

September 23, 2024



Ms. Sarah Rice  
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Rhode Island Office of Attorney General  
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Providence, RI 02903

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**Re: Prospect Medical Holdings Inc. Hospital Conversion Monitorship  
for the quarter ended June 30, 2023**

Dear Attorney Rice:

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 (“PCC”); 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, 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”).

The attached report describes the procedures performed to assess Prospect’s compliance for the quarter ended June 30, 2023, with respect to Conditions 5 through 11 and 13 (as outlined in the publicly available portions of the Decision) and our resulting findings.

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,

A handwritten signature in black ink that reads "Greg Naviloff".

Greg Naviloff  
Partner

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## 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 June 30, 2023, pursuant to the Attorney General’s Hospital Conversions Act Decision dated June 1, 2021 (“Decision”).<sup>1</sup> Specifically, this report contains the results of our evaluation of Prospect’s compliance with Conditions 5 through 11, and 13 (as outlined in the publicly available portions of the Decision<sup>2</sup>) for Prospect’s quarter ended June 30, 2023. The definition of these Conditions are presented in Exhibit 1.

## II. Executive Summary

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

Condition	Measure of Success	Compliance Status
5.1	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	2) Did Prospect pay all operating expenses and pay all net operating loss for the applicable time period?	Noncompliant
5.3	1) Did Prospect spend the required amounts on CAPEX for the applicable periods? 2) Were reductions properly applied pursuant to Condition 6.4?	N/A – Not subject to quarterly testing
5.4	Did Prospect only utilize up to \$27 million of PACE financing towards its CAPEX requirements?	N/A – Not subject to quarterly testing

<sup>1</sup> 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”).

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

Condition	Measure of Success	Compliance Status
6.1	No Measures of Success applicable as Condition was to be met prior to Closing of the Proposed Transaction.	Compliant
6.2	<ol style="list-style-type: none"> <li>1) Do the letters of credit set forth the correct amounts?</li> <li>2) Do the terms of the letters of credit reflect the requirements under Section 6.2 and 6.6?               <ol style="list-style-type: none"> <li>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?</li> <li>b. Do the Letters of Credit list the Agent/Trustee as the beneficiary?</li> <li>c. Are the Letters of Credit irrevocable standby letters of credit in a form acceptable to the Attorney General?</li> </ol> </li> <li>3) When drawn upon-               <ol style="list-style-type: none"> <li>a. For CAPEX, does it meet the requirement CAPEX Escrow/LOC Reduction Schedule set forth in Condition 6.4?</li> <li>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?</li> <li>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?</li> </ol> </li> </ol>	N/A – See applicable Observations and Finding below
6.3	<ol style="list-style-type: none"> <li>1) Do the escrow agreements or letters of credit set forth the correct amounts?</li> <li>2) Do the escrow agreements or letters of credit reflect the requirements under Conditions 6.3, 6.5 and 6.6?</li> <li>3) In the event a letter or credit is drawn upon or an escrow reduced, does it meet the requirements under Condition 6.4?</li> </ol>	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

**Prospect Medical Holdings Inc. Hospital Conversion Monitorship  
for the quarter ended June 30, 2023**

<b>Condition</b>	<b>Measure of Success</b>	<b>Compliance Status</b>
		Observations and Finding below
6.7	No Measures of Success applicable as condition is monitored by the Attorney General.	N/A – See applicable Observations and Finding below
6.8	Were all deficiencies cured within 30 business days of written notice from the Attorney General?	Noncompliant
6.9	Were all fees and costs associated with the Escrows and Letters of Credit paid by Prospect and Leonard Green?	N/A – See applicable Observations and Finding below
6.10	Was the Agent/Trustee Agreement executed within 5 business days of Attorney General's approval?	N/A – See applicable Observations and Finding below
7.1	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 – all amounts recouped by CMS as of 12/31/2022
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?	Noncompliant

**Prospect Medical Holdings Inc. Hospital Conversion Monitorship  
for the quarter ended June 30, 2023**

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<b>Condition</b>	<b>Measure of Success</b>	<b>Compliance Status</b>
	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?	
11	1) Was the PCC Management Services Agreement terminated at the sooner of (i) the consummation of the buy-out of the 15% CharterCARE Community Board (“CCCB”) ownership in PCC or (ii) September 30, 2021? 2) Are local hospitals, including the Rhode Island Hospitals, being charged for their share of PCC corporate level expenses?	Compliant
13	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?	Noncompliant

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

**Condition 5.1**

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

*Measure of Success*

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

*Procedures*

- 1) Obtain and inspect related transaction documents.

*Observations and Finding*

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

**Condition 5.2**

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

*Measure of Success*

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

*Procedures*

- 1) Inquired with Prospect as operating losses are funded, when applicable
  - a. Obtained and gained an understanding of funding agreement or plan between PCC and local hospitals.
  - b. Inquired with local Rhode Island Hospital management and Prospect to gain an understanding of financial planning and analysis process.
- 2) Analyzed the unaudited financial statements of Prospect CharterCARE, LLC for the nine months ended June 30, 2023.

*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.

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 condensed consolidated balance sheet (unaudited) as of June 30, 2023, and September 30, 2022, condensed consolidated statements of operations (unaudited) for the three months ended June 30, 2023 and 2022, and condensed consolidated statements (unaudited) of cash flows for

the nine months ended June 30, 2023 and 2022 (including accounts payable and any amounts due to or due from affiliates), for Prospect and PCC and other documents<sup>3</sup> that Prospect believes demonstrates compliance with each of the Financial Conditions contained in the Decision (“Quarterly Financial Package”). PCC’s Chief Financial Officer certified this information as accurate.

RSM analyzed and compared net loss amounts with cash flow sources contained within the Quarterly 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 nine months ended June 30, 2023 from the condensed consolidated statements of operations (unaudited) submitted as part of the Quarterly Financial Package (all amounts shown are in thousands):

**Table 5.2.1**

	Three months ended June 30, 2023	Nine months ended June 30, 2023
Total net revenues		
Total operating expenses <sup>4</sup>		
Net operating loss		
Net loss		

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 net operating loss, as reported by PCC is “paid” by Prospect on an ongoing basis.

*Updated Net Loss Amount (Utilizing Cash Basis Accounting)*

As such, in order to determine if the net operating loss was funded by Prospect, RSM reviewed the statement of cash flows for the nine months ended June 30, 2023. See Table 5.2.2.

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<sup>3</sup> Other documentation includes a schedule of Medicare Accelerated and Advanced Payment liabilities and representation letters whereby Prospect attests to compliance for the reported Conditions.

<sup>4</sup> Total Operating Expenses includes hospital operating expenses, general and administrative costs and depreciation and amortization. It is also Inclusive of “Operating income from unconsolidated equity method investments” of [REDACTED] for the three months ended June 30, 2023 and [REDACTED] for the nine months ended June 30, 2023.

Table 5.2.2 (amounts in thousands)

Nine Months Ended  
June 30, 2023

**Operating Activities**

Net Loss

Adjustments to reconcile net loss to net cash, cash equivalents and restricted cash

Depreciation and amortization

Accretion of interest for asset retirement obligations

Undistributed earnings from equity method investments

Patient accounts receivable

Due to/from government payers, net

Refund liability

Inventories

Prepaid expenses, other receivables and other current assets

Other assets

Accounts payable, other accrued liabilities and other long-term liabilities

Change in due (to) affiliated companies, net

Net cash, cash equivalents and restricted cash (used in) provided by operating activities (includes rounding difference of \$1)

**Investing Activities**

Purchases of property, improvements and equipment

Cash distributions from equity investments

Net cash, cash equivalents and restricted cash provided by (used in) investing activities

**Financing Activities**

Repayments of capital leases

Net cash, cash equivalents and restricted cash used in financing activities

Change in cash, cash equivalents and restricted cash



The net loss for the nine months ended June 30, 2023 of [REDACTED] was converted to cash used in operations in the amount of [REDACTED] by adjusting for a) non-cash items ([REDACTED] decrease in net loss), b) working capital ([REDACTED] decrease in net loss). The net loss was further adjusted by cash used in c) investing activities ([REDACTED] increase in net loss) and d) financing activities consisting of capital lease payments ([REDACTED] increase in net loss) discussed as follows:

a. Non-Cash Items:

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

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

b. Working Capital:



Additionally net loss must also be adjusted by amounts funded by working capital<sup>5</sup> that total approximately [REDACTED]. Items impacting working capital include and the rationale for the adjustment are as follows:

- Patient accounts receivable for the period in question decreased by [REDACTED], which indicates that collections exceeded billings. As a result, the change in patient accounts receivable decreases the net loss on a cash basis.
- Accounts payable, other accrued liabilities and other long-term liabilities increased by [REDACTED]. The increase in these accounts is due to the delay in the payment of expenses due. 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 increased by a total [REDACTED] which decreases the net loss on a cash basis.

c. Investing Activities

- Cash was used to purchase property, improvements and equipment totaling [REDACTED]
- Cash distributions from equity investments totaled [REDACTED]

d. Financing Activities

Finally, net loss was increased by repayment of capital leases of [REDACTED]

The following table is a summary of PCC's cash flows for the nine months ended June 30, 2023, from the condensed consolidated statements of cash flows (unaudited) submitted as part of the Quarterly 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 5.2.3 (amounts in thousands)**

Net cash used in operations	[REDACTED]
Net cash used in investing activities	[REDACTED]
Net cash used in financing activities	[REDACTED]
Advances from affiliated companies	[REDACTED]
Change in cash	[REDACTED]

As shown in table 5.2.3 above, PCC required a total of [REDACTED] of cash to fund net operations and financing activities. To reiterate, while the PCC's reported accrual based net loss was [REDACTED] (Table 5.2.1), this amount surpassed the [REDACTED] in cash that PCC needed to fund its operations and financing activities. RSM has reconciled and determined that the variance between these two amounts is 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 has funded PCC's cumulative shortfalls through the infusion of Prospect's own cash.

It is noted, however, that a significant portion of the cash generated from operating activities for the nine months ended June 30, 2023 was attributable to PCC's delay in payments to vendors and suppliers resulting in an increase in its accounts payable balance which has resulted in non-cash equivalent increases of [REDACTED] (Table 5.2.2) in cash provided from operating activities. As reflected in Condition 7.2 below (Table 7.2.3), there were [REDACTED] vendors with invoices totaling [REDACTED] more than 90 days past

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<sup>5</sup> 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.

due as of June 30, 2023 that were still not paid as of September 30, 2023. This delay in payment of accounts payable should also be considered when understanding compliance with Condition 5.2.

In conclusion, RSM observed that for the nine months ended June 30, 2023, PCC's net operating losses have been funded, by advances from Prospect and therefore did not incur any new debt. Under the test procedures defined for Condition 5.2, RSM concluded that Prospect funded the cash deficit from operating activities and non-operating activities. Due to the delay in payment of accounts payable above, Prospect is not in compliance with Condition 5.2.

### **Condition 5.3**

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

(a) For the period covering Fiscal Year 2020 and the first three quarters of fiscal year 2021, not less than \$12.0 million; and

(b) For the period between October 1, 2021 and September 30, 2026, not less than \$60 million shall be spent as follows:

- i. not less than \$10.0 million during each fiscal year;
- ii. not less than \$24 million in CAPEX shall be spent by September 30, 2023; and
- iii. not less than \$48 million in CAPEX shall be spent by September 30, 2025.

#### *Procedures*

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

#### *Observations and Finding*

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

### **Condition 5.4**

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

#### *Measures of Success*

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

#### *Observations and Finding*

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

### **Condition 6.1**

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

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

*Procedures*

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

*Measures of Success*

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

*Observations and Finding*

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

**Condition 6.2:**

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

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

*Measure of Success*

- 1) Do the letters of credit set forth the correct amounts?
- 2) Do the terms of the letters of credit reflect the requirements under Section 6.2 and 6.6?

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

*Procedures*

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

*Observations and Finding*

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

**Condition 6.3:**

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

- (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 of credit is drawn upon or an escrow reduced, does it meet the requirements under Condition 6.4?

*Procedures*

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

*Observations and Finding*

Per discussions with the Attorney General Initial Escrows were funded, but the letter of credit requirements are still being negotiated, 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*

Reductions of CAPEX Funds are performed by the Attorney General and are subject to certain other conditions, therefore no other observations or findings noted.

#### *Procedures*

No Procedures applicable as reductions of CAPEX Funds are performed by the Attorney General.

#### *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*

None reflected as Condition is monitored by the Attorney General.

**Condition 6.6:**

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

- (a) The Letters of Credit shall not be funded by PCC's revenue, funded by a loan secured by PCC's assets, or collateralized by PCC's assets;
- (b) The Letters of Credit shall list the Agent/Trustee as the beneficiary;
- (c) The Letters of Credit shall be irrevocable standby letters of credit in a form acceptable to the Attorney General;
- (d) The Letters of Credit may be drawn upon by the Agent/Trustee, at the written direction of the Attorney General, if, as determined by the Attorney General: (i) Prospect fails to comply with its obligations under II. Financial Conditions (Conditions 5-11) or Condition 22 (Continuity of Services) and/or (ii) an Insolvency Event occurs;
- (e) The Attorney General shall provide written instructions, in accordance with these Conditions, to the financial institution issuing the Letters of Credit regarding the reduction in the Letters of Credit;

- (f) The Letters of Credit shall not be reflected as a liability of PCC or the Hospitals on their financials;
- (g) The Letters of Credit shall be (i) with an entity that conducts business in the State of Rhode Island, (ii) be subject to Rhode Island law, and (iii) be subject to an agreement that provides, among other things, for disputes to be resolved in the courts of Rhode Island;
- (h) The agreements governing the Letters of Credit shall be approved by the Attorney General; and
- (i) The Letters of Credit shall be issued by one or more financial institutions approved by the Attorney General.

*Measure of Success*

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

*Procedures*

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

*Observations and Finding*

None reflected as Condition is monitored by the Attorney General.

**Condition 6.7:**

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

*Measure of Success*

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

*Procedures*

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

*Observations and Finding*

None reflected as reductions are determined by the Attorney General.

**Condition 6.8:**

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

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

*Measure of Success*

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

*Procedures*

- 1) Obtain and review documents related to curing issue.

*Observations and Finding*

Attorney General did not provide any notice of non-compliance during the quarter ended June 30, 2023, however as noted in our report for the quarter ended December 31, 2022, there was a notice of non-compliance provided that was not cured, therefore Prospect is not in compliance.

**Condition 6.9:**

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

*Measure of Success*

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

*Procedures*

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

*Observations and Finding*

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

**Condition 6.10**

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

*Measure of Success*

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

*Procedures*

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

*Observations and Finding*

None reflected as agent/trustee agreements are monitored by the Attorney General.

**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 liabilities were timely satisfied.

*Observations and Finding*

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

This Condition requires that PCC ensure all payroll, including salaries, retirement contributions and benefits, payroll taxes, property taxes, sales taxes, hospital taxes and fees and workers compensation is paid on a timely basis. In the event that any such payments are delinquent by more than fifteen days, 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 it 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, May and June 2023.

We then verified the funding of net payroll, garnishment, employee and employer taxes, and 401K contributions by comparing payroll funding summary to wire confirmations sent by ADP for each of the payroll paid for the quarter ended June 30, 2023. Additionally, we agreed amounts in the wire confirmations received from ADP to debit entries in the bank statements and noted timely funding. Finally, we compared salaries and wages, payroll taxes and benefits from the general ledger to the payroll funding summary to ensure that all obligations related to payroll, including payroll taxes and benefits were satisfied for the quarter ended June 30, 2023.

The salaries and wages, payroll taxes and 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 an 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. Health insurance benefits are self-funded by Prospect and administered by a third party, HealthComp. Through discussions held with Prospect and HealthComp, no lapses in funding by Prospect for health insurance claim reimbursement were indicated.

**Table 7.1.1**

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

Salaries and wages, payroll taxes and benefits appeared to have been funded timely, on or before the payroll date, without exception. An unreconciled variance of 0.6% of salaries and wages, payroll taxes and benefits did not warrant further inquiry.

Based on the procedures performed, Prospect paid timely payroll, including salaries, retirement contributions and benefits, and payroll taxes for the quarter ended June 30, 2023. Property taxes, sales taxes, hospital taxes and fees were tested as part of Condition 7.2 below and no issues were noted. Therefore, based on the procedures performed, Prospect paid timely payroll, including salaries, retirement contributions and benefits, payroll taxes, property taxes, sales taxes, hospital taxes and fees and workers compensation and is in compliance with this Condition.

**Condition 7.2:**

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

*Measure of Success*

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

*Procedures*

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

*Observations and Finding*

The Rhode Island Hospitals' ability to provide consistent and effective services to the community depends 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 June 30, 2023; (b) list of accrued expenses as of June 30, 2023, including date of invoice and payment due date; and (c) uninvoiced purchase orders (goods or services received but invoices have not been received). We read the policy titled, “Expense Recognition, Accounts Payable and Accrued Liabilities” and discussed certain items within the policy with Prospect on November 17, 2021. We observed that Prospect’s aging schedules for RWMC and OLF contains cumulative amounts of past due vendor invoices, grouped, and summed by the number of months the unpaid invoice is past the payment due dates found on the invoice, (e.g., 1 month, 2 months, 3 months and greater) as of June 30, 2023.

**Table 7.2.1 – Accounts payable aging as of June 30, 2023**

	<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> <sup>6</sup>
RWMC					
OLF					
<b>Total</b>					

We agreed the balances per the account payable aging schedules to the account payable balances recorded within PCC’s general ledger.

We inspected the aging schedules and noted that there were in the aggregate [REDACTED] of unpaid invoices that were 3 months and greater past due. The aging schedules for the quarter ended September 30, 2023, obtained from Prospect, indicate [REDACTED] of unpaid invoices that were 3 months and greater past due (see Table 7.2.2). As such, the total unpaid invoices that are 3 months and greater overdue increased \$10,208,671. Of the [REDACTED] that was unpaid as of June 30, 2023, [REDACTED] remained unpaid as of September 30, 2023.

<sup>6</sup> According to Prospect, the amount listed in the Unallocated Amount 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.

**Table 7.2.2 - Accounts payable aging as of September 30, 2023**

	<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> <sup>7</sup>
RWMC					
OLF					
<b>Total</b>					

The following vendors were owed amounts more than 90 days past due as of the quarter ended June 30, 2023, and remained unpaid as of the quarter ended September 30, 2023. RSM also reviewed the status of these unpaid amounts as of March 31, 2024.

**Table 7.2.3**

<u>Vendor</u>	<u>Location</u>	<u>Over 3 Months Overdue as of 6/30/2023 and 9/30/2023</u>
	RWMC	
	OLF	
	OLF	
	RWMC	
	OLF	
	OLF	
	RWMC	
	RWMC	
	RWMC	
	RWMC	
	RWMC	
	OLF	
	OLF	
	RWMC	
	RWMC	
	OLF	
	RWMC	
	OLF	
	OLF	
	OLF	
RWMC/OLF		

<sup>7</sup> Supra. See note 6.



The other past due amounts reflected in Table 7.2.3 above consist of vendors with individual balances less than [REDACTED]; encompassing 242 vendors that range from [REDACTED] to [REDACTED] as reflected in Exhibit 2. Upon inquiry, Prospect indicated that they have generally been paying vendors later than usual overall, and that vendors with balances over 90 days past due are related to that issue.

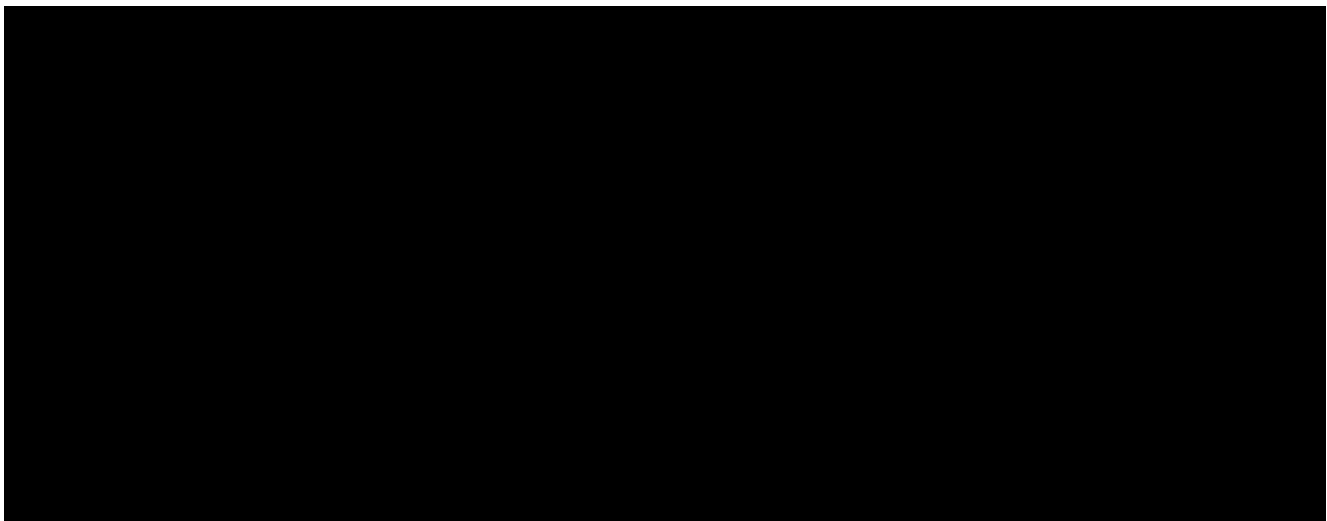
To further assess whether there were additional unpaid amounts (e.g., amounts owed for which invoice amounts had not been received), we requested a list of accrued expenses as of June 30, 2023. This listing typically would contain expenses associated with goods and services received for which invoices have not yet been received. These expenses must be considered in assessing compliance with 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]
(F) PACE Liability	[REDACTED]	[REDACTED]	[REDACTED]
<b>Total</b>	[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). 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:



Our understanding of this condition, confirmed through discussion with the Attorney General, is that vendor invoices be paid in less than 90 days. Consequently, Prospect is not in compliance as there were invoices totaling [REDACTED] that were more than 90 days past due as of the quarter ended June 30, 2023 and there remain unpaid invoices totaling [REDACTED] (see Table 7.2.3 above and related explanations) as of the quarter ended September 30, 2023.

**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 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 Agreement, including Installment Payment Schedules contained in Schedule III of the PACE Agreement for both RWMC and OLF (SJHSRI), as well as each bank remittance advice that demonstrated payments made during the period in question. We then agreed payments made to Installment Payment Schedules. Table 8.1 below reflects the required installment

payments due under the PACE obligations for the quarter ended June 30, 2023. All payment amounts were traced to bank remittance advice without exception.

**Table 8.1**

Due Date	Installment Payment Due		
	RWMC	OLF	Total
Apr 2023			

Based on the procedures performed, all obligations by Rhode Island Hospitals for PACE financing were satisfied for the quarter ended June 30, 2023. 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, 2022.

*Observations and Findings*

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 Providers for all amounts (a) due and payable as of the Effective Date by the Providers for MAAP Obligations, which shall include recoupments, fines, penalties and any other related costs and expenses and/or (b) for the amount of any MAAP recoupments made by the Centers for Medicare & Medicaid Services (“CMS”) after the Effective Date from Medicare reimbursements made to the Providers.”

As noted in our report for the quarter ended December 31, 2022, all amounts related to the MAAP Obligations have been reimbursed to Providers for all amounts including any MAAP recoupments made by CMS. Since all MAAP Obligations have been recouped, Prospect is in compliance with this Condition.

**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*

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, the 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. As noted in Condition 9.1, all MAAP Obligations have been reimbursed. Prospect is in compliance with the Condition.

**Condition 10:**

TRS Note and MPT Amendments<sup>8</sup>: Prospect shall extend the maturity of the TRS Note to five (5) years from April 30, 2021, and none of the PCuC 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*

- 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 hospitals<sup>9</sup>, 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

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<sup>8</sup> 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.”

<sup>9</sup> See page 30, b. Overview of PMH’s Finances, of the Decision.



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 initially extended to April 30, 2026 prior to the closing of the Proposed Transaction, and the Amendment dated May 27, 2021 specified that no PCC assets shall be used to satisfy the note during the 5-year period of April 30, 2021, to April 30, 2026. Per the Second Amendment dated July 26, 2022, the maturity date was extended to the earlier of (i) April 30, 2026 and (ii) the date of consummation of any Managed Care Transaction. As the date of consummation of any Managed Care Transaction could occur before April 30, 2026, Prospect is not 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*

- 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 ensured 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*

Prospect provided its Quarterly Financial Package which included quarterly financial statements, quarterly balance sheets, quarterly statement of operations and quarterly statement of cash flows for Prospect Medical Holdings and Prospect CharterCARE, and an attestation of compliance for Conditions 5 -11 and Condition 22 made by Prospect's Chief Financial Officer. As noted above, PCC's Chief Financial Officer certified and attested that the quarterly financial information was interim. The Quarterly Financial Package was provided on September 25, 2023, but was due by August 19, 2023. The delay was due to a cyber incident which was noticed to all parties. Since all required documentation was not provided timely, Prospect is not in compliance with the Condition.

## Exhibit 1 – Applicable Conditions

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### VI. Conditions, Definitions

The following definitions apply to the terms used in the Conditions<sup>10</sup>:

- (1) “Agent/Trustee” as that term is used in these Conditions shall mean a third party, selected by the Attorney General, who, in the event that any escrow or letter of credit funds are delivered to the Agent/Trustee pursuant to Conditions 6.5 or 6.6, respectively: (a) shall act as a fiduciary for the Rhode Island Hospitals and other PCC providers included in these Conditions, (b) who shall hold the funds from the Escrow Accounts and/or Letters of Credit, as applicable, in trust for the Rhode Island Hospitals and other PCC providers included in these Conditions, and (c) shall have duties and powers specific to the holding and distribution of funds delivered to the Agent/Trustee pursuant to Conditions 6.5 and 6.6 as set forth in the Trustee Agreement. The Agent/Trustee may be replaced at any time at the direction of, or with the approval of, the Attorney General.
- (2) “Agent/Trustee Agreement” as that term is used in these Conditions shall mean the document that sets forth the Agent/Trustee’s powers and duties specific to the holding and distribution of any funds delivered to the Agent/Trustee pursuant to Condition 6. The Agent/Trustee Agreement and any amendments or modifications thereto shall be subject to the approval of the Attorney General. The Agent/Trustee Agreement shall be approved by the Attorney General no more than sixty (60) days after the closing.
- (3) “CAPEX” shall mean routine and strategic capital investments recognized by GAAP that are limited to the following, unless otherwise approved by the Attorney General: new equipment, equipment replacement, facility renovation, new facilities, construction in progress, medical office space, implementation of new services, information systems and licenses, physician practice acquisitions up to but no greater than \$5 million during the Conditions and Monitoring Period, and shall include commitments incurred pursuant to capital financing leases.
- (4) “Community Director” shall be defined as an individual who resides or works within the Prospect CharterCARE Service Area and has the appropriate skill sets to serve on a hospital board of directors. See R.I. Gen. Laws § 23-17.14-7(25)(viii).
- (5) “Conditions” shall mean Conditions 1-34 and all subparts as set forth herein.
- (6) “Conditions and Monitoring Period” shall begin upon issuance of the Decision and extend through September 30, 2026 of Fiscal Year 2026 and such time thereafter up to reversion of funds pursuant to Condition 6.
- (7) “Essential Health Care Services” to be provided by PCC and its subsidiaries shall mean the following:
  - a) A 24-hour emergency department;
  - b) Medical/Surgical Services and Intensive/Coronary Care Unit;
  - c) Acute Dialysis Services;
  - d) Inpatient and Outpatient Rehabilitation Services, including Sub-acute;
  - e) Ambulatory Care Services;
  - f) Emergency Services, including emergency behavioral health services;
  - g) Inpatient and Outpatient Psychiatric/Mental Health/Addiction Medicine Services;
  - h) Diagnostic Imaging and Interventional/Radiology Services, including diagnostic Cardiac Catheterization;
  - i) Laboratory/Pathology;
  - j) Inpatient and Outpatient Cancer Services including Blood and Marrow Transplantation/ Surgical and Radiation Oncology;
  - k) Sleep Lab;
  - l) Wound Care/Hyperbaric Services;
  - m) Homecare/Hospice services; and,

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<sup>10</sup> Terms not defined below shall be defined in accordance with the Decision.

## Exhibit 1 – Applicable Conditions

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- 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

### VI. Conditions – II. Financial Conditions

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

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

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

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

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

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

## Exhibit 1 – Applicable Conditions

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

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

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

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

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

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

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

## Exhibit 1 – Applicable Conditions

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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.

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

## Exhibit 1 – Applicable Conditions

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Island law, and (iii) be subject to an agreement that provides, among other things, for disputes to be resolved in the courts of Rhode Island;

- (f) The agreements governing the Escrows shall be approved by the Attorney General; and
- (g) The escrow agent shall be approved by the Attorney General.

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

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

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

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

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

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

6.10 Agent/Trustee Agreement. Any of the funds from the Escrows and/or the Letters of Credit that are delivered to the Agent/Trustee shall be governed by the Agent/Trustee Agreement. Prospect and

## Exhibit 1 – Applicable Conditions

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Leonard Green shall execute the Agent/Trustee Agreement within five (5) business days of its approval by the Attorney General.

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

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

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

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

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

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

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

13. Not later than the fiftieth (50<sup>th</sup>) 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).



- Exhibit 2 Condition 7.2 – Additional vendors with past due amounts as of September 30, 2023

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Vendor	Location	Over 3 Months Over- due as of 6/30/2023 and 9/30/2023
	OLF	
	OLF	
	OLF	
	RWMC	
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	OLF	
	RWMC	
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- Exhibit 2 Condition 7.2 – Additional vendors with past due amounts as of September 30, 2023

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Vendor	Location	Over 3 Months Over- due as of 6/30/2023 and 9/30/2023
	RWMC	
	RWMC	
	OLF	
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	OLF	
	RWMC	
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- Exhibit 2 Condition 7.2 – Additional vendors with past due amounts as of September 30, 2023

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Vendor	Location	Over 3 Months Over- due as of 6/30/2023 and 9/30/2023
[REDACTED]	RWMC	[REDACTED]
[REDACTED]	OLF	[REDACTED]
[REDACTED]	OLF	[REDACTED]
[REDACTED]	RWMC	[REDACTED]
[REDACTED]	RWMC	[REDACTED]
[REDACTED]	RWMC	[REDACTED]
[REDACTED]	OLF	[REDACTED]
[REDACTED]	RWMC	[REDACTED]
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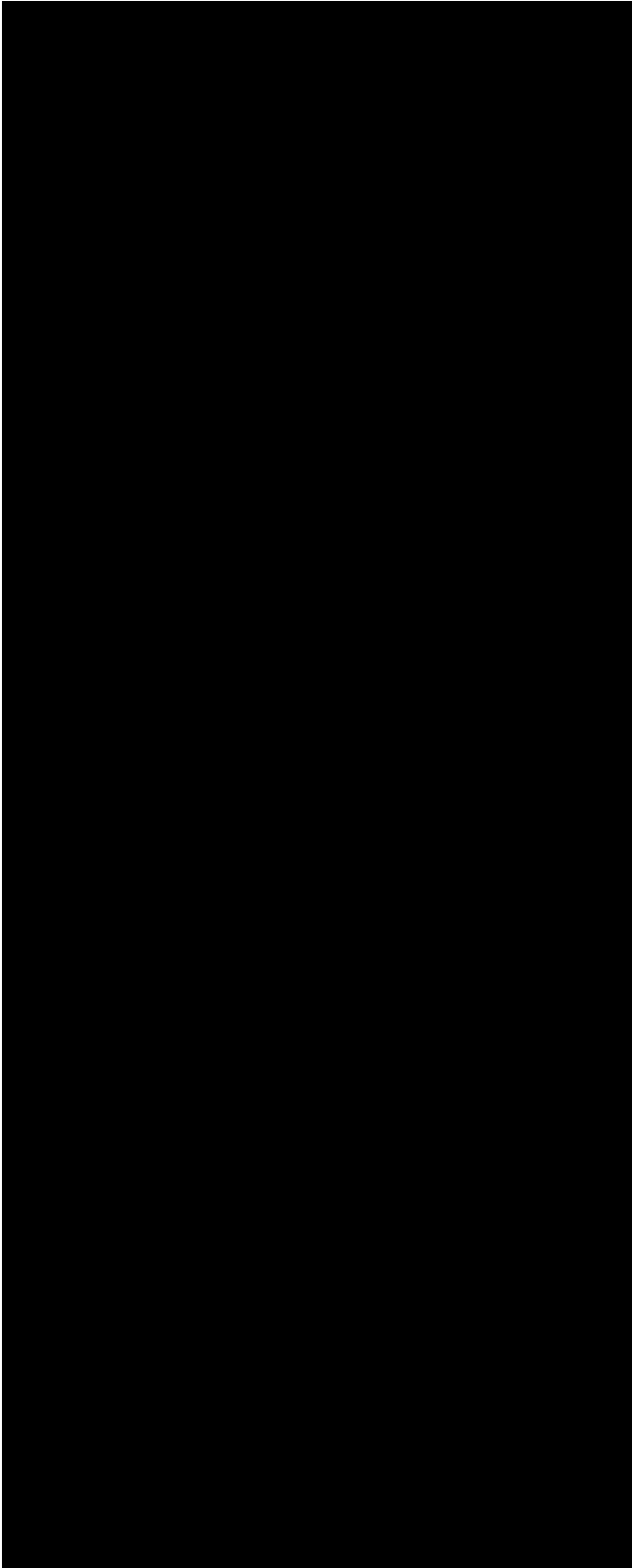
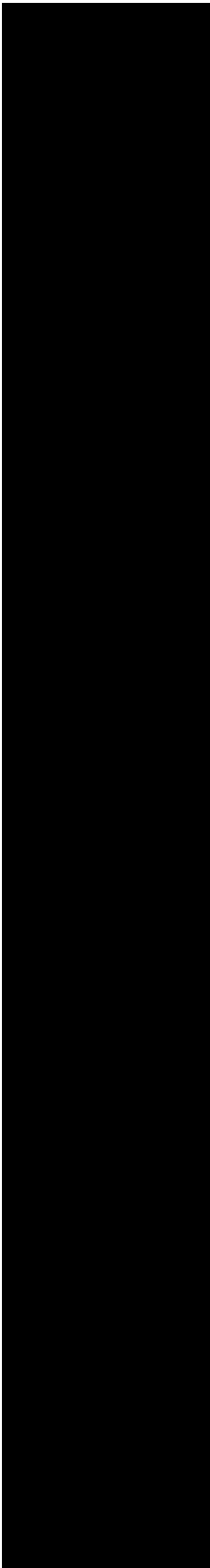
- Exhibit 2 Condition 7.2 – Additional vendors with past due amounts as of September 30, 2023

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Vendor	Location	Over 3 Months Over- due as of 6/30/2023 and 9/30/2023
	OLF	
	OLF	
	OLF	
	RWMC	
	RWMC	
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- Exhibit 2 Condition 7.2 – Additional vendors with past due amounts as of September 30, 2023

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Vendor	Location	Over 3 Months Over- due as of 6/30/2023 and 9/30/2023
	RWMC	
	OLF	
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RWMC		
OLF		



- Exhibit 2 Condition 7.2 – Additional vendors with past due amounts as of September 30, 2023

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Vendor	Location	Over 3 Months Over- due as of 6/30/2023 and 9/30/2023
[REDACTED]	RWMC OLF OLF	[REDACTED]
Total	RWMC/OLF	[REDACTED]