Prospect obtained a \$42 million PACE loan to pay for improvements to RWMC. The loan bears interest at 5.75% per annum and is secured by a lien on RWMC's real property. According to Note 7 to the audited financial statements for RWMC for the fiscal year ended September 30, 2020, \$27 million had been expended and recognized as a liability with \$15 million remaining in escrow. An \$18 million PACE loan with the same rate of interest was obtained in January 2021.¹² Loan proceeds were used for improvements to OLF, and the loan is secured by a lien on OLF's real property. Real property is the single biggest asset of the Rhode Island Hospitals

As a result, under this Condition, no more than \$27 million of PACE financing may be applied against the minimum CAPEX requirement.

We inquired and requested a schedule of funding sources for all capital expenditures, including supporting documents. Prospect did not provide the requested schedule but instead provided a schedule of capital expenditures funded from PACE financing proceeds through June 30, 2021. The requested schedule showing funding sources for all capital expenditures would have presented the complete picture as to the source of funding for each CAPEX items, i.e., working capital, advances from Prospect or third-party financing. The total CAPEX expenditures reported by Prospect was \$14.58 million, less than the \$27 million amount allowable for PACE financing, and as such additional information was not necessary to determine compliance with the Condition for the current period. Given that the total amount of expenditures was less than the allowable amount, additional inquiry was deemed not necessary and as such not performed, however in future periods, a schedule of funding source for all capital expenditures will be required and requested to fully understand funding of capital expenditures. While RSM relied on Prospect's representation as to the completeness and accuracy of the schedule¹³ they provided to complete our testing for this quarter, Prospect's failure to provide requested information is contrary to the provision of Condition 33.¹⁴

Based on the procedures performed, Prospect is in compliance with this Condition.

Condition 6.1

¹² As discussed in page 11 of the PYA Report to the Rhode Island Department of Health, dated April 6, 2021.

¹³ Under Condition 13, Quarterly Financial Package "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 PCC's Chief Financial Officer, and the PCC board minutes (Condition 29)."

¹⁴ Prospect, Prospect CharterCARE, and any and all subsidiaries shall provide, within a reasonable time, any and all information requested by the Attorney General and/or the Attorney General's monitor(s) to confirm compliance with all Conditions stated herein.

III. Evaluation of Compliance

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

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

III. Evaluation of Compliance

- 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.

- (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.

III. Evaluation of Compliance

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.

(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.

III. Evaluation of Compliance

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.

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;

III. Evaluation of Compliance

(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.

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

III. Evaluation of Compliance

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

a. 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 year 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

1) Were all fees and costs associated with the Escrows and Letters of Credit paid by Prospect and Leonard Green?

Procedures

1) Obtain and inspect evidence supporting transaction.

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 6.10

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

III. Evaluation of Compliance

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, PCC 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, 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 is 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 April through September 2021.

We then verified the funding of net payroll, garnishment, employee and employer taxes, and 401K contributions to wire confirmations sent by ADP for each of the payroll paid for the period from June 1, 2021 through September 30, 2021. Additionally, we agreed amounts in the wire confirmations received

III. Evaluation of Compliance

from ADP to debit entries in the bank statements and noted timely funding. Finally, we compared salaries and wages, payroll taxes and retirement benefits to funded amounts to ensure that all obligations related to payroll, including payroll taxes and benefits were satisfied for the year 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>Total for the period from April 1, 2021 through September 30, 2021</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)	██████████
Variance %	██████████

Salaries and wages, payroll taxes and retirement benefits for the year ended September 30, 2021 included an accounting adjustment of ██████████ to reduce the cumulative total. This adjustment is a net total that includes a total of ██████████, which represents manual recording of monthly 401K employer matching contribution from December 2020 through September 2021. Simultaneously, 401K employer matching contribution was also recorded systematically each month under their new general ledger application. As a result, salaries and wages, payroll taxes and retirement benefits were overstated. However, the systematic recording of monthly 401K employer contribution totaling ██████████ was not properly captured in the correct general expense account that required a correction (i.e., an addition to the cumulative total).

PCC's salaries and wages, payroll taxes and benefits for the period from April 1, 2021 through September 30, 2021, as shown in Table 7.1.1 are presented without the effect of the overstatement of the 401K employer matching contribution applicable to the period from April 1, 2021 through September 30, 2021.

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 retirement benefits is insignificant and does not warrant further inquiry.

Based on the procedures performed, Prospect paid timely payroll, including salaries, retirement contributions and benefits, and payroll taxes for the period from June 1, 2021 through September 30, 2021. State taxes, hospital taxes and fees were tested as part of Condition 7.2 below and no issues were

III. Evaluation of Compliance

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 the ability to do so on a timely basis. As noted above, continued support from Prospect is necessary for the continued existence of PCC and the Rhode Island Hospitals.

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 grouped 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.

III. Evaluation of Compliance

Table 7.2.1

	<u>Total Unpaid Amount</u>	<u>1 Month Overdue</u>	<u>2 Months Overdue</u>	<u>3 Months and Greater Overdue</u>	<u>Unallocated Amount</u> ¹⁵
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 ██████████. 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 ██████████ due to an accounting error. The variance was corrected in December 2021.

We inspected the aging schedules and noted that there were, in aggregate, ██████████ of unpaid invoices that were 3 months past due and ██████████ 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

	<u>Total Unpaid Amount</u>	<u>1 Month Overdue</u>	<u>2 Months Overdue</u>	<u>3 Months and Greater Overdue</u>	<u>Unallocated Amount</u> ¹⁶
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:

Table 7.2.3

<u>Vendor</u>	<u>Location</u>	<u>Unpaid Amount</u>	<u>Over 3 Months Overdue</u>
████████████████████	██████	██████████	██████████
████████████████████	██████	██████████	██████████
████████████████████	██████	██████████	██████████

¹⁵ 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.

¹⁶ Supra. See note 12.

III. Evaluation of Compliance

[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 given that none of the individual balances were in excess of [REDACTED].

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 may 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]

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]

III. Evaluation of Compliance

[REDACTED]

Our understanding of this condition, confirmed through discussion with the Attorney General, 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. As noted above, [REDACTED] of such amount is related to longer term disputed amounts and acquisition related amounts and [REDACTED] is related to recent unpaid amounts.

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.

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 quarter ended June 30, 2021, RSM obtained and read the PACE Payment and Reimbursement Agreement, dated May 27, 2021 ("PACE Agreement"). Section 1 of the PACE Agreement states, "PMH

III. Evaluation of Compliance

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.

Prospect provided the PACE Financing Agreements, including Installment Payment Schedules contained in Schedule III for both RWMC and OLF (SJHRI), as well as each bank remittance advice that demonstrates payments made during the period in question. We then agreed payments made to Installment Payment Schedules. We then agreed payments made to Installment Payment Schedules. Table 8.1 below reflects the required installment payments due under the PACE obligations. All payment amounts were traced to bank remittance advice without exception.

Table 8.1

<u>Due Date</u>	<u>Installment Payment Due</u>		
	<u>RWMC</u>	<u>OLF</u>	<u>Total</u>
January, 2021	██████████	██████████	██████████
April, 2021	██████████	██████████	██████████
July, 2021	██████████	██████████	██████████
	██████████	██████████	██████████

Based on the procedures performed, all obligations by Rhode Island Hospitals for PACE financing were satisfied as of September 30, 2021. As a result, 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

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.

III. Evaluation of Compliance

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.

In 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 Providers¹⁷ 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 period from June 1, 2021 through September 30, 2021, we requested evidence of payment of all MAAP obligations. We then confirmed recoupments made to the monthly Provider Payment Summary Reports from CMS, which shows the reimbursement claim, adjustments to the claim, allowed amount and amount paid to the provider. The payment or “recoupment” of MAAP obligations is deducted from amounts owed to Rhode Island Hospitals from current claims in arriving at the net 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

	For the period from June 1, 2021 through September 30, 2021
Prospect CharterCare Physicians	█ ██████
Prospect Charter Home Health and Hospice, LLC	████████
Roger Williams Medical Center	████████
Our Lady of Fatima	████████
Total MAAP Obligations Reported by Prospect	████████
Repayments Reported by Prospect	████████
Repayments per CMS Reports	████████
Variance	█ ██████

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 three recoupments in the CMS Reports that consists of two overstatement of recoupments totaling ██████ in July and September related to Roger Williams Medical Center and Our Lady of Fatima, and understatement totaling ██████ 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).

¹⁷ Providers are defined as collectively Prospect CharterCARE RWMC, LLC, Prospect CharterCARE SJHSRI, LLC, Prospect Blackstone Valley Surgicare, LLC, Prospect CharterCARE Physicians, LLC, dba CharterCARE Medical Associates, New University Medical Group, LLC, dba University Medical Group, and Prospect CharterCARE Home Health and Hospice, LLC.

III. Evaluation of Compliance

Based on the procedures performed, Prospect is in compliance with the Condition. 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 Amendments¹⁸: 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.

Measure of Success

¹⁸ 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

- 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 hospitals¹⁹, 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.

Measure of Success

¹⁹ See page 30, b. Overview of PMH’s Finances, of the Decision.

III. Evaluation of Compliance

- 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 Findings

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?

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

For the reporting in Fiscal Year 2021, Prospect provided its Quarterly Financial Packages 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. The

III. Evaluation of Compliance

Quarterly Financial Package for the quarter ended June 30, 2021 was provided on August 19, 2021. The Quarterly Financial Package for the quarter ended September 30, 2021 was provide 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 14 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. As all required documentation was provided timely for each quarter of the Fiscal Year, Prospect is in compliance with the Condition.

Condition 14:

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.

Measure of Success

- 1) Were audited financial statements of PMH and PCC, including but not limited to:
 - (a) documentation of compliance with Conditions 5-11 and Conditions 16-29 of the preceding year, including but not limited to general ledgers, current contracts, invoices, receipts and
 - (b) a capital budget for PCC for the next 3 years provided by February 15th of each year?

Procedures

- 1) Obtain audited annual financial statements of PMH and PCC, 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 general ledgers, current contracts, invoices, receipts, and (b) capital budget for PCC for the next three years ("Annual Financial Package").

Observations and Finding

Prospect provided its Annual Financial Package which included audited financial statements, an attestation of compliance for Conditions 5 -11 and Conditions 16-29 made by Prospect's Chief Financial Officer and a capital budget for PCC for each of the three years ending September 30, 2022, 2023 and 2024. The Annual Financial Package was provided on February 15, 2022. As all required documentation was provided timely, Prospect is in compliance with the Condition.

Condition 15:

During the Conditions and Monitoring Period, Prospect shall provide the Attorney General with evidence of a board vote of the boards of Prospect and PCC, each accepting the audited financial statements of both Prospect and PCC.

Measure of Success

- 1) Was evidence of board vote of the boards of Prospect and PCC accepting the audited financial statements of both Prospect and PCC provided to the Attorney General annually?

Procedures

- 1) Obtain and read applicable minutes of board meeting.

Observations and Finding

III. Evaluation of Compliance

Prospect provided evidence that both the Prospect board and the PCC board accepted the audited financial statements of both Prospect and PCC for the years ended September 30, 2021 and 2020. Prospect is in compliance with the Condition.

Condition 16.1:

During the Conditions and Monitoring Period, provide the Attorney General with notice of any proposed change to the documents related to the MPT Transaction to the extent the changes concern, will by their terms apply to, or will materially impact any Rhode Island entities, no fewer than thirty days prior to the implementation of any such change;

Measure of Success

- 1) Was notice of any proposed change to the documents related to the MPT Transaction to the extent the changes concern or will apply to or materially impact any Rhode Island entities provided to the Attorney General no fewer than thirty days prior to the implementation of such change?

Procedures

- 1) Obtain and read notice and documents supporting the subject of the notice.
- 2) Determine if the notice was sent timely.

Observations and Finding

Prospect indicated in its annual reporting that no notices were required to be sent with respect to the MPT Transaction. RSM additionally reviewed the audited financial statements of Prospect for the years ended September 30, 2021 and 2020, which did not indicate any changes in the MPT Transaction. Prospect is in compliance with the Condition.

Condition 16.2:

During the Conditions and Monitoring Period, provide the Attorney General with notice of any activity concerning the TRS Note, including but not limited to, repayment, refinancing, default and or waiver, no fewer than thirty days prior to the implementation of any such change.

Measure of Success

- 1) Was notice of any activity concerning the TRS Note, including but not limited to repayment, refinancing, default and/or waiver, provided to the Attorney General no fewer than thirty days prior to the implementation of such change?

Procedures

- 1) Obtain and read notice and documents supporting the subject of the notice.
- 2) Determine if the notice was sent timely.

Observations and Finding

Prospect indicated in its annual reporting that no notices were required to be sent with respect to the TRS Note. RSM additionally reviewed the audited financial statements of Prospect for the years ended September 30, 2021 and 2020, which did not indicate any changes in the TRS Note. Prospect is in compliance with the Condition.

Condition 16.3:

During the Conditions and Monitoring Period, provide the Attorney General with copies of any and all notices provided to or received by a party under the Merger Agreement.

Measure of Success

III. Evaluation of Compliance

- 1) Were copies of any and all notices provided to or received by a party under the Merger Agreement provided to the Attorney General?

Procedures

- 1) Obtain and read notice and documents supporting the subject of the notice.
- 2) Determine if the notice was sent timely.

Observations and Finding

Prospect indicated in its annual reporting that no notices were required to be sent with respect to the Merger Agreement. RSM additionally reviewed the audited financial statements of Prospect for the years ended September 30, 2021 and 2020, which did not indicate any changes in the Merger Agreement. Prospect is in compliance with the Condition.

Condition 16.4:

During the Conditions and Monitoring Period, provide the Attorney General with notice of any proposed change to the documents related to the obligations owed by the Rhode Island Hospitals for PACE financing, no fewer than thirty days prior to the implementation of any such change.

Measure of Success

- 1) Was notice of any proposed change to the documents related to the obligations owed by the Rhode Island Hospitals for PACE financing provided to the Attorney General no fewer than thirty days prior to the implementation of any such change?

Procedures

- 1) Obtain and read notice and documents supporting the subject of the notice.
- 2) Determine if the notice was sent timely.

Observations and Finding

Prospect indicated in its annual reporting that no notices were required to be sent with respect to PACE financing. RSM additionally verified, without exception, the amounts paid for PACE financing during the testing period to the required amounts per the Installment Payment Schedules contained in Schedule III of the Pace Financing Agreements. This would indicate no changes have been made to the documents related to PACE financing. Prospect is in compliance with the Condition.

Condition 16.5:

During the Conditions and Monitoring Period, provide the Attorney General with notice of any proposed change to the documents related to the MAAP obligations of the provider organizations within PCC, including the Rhode Island Hospitals, no fewer than thirty days prior to the implementation of any such change.

Measure of Success

- 1) Was notice of any proposed change to the documents related to the MAAP obligations of the provider organizations within PCC, including the Rhode Island Hospitals, provided to the Attorney General no fewer than thirty days prior to the implementation of any such change?

Procedures

- 1) Obtain and read notice and documents supporting the subject of the notice.
- 2) Determine if the notice was sent timely.

Observations and Finding

III. Evaluation of Compliance

Prospect indicated in its annual reporting that no notices were required to be sent with respect to the MAAP obligations. Additionally, MAAP is a federal government program administered by the CMS, as such changes to the documents related to the MAAP obligations are non-negotiable. Prospect is in compliance with the Condition.

Condition 16.6:

During the Conditions and Monitoring Period, provide the Attorney General with notice of any and all Insolvency Event(s) of Prospect and or any of its subsidiaries. For purposes of this Condition, the exclusion of Proceedings for Affected Entities whose aggregate revenues do not exceed 5% of the consolidated revenues of Prospect and all of its consolidated subsidiaries for any of the preceding three fiscal years, shall not apply.

Measure of Success

- 1) Was notice of any and all Insolvency Event, as defined in the Decision, of Prospect and or any of its subsidiaries provided to the Attorney General?

Procedures

- 1) Obtain and read notice and documents supporting the subject of the notice.
- 2) Determine if the notice was sent timely.

Observations and Finding

Prospect indicated in its annual reporting that no notices were required to be sent with respect to Insolvency Events. RSM additionally performed an adverse data search and there were no Insolvency Events noted in the adverse data search. Prospect is in compliance with the Condition.

Condition 17:

During the Conditions and Monitoring Period provide sixty days' written advance notice to the Attorney General of any terminations or material amendments to the internal agreements between the Rhode Island entities and Prospect and its affiliates (e.g., Management Agreement).

Measure of Success

- 1) Was sixty days' written advance notice of any terminations or material amendments to the internal agreements between the Rhode Island entities and Prospect and its affiliates (e.g., Management Agreement) provided to the Attorney General?

Procedures

- 1) Obtain and read notice and documents supporting the subject of the notice.
- 2) Determine if the notice was sent timely.

Observations and Finding

Prospect indicated in its annual reporting that no notices were required to be sent with respect to the internal agreements between the Rhode Island entities and Prospect and its affiliates. RSM additionally reviewed audited financial statements of Prospect for the years ended September 30, 2021 and 2020, which did not indicate any changes related to internal agreements between the Rhode Island entities and Prospect and its affiliates. Prospect is in compliance with the Condition.

III. Evaluation of Compliance

Condition 18:

During the Conditions and Monitoring Period provide sixty days' written advance notice to the Attorney General of any and all new proposed organizational agreements between the Rhode Island entities and Prospect and its affiliates.

Measure of Success

- 1) Was 60 days written advance notice of any and all new proposed organizational agreements between the Rhode Island entities and Prospect and its affiliates provided to the Attorney General?

Procedures

- 1) Obtain and read notice and documents supporting the subject of the notice.
- 2) Determine if the notice was sent timely.

Observations and Finding

Prospect indicated in its annual reporting that no notices were required to be sent with respect to the any proposed organizational agreements between the Rhode Island entities and Prospect and its affiliates. RSM additionally reviewed audited financial statements which did not indicate any proposed changes in such agreements. Prospect is in compliance with the Condition.

Condition 19:

During the Conditions and Monitoring Period, real or personal property, including any lines of service, owned by PCC with a value in excess of \$100,000 shall not be sold, transferred, or encumbered without prior notice of at least sixty (60) days and approval by the Attorney General. This condition shall not be construed to limit the authority of the Attorney General under R.I. Gen. Laws § 23-17.14-1, et seq.

Measure of Success

- 1) Were there sale, transfer, or encumbrance of any real or personal property, including any lines of service, owned by PCC with a value in excess of \$100,000?
- 2) Was prior notice of at least sixty days provided and approved by the Attorney General?

Procedures

- 1) Perform title and UCC searches for sale, transfer, or encumbrances of any real or personal property.

Observations and Finding

Prospect indicated in its annual reporting that no notices were required to be sent with respect to the Condition. RSM additionally performed a title and UCC searches for occurrences of any sale, transfer, or encumbrances on or after June 1, 2021, that would have required prior notice of at least sixty days and approval by the Attorney General. There were no such events noted in the search requiring notice to and approval by the Attorney General. Prospect is in compliance with the Condition.

III. Evaluation of Compliance

Condition 21:

During the Conditions and Monitoring Period, Prospect and Prospect CharterCARE shall provide:

- (a) Any and all notices of investigation, violations, adverse findings, determinations and actions including fines and penalties, or complaints from the Office of Inspector General, Securities and Exchange Commission, Internal Revenue Service, Centers for Medicare and Medicaid Services, United States Department of Justice, any state attorney general, the Rhode Island Department of Health, Rhode Island Medicaid, any other Rhode Island regulatory body, or any hospital accreditation organizations, as well as any and all documents related to the resolution of any notices or complaints;
- (b) Any and all notices or complaints received from the state of Rhode Island or a Rhode Island municipality for violations, or potential violations, of state tax law, including but not limited to, any notice for delinquency in payments of taxes; and
- (c) All notices, complaints, or other documents shall be provided to the Attorney General within fifteen (15) days of receipt by Prospect and/or Prospect CharterCARE.

Measure of Success

- 1) Was the Attorney General provided any and all notices of investigation, violations, adverse findings, determinations and actions including fines and penalties, or complaints from the Office of Inspector General, Securities and Exchange Commission, Internal Revenue Service, Centers for Medicare and Medicaid Services, United States Department of Justice, any state attorney general, the Rhode Island Department of Health, Rhode Island Medicaid, any other Rhode Island regulatory body, or any hospital accreditation organizations, as well as any and all documents related to the resolution of any notices or complaints?
- 2) Was the Attorney General also provided any and all notices or complaints received from the state of Rhode Island or a Rhode Island municipality for violations, or potential violations, of state tax law, including but not limited to, any notice for delinquency in payments of taxes?
- 3) Was the Attorney General provided the aforementioned notices within fifteen days of receipt by Prospect and or PCC?

Procedures

- 1) Obtain and read notice(s) and documents supporting the subject of the notice.
- 2) Determine if the notice was sent timely.
- 3) Understand process for ensuring timely notice to RIAG.
- 4) Perform open source adverse media inquiry (including search of court records)
- 5) Scan general ledger for expenses potentially associated with fines and or penalties.

Observations and Finding

Prospect provided notices related to investigations performed by the Rhode Island Department of Health, the Joint Commission and the Centers for Medicare and Medicaid Services and the resolutions of such investigations. There were four instances where a notice was not provided timely to the Attorney General. Three of these instances were related to the initial notice received from the applicable entity. In two of the instances no initial notice of the incidents was provided to the Attorney General but was provided along with the resolution of the incidents. In these instances, notice was provided 21 days and 50 days after receipt by Prospect of the initial incidents. In the other instance the notice was not provided. Per conversation with Prospect the notice was from the Joint Commission and Prospect indicated there was an issue with the Joint Commission's portal that does not allow the initial complaint to be output from the system until a response is provided. The resolution to that incident was provided timely to the Attorney General. The other instance was related to the resolution of one incident. The resolution notice in that instance was provided 206 days after the resolution. Additionally, it is noted that with respect to four notices of resolution, evidence from the regulatory agency indicating that the issue was resolved was not

III. Evaluation of Compliance

provided. In these instances, Prospect only included documentation to the regulatory agency indicating the issue was resolved. . Additionally, we performed an adverse data search and scanned the general ledger for any additional possible activities which would require notice per the Condition. No other notices and or complaints were identified. Since not all notices of investigations, violations, adverse findings, determinations and actions and related resolutions were provided timely, Prospect is not in compliance with the Condition.

Condition 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.

Measure of Success

- 1) Were the Rhode Island Hospitals open, operating and providing the full complement of Essential Health Care Services?
- 2) Did PCC maintain good standing status with all state and federal licensing and regulatory requirements and meet all accreditation standards?
- 3) If suspension, termination, or material reduction of Essential Health Care Services was prior approval provided by the Rhode Island Department of Health?

Procedures

- 1) Establish baseline of Essential Health Care Services ("Services") as of June 1, 2021.
 - a. Obtain monthly revenues for each of the services for the twelve months ended May 31, 2021.
 - b. Obtain patient census data for each of the Services for the twelve months ended May 31, 2021.
 - c. Obtain key medical personnel and FTEs for each of the Services for the twelve months ended May 31, 2021.
 - d. Inquire and documented the Services offered by each department.
 - e. Determine the actual number of FTEs in each department.
 - f. Compare actual number of FTEs to planned FTEs.
 - g. Obtain explanation for difference between actual and planned.
- 2) Each year thereafter, compare operating metrics to baseline.
 - a. Obtain explanation for variances.
 - b. Obtain prior approval by the Rhode Island Department of Health for changes to the Services.
- 3) Perform site visits of facilities.
 - a. Tour facilities and take photographs.

Observations and Finding

The continued viability of Rhode Island Hospitals is critical as they are an important part of the State's healthcare system, providing vital services to their surrounding community. Any reduction or elimination of healthcare services would be a detriment to the communities it serves and would cause a strain in the healthcare system. Continued operating losses and those losses' resulting effect on PCC's financial resources would normally result in reallocation of resources to more productive activities if not for intervention by a third-party with authority.

This Condition requires that during the Conditions and Monitoring Period, Prospect and PCC keep the Rhode Island Hospitals open and operational and maintain and continue to provide at each Hospital and all non-hospital setting the full complement of Services. PCC is required to continue to provide access to

III. Evaluation of Compliance

quality healthcare services and maintain good standing status with all state and federal licensing and regulatory requirements and shall meet all accreditation standards. There is to be no suspension, termination, or material reduction of Services currently provided by PCC without the prior approval by the Rhode Island Department of Health.

We toured the Rhode Island Hospitals' facilities on November 17, 2021 and observed some of the capital expenditures made through June 30, 2021 during the tour (see photographs in Exhibit 2).

Based on discussions with Prospect on November 17, 2021 and subsequent correspondence with the Attorney General, we established an approach for developing a baseline by which future level of essential services will be compared to assess whether there has been a suspension, termination, or material reduction of Services provided by PCC without the prior approval of the Rhode Island Department of Health.

These initial conversations included discussions related to key measures indicated in the Procedures above such as patient census data and FTE counts. After additional subsequent discussions, Prospect agreed to only provide the number of claims by department ("Claims Data"). The Claims Data provides the department where the patients' case originated within the hospital system. Prospect provided Claims Data for the period from July 1, 2020 through June 30, 2021 ("Baseline Period"). The change in the previously agreed upon timing of the baseline is insignificant and better aligns with the quarterly reporting periods pursuant to the Decision.

Revenues, compensation, and FTE count along with the Claims Data form the key measures for evaluating the level of Services. PCC categorizes revenue and expense by department by assigning unique general ledger accounts to each department. Revenues are before related contract adjustments or bad debt. Compensation includes salaries and wages, payroll taxes and benefits. The revenues and compensation for each of the departments were mapped to the Services, as defined in the Condition. Presented in Table 22.1 below is a schedule of revenues, compensation and claims for each of the essential services, as well as a total count of FTEs for the Baseline Period, and the quarters ended September 30, 2021 and 2020.

We evaluated for material changes²⁰ in the level of Services as follows:

1. Established baseline as the period from July 1, 2020 through June 30, 2021.
2. Compared current quarter to the same quarter of the prior year.
3. Compared each current quarter to three-month baseline average.
4. Compared the same three months of the baseline as the current quarter to the three-month baseline average.
5. Adjusted variance resulting from step 3 by subtracting variance in step 4. The remainder is the "Seasonally-Adjusted Variance".
6. Obtained explanations and supporting data where Seasonally-Adjusted Variance, computed in step 5 met the following criteria:
 - a. Actual revenues, compensation and claims declined for the current quarter when compared to the same quarter of the prior year.
 - b. Seasonally-Adjusted Variances for revenues, compensation and claims show a decline.

²⁰ Our approach for evaluating whether a material change in the level of Services occurred is iterative. In future periods, we will compare periods not only to the baseline but to other periods to determine whether a Service has materially changed quarter over quarter. As an example, if an essential service increased, but in a subsequent quarter decreased but to a level still above the baseline, such decrease would be further investigated to determine if a material reduction occurred. Additionally, we will monitor the effect of seasonal variability from year-to-year to eliminate any distortions. Seasonality may change over time and will be accounted for in our analyses.

III. Evaluation of Compliance

- c. Seasonally-Adjusted Variances for revenues and claims change but in opposite directions.
 - d. Seasonally-Adjusted overall compensation declined.
 - e. Noted where declines that occurred in step 6.a. is consistent with the changes in the Seasonally-Adjusted Variances computed in step 6.b.
7. Monitor each year's quarterly changes as computed in steps 2 and 5

Based on the above criteria, we obtained explanations related to seasonally-adjusted variances for the following Services:

- Acute Dialysis Services – The decrease in revenues between the quarter ended September 30, 2021 and three-month baseline average was due to the quarter ended September 30, 2020 included a “catch-up” billing charge from the prior period which resulted in higher revenues.
- Homecare / Hospice Services – The decrease in revenues between the quarter ended September 30, 2021 and three-month baseline average was due to an approximate [REDACTED] year-end accounting adjustment to recognize COVID-19 relief funds received during the year ended September 30, 2020.
- Wound Care / Hyperbaric – Hyperbaric care revenues decreased in the quarter ended September 30, 2021 by approximately [REDACTED] from the three-month baseline average due to patients were reticent to receive treatment requiring multiple visits per week to the hospital while the COVID-19 pandemic was ongoing as well as increases in out-of-pocket costs to patients.
- Inpatient and Outpatient Cancer Services – The decrease in revenues for the quarter ended September 30, 2021 compared to the three-month baseline average was primarily due to a change in reporting revenues for one of the departments included in this category. Due to low volume of activity in Oncology Acute, revenues were included in the Medical/Surgical Services and Intensive/Coronary Care starting in March 2021. As a result, the baseline revenues are higher because Oncology Acute is included in the three-month baseline average but there were no revenues in the current quarter.

While certain categories of Services increased or decreased, total revenues and claims for the quarter ended September 30, 2021 increased, on a seasonally-adjusted basis, by [REDACTED] and [REDACTED] respectively, compared to the three-month baseline average. From this perspective, there are no indications that adverse changes have been made to the operations of the Rhode Island Hospitals.

Hospitals did not escape the employment trend in the overall economy where workers left their jobs to change careers or pursue other passions, otherwise known as “the great resignation”. Compensation decreased, on a seasonally-adjusted basis, by [REDACTED] for the quarter ended September 30, 2021, compared to the three-month baseline average. Similarly, the Average Total FTEs decreased, on a seasonally-adjusted basis, by [REDACTED] for the quarter ended September 30, 2021, compared to the three-month baseline average. In order to better understand whether the results indicate permanent changes in staffing that may portend adverse changes to operations, we read job postings on the PCC website to determine PCC’s action to remediate the current situation. PCC is trying to fill open positions as evidenced by postings dating back to June 2021. This is indicative that vacant positions are temporary. PCC is attempting to maintain similar levels of service by filling open positions. While certain variances occurred among specific Services there were no signs of material reductions as evidenced by the overall increase in revenues and claims, despite a reduction in compensation and reduction in overall employee count. For those Services where variances could indicate a reduction in Services, Prospect provided reasonable explanations.

RSM reviewed PCC’s accreditation status with The Joint Commission and noted that RWMC and Home Health were both last accredited effective as of May 14, 2021. OLF was last accredited effective as of May 21, 2021. As discussed in Condition 21 above, there were no notices provided indicating that such accreditations were no longer valid during the testing period. Additionally, there were no notices provided indicating that PCC was not in good standing with any state or federal regulators.

III. Evaluation of Compliance

Based on the financial, claims and staffing information provided by Prospect, the Rhode Island Hospitals are open and operational, and maintain and continue to provide the full complement of Services. Additionally, PCC's accreditation status was in good standing throughout the Testing Period. Prospect is in compliance with the Condition.

III. Evaluation of Compliance

Table 22.1

Essential Service	Baseline (BL)	Current Year (CY) Quarter (Qtr.)	Prior Year (PY) Quarter (Qtr.)	CY Qtr. v. BL 3-Month Avg.		Seasonally Adjusted CY Qtr. v. BL 3-Month Avg.	
				Variance	Variance%	Variance	Variance%
A 24-hour emergency department							
Revenues							
Compensation							
# Claims							
Medical/Surgical Services and Intensive/Coronary Care Unit							
Revenues							
Compensation							
# Claims							
Acute Dialysis Services							
Revenues							
Compensation							
# Claims							
Inpatient and Outpatient Rehabilitation Services, including Sub-acute							
Revenues							
Compensation							
# Claims							
Ambulatory Care Services							
Revenues							
Compensation							
# Claims							
Emergency Services, including emergency behavioral health services							
Revenues	-	-	-	-	-	-	-
Compensation	-	-	-	-	-	-	-

III. Evaluation of Compliance

Essential Service	Baseline (BL)	Current Year (CY) Quarter (Qtr.)	Prior Year (PY) Quarter (Qtr.)	CY Qtr. v. BL 3-Month Avg.		Seasonally Adjusted CY Qtr. v. BL 3-Month Avg.	
				Variance	Variance%	Variance	Variance%
# Claims		-	-	-	-	-	-
Inpatient and Outpatient Psychiatric/Mental Health/Addiction Medicine Services							
Revenues							
Compensation							
# Claims							
Diagnostic Imaging and Interventional/Radiology Services, including diagnostic cardiac catheterization							
Revenues							
Compensation							
# Claims							
Laboratory/Pathology							
Revenues							
Compensation							
# Claims							
Inpatient and Outpatient Cancer Services including Blood and Marrow Transplantation/ Surgical and Radiation Oncology							
Revenues							
Compensation							
# Claims							
Sleep Lab							
Revenues							
Compensation							
# Claims							
Wound Care/Hyperbaric Services							
Revenues							
Compensation							

III. Evaluation of Compliance

Essential Service	Baseline (BL)	Current Year (CY) Quarter (Qtr.)	Prior Year (PY) Quarter (Qtr.)	CY Qtr. v. BL 3-Month Avg.		Seasonally Adjusted CY Qtr. v. BL 3-Month Avg.	
				Variance	Variance%	Variance	Variance%
# Claims							
Homecare/Hospice services							
Revenues							
Compensation							
# Claims							
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.							
Revenues							
Compensation							
# Claims							
Total Revenues							
Total Compensation							
Total Claims							
Average Total FTEs							

III. Evaluation of Compliance

Condition 23:

During the Conditions and Monitoring Period, PMH shall guarantee funding of the PCC 401K retirement plan(s) matching contributions in accordance with the methodology in place as of the most recent plan year. Nothing herein shall impair the right of any union now existing, or to be formed at any of the PCC entities in the future, to negotiate changes to existing collective bargaining agreements and/or to enter new collective bargaining agreement provisions with respect to 401K retirement plan(s).

Measure of Success

- 1) Was the PCC 401K retirement plan(s) matching contributions funded in accordance with the methodology of the most recent plan year?

Procedures

- 1) Obtain and review annual benefit plan report, audit reports and other relevant documents.
- 2) Inspect evidence of proof of payment of matching contributions.

Observations and Finding

The 401K retirement plans for both RWMC and OLF have a plan year ending December 31. The current plan year applicable for this testing period is calendar year 2021. The employer matching contribution is required to be funded annually for RWMC's retirement plan and monthly for OLF's retirement plan. We obtained and read retirement savings plan documents for both RWMC and OLF. We also obtained a schedule of 401K funding as well as bank statements reflecting the funding of the employer matching contribution for RWMC, which occurred in December 2021. For OLF, we obtained a schedule of 401K funding as well as bank statements reflecting the funding of employer matching contributions for the months from June 2021 through September 2021. No exceptions were noted. Prospect is in compliance with the Condition.

Condition 24:

For the six (6) months following the issuance of the Decision, Prospect shall make no changes to benefits currently provided under PCC's current plans, including vacation, sick leave, holiday, health insurance, life insurance, and continued COBRA coverage, at current levels. Thereafter and during the Conditions and Monitoring Period, Prospect shall continue to provide benefits, including vacation, sick leave, holiday, health insurance, life insurance, and continued COBRA coverage. Nothing herein shall impair the right of any union now existing, or to be formed at any of the PCC entities in the future, to negotiate changes to existing collective bargaining agreements and/or to enter new collective bargaining agreement provisions with respect to benefits.

Measure of Success

- 1) Were any changes made to the benefits provided under PCC's current benefit plans, including vacation, sick leave, holiday, health insurance, life insurance and continued COBRA coverage within six months following the issuance of the Decision?
- 2) Does Prospect continue to provide benefits, including vacation, sick leave, holiday, health insurance, life insurance, and continued COBRA coverage?

Procedures

- 1) Obtain and current employee benefit plan.
- 2) Inquire about changes to employee benefit plan on December 1 and annually thereafter for changes.
- 3) Obtain amendments to plan, if any.

Observations and Finding

Based on the employee handbooks and employee benefits guide provided and read by RSM, Prospect provides the following benefits to its employees: Health insurance, telemedicine, prescription drug benefits, medical expense reimbursement plans, wellness benefits, dental, vision, basic life and

III. Evaluation of Compliance

accidental death and dismemberment, optional life insurance and accidental death and dismemberment, optional long term disability, flexible spending accounts, employee assistance programs, travel assistance programs and COBRA coverage. Additionally, Prospect provides paid time off, sick and safe leave and holiday pay to its employees. Such time off, leave and holiday pay benefits for each employee vary for each of the Rhode Island Hospitals, as well as their position and length of employment. Benefits are provided on a calendar year basis and any changes to benefits occur each January 1st. There were no changes to the benefits provided to employees during calendar year 2021. Since there were no changes made to benefits within 6 months of the Decision, Prospect is in compliance with the Condition.

Condition 25:

During the Conditions and Monitoring Period Prospect and/or Prospect CharterCARE shall provide written notice to the Attorney General (i) within ten (10) days upon the adoption of any resolution or plan to implement a reduction in workforce, layoff, furlough, or other restructuring of the workforce that will lower the number of employed FTEs by thirty (30) or more in the course of a fiscal year at PCC, or by ten (10) or more clinical staff (physicians and/or nurses) at either of the Rhode Island Hospitals; and (ii) again no fewer than thirty (30) days prior to the implementation date thereof.

Measure of Success

- 1) Did Prospect and or PCC adopt any resolution or plan to implement a reduction in workforce, layoff, furlough, or other restructuring of the workforce that will lower the number of employed FTEs by thirty or more in course of a fiscal year at PCC, or by ten or more clinical staff (physicians and or nurses) at either of the Rhode Island Hospitals?
- 2) Did Prospect and or PCC provide the Attorney General notice within ten days upon adoption of such plan or resolution?
- 3) If such plan or resolution was adopted and implemented, did Prospect or PCC provide thirty days' notice to the Attorney General prior to the implementation?

Procedures

- 1) Obtain and review annual budgets for potential layoffs.
- 2) Obtain and analyze workforce reduction plan, when applicable.
- 3) Evaluate compliance with the Conditions when it occurs.

Observations and Finding

Hospitals are reliant on staff to perform all day-to-day functions. Due to such reliance, the greatest expense by far at hospital is salaries and wages of their staff. Therefore, when a hospital is struggling financially, one of the first areas that is subject to review is staffing levels. While overstaffing can be an issue, there is also the possibility that staff necessary to provide quality care are eliminated primarily for financial reasons. Large scale reductions may result in a decline in the quality of care and as such it is prudent to monitor activity for the occurrence of such actions.

In its annual reporting, Prospect certifies and attests that no notices were required to be sent with respect to any plans for a reduction in workforce. We reviewed the 2022 Budget which did not indicate any reduction in salaries and wages between fiscal years 2021 or 2022. Additionally, we obtained a schedule of FTEs, excluding contingent staff, as of May 31, 2021 and September 30, 2021. The total number of FTEs as of May 31, 2021 were 2,617. We noted there was a decline in FTEs of [REDACTED] from May 31, 2021 to September 30, 2021, when the total number of FTEs were [REDACTED]. Prospect represents that the net decrease was because there were fewer total hires of [REDACTED] than total separations of [REDACTED]. Evidence provided by Prospect indicated that only [REDACTED] of the separations were involuntary. The decrease in FTEs was not attributable to a reduction in workforce plan but rather to normal turnover given the current market conditions. Prospect is in compliance with the Condition.

III. Evaluation of Compliance

Condition 26:

During the Conditions and Monitoring Period, Prospect CharterCARE shall continue to provide charity care consistent with its current charity care policy and consistent with all applicable laws and Rhode Island Department of Health Regulations 216-RICR-40-10-23, and provide the Attorney General with supporting documentation evidencing its charitable and uncompensated care expenditures.

Measure of Success

- 1) Did PCC continue to provide charity care consistent with its current charity care policy and consistent with all applicable laws and Rhode Island Department of Health Regulations 216-RICR-40-10-23?
- 2) Did PCC provide the Attorney General with supporting documentation evidencing its charitable and uncompensated care expenditures?

Procedures

- 1) Obtain and review charity care policy.
- 2) Review charity care provided annually.
- 3) Obtain financial statements, and abstract charitable and uncompensated care expenditures (establish baseline).
- 4) Thereafter, compare annual expenditures to baseline.
- 5) Evaluate compliance with charity care policy and RI DOH Regulations 216-RICR-40-10-23.

Observations and Finding

PCC provides critical health care to the community, including to those who are unable to afford it. Providing services at a reduced rate or at no charge at all is a necessity for lower income individuals to receive vital treatment. Therefore, it is imperative that PCC has policies and procedures in place that determine how charity care will be provided. These policies and procedures also need to align with all applicable laws.

RSM obtained and read the policies and procedures in place at RWMC and OLF. RSM noted that the policies and procedures aligned with the Rhode Island Department of Health regulations except for the policy related to determining eligibility for a patient under the income threshold who has assets in excess of the assets protection threshold. In those cases, the regulation reflects that the hospital must provide the patient the highest discount offered by the hospital under its partial charity care policy and the maximum that the hospital may pursue shall be the patient's actual assets less the assets protection threshold. The policy provided to RSM, as well as posted on each of the hospital's websites, did not reflect any discounts in such situation. According to Prospect, a future revision will state that when the patient does not meet either the income or asset criteria for charity care, they will be denied free care, however, a 50% discount will be applied to the adjusted bill and that Prospect will not pursue collecting more than the adjusted assets, which is the patient's total assets less the protection threshold.

We also noted that the Free Care Sliding Scale provided to RSM, as well as published on each hospital's website indicates specific income thresholds and respective health care discounts related to free or discounted care as of 2017 based on the federal poverty guidelines. Utilizing 2017 income thresholds will inadvertently exclude potential patients from receiving charity care who otherwise would have received charity care had current thresholds been applied to determine eligibility.

RSM also reviewed charity care spent by PCC. RSM noted that in the audited financial statements of PCC charity care was ██████ and ██████, or ██████ and ██████ as a percentage of net revenue for the fiscal years ended September 30, 2021 and 2020, respectively.

Since the charity care policies and procedures do not align to the Rhode Island Department of Health regulation, Prospect is not in compliance with the Condition.

III. Evaluation of Compliance

Condition 27:

Prospect and Chamber shall notify the Attorney General of the initial board members prior to closing of the Proposed Transaction and, during the Conditions and Monitoring Period, shall notify the Attorney General of any change in the boards within thirty (30) days of such change.

Measure of Success

- 1) Did Prospect and Chamber notify the Attorney General of the initial board members prior to closing of the Proposed Transaction?
- 2) Did Prospect and Chamber notify the Attorney General of any change in the boards within thirty days of such change?

Procedures

- 1) Obtain and review minutes of board meetings.
- 2) If any changes, occurred obtain copy of required notice sent to RIAG.
- 3) Determine if it was sent timely.

Observations and Finding

Knowing that the board will have persons who will represent those that the Rhode Island Hospitals serve during the term of the Decision is important to ensure that certain of the objectives of the Decision are achieved. As a result, notice of the initial composition and any future changes to the board is required. Notification regarding the initial board members was provided prior to closing of the Prospect's buyout of the 15% CCCB ownership in PCC. The board was changed on September 27, 2021 and notice of such change was provided on October 8, 2021. Prospect is in compliance with the Condition.

Condition 28:

Within thirty (30) days of Prospect's buyout of the 15% CCCB ownership in ProspectCharterCARE, 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.

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.²¹ 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

²¹ See p. 60-63 of the Decision, "Additional Concerns: Prospect CharterCARE Board".

III. Evaluation of Compliance

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 thirty 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.

Observations and Finding

As indicated in the Decision,²² 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

²² 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."

III. Evaluation of Compliance

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 Office of the Rhode Island 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 fiscal year 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 thirty days of the Operating Agreement. Notice was provided to Rhode Island Office of Attorney General on October 8, 2021 by Patricia K. Rocha, Adler Pollock & Sheehan, legal counsel for Prospect.

Prospect is in compliance with the Condition.

Condition 31:

During the Conditions and Monitoring Period, all board members of Prospect, Chamber, and Prospect CharterCARE shall be required to complete fiduciary training on an annual basis and provide certification of completion to the Attorney General.

Measure of Success

- 1) Did all board members of Prospect, Chamber Inc. ("Chamber") and PCC complete fiduciary training on an annual basis and provide a certificate of completion to the Attorney General?

Procedures

III. Evaluation of Compliance

- 1) Obtain and review of certificate of completion of fiduciary training for each board member.
- 2) Determine if all board members completed training.

Observations and Finding

It is important for members of the board to understand the basic fiduciary rules that govern their conduct. If these rules are understood and followed, directors should be able to faithfully execute their fiduciary duties, avoid fiduciary duty breach and protect themselves from potential legal liability. It was noted in the Decision that under the terms of the 2014 transaction, that the "PCC Board was intended to be the organized governing body responsible for the management and control of the operations of the Rhode Island Hospitals".²³ There was concern that the previous board members "did not seem to have a basic working knowledge of the financials of Prospect CharterCARE" and that a board member "never asked about the financial condition of Prospect." In exercising one of their fiduciary duties (care), directors should be as well informed with all available information prior to making a decision. Board members have different training and background. Certain board members are more knowledgeable in finance than other board members. Nevertheless, understanding the financials of an organization, such as PCC, is crucial for board members in making decisions that affect operations and financial management of an organization. Therefore, fiduciary training for board members helps ensure that they understand the consequences of their decision to an organization but also to them personally.

Evidence was provided by Prospect that fiduciary training was completed by the board members of Prospect, Chamber and PCC on October 20, 2021. Prospect is in compliance with the Condition.

Condition 32:

During the Conditions and Monitoring Period, all board members of Chamber, Prospect and Prospect CharterCARE shall file annual conflict of interest statements on a form provided by the Attorney General no later than May 31 of each year. Additionally, any newly appointed board member must file a conflict of interest statement within thirty (30) days of appointment.

Measure of Success

- 1) Did all board members of Prospect, Chamber and PCC file conflict of interest statements on a form provided by the Attorney General no later than May 31 of each year?
- 2) Did any newly appointed board member file a conflict of interest statement within thirty days of appointment?

Procedures

- 1) Obtain and review of conflict of interest statements.
- 2) Determine if conflict of interest statements have been received from all board members.

Observations and Finding

As noted in the Decision²⁴ there were concerns about a board member being compensated by Prospect. Any conflict of interest or perception of a conflict of interest could make a decision of a board appear improper even when intended to benefit an organization. For example, the board member who was being compensated under a consulting agreement with Prospect that was noted in the Decision will appear not to have an organization's best interest of PCC even when he is acting in good faith. Accordingly, the Decision required all board members to complete a conflict of interest statement timely. We obtained and read conflict of interest statements from all board members of Prospect, Chamber and PCC. All newly appointed board members submitted conflict of interest statements within thirty days of election to the board. Prospect is in compliance with the Condition.

²³ See pages 60-61 of the Decision

²⁴ See page 61.

III. Evaluation of Compliance

Condition 33:

Prospect, Prospect CharterCARE, and any and all subsidiaries shall provide, within a reasonable time, any and all information requested by the Attorney General and/or the Attorney General's monitor(s) to confirm compliance with all Conditions stated herein.

Measure of Success

- 1) Was any and all information requested by RSM to confirm compliance with all Conditions provided by Prospect within a reasonable time?

Procedures

- 1) Calculate time between request and receipt of requested information.

Observations and Finding

One of topics discussed during our meeting with Prospect on November 17, 2021 is management of information and document flow, including the need for a single point of contact/project manager. As part of that discussion, Prospect agreed to provide a response to our request and or question not later than 14 days of the request. We requested that when a response to our request is going to take longer than 14 days, to give us a courtesy notice of a pending delay. Additionally, we instituted a call every two weeks to discuss status of our requests. The initial call occurred on January 13, 2022.

Table 33.1 below reflects items which were received more than 14 days after request without notice of any delay. Items 1 - 6 in the table are requests that were outstanding from 56 days to 112 days. Items 7 – 23 in the table are requests where responses appear to have been delayed because of Prospect's preparation for their year end audit.

As noted in other Conditions above and in the table below, there were instances where not all information requested by RSM was provided, however there were not any instances where information needed to confirm compliance with all Conditions was not provided. Since not all information requested by RSM was provided timely, Prospect is not in compliance with the Condition.

Table 33.1

Item #	Condition #	Request/Issue	Request Date	Date Completed	# Days	Notes
1	5.3	Capital Budget 2021, 2022	09/22/2021	01/12/2022	112	Eventually provided by Prospect but expressed that the applicable Condition only requires Prospect spend the required minimum amount. RSM's Purpose: To understand planned level of capital expenditure in the intermediate term. Additionally, to understand that there is a planning process for capital spending.
2	5.3, 6.4	Policies and procedures governing over capital budgeting	09/22/2021	01/12/2022	112	According to Alfredo Sabillo, "Condition 5.3 just states that we spend the capex minimum amount, and 6.4 is about reduction to escrow. none of these conditions relate to our capital budgeting process but we discussed it in detail anyways during your site visit." During our bi-weekly call, he also noted that there are no formal policies and procedures. RSM's Purpose: To understand the governance over capital spending in their

III. Evaluation of Compliance

Item #	Condition #	Request/Issue	Request Date	Date Completed	# Days	Notes
						planning process, if any, including approach for prioritizing projects.
3	9.2	MAAP Application and Approval documents.	10/06/2021	12/23/2021	78	According to Alfredo Sabillo, "Condition 9.2 talks about favorable terms on repayment so not sure why the application and approval is necessary. Nonetheless, the repayment is set by CMS and it's something we can't change. This can easily be searched in the CMS website." RSM'S Purpose: Confirm the amount and terms of the MAAP obligations.
4	5.2	Operating Budget for the year ending September 30, 2022.	11/18/2021	01/18/2022	61	RSM'S Purpose: To confirm there is a formal financial planning process and understand their expected operating deficits that need to be funded by PMH.
5	11	Agreement or other documentation that supports termination of management services.	10/06/2021	12/02/2021	57	No formal document as per discussion on December 2, 2021.
6	5.3, 6.4	Discussion regarding capital planning process at Prospect Medical Holdings and at the Rhode Island Hospital level.	09/22/2021	11/17/2021	56	Discussed during the November 17, 2021 site visit.
7	Q3 - 9.1	MAAP Provider Payment Summary Reports (April, May and June) for Prospect CharterCARE Physicians (Prospect CharterCare Medical Associates).	11/18/2021	01/12/2022	55	
8	7.2	Accounts payable aging and schedule of other accrued liabilities supporting amounts presented in the balance sheet as of June 30, 2021 for Prospect CharterCARE.	09/22/2021	11/08/2021	47	
9	7.1, 7.2	Policies and procedures governing processing of accounts payable and payroll, including related taxes and benefits.	09/22/2021	11/08/2021	47	
10	7.2	AP aging as of September 30, 2021 (Supplier Aging Reports).	11/11/2021	12/23/2021	42	Request was for similar reports previously provided.
11	Q4-9.1	MAAP: Provider Payment Summary Reports for July, August and September for all entities listed in Section IV of the Quarterly Reporting Package.	12/01/2021	01/12/2022	42	
12	22	1. Review the attached schedule of key data and statistics to be utilized for evaluating essential services. 2. Schedule a time to discuss which statistics to use that supports the revenue trends.	12/17/2021	01/24/2022	38	
13	8	PACE financing proof of debt service payments for April-June 2021.	10/12/2021	11/16/2021	35	
14	7.1	Direct Deposit and Check Payment Funding Summary for Check Date July 8, 2021 and	11/18/2021	12/23/2021	35	RSM's Purpose: To test reasonableness of related accruals as of June 30, 2021. This was stated in the original request.

III. Evaluation of Compliance

Item #	Condition #	Request/Issue	Request Date	Date Completed	# Days	Notes
		applicable ADP Wire Confirmations.				
15	7.2	List of accrued expenses as of June 30, 2021 including date of invoice and payment due date.	10/06/2021	11/08/2021	33	
16	22	1. Detailed departmental operating statements for 3 months and 9 months ended June 30, 2021 (that present revenues and expenses for Essential Health Care Services, as defined in the Condition. 2. Budget and related assumptions for the fiscal year ended September 30, 2021. 3. Who has the responsibility for monitoring Essential Health Care Services to ensure compliance with the Condition 22, if anyone?	10/06/2021	11/08/2021	33	RSM received only the detailed departmental operating statements requested.
17	Q4 -7.1	How do we agree ADP Payroll Summary Report to amounts recorded per general ledger for payroll and payroll related taxes and benefits?	12/17/2021	01/18/2022	32	RSM's Purpose: To verify completeness of the information contained in the ADP Payroll Summary Reports by agreeing information contained in such report to the recorded amounts in the general ledger. Prospect provided a summary report of all the payroll expenses from data extracted from the general ledger. We recalculated the amounts in such report but edited the information in order for us to use in validating completeness of the subject information.
18	7.1	General ledger trial balance with monthly activity.	11/11/2021	12/10/2021	29	
19	Q3-7.2	Have reports for uninvoiced receipts been corrected so that they agree to the amounts in the GL?	12/17/2021	01/13/2022	27	
20	Q3-7.1, 7.2	FIN 001, Acquisition of Goods and Services, and FIN 002, Acquisition of Capital Goods and Services, policies.	12/17/2021	01/12/2022	26	
21	Q3-7.1	1. ADP support for May 14, 2021 pay date provided related to Taxes. 2. ADP Summary page that shows total gross salaries, tax and other withholdings (e.g. 401K, garnishments, etc.), net salaries and wages.	12/17/2021	01/12/2022	26	
22	22	Title of the cost centers in the attached document	11/11/2021	12/02/2021	21	
23	7.2	Calculation of average # of days outstanding for A/P and Accrued Expenses for June 30, 2021 and September 30, 2021.	11/18/2021	12/09/2021	21	RSM's Purpose: To understand Prospect's interpretation of Condition 7.2.
24	Q4 - 7.2	Direct Deposit and Check Payment Funding Summary, ADP Wire Confirmations or ADP Summary Report and related payroll bank statements for pay periods occurring in	01/04/2022	01/24/2022	20	

III. Evaluation of Compliance

Item #	Condition #	Request/Issue	Request Date	Date Completed	# Days	Notes
		July, August and September of 2021.				

Exhibit 1 – Applicable Definitions

VI. Definitions

The following definitions apply to the terms used in the Conditions:²⁵

- (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;

²⁵ Terms not defined below shall be defined in accordance with the Decision.

Exhibit 1 – Applicable Definitions

- 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 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

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

Exhibit 3

**Report on
Prospect Medical Holdings Inc. Hospital Conversion Monitorship: Reduction in
CAPEX Funds for the period through June 30, 2021
Dated October 18, 2021**