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DEPARTMENT OF JUSTICE



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June 3, 2022

Jill H. Gordon
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Sent via email

RE: USC Health System, Methodist Hospital of Southern California

Dear Ms. Gordon:

Pursuant to Corporations Code section 5920 et seq., the Attorney General hereby conditionally consents to the proposed affiliation of Methodist Hospital of Southern California and USC Health System, pursuant to the terms of the Affiliation Agreement dated October 11, 2021, between Methodist Hospital of Southern California, a California nonprofit public benefit corporation, and USC Health System, a California nonprofit public benefit corporation.

Corporations Code section 5923 and California Code of Regulations, title 11, section 999.5, subdivision (f) set forth factors that the Attorney General shall consider in determining whether to consent to a proposed transaction between nonprofit corporations or entities. The Attorney General has considered such factors and consents to the proposed transaction subject to the attached conditions that are incorporated by reference herein.

Sincerely,

Heidi Lehrman

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Lehrman
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HEIDI LEHRMAN
Deputy Attorney General

For ROB BONTA
Attorney General

HLL: Enclosure
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SUMMARY LIST OF CONDITIONS

Condition I: Identifies the entities that are legally bound by the conditions: Methodist Hospital of Southern California (MHSC),¹ a nonprofit public benefit corporation, and USC Health System (USCHS), a nonprofit public benefit corporation.

Condition II: Identifies the transaction documents and requires 60 days' notice of any modifications or rescissions of transaction document terms to allow for Attorney General review.

Condition III: Requires 60 days' notice of any transfer or change in governance/control.

Condition IV: Requires maintenance at current licensure as a 348-bed general acute care hospital with a 24-hour emergency department (ED) at no less than current licensure, designations, and certification with the same types and levels of services, including designations as an ST Elevation Myocardial Infarction (STEMI) Receiving Center, Comprehensive Stroke Center, and Emergency Department Approved for Pediatrics (EDAP), as well as specific bed designations for ten (10) years.

Condition V: Requires maintenance of specific healthcare services at current licensure for ten (10) years, including Comprehensive Cancer Care Program, Cardiology Services, Diagnostic Imaging, Institute for Surgical Specialties, Interventional Radiology, Maternity Services with level II Neonatal Intensive Care Unit (NICU), Orthopedics, Surgical Services, Weight Loss Services, and Wound Healing Center and Hyperbaric Oxygen Center.

Condition VI: Requires continued participation in Medi-Cal and Medicare and maintaining Medi-Cal Managed Care and county contracts for ten (10) years.

Condition VII: Requires at least \$3.7 million in annual charity care, increased annually by 3.3%, for five (5) years.

Condition VIII: Requires certain steps to inform patients and their representatives of the Financial Assistance Policy, such as posting the policy within the hospital and online.

Condition IX: Requires at least \$39.6 million in community benefit programs, increased annually by 3.3%, for five (5) years.

Condition X: Requires maintenance of existing language services for ten (10) years, including the hospital's Chinese language hot line, Financial Assistance Program applications written in Cantonese, Mandarin, and Spanish, and languages spoken at MHSC either as a primary language or through translation services.

¹ The term "MHSC" includes the 348-bed general acute care hospital located at 300 W. Huntington Drive, Arcadia, California, 91007 and any other clinics, laboratories, units, services, or beds included on the license issued to "Methodist Hospital of Southern California" by the California Department of Public Health. The term "MHSC" is inclusive of "USC Arcadia Hospital," to which MHSC will be renamed post affiliation.

Condition XI: Requires reimbursement from out-of-network payors for ED and NICU services at a rate no higher than 275% of the applicable Medicare DRG classifications for ten (10) years.

Condition XII: Requires investment of \$200.7 million into ambulatory network development, MHSC campus development, information technology integration and enhancement, and physician alignment.

Condition XIII: Requires maintenance of existing contracts with state and local governments for ten (10) years.

Condition XIV: Requires a community board for ten (10) years and consultation with the community board prior to making any non-emergency changes to services or community benefit programs.

Condition XV: Requires maintaining privileges for current medical staff in good standing.

Condition XVI: Prohibits discrimination on the basis of protected personal characteristics.

Condition XVII:

A. Prohibits anticompetitive practices including "bundling" or "all-or-nothing" contracting, penalizing payors for contracting with individual facilities, and interfering with certain payor practices (e.g. benefit designs that reward providers for affordability or quality) for ten (10) years, with the possibility of extension for three (3) additional years.

B. Sets percentage caps for annual price increases if a payor contract expires in the next five (5) years, with the possibility of a cap extension for three (3) additional years.

C. Allows the Attorney General to appoint an independent monitor for compliance with the competitive impact conditions for ten (10) years, with the possibility of an extension for three (3) additional years. Describes the monitor's powers and duties, including reporting obligations. Prohibits retaliation.

Condition XVIII: Requires annual detailed reporting of compliance with conditions no later than 6 months after the conclusion of each year for ten (10) years.

Condition XIX: Requires entities to provide information that is reasonably necessary for the Attorney General to monitor compliance with the conditions for ten (10) years.

Condition XX: At closing of the Affiliation Agreement, the entities listed in Condition I are deemed to have explicitly and implicitly consented to the applicability of and compliance with the conditions for ten (10) years. Attorney General reserves right to enforce conditions to fullest extent of the law and recover attorneys' fees.

Attorney General’s Conditions to Proposed Change in Control and Governance of Methodist Hospital of Southern California, a Nonprofit Public Benefit Corporation, through an Affiliation Agreement with USC Health System, a Nonprofit Public Benefit Corporation

I.

These Conditions shall be legally binding on the following entities: Methodist Hospital of Southern California (MHSC),¹ a nonprofit public benefit corporation, USC Health System (USCHS), a nonprofit public benefit corporation, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity of MHSC or USCHS, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of MHSC or the real property on which MHSC is located; any and all current and future owners, lessees, licensees, or operators of MHSC; and any and all current and future lessees and owners of the real property on which MHSC is located.

II.

The transaction approved by the Attorney General consists of the Affiliation Agreement, attached hereto as Exhibit 1, by and between MHSC and USCHS, and any and all amendments, agreements, or documents referenced in or attached as an exhibit or schedule to any of the foregoing agreements (collectively, the Affiliation Agreement).

The entities listed in Condition I shall fulfil the terms of the Affiliation Agreement including, but not limited to, any exhibits or schedules to the Affiliation Agreement, and shall notify the Attorney General in writing of any proposed modifications or rescissions. Such notifications shall be provided at least sixty (60) days prior to their effective date in order to allow the Attorney General to consider whether they affect the factors set forth in Corporations Code section 5923 and require the Attorney General’s approval.

¹ Throughout this document, the term “MHSC” shall include the 348-bed general acute care hospital located at 300 W. Huntington Drive, Arcadia, California, 91007 and any other clinics, laboratories, units, services, or beds included on the license issued to “Methodist Hospital of Southern California” by the California Department of Public Health, effective May 1, 2022, unless otherwise indicated. The term “MHSC” is inclusive of “USC Arcadia Hospital,” to which MHSC will be renamed under the Affiliation Agreement.

III.

For ten (10) years from the Closing Date of the Affiliation Agreement,² the entities listed in Condition I shall be required to provide written notice to the Attorney General sixty (60) days prior to entering into any agreement or transaction to do any of the following:

- a) Sell, transfer, lease, exchange, option, convey, manage, or otherwise dispose of MHSC; or
- b) Transfer control, responsibility, management, or governance of MHSC. The substitution or addition of a new corporate member or members of MHSC or USCHS that transfers the control of, responsibility for, or governance of MHSC shall be deemed a transfer for purposes of this Condition. The substitution or addition of one or more members of the governing bodies of MHSC or USCHS, or any arrangement, written or oral, that would transfer voting control of the members of the governing bodies of MHSC or USCHS, shall also be deemed a transfer for purposes of this Condition.

IV.

For ten (10) years from the Closing Date of the Affiliation Agreement, the entities listed in Condition I shall operate and maintain MHSC as a licensed general acute care hospital (as defined in California Health and Safety Code section 1250) and shall maintain and provide 24-hour emergency services at no less than current³ licensure, designations and certification with the same types and levels of services, including designations as an ST-Elevation Myocardial Infarction (STEMI) Receiving Center, Comprehensive Stroke Center, and Emergency Department Approved for Pediatrics (EDAP), as well as the following:

- a) 26 emergency room beds (26 private rooms);
- b) 202 medical/surgical beds;
- c) 24 obstetrics beds;
- d) 29 intensive care beds;
- e) 10 coronary care beds;
- f) 10 acute respiratory care beds;

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² As used herein, “Closing Date” has the same meaning as “Effective Time,” as defined in Article X, Section 10.1 of the Affiliation Agreement.

³ The term “current” or “currently” throughout this document means as of May 1, 2022.

- g) 17 neonatal intensive care beds; and
- h) 30 rehabilitation center beds.

V.

For ten (10) years from the Closing Date of the Affiliation Agreement, the entities listed in Condition I shall maintain and provide the following healthcare services at current licensure and designation at MHSC with the current types and levels of services:

- a) Comprehensive Cancer Care Program, including the Institute of Surgical Specialties, the GYN Oncology Institute, the Lung Screening Program, Lymphedema Care, Pelvic Floor Rehabilitations, the Positive Appearance Center, and the Cancer Resources Center, as well as the 320-slice, 4D CT scanner;
- b) Cardiology services with Chest Pain Team available 24 hours a day;
- c) Diagnostic Imaging, including Computerized Tomography Scanning, Magnetic Resonance Imaging, and Nuclear Imaging;
- d) Institute for Surgical Specialties;
- e) Interventional Radiology providing both neurointerventional and vascular/peripheral interventional services;
- f) Maternity Services, including a newborn nursery, a 17-bed level II Neonatal Intensive Care Unit (NICU), and a 24-bed couplet care unit with 20 private rooms and two semi-private rooms;
- g) Orthopedics, including both inpatient and outpatient services;
- h) Surgical Services, including 12 operating rooms;
- i) Weight Loss Services; and
- j) Wound Healing Center and Hyperbaric Oxygen Center.

VI.

For ten (10) years from the Closing Date of the Affiliation Agreement, the entities listed in Condition I shall:

- a) Be certified to participate in the Medi-Cal program at MHSC;
- b) Maintain Medi-Cal Managed Care and county contracts in effect as of November 18, 2021, the Notice Date of the Affiliation Agreement, to provide the same types and levels of emergency and non-emergency services at MHSC to Medi-Cal beneficiaries (both county and Medi-Cal

Managed Care) as required in these Conditions, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contract is terminated by either party for cause, the compensation is not fair and reasonable,⁴ or not extended or renewed by a Medi-Cal Managed Care Plan or county on its own initiative without cause; and

c) Be certified to participate in the Medicare program by maintaining a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at MHSC to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

VII.

For five (5) years from the Closing Date of the Affiliation Agreement, the entities listed in Condition I shall provide an annual amount of charity care (as defined below) at MHSC, equal to or greater than \$3,702,768 million (the Minimum Charity Care Amount required),⁵ with an annual increase of 3.3%.⁶

For purposes hereof, the term “charity care” shall mean the amount of charity care costs (not charges) incurred by MHSC in connection with the operation and provision of services at MHSC. The definition and methodology for calculating “charity care” and the methodology for

⁴ An offer of compensation by a Medi-Cal managed care plan at 100% of Medicare fee-for-service rates shall be deemed a “fair and reasonable” offer while an offer by the county at rates currently in effect shall be deemed a “fair and reasonable” offer. As long as the compensation that a Medi-Cal managed care plan or county is willing to accept is at or below the median for similarly situated hospitals in the San Gabriel Valley, which is defined as the zip codes of 91001, 91104, 91107, 91006, 91024, 91006, 91016, 91010, 91008, 91702, 91775, 91780, 91731, 91732, 91706, 91733, 91770, and 91801, that compensation shall be deemed to be “fair and reasonable.” For the avoidance of all doubt, the median Medi-Cal managed care rate is calculated, for purposes of this condition, to be 100% of Medicare fee-for-service rates.

⁵ This figure is calculated in accordance with standards set by the California Department of Health Care Access and Information (HCAI) and represents an average of the level of charity care provided by MHSC for the most recent three years prior to the Closing Date for which data are available: 2018 (\$3,205,850), 2019 (\$4,089,570), and 2020 (\$3,812,885).

⁶ 3.3% is the average annual increase in the Los Angeles - Long Beach-Anaheim, California Medical Care Consumer Price Index (CPI) from 2018-2020.

calculating “costs” shall be the same as that used by HCAI for annual hospital reporting purposes.⁷

MHSC shall use and maintain a charity care policy that is no less favorable than MHSC’s Financial Assistance Policy (attached as Exhibit 2) and in compliance with California and Federal law.

If the actual amount of charity care provided at MHSC for any year is less than the Minimum Charity Care Amount required for such year, MHSC shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide direct healthcare services to residents in the service area including and surrounding Alhambra, Altadena, Arcadia, Azusa, Baldwin Park, Bradbury, Duarte, El Monte, Glendora, Monrovia, Pasadena, Rosemead, San Gabriel, Sierra Madre, and Temple City, including the 91001, 91006, 91007, 91008, 91010, 91016, 91024, 91104, 91107, 91702, 91706, 91731, 91732, 91733, 91741, 91770, 91775, 91776, 91780, and 91801 ZIP codes. Such payment(s) shall be made within six (6) months following the end of such year.

VIII.

Within ninety (90) days from the Closing Date of the Affiliation Agreement and for ten (10) years from the Closing Date of the Affiliation Agreement, the entities listed in Condition I shall take the following steps to ensure that patients at MHSC are informed about MHSC’s Financial Assistance Policy (Financial Assistance Policy):

- a) A copy of the Financial Assistance Policy and the plain language summary of the Financial Assistance Policy shall be posted in a prominent location in the admissions area and any other location in MHSC where there is a high volume of patient traffic, including waiting rooms, billing offices, and outpatient service settings;
- b) A copy of the Financial Assistance Policy, the Financial Assistance Application Form, and the plain language summary of the Charity Care and Cash Price Policies shall be posted in a prominent place on MHSC’s website, as applicable;
- c) If requested by a patient, a copy of the Financial Assistance Policy, Financial Assistance Application Form, and the plain language summary shall be sent by mail at no cost to the patient;

⁷ HCAI defines charity care by contrasting charity care and bad debt. According to HCAI, “the determination of what is classified as ... charity care can be made by establishing whether or not the patient has the ability to pay. The patient’s accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account.” OSHPD [now HCAI], Accounting and Reporting Manual for California Long-Term Care Facilities § 1064 (1992), <https://hcai.ca.gov/wp-content/uploads/2020/10/Chpt1000-1.pdf>.

d) As necessary and at least on an annual basis, MHSC will place an advertisement regarding the availability of financial assistance at MHSC in a newspaper of general circulation in the communities served by MHSC, or issue a Press Release to widely publicize the availability of the Financial Assistance Policy to the communities served by MHSC;

e) On no less than an annual basis, MHSC will work with affiliated organizations, physicians, community clinics, other health care providers, houses of worship, and other community-based organizations to notify members of the community (especially those who are most likely to require financial assistance) about the availability of financial assistance at MHSC; and

f) No later than sixty (60) days after the Closing Date of the Affiliation Agreement, MHSC shall train all staff who interact with patients and their families concerning payment of services to make patients and their families aware of and informed about the availability of financial assistance at MHSC. MHSC shall also provide this training on an annual basis to staff who interact with patients and their families.

IX.

For five (5) years from the Closing Date of the Affiliation Agreement, the entities listed in Condition I shall provide an annual amount of Community Benefit Services at MHSC equal to or greater than \$39,634,753 million (the Minimum Community Benefit Services Amount) exclusive of any funds from grants, as adjusted under the methodology described below.⁸

For the second year and each subsequent year, the Minimum Community Benefit Amount shall increase yearly by 3.3 percent.⁹

If the actual amount of community benefit services provided at MHSC for any year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such year, MHSC shall pay an amount equal to the deficiency to one or more tax exempt entities that provide community benefit services for residents in the service area including and surrounding Alhambra, Altadena, Arcadia, Azusa, Baldwin Park, Bradbury, Duarte, El Monte, Glendora, Monrovia, Pasadena, Rosemead, San Gabriel, Sierra Madre, and Temple City, including the 91001, 91006, 91007, 91008, 91010, 91016, 91024, 91104, 91107, 91702, 91706, 91731, 91732, 91733, 91741, 91770, 91775, 91776,

⁸ This figure is calculated in accordance with standards set by HCAI and represents an average of the level of community benefits provided by MHSC for the most recent three years prior to the Closing Date for which data are available: 2018 (\$41,613,188), 2019 (\$34,171,937), and 2020 (\$43,119,134).

⁹ See footnote 6.

91780, and 91801 ZIP codes. Such payment(s) shall be made within six (6) months following the end of such year.

X.

For ten (10) years from the Closing Date of the Affiliation Agreement, the entities listed in Condition I shall maintain language services currently available to patients at MHSC. These include:

- a) The hospital's Chinese language hot line.¹⁰
- b) Financial Assistance Program applications written in Cantonese, Mandarin, and Spanish.¹¹
- c) Languages spoken at MHSC either as a primary language or through translation services as indicated in the Written Notice.¹²

XI.

For ten (10) years from the Closing Date of the Affiliation Agreement, if MHSC was not contracted with a payor, as of November 18, 2021, the Notice Date of the Affiliation Agreement, or if MHSC should subsequently go out of network with a payor with whom it was contracted as of that date, MHSC will be subject to reimbursement from that payor for Emergency Services¹³ and NICU Services at a rate no higher than two hundred and seventy-five percent (275%) of the applicable Medicare DRG classifications (with no additional amounts related to indirect and direct medical education costs), including, as applicable, Wage Index Geographic Classification charges for Medicare prices. This maximum rate cap is still subject to any other applicable statutory limitations on reimbursement rates for emergency services.

XII.

USCHS will invest \$200.7 million to MHSC over a five-year period following the Closing Date, which will be for strategic investments as described in the Affiliation Agreement, and shall include:

¹⁰ Pg. 942 (labeled MHSC-0000936) of the Written Notice.

¹¹ Pg. 903 (labeled MHSC-0000897) of the Written Notice.

¹² Pg. 1787 (labeled MHSC-0001781) of the Written Notice. The languages listed are Albanian, Arabic, Bengali, Bosnian, Cambodian, Cantonese, Chinese, Farsi, French, French Creole, German, Greek, Haitian Creole, Hindi, Hmong, Italian, Japanese, Korean, Laotian, Mandarin, Polish, Portuguese, Punjabi, Russian, Somali, Spanish, Turkish, Urdu, and Vietnamese.

¹³ "Emergency Services" means items and services needed to screen, treat, and stabilize a patient with an emergency medical condition.

- Ambulatory Network Development: Increase community access points to medical services throughout the hospital service area. Develop sites, including building and equipping primary and specialty care offices, and diagnostic and therapeutic services;
- MHSC Development: Improve physical plant and enhance equipment capabilities within the hospital, e.g. DaVinci Robot, ultrasound, heart/lung machine, etc. (combined with Ambulatory Network Development, \$110-\$125 million);
- Information Technology: Integrate Information Technology capabilities and enhance infrastructure, e.g. Electronic Medical Record integration, data security, server and storage infrastructure, and health information exchange / interoperability & business apps integration (\$30-\$50 million); and
- Physician Alignment: Recruit and organize physician network to expand healthcare availability and accessibility in the community (\$40-\$45 million).

Complying with and implementing the strategic plan for these investments is a requirement of this Condition.

XIII.

For ten (10) years from the Closing Date of the Affiliation Agreement, the entities listed in Condition I shall maintain all contracts, including any superseding, successor, or replacement contracts, and any amendments and exhibits thereto, with local governments or their subdivisions, departments, or agencies for services at MHSC unless otherwise terminated by the local government or the State, as applicable, including the following:

- a) Data Collection and Sharing Services Agreement, dated January 19, 2017, between County of Los Angeles Department of Health, bioMerieux, and MHSC;
- b) Memorandum of Understanding for the Paternity Opportunity Program, effective April 11, 2018, between County of Los Angeles County Child Support Services Department and MHSC;
- c) ST-Elevation Myocardial Infarction Receiving Center designation by County of Los Angeles Emergency Services Agency, effective December 1, 2019;
- d) Specialty Care Center designations as Paramedic Base Hospital by County of Los Angeles, effective July 1, 2019;
- e) Los Angeles County Comprehensive Stroke Center and System, effective January 18, 2018, between the County of Los Angeles Department of Health Services and MHSC; and
- f) Participation in Hospital Preparedness Program, effective January 1, 2018, between the County of Los Angeles and MHSC.

XIV.

For ten (10) years from the Closing Date of the Affiliation Agreement, the entities listed in Condition I shall maintain a community board at MHSC including physicians and community representatives. MHSC and USCHS shall consult with the community board at least sixty (60) days prior to making any non-emergency changes to services or community benefit programs at MHSC. The community board may comment on all reports submitted to the Attorney General regarding compliance with these Conditions and such comments shall be included in the written report provided to the Attorney General pursuant to Condition XVIII.

XV.

For ten (10) years from the Closing Date of the Affiliation Agreement, the entities listed in Condition I shall maintain privileges for current medical staff at MHSC who are in good standing as of the Closing Date of the Affiliation Agreement. Further, the closing of the Affiliation Agreement shall not change the medical staff officers, committee chairs, or independence of the medical staff, and such persons shall remain in good standing for the remainder of their tenure as medical staff officers or committee chairs at MHSC. This condition is not intended to preclude medical staff leadership changes as warranted for operational flexibility in accordance with the medical staff bylaws in effect on the Closing Date.

XVI.

For ten (10) years from the Closing Date of the Affiliation Agreement, the entities listed in Condition I shall prohibit discrimination on the basis of any protected personal characteristic identified in state and federal civil rights laws, including section 51 of the California Civil Code and title 42, section 18116 of the United States Code. Categories of protected personal characteristics include:

- a) Gender, including sex, gender, gender identity, and gender expression;
- b) Intimate relationships, including sexual orientation and marital status;
- c) Ethnicity, including race, color, ancestry, national origin, citizenship, primary language, and immigration status;
- d) Religion;
- e) Age; and
- f) Disability, including disability, protected medical condition, and protected genetic information.

XVII.

1. For ten (10) years from the Closing Date of the Affiliation Agreement, unless a Payor¹⁴ voluntarily requests otherwise, USCHS will not expressly or implicitly condition the participation of, or impose any Contract Terms¹⁵ concerning, a Controlled Hospital,¹⁶ including prices or any other conditions, on the participation of, or any Contract Terms concerning, one or more other Controlled Hospitals, with any Payor. This prohibition on conditioning of participation or Contract Terms across Controlled Hospitals includes:

- (a) Engaging a Payor in “all-or-nothing” contracting for hospital services by expressly or impliedly requiring the Payor to contract with all Controlled Hospitals and not

¹⁴ “Payor” means a company that provides health insurance policies or makes hospital networks accessible for Los Angeles residents. The term “Payor” includes self-funded employers that do the foregoing, as well as independent physician associations (e.g., Heritage Provider Network (Heritage) or HealthCare Partners, now known as Optum (HealthCare Partners), who in turn provide capitated services, under a limited or restricted Knox-Keene Act license from the Department of Managed Health Care, to any Payor who sells any commercial, Medicare, and Medi-Cal healthcare plans of any kind or makes any networks available to self-insured employers, union trusts, and/or state and local government entities. Examples of Payors include Aetna Health of California, Aetna Health Management, Aetna Life Insurance Co., Anthem Blue Cross Inc./Blue Cross of California, California Physician Services (d/b/a Blue Shield of California), Cigna HealthCare of California, Inc., Cigna Health and Life Insurance Co., Heritage, HealthCare Partners, Health Net of California, Inc., The Local Initiative Health Authority for Los Angeles County (d/b/a L.A. Care Health Plan), United Healthcare of California (and their subdivisions, subsidiaries, successors, assigns, and affiliates), and IPAs such as Optum Healthcare, Prospect Medical Group, St. Joseph Health, Heritage Provider Network, and Memorial Care Medical Group. However, the term “Payor” does not include (a) Kaiser Foundation Health Plan Inc., Kaiser Foundation Hospitals, The Permanente Medical Groups or Kaiser Permanente Insurance Corporation, individually or collectively, or (b) any commercial health plans or networks co-branded with any healthcare provider other than MHSC (although “Payors” can include capitated IPAs affiliated with healthcare providers other than MHSC that contract, or seek to contract, with non-healthcare provider affiliated Payors).

¹⁵ “Contract Terms” means the conditions under which a Controlled Hospital is willing to contract with a Payor, including price and reimbursement terms, terms under which the Controlled Hospital will participate as a network provider (including a provider in a tiered network), terms relating to utilization review, information or data disclosure and sharing, and terms relating to quality of care.

¹⁶ “Controlled Hospital” means any hospital that is controlled by USCHS as of the Closing Date, including Keck Hospital of USC, USC Norris Cancer Hospital, and USC Verdugo Hills Hospital, and MHSC (USC Arcadia). For any hospital acquired pursuant to California Corporations Code section 5920 by USCHS after the Closing Date, the Attorney General may add that hospital to this definition after notification to USCHS and providing USCHS with a reasonable opportunity to respond.

permitting the Payor to contract with individual Controlled Hospitals, including by conditioning the participation, pricing, or Contract Terms of a Controlled Hospital in a Commercial or Government-Sponsored Product¹⁷ on any of the following:

- (i) the participation or Contract Terms of another Controlled Hospital in the same or any other Commercial or Government-Sponsored Product offered by the Payor,
- (ii) the pricing of another Controlled Hospital in the same or any other Commercial or Government-Sponsored Product offered by the Payor, or
- (iii) the status (including the decision on whether to include or exclude) a Controlled Hospital in the Payor's center of excellence program (or other program designed to differentiate hospitals based on their quality of care, their cost, or other consideration), or the exclusion of any third party's hospital in the Payor's center of excellence program (or other similar program).

(b) Explicitly or implicitly penalizing a Payor for contracting with individual Controlled Hospitals, including setting significantly higher than existing contract prices or out-of-network fees for any or all Controlled Hospitals, should the Payor choose to contract with less than all of the Controlled Hospitals. If a Controlled Hospital is not contracted with a Payor, such Controlled Hospital will be subject to reimbursement from that Payor as determined under California Code of Regulations, title 28, section 1300.71, subdivision (a)(3)(B), limited by and subject to the 275% out-of-network cap for emergency room services set in Condition XI.

(c) Interfering with, or otherwise engaging in any action, direct or indirect, to prevent the introduction or promotion of new narrow, tiered, or steering Commercial or Government-Sponsored Products or value-based benefit designs for Commercial or Government-Sponsored Products (i.e., benefit designs that attempt to reward providers for affordability and/or quality), including reference pricing.

2. For five (5) years from the Closing Date of the Affiliation Agreement, the maximum that USCHS may charge a Payor for any Commercial or Government-Sponsored Product of a Payor for hospital services that are being performed at MHSC as of the Closing Date will be governed by the applicable payment provisions in the Contract Terms that are in effect between MHSC and that Payor, subject to any renewal Contract Terms that are negotiated in compliance with these Competitive Impact Conditions,¹⁸ so long as such annual price increases do not exceed 4.8% per year.

¹⁷ "Commercial or Government-Sponsored Product" means a commercial or government-sponsored product (e.g., Medicare Advantage plans or Medi-Cal managed care plans) offered by a Payor.

¹⁸ "Competitive Impact Conditions" means the conditions in Condition XVII.

3. For ten (10) years from the Closing Date of the Affiliation Agreement, USCHS will not enter into any amendment to any agreement with a Payor that would violate Competitive Impact Condition #1 above. For five (5) years from the Closing Date of the Affiliation Agreement, USCHS shall not enter into any amendment to any agreement with a Payor that would violate Competitive Impact Condition #2; for the next five (5) years, USCHS shall only enter into any amendment to any agreement with a Payor that would violate Competitive Impact Condition #2 insofar as an existing agreement between that Payor and MHSC allows or does not prohibit negotiated renewal Contract Terms.
4. Retaliation or threats of retaliation based on any Payor, entity, or individual having provided information in conjunction with these conditions to any party, the Monitor (as defined by Condition #6 below), or a court is prohibited.
5. At the option of a Payor, and with the concurrence of the Attorney General, the Monitor, and (should USCHS and MHSC object) a court, a Payor may request separate negotiating teams and firewalls between USCHS and MHSC to remedy violation(s) of Competitive Impact Conditions #1 and #3 (to the extent that Competitive Impact Condition #3 relates to Competitive Impact Condition #1). This specific remedy shall not operate in derogation of any other remedy that the Attorney General may seek for any violation of these conditions from any court, including an award of attorneys' fees and costs.
6. The Attorney General shall have the power to appoint and will promptly appoint a person selected as described in this Competitive Impact Condition #6 (the "Monitor") to monitor and evaluate compliance with this agreement, performing the services described in Competitive Impact Condition #6.
 - (a) *Selection:* The Attorney General has the sole discretion to select the Monitor subject to consultation with USCHS. To be qualified to serve as a Monitor, a candidate must disclose to the Attorney General and to USCHS any potential conflict of interest, be experienced with managed care contracting in general, if not also knowledgeable as to managed care contracting in California and be knowledgeable about federal and California antitrust law. USCHS will disclose candidates it proposes to serve as the Monitor to the Attorney General and the Attorney General will disclose candidates it proposes to serve as the Monitor to USCHS. The Attorney General and USCHS shall consider diversity, equity, and inclusion in proposing candidates to serve as the Monitor. The Attorney General will give due consideration to any candidates proposed by USCHS and USCHS will give due consideration to any candidates proposed by the Attorney General. Any interviews of any candidates will be jointly conducted by USCHS and the Attorney General. Within 120 days from the Closing Date of the Affiliation Agreement, the Attorney General will select the Monitor. Not later than thirty (30) days after the Attorney General's selection of the Monitor, USCHS shall execute an agreement that, subject to the prior approval of the Attorney General, confers

on the Monitor those rights, powers, and authorities necessary to permit the Monitor to perform his/her duties and responsibilities described in Competitive Impact Condition #6(b) below. USCHS may require the Monitor and each of the Monitor's staff and experts to sign a customary confidentiality agreement; provided however, that such agreement shall not restrict the Monitor from providing any information to the Attorney General. USCHS will be solely responsible for the expenses of the selected Monitor, including staff and experts of the Monitor, in performing the services described in Competitive Impact Condition #6(b) below.

- (b) *Powers*: The Monitor shall have the following powers to the extent necessary to monitor compliance with Competitive Impact Conditions #1-4: to investigate USCHS' compliance with such Competitive Impact Conditions; to take complaints from Payors, USCHS, or from the Attorney General (with reasonable notice to be provided thereafter to all parties); to inspect records and compel disclosure of confidential documents subject to any demonstrated legally recognized privilege and appropriate confidentiality protections; to interview witnesses (if USCHS employees, then subject to reasonable prior notice and the opportunity for USCHS to have counsel present); to hire staff and experts; and to make recommendations concerning enforcement, oversight, and surveillance to the Attorney General.
- (c) *Duty to Cooperate*: USCHS shall cooperate with the Monitor in the performance of the Monitor's work and shall take no action to interfere with or impede the Monitor's ability to monitor compliance with these conditions.
- (d) *Reporting*: USCHS shall provide annual reports to the Monitor of USCHS' efforts to comply with Competitive Impact Conditions #1-3. Within a reasonable time from the date the Monitor receives these reports, the Monitor will be obligated to report in writing to the Attorney General and USCHS as to any and all concerns as set out in these annual reports regarding USCHS' performance of their respective obligations under Competitive Impact Conditions #1-3.

The Competitive Impact Conditions shall last for ten (10) years from the Closing Date of the Affiliation Agreement. The Attorney General may extend Competitive Impact Conditions #1-3 (to the extent that Competitive Impact Condition #3 relates to Competitive Impact Condition #1) #4, #5, and #6 for three (3) years. In deciding whether to extend any or all of these conditions for three (3) years, the Attorney General shall consider whether USCHS committed a material violation of the Competitive Impact Conditions within the preceding ten (10) years.

XVIII.

For ten (10) years from the Closing Date of the Affiliation Agreement the entities listed in Condition I shall submit to the Attorney General, no later than six (6) months after the

conclusion of each year, a report describing in detail compliance with each Condition set forth herein. The first report shall be due no later than six (6) months after the Closing Date. The reports shall include budgets for expending USCHS' \$200.7 million investment into MHSC. The Chair(s) of the Board of Directors of USCHS and the Chief Executive Officer(s) of MHSC shall each certify that the report is true, accurate, and complete, and provide documentation of the review and approval of the report by the Board of Directors.

XIX.

At the request of the Attorney General, the entities listed in Condition I shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with these Conditions and the terms of the transaction as set forth herein. The Attorney General will, at the request of an entity listed in Condition I and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

XX.

Once the Affiliation Agreement is closed, the entities listed in Condition I are deemed to have explicitly and implicitly consented to the applicability of and compliance with each and every Condition and to have waived any right to seek judicial relief with respect to each and every Condition.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. In addition to any legal remedies the Attorney General may have, the Attorney General shall be entitled to specific performance, injunctive relief, and such other equitable remedies as a court may deem appropriate for breach of any of these Conditions.

Pursuant to Government Code section 12598, the Attorney General shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.

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EXHIBIT 1

USC HEALTH SYSTEM,
a California nonprofit public benefit corporation

and

**METHODIST HOSPITAL OF SOUTHERN
CALIFORNIA,**
a California nonprofit public benefit corporation

AFFILIATION AGREEMENT

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AFFILIATION AGREEMENT

THIS AFFILIATION AGREEMENT (this “*Agreement*”) is made and entered into effective as of October 11, 2021 (the “*Execution Date*”) by and between USC Health System, a California nonprofit public benefit corporation (“*Parent*”), and Methodist Hospital of Southern California, a California nonprofit public benefit corporation (“*Methodist*”). Parent and Methodist are referred to herein individually as a “*Party*” and collectively as the “*Parties*.”

RECITALS

WHEREAS, Parent is a California nonprofit public benefit corporation that is organized for the benefit of, and to support, nonprofit health care organizations organized for the purpose of establishing, maintaining, sponsoring and promoting activities relating to the improvement of human health and well-being;

WHEREAS, Parent is the sole member of (i) Keck Medical Center of USC (“*Keck*”), which owns and operates an acute care hospital known as Keck Hospital of USC located at 1500 San Pablo Street, Los Angeles, California 90033, and an acute care hospital known as USC Kenneth Norris Jr. Cancer Hospital located at 1441 Eastlake Avenue, Los Angeles, California 90033, and (ii) USC Verdugo Hills Hospital (“*Verdugo*”), which owns and operates an acute care hospital known as USC Verdugo Hills Hospital located at 1812 Verdugo Boulevard, Glendale, California 91208, and also provides various outpatient services in Parent’s community through hospital-based and community-based clinics, ambulatory surgical centers, and other health care related businesses and facilities;

WHEREAS, Methodist is a California nonprofit public benefit corporation, which owns and operates an acute care hospital located at 300 Huntington Drive, Arcadia, California 91007 (“*Methodist Hospital*”), and provides various outpatient services in Methodist’s community through other health care related businesses and facilities and wholly-owned and partially-owned subsidiaries;

WHEREAS, the Parties desire for Methodist to affiliate with Parent on the terms and conditions set forth in this Agreement (the “*Affiliation*”) to develop an integrated healthcare delivery system to increase access and improve the quality of healthcare within Parent’s and Methodist’s communities, and to further Parent’s and Methodist’s mission of advancing quality of care and furthering the charitable activities of Parent and Methodist in a manner consistent with the Parties’ charitable missions and purposes;

WHEREAS, to implement the Affiliation, the Parties contemplate, among other things, that Parent will become the sole corporate and voting member of Methodist and that Parent and Methodist will amend and restate their organizational documents to address certain structural and governance matters, as set forth herein; and

WHEREAS, once the Affiliation takes effect, it is the Parties’ desire to grow the integrated healthcare delivery system created by the Affiliation where such growth is strategically and economically feasible and appropriate.

NOW, THEREFORE, in consideration of the mutual promises and benefits to be derived from this Agreement, the Parties hereto, intending to be legally bound, hereby agree as follows:

ARTICLE I
VISION AND DEFINITIONS

1.1 Vision. The Parties intend to fulfill community need for expanded access to high-quality health services for residents in the Methodist PSA and Methodist SSA through the creation of an integrated academic/community-based network of care. The Parties intend to accomplish this by:

(a) Providing comprehensive care across the continuum, from primary care to complex and advanced services by engaging with local physicians, and by connecting the residents directly to Parent’s specialists, innovation and research;

(b) Increasing access and convenience by establishing physical points of service across the Methodist PSA and Methodist SSA, as well as offering enhanced virtual/digital access to Methodist and Parent physicians;

(c) Keeping care personal by remaining attentive to the condition of each patient, and with an understanding of underlying social determinants of health, enabling the delivery of truly holistic care;

(d) Enhancing quality and patient experience by coordinating care through collaboration of Methodist and Parent physicians;

(e) Promoting health and wellness by addressing health disparities and social determinants across all demographics; and

(f) Advancing the mission of the Parties.

1.2 Definitions. As used in this Agreement, the following terms have the meanings given:

(a) “*Action*” shall mean any action, complaint, claim, suit, litigation, proceeding, arbitration, mediation, labor dispute, arbitral action, governmental audit, inquiry, criminal prosecution, investigation or unfair labor practice charge or complaint.

(b) “*Business Day*” means a day other than a Saturday, Sunday or other day on which banks located in California are authorized or required by law to close.

(c) “*Code*” means the Internal Revenue Code of 1986, as amended.

(d) “*Contracts*” means all commitments, contracts, leases, licenses, agreements and understandings, written or oral, including agreements with payors, physicians and other providers, agreements with health maintenance organizations, independent practice associations, preferred provider organizations and other managed care plans and alternative delivery systems, joint venture and partnership agreements, management, employment, retention and severance agreements, vendor agreements, real and personal property leases and schedules, maintenance agreements and schedules, agreements with municipalities and labor organizations, and bonds, mortgages and other loan agreements.

(e) “*Control*” (including, with correlative meanings, the terms “controlled by” and “under common control with”) means the power or possession of the power, direct or indirect, to direct or cause the direction of the management and policies of an entity, whether through the ownership of securities, election or appointment of directors, by contract or otherwise.

(f) “*Employee Welfare Benefit Plan*” shall have the meaning set forth in Section 3(1) of ERISA.

(g) “*Encumbrances*” means all liabilities, levies, claims, charges, assessments, mortgages, security interests, liens, pledges, conditional sales agreements, title retention contracts, leases, subleases, rights of first refusal, options to purchase, restrictions and other encumbrances, and agreements or commitments to create or suffer any of the foregoing.

(h) “*Environmental Claim*” means any written or threatened, claim, action, cause of action, investigation or notice by any Person alleging potential liability arising out of, based on or resulting from (i) the presence, release, or threatened release, of any Hazardous Materials at or adjacent to any location owned or operated by Methodist or a Parent Entity, as applicable, or (ii) circumstances forming the basis of any violation or alleged violation of any Environmental Law.

(i) “*Environmental Laws*” means any and all Laws relating to pollution, contamination or protection of human health or the environment (including ground water, land surface or subsurface strata), including Laws relating to emissions, discharges, releases or threatened releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, recycling, reporting or handling of Hazardous Materials.

(j) “*ERISA*” means the Employee Retirement Income Security Act of 1974, as amended.

(k) “*ERISA Affiliate*” means any person or entity that directly controls, is controlled by, or is under common control with a Person if it is considered a single employer with such Person under ERISA Section 4001(b) or Section 414 of the Code, or part of the same “controlled group” as such Person for purposes of ERISA Section 302(d)(3).

(l) “*Executive Team*” means the individuals serving in the following officer roles of Methodist: Chief Executive Officer/President (the “*Methodist CEO*”), Chief Strategy Officer, Chief Operating Officer, Chief Financial Officer, Chief Medical Officer, Chief Human Resources Officer, Chief Nursing Officer, Chief Compliance and Risk Officer, and the President of the Foundation.

(m) “*Financing Documents*” means the Master Trust Indenture and Term Loan Agreement.

(n) “*Governmental Entity*” means any United States federal, state, provincial, county, municipal, regional or local governmental, or any political subdivision thereof, and any entity, department, commission, bureau, agency, authority, board, court or other similar body or quasi-governmental body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to any government or other political subdivision thereof.

(o) “*Government Payment Programs*” means federal and state Medicare, Medi-Cal and TRICARE (f/k/a CHAMPUS) programs, and similar or successor programs with or for the benefit of Governmental Entities.

(p) “*Hazardous Materials*” means all chemicals, pollutants, contaminants, wastes (including medical waste), toxic substances, petroleum and petroleum products, including hazardous wastes under the Resource, Conservation and Recovery Act, 42 U.S.C. §§ 6903 *et seq.*, hazardous substances under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. §§ 9601 *et seq.*, asbestos, polychlorinated biphenyls and urea formaldehyde, and low-level nuclear materials, special

nuclear materials or nuclear-byproduct materials, all within the meaning of the Atomic Energy Act of 1954, as amended, and any rules, regulations or policies promulgated thereunder.

(q) “*Health Information Laws*” means all federal and state Laws relating to the privacy and security of patient, medical or individual health information, including the Health Insurance Portability and Accountability Act of 1996, as amended and supplemented by the Health Information Technology for Clinical Health Act of the American Recovery and Reinvestment Act of 2009, Pub. Law No. 111-5 and its implementing regulations, when each is effective and as each is amended from time to time (collectively, “*HIPAA*”).

(r) “*HSR Act*” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the rules and regulations promulgated thereunder.

(s) “*Law*” or “*Laws*” means all laws, codes, regulations, rules, orders, common law and ordinances including, but not limited to: state corporate practice of medicine Laws and regulations, state professional fee-splitting laws and regulations, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, the federal Anti-kickback Statute (42 U.S.C. § 1320a-7b(b)), the Stark Law (42 U.S.C. § 1395nn), any applicable state fraud and abuse prohibitions, including those that apply to all payors (governmental, commercial insurance and self-payors), the Anti-Inducement Law (42 U.S.C. § 1320a-7a(a)(5)), the civil False Claims Act (31 U.S.C. §§ 3729 *et seq.*), the administrative False Claims Law (42 U.S.C. § 1320a-7b(a)), the civil monetary penalty laws (42 U.S.C. § 1320a-7a), and any other local, state or federal law, regulation, guidance document, manual provision, program memorandum, opinion letter, or other public issuance.

(t) “*Lookback Period*” means the six (6) year period ending on the Execution Date.

(u) “*Master Trust Indenture*” means that certain Master Trust Indenture dated as of December 1, 2018, by and between Methodist and Master Trustee, including all amendments and supplements thereto, and all associated loan agreements, bond indentures, ancillary agreements, financing statements and other related documents.

(v) “*Master Trustee*” means the Bank of New York Mellon Trust Company, N.A.

(w) “*Material*” means: (i) as it pertains to Methodist, an effect or consequence that individually or in the aggregate results in the loss of a dollar amount, consideration, or other value that is equal to or exceeds Ten Million Dollars (\$10,000,000), and (ii) as it pertains to a Parent Entity (as defined below), an effect or consequence that individually or in the aggregate results in the loss of a dollar amount, consideration, or other value that is equal to or exceeds two percent (2%) of the net revenue of Parent, measured based on Parent’s fiscal year immediately prior to the Execution Date.

(x) “*Methodist Assets*” means any and all assets used in the ordinary course of the Methodist Operations (as defined below), including: (i) the Methodist Real Property (as defined below), (ii) all tangible personal property owned by Methodist and used in connection with the Methodist Operations, of every kind and nature, including all furniture, fixtures, equipment, machinery, vehicles, and owned or licensed computer systems, (iii) all inventories of useable supplies, drugs, food, janitorial and office supplies, maintenance and shop supplies, and other disposables and consumables owned by Methodist and used in connection with the Methodist Operations, and (iv) all marks, names, trademarks, service marks, patents, patent rights, assumed names, logos, copyrights, trade secrets and similar intangibles (including variants of and applications for any of the foregoing) used in the ordinary course of the Methodist Operations.

(y) “*Methodist Due Diligence Request*” means that certain Due Diligence Request list originally provided by Methodist to Parent on April 29, 2021, and all supplemental diligence requests made by Methodist to Parent between April 29, 2021 and the Closing Date.

(z) “*Methodist Employee Benefit Program*” means any pension, profit-sharing, savings, retirement, employment, collective bargaining, severance pay, termination, executive compensation, incentive compensation, deferred compensation, bonus, phantom stock or other equity-based compensation, change-in-control, retention, salary continuation, vacation, sick leave, disability, death benefit, group insurance, hospitalization, medical, dental, life, Code Section 125 “cafeteria” or “flexible” benefit, or other material employee or fringe benefit plan, program, policy, practice, agreement or arrangement, whether written or oral, formal or informal, legally binding or not (including, but not limited to, every “employee benefit plan,” within the meaning of ERISA Section 3(3)) (i) currently maintained, sponsored or contributed to (or with respect to which any obligation to maintain, sponsor or contribute has been undertaken) by Methodist or any ERISA Affiliate, (ii) under which any current or former employee or director of Methodist has any present or future right to benefits, and (iii) with respect to which Methodist has any liability.

(aa) “*Methodist Financial Statements*” means the balance sheet and income statement of Methodist as of and for the year ended December 31, 2020 and the interim balance sheet and income statement of Methodist as of May 31, 2021.

(bb) “*Methodist Foundation*” means Methodist Hospital Foundation, a California nonprofit public benefit corporation, whose sole member is Methodist.

(cc) “*Methodist Healthcare Service*” means any licensed or license-exempt healthcare service provided by Methodist.

(dd) “*Methodist’s Knowledge*” means: (i) the actual knowledge of the Chief Executive Officer, Chief Financial Officer, Chief Strategy Officer, Chief Operations Officer or Chief Compliance Officer of Methodist, or a position equivalent to any of the foregoing held by an individual at Methodist, and (ii) the knowledge which could have been acquired by any of the individuals listed immediately above at Methodist after making such due inquiry and exercising such due diligence as a prudent businessperson in their actual capacity would have made or exercised in the management of his, her or its business affairs in light of all of the circumstances applicable thereto.

(ee) “*Methodist Material Adverse Change*” means an event, change or circumstance, which, individually or together with any other event, change or circumstance, does or would be reasonably expected to have a Material adverse effect, either individually or in the aggregate, on the business, assets, liabilities, financial condition or results of Methodist Operations regardless of whether such effect is or would be realized before or after the Closing. A Methodist Material Adverse Change shall not include: (i) changes in the financial or operating performance due to or caused by the announcement of the Affiliation or seasonal changes; (ii) requirements, reimbursement rates, policies or procedures of third-party payors or accreditation commissions or organizations that are generally applicable to hospitals or health care facilities; (iii) general business, industry or economic conditions, including such conditions related to Methodist; (iv) local, regional, national or international political or social conditions, including the engagement by the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack; (v) changes in financial, banking or securities markets (including any disruption thereof and any decline in the price of any security or any market index); or (vi) changes in Generally Accepted Accounting Principles.

(ff) “**Methodist Operations**” means any and all operations conducted by Methodist, whether at Methodist Hospital or elsewhere, including, without limitation, all Methodist Healthcare Services.

(gg) “**Methodist PSA**” means Methodist Hospital’s primary service area (consisting of the following zip codes: 91006, 91007, 91008, 91010, 91016, 91024, 91066, 91104, 91105, 91107, 91702, 91706, 91731, 91732, 91733, 91741, 91754, 91770, 91775, 91776, 91780 and 91801).

(hh) “**Methodist Real Property**” means all real property interests owned by Methodist, and all of Methodist’s interests therein, and all right, title and interest of Methodist in all appurtenances, options, easements, servitudes, rights-of-way and other rights associated therewith.

(ii) “**Methodist SSA**” means Methodist Hospital’s secondary service area (consisting of the following zip codes: 90032, 90042, 90640, 91001, 91030, 91101, 91103, 91106, 91108, 91722, 91723, 91724, 91740, 91744, 91745, 91746, 91748, 91750, 91755, 91765, 91773, 91789, 91790, 91791, 91792 and 91803).

(jj) “**Multiemployer Plan**” shall have the meaning set forth in Section 3(37) of ERISA or Section 4001(a)(3) of ERISA.

(kk) “**Parent Assets**” means any and all assets used in the ordinary course of the Parent Operations (as defined below) taken as a whole or in the individual operations of any Parent Entity (as defined below), including: (i) the Parent Real Property (as defined below), (ii) all tangible personal property owned by Parent and used in connection with the Parent Operations, of every kind and nature, including all furniture, fixtures, equipment, machinery, vehicles, and owned or licensed computer systems, (iii) all inventories of useable supplies, drugs, food, janitorial and office supplies, maintenance and shop supplies, and other disposables and consumables owned by any Parent Entity and used in connection with the Parent Operations, and (iv) all marks, names, trademarks, service marks, patents, patent rights, assumed names, logos, copyrights, trade secrets and similar intangibles (including variants of and applications for any of the foregoing) used in the ordinary course of the Parent Operations taken as a whole or in the individual operations of any Parent Entity.

(ll) “**Parent Financial Statements**” means the balance sheet and income statement of Parent as of and for the year ended December 31, 2020, and the interim balance sheet and income statement of Parent as of May 31, 2021.

(mm) “**Parent Employee Benefit Program**” means any pension, profit-sharing, savings, retirement, employment, collective bargaining, severance pay, termination, executive compensation, incentive compensation, deferred compensation, bonus, phantom stock or other equity-based compensation, change-in-control, retention, salary continuation, vacation, sick leave, disability, death benefit, group insurance, hospitalization, medical, dental, life, Code Section 125 “cafeteria” or “flexible” benefit, or other material employee or fringe benefit plan, program, policy, practice, agreement or arrangement, whether written or oral, formal or informal, legally binding or not (including, but not limited to, every “employee benefit plan,” within the meaning of ERISA Section 3(3)) (i) currently maintained, sponsored or contributed to (or with respect to which any obligation to maintain, sponsor or contribute has been undertaken) by any Parent Entity or any ERISA Affiliate, (ii) under which any current or former employee or director of any Parent Entity has any present or future right to benefits, and (iii) with respect to which any Parent Entity has any liability.

(nn) “**Parent Entity**” means Parent, Keck and Verdugo.

(oo) “*Parent Healthcare Service*” means any licensed or license-exempt healthcare service provided by any Parent Entity.

(pp) “*Parent’s Knowledge*” means: (i) the actual knowledge of the Interim Chief Executive Officer, Chief Financial Officer, Chief Strategy Officer, and Chief Transformation and Risk Officer of a Parent Entity, or a position equivalent to any of the foregoing held by an individual at a Parent Entity, and (ii) the knowledge which could have been acquired by any of the individuals listed immediately above at a Parent Entity after making such due inquiry and exercising such due diligence as a prudent businessperson in their actual capacity would have made or exercised in the management of his, her or its business affairs in light of all of the circumstances applicable thereto.

(qq) “*Parent Material Adverse Change*” means an event, change or circumstance, which, individually or together with any other event, change or circumstance, does or would be reasonably expected to have a Material adverse effect, either individually or in the aggregate, on the business, assets, liabilities, financial condition or results of Parent Operations regardless of whether such effect is or would be realized before or after the Closing. A Parent Material Adverse Change shall not include: (i) changes in the financial or operating performance due to or caused by the announcement of the Affiliation or seasonal changes; (ii) requirements, reimbursement rates, policies or procedures of third-party payors or accreditation commissions or organizations that are generally applicable to hospitals or health care facilities; (iii) general business, industry or economic conditions, including such conditions related to Parent; (iv) local, regional, national or international political or social conditions, including the engagement by the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack; (v) changes in financial, banking or securities markets (including any disruption thereof and any decline in the price of any security or any market index); or (vi) changes in Generally Accepted Accounting Principles.

(rr) “*Parent Operations*” means any and all operations conducted by any Parent Entity, including, without limitation, all Parent Healthcare Services.

(ss) “*Parent Real Property*” means all real property interests owned by any Parent Entity, and all of Parent’s and a Parent Entity’s interests therein, and all right, title and interest of Parent and a Parent Entity in all appurtenances, options, easements, servitudes, rights-of-way and other rights associated therewith.

(tt) “*Person*” means an individual, corporation, partnership, limited liability company, firm, joint venture, association, joint stock company, trust, unincorporated organization or other entity, or any Governmental Entity or quasi-governmental body or regulatory authority.

(uu) “*Plant Closure Laws*” means any “plant closure” or “mass layoff” Law, which includes the Federal Worker Adjustment and Retraining Notification Act (29 U.S.C. §§ 2101 *et seq.*) and its California counterpart (California Labor Code Sections 1400 *et seq.*).

(vv) “*Tax*” means (a) (i) any federal, state, local or foreign income, gross receipts, franchise, estimated, alternative minimum, add-on minimum, sales, use, transfer, real property gains, registration, value added, excise, natural resources, severance, stamp, occupation, windfall profits, environmental (under Section 59A of the Code), customs, duties, real property, personal property, capital stock, social security (or similar), unemployment, disability, payroll, license, employee, service, ad valorem, profits, capital, premium, production, consumption, commercial rent, capital gains, business privilege, recording, inventory, merchandise, intangibles, transaction, title, business, deduction at source or other withholding (including withholding liability as a representative taxpayer), or other tax, (ii) any impost, fee, levy, charge, or assessment, in each case, in the nature of taxes, (iii) any liability under unclaimed

property, escheat or any similar Law, and (iv) any interest, penalties or additions in respect of the foregoing (whether disputed or not) or in respect to failure to comply with any requirement with respect to Tax Returns, and (b) any liability for the payment of any amounts of the type described in clause (a) as a result of any Contract to pay or assume any such amounts or to indemnify any other Person for such amounts, any transferee or successor liability, the operation of Law (including pursuant to Treasury Regulations Section 1.1502-6 or any similar state, local or foreign Law) or otherwise.

(ww) “*Tax Return*” means any return, declaration, report, claim for refund, information return or statement, including schedules and attachments thereto and amendments, relating to Taxes.

(xx) “*Term Loan Agreement*” means that certain Term Loan Agreement dated as of May 15, 2020, between Methodist and JPMorgan Chase Bank, National Association, including all amendments and supplements thereto, and all associated loan agreements, bond indentures, ancillary agreements, financing statements and other related documents.

(yy) “*Transition Period*” means the five (5) year period immediately following the Closing Date.

(zz) “*USC Board of Trustees*” means the Board of Trustees of University of Southern California.

(aaa) “*USC Due Diligence Request*” means that certain Due Diligence Request list originally provided by Parent to Methodist on February 8, 2021, and all supplemental diligence requests made by Parent between February 8, 2021 and the Closing Date.

ARTICLE II METHODIST MEMBERSHIP AND GOVERNANCE

2.1 Issuance of Membership. The Affiliation shall be effected by Parent becoming the sole corporate member of Methodist on the Closing Date, effective as of the Effective Time (the “*Membership Issuance*”). On the Closing Date and effective as of the Effective Time, Methodist shall have: (a) adopted and filed with the California Secretary of State an amended and restated articles of incorporation of Methodist in the form attached hereto as Attachment 2.1(a), and (b) adopted the amended and restated bylaws of Methodist in the form attached hereto as Attachment 2.1(b) (collectively the “*New Methodist Organizational Documents*”). The New Methodist Organizational Documents make Parent the sole corporate member of Methodist and include certain governance and economic control rights over Methodist with Methodist reserving certain governance and economic control rights.

2.2 Methodist Governance.

(a) The New Methodist Organizational Documents will provide for the addition of not less than two (2) voting members to the Methodist Board of Directors appointed by Parent, and during the Transition Period, Parent may invite *ex officio* non-voting individuals to meetings of the Methodist Board of Directors on an as needed basis. After the Transition Period, Parent may appoint two (2) *ex officio* non-voting representatives to the Methodist Board of Directors, as identified by Parent on an *ad hoc* basis. At least one (1) of the two (2) Parent appointees with voting authority to the Methodist Board of Directors will be a non-management member of the Parent Board of Directors or a member of the USC Board of Trustees,

based on availability and appropriateness. The New Methodist Organizational Documents will require that the Methodist Board of Directors have no more than fifteen (15) voting members.

(b) Subject to the Parent's reserved powers in Article XIV and as otherwise contemplated by this Agreement, the Parties intend that the activities and affairs of Methodist, including as related to quality of care and operating performance, shall be conducted by or under the direction of the Methodist Board of Directors.

ARTICLE III PARENT ORGANIZATIONAL DOCUMENTS

3.1 Parent Organizational Documents.

(a) On the Closing Date, effective as of the Effective Time, Parent shall have: (i) adopted and filed with the California Secretary of State amended and restated articles of incorporation of Parent in the form attached hereto as Attachment 3.1(a)(i), and (ii) adopted the amended and restated bylaws of Parent in the form attached hereto as Attachment 3.1(a)(ii) (collectively the "*New Parent Organizational Documents*").

(b) The Parties acknowledge that Parent, under the New Parent Organizational Documents, shall provide Methodist the ability to nominate one (1) voting member to serve on the Parent Board of Directors, and one (1) *ex officio* representative to be invited to the Parent Board of Directors meetings. Parent shall approve such persons to serve in the aforementioned capacities, which approval shall not be unreasonably withheld, and with such first nomination and appointment to occur on or prior to the Closing Date.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF METHODIST

Except as otherwise set forth on the schedules prepared by Methodist, dated as of the Execution Date and updated pursuant to Section 6.2(a) (collectively, "*Methodist Schedules*"), Methodist represents and warrants to Parent as of the Execution Date, as follows:

4.1 Organization. Power. Absence of Conflicts.

(a) Organization; Good Standing. Methodist is a corporation duly organized, validly existing and in good standing under the laws of the State of California (the "*State*") and has full power and authority to carry on its respective business in the State and to own or lease and operate the Methodist Assets and other properties at and where now owned or leased and operated by it. Methodist is not licensed, qualified or admitted to do business in any jurisdiction other than the State and there is no other jurisdiction in which the ownership, use or leasing of any Methodist Asset, or the conduct or nature of the Methodist Operations, makes such licensing, qualification or admission necessary.

(b) Authority; No Conflict; Required Filings and Consents.

(i) Methodist has all requisite corporate power and authority to conduct its business, as now being conducted, to execute, deliver and enter into this Agreement, to consummate the Affiliation contemplated hereby and to perform its obligations hereunder. The execution and delivery of this Agreement, and the consummation of the Affiliation contemplated hereby, have been duly authorized by all necessary corporate or other action on the part of Methodist, as may be required under Law. No other corporate or other proceeding on the part of Methodist is necessary to authorize this Agreement and the

Affiliation contemplated hereby. This Agreement has been duly executed and delivered by Methodist and is a legal, valid and binding obligation of Methodist, enforceable against Methodist in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, reorganization, insolvency, moratorium or other Laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether such enforceability is considered in a proceeding at law or in equity. As of Closing, no vote or written consent of any holder of any membership or ownership interests of Methodist is necessary to approve this Agreement or the Affiliation contemplated hereby. The corporate membership of Methodist is as set forth on Schedule 4.1(b)(i).

(ii) To Methodist's Knowledge, the execution and delivery by Methodist of this Agreement does not, and the consummation of the Affiliation contemplated hereby will not, (A) result in any breach or contravention of, or permit the acceleration of the maturity of, any Material Encumbrances of Methodist, (B) result in the creation of any Material Encumbrances on the Methodist Assets (other than Encumbrances created pursuant to the terms of this Agreement and the other agreements and documents executed in connection with the consummation of the Affiliation contemplated hereby), (C) conflict with, or result in any violation or breach of any provision of the formation or governing documents of Methodist, as amended to date, or (D) conflict with or result in a breach of, or give rise to a right of termination or amendment of or loss of benefit under, or accelerate the performance required by the terms of any judgment, court order or consent decree, or any material Contract or constitute a default thereunder for Methodist.

4.2 Third-Party Rights. Except for this Agreement, there are no Contracts with, or rights of, any Person to acquire, directly or indirectly, any Material Methodist Assets, or any interest therein.

4.3 Legal Compliance.

(a) To Methodist's Knowledge, Methodist is and, during the Lookback Period, has been in all material respects, in compliance with all Laws and, to Methodist's Knowledge, has timely filed all reports, data and other information required to be filed with Governmental Entities. During the Lookback Period, Methodist has not received notice from any Person of any proceeding or investigation by Governmental Entities alleging or based upon a violation of any Laws that is currently pending. To Methodist's Knowledge, Methodist has not been threatened by any Person with any proceeding or investigation by Governmental Entities alleging a violation of any Laws with respect to the Methodist Operations.

(b) To Methodist's Knowledge, Methodist has (i) developed a compliance plan for being in compliance with the Health Information Laws, and (ii) used its best efforts to implement those provisions of such compliance plan in all respects necessary to ensure that the applicable Methodist Operations are in compliance with the Health Information Laws.

(c) To Methodist's Knowledge, Methodist and each Methodist Healthcare Service meets all requirements of participation, claims submission and payment of the Government Payment Programs and other third-party payment programs and is a party to valid participation agreements for payment by such Government Payment Programs and other third-party payment programs, as applicable. Neither Methodist, nor any of its officers, directors, employees, agents or contractors has been or is currently excluded from participation in any Government Payment Program.

(d) Methodist and each Methodist Healthcare Service, as applicable, is qualified for participation in and has current and valid provider Contracts with, the Government Payment Programs and/or their fiscal intermediaries or paying agents and, to Methodist's Knowledge, complies in all material respects with the conditions of participation therein. To Methodist's Knowledge, there are no Material Government Payment Program recoupments or Material recoupments of any third-party payor being

sought, requested, claimed, or threatened against Methodist. To Methodist's Knowledge, (i) there is no Action pending, received or threatened against Methodist which relates in any way to a violation of any Law pertaining to the Government Payment Programs or which could result in the imposition of Material penalties on or the exclusion of Methodist or any Methodist Healthcare Service from participation in any Government Payment Programs, and (ii) neither Methodist, nor any of its officers, directors, employees or agents have engaged in any activities which are cause for civil penalties or mandatory or permissive exclusion from any Government Payment Program. Methodist is not a party to any corporate integrity agreements, deferred prosecution agreements, monitoring agreements, consent decrees, settlement orders, plans of correction or similar agreements imposed by any Governmental Entity.

(e) Methodist is in material compliance with all Laws regarding the selection, deselection, and credentialing of contracted providers, including, but not limited to, verification of licensing status and eligibility for reimbursement under the Government Payment Programs. Methodist's contracted providers are properly licensed and hold appropriate clinical privileges, as applicable, for the services which they provide, and, with respect to providers that perform services eligible for reimbursement under any Government Payment Program, are not debarred or excluded from any such Government Payment Program.

(f) To Methodist's Knowledge, during the Lookback Period, all reports, data, and information required to be filed by Methodist in connection with any Government Payment Program have been timely filed and were true and complete at the time filed (or were corrected in or supplemented by a subsequent filing). There are no Actions or appeals pending (and to Methodist's Knowledge, Methodist has not made any filing or submission that would result in any Actions or appeals) before any court, regulatory body, administrative agency, governmental body, arbitrator or other authority (including governmental administrative contractors) with respect to any Government Payment Program reports or claims filed by Methodist on or before the date hereof, or with respect to any disallowances by any regulatory body, administrative agency, governmental body or other authority (including governmental administrative contractors) in connection with any audit. No material validation review or program integrity review related to Methodist or any Methodist Healthcare Service has been conducted by any regulatory body, administrative agency, governmental body or other authority (including governmental administrative contractors) in connection with any Government Payment Program during the Lookback Period and, to Methodist's Knowledge, no such reviews are scheduled, pending, or threatened against or affecting Methodist or any Methodist Healthcare Service.

(g) Methodist holds all licenses, permits, authorizations, certifications, accreditations, registrations and franchises (collectively, the "*Licenses*") that are necessary for the Methodist Operations. All such Licenses are in good standing and, to Methodist's Knowledge, are not subject to meritorious challenge. To Methodist's Knowledge, the Methodist Operations and Methodist Healthcare Services are in compliance in all material respects with such licensing requirements.

4.4 Methodist Financial Statements.

(a) Attached as Schedule 4.4(a) are copies of the Methodist Financial Statements. Except as set forth on Schedule 4.4(a), the Methodist Financial Statements fairly and accurately present in all material respects the financial condition and results of operations of the Methodist Operations as of the respective dates thereof and for the period therein referred to, subject to normal recurring year-end adjustments (the effect of which will not, individually or in the aggregate, be Material) and the absence of notes; and the Methodist Financial Statements reflect the consistent application of Generally Accepted Accounting Principles throughout the periods involved.

(b) Attached as Schedule 4.4(b) is a financial forecast (the "*Financial Forecast*") prepared by or on behalf of Methodist that describes how the results from the Methodist Operations will

achieve compliance with the debt service and other covenants set forth in the Financing Documents for the next two (2) fiscal years. To Methodist's Knowledge, the Financial Forecast accurately and fairly portrays Methodist's financial condition over such period.

4.5 Absence of Material Change. Since the date of the last Methodist Financial Statements, no Material change has occurred in the financial condition, assets, liabilities, income or prospects of Methodist. To Methodist's Knowledge, there has not been any event, change, occurrence or circumstance that has had or could reasonably be expected to have a Methodist Material Adverse Change.

4.6 Real Property.

(a) Methodist owns fee simple title to the Methodist Real Property, free and clear of any Encumbrances, other than those Encumbrances listed on Schedule 4.6(a).

(b) The Methodist Real Property comprises all of the real property owned or leased by Methodist.

(c) To Methodist's Knowledge, Methodist has not received notice of condemnation or similar proceeding relating to the Methodist Real Property or any part thereof.

(d) Except for those tenants in possession of the Methodist Real Property under Contracts as set forth on Schedule 4.6(d), to Methodist's Knowledge there are no Persons in possession of, or claiming any possession, adverse or not, to or other interest in, any portion of the Methodist Real Property other than Methodist, whether as lessees, tenants at sufferance, trespassers or otherwise. To Methodist's Knowledge, Methodist has not received any written notice of any material default or breach on the part of the landlord under any lease of Methodist Real Property which has not been cured, nor does there exist any such default or breach on the part of the landlord.

(e) Schedule 4.6(e) identifies all those construction or capital projects currently in progress with respect to the Methodist Real Property for which all final approvals needed from Governmental Entities have not been obtained.

4.7 Environmental Matters.

(a) To Methodist's Knowledge, (i) Methodist is not subject to any Action or any other Material liability arising under any Environmental Laws, and (ii) no circumstances exist that are reasonably expected to constitute a Material violation of Environmental Laws by Methodist. During the three (3) year period prior to the Execution Date, to Methodist's Knowledge, Methodist has not received any written communication (or reduced to writing any oral communication) from any Person alleging that Methodist is not in full compliance with Environmental Laws.

(b) To Methodist's Knowledge, during the Lookback Period, there has been no Material Environmental Claim pending or threatened against any Person whose liability for any Environmental Claim has or may have been retained or assumed either contractually or by operation of law by Methodist.

4.8 Employment Matters.

(a) Employee and Employee Relations.

(i) There is no pending or, to Methodist's Knowledge, threatened employee strike, work stoppage or slowdown, labor dispute or unfair labor practices in connection with the Methodist Operations.

(ii) Except as set forth on Schedule 4.8(a)(ii), (A) there are no employees of Methodist who are represented by, or have made demand for recognition of, a labor union or employee organization with respect to their work at the Methodist Operations, or (B) to Methodist's Knowledge, there is no other union organizing or collective bargaining activities by or with respect to any employees of Methodist with respect to such employment.

(iii) Methodist has complied with all Material obligations and liabilities under any Plant Closure Laws during the Lookback Period and as a result of (A) the Methodist Operations on or prior to the Closing Date, and/or (B) the consummation of the Affiliation.

(b) Pending Proceedings. There are no active, pending or, to Methodist's Knowledge, threatened Material administrative or judicial proceedings under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Fair Labor Standards Act, the Occupational Safety and Health Act, the National Labor Relations Act, the Fair Employment and Housing Act, the California Labor Code, ERISA or any other foreign, federal, state or local law (including common law), ordinance or regulation relating to current employees or former employees of Methodist. Other than the retention of the current Executive Team by Parent for the three (3) year period following the Closing Date, no employee or independent contractor of Methodist is entitled to receive any compensation, payment, or remuneration from any Person as a result of the execution and delivery of this Agreement or the occurrence of the Closing.

4.9 Employee Benefit Plans.

(a) Schedule 4.9 sets forth a true, correct and complete list of each Methodist Employee Benefit Program.

(b) Each Methodist Employee Benefit Program that is intended to qualify under Section 401(a) of the Code has received a favorable determination or opinion letter from the IRS regarding its qualification thereunder, and during the Lookback Period no event has occurred and no condition exists that would reasonably be expected to result in the loss of such tax-qualified status or the imposition of any liability, penalty or tax under ERISA, the Code or any other Laws. With respect to each Methodist Employee Benefit Program, all reports, returns, notices, and other documentation that are required to have been filed with or furnished to the IRS, the United States Department of Labor (the "*DOL*"), the Pension Benefit Guaranty Corporation (the "*PBGC*"), the Securities and Exchange Commission (the "*SEC*") or any other Governmental Entity, or to the participants or beneficiaries of such Methodist Employee Benefit Program, have been filed or furnished on a timely basis.

(c) With respect to each Methodist Employee Benefit Program, Methodist has provided to Parent, and has caused Methodist to provide to Parent (in each case, if applicable to such Methodist Employee Benefit Program): (i) all documents embodying or governing such Methodist Employee Benefit Program, and any funding medium for the Methodist Employee Benefit Program (including plan documents, trust agreements and amendments thereto); (ii) the most recent IRS determination letter with respect to such Methodist Employee Benefit Program under Code Section 401(a); and (iii) any insurance policy related to such Methodist Employee Benefit Program.

(d) Each Methodist Employee Benefit Program has been established, operated, and administered in all material respects in accordance with the requirements of Law, including ERISA and the Code, and is being administered and operated in all material respects in accordance with its terms, and is being administrated in a manner that avoids the imposition of material penalties imposed by Law, including penalty taxes. No Methodist Employee Benefit Program is subject to Title IV of ERISA or is a Multiemployer Plan, within the meaning of ERISA Section 3(37) and during the Lookback Period neither Methodist nor any ERISA Affiliate has sponsored, maintained, contributed to or had any liability in respect to any employee benefit plan subject to Title IV of ERISA or any Multiemployer Plan.

(e) Neither any Methodist Employee Benefit Program fiduciary nor any Methodist Employee Benefit Program has engaged in any transaction in violation of Section 406 of ERISA or any “prohibited transaction” (as defined in Section 4975(c)(1) of the Code), which transaction is not exempt under Section 4975(d) of the Code or Section 408 of ERISA and which could reasonably be expected to result in material liability under ERISA or the Code. Neither Methodist nor ERISA Affiliate or any Person appointed or otherwise designated to act on behalf of Methodist or such ERISA Affiliate, has engaged in any transactions in connection with any Methodist Employee Benefit Program that is reasonably expected to result in the imposition of a material penalty pursuant to Section 502(i) of ERISA, material damages pursuant to Section 409 of ERISA or a material Tax pursuant to Section 4975(a) of the Code.

(f) No administrative investigation, audit or other administrative proceeding by the DOL, the PBGC, the Internal Revenue Service or any other Governmental Entity is pending, with respect to any Methodist Employee Benefit Program. There is no pending, or to Methodist’s Knowledge, threatened, legal action, proceeding, or investigation, other than routine claims for benefits, concerning any of the Methodist Employee Benefit Programs, or, any fiduciary or service provider thereof. Methodist does not have liability by virtue of its being a member of a controlled group with a person who has liability under the Code or ERISA.

(g) Each Employee Welfare Benefit Plan which is a group health plan (within the meaning of Section 5000(b)(1) of the Code) complies in all material respects with and has been maintained and operated in all material respects in accordance with each of the requirements of Section 4980B of the Code and Part 6 of Subtitle B of Title I of ERISA. Except as set forth in Schedule 4.9(g), no Methodist Employee Benefit Program provides for health or welfare benefits (other than as required pursuant to Section 4980B of the Code or pursuant to State health continuation laws) to any current or future retiree or former employee beyond the month of termination.

(h) Except as set forth on Schedule 4.9(h) or as otherwise disclosed, neither the execution and delivery of this Agreement nor the consummation of the Affiliation will result in (i) any increase in severance pay otherwise due upon any termination of employment after the date of this Agreement; (ii) the acceleration of the time of payment or vesting or result in any funding of compensation or benefits; (iii) any payment, compensation or benefit becoming due, or increase in the amount of any payment, compensation or benefit due, to any current or former employee of Methodist; (iv) any new obligation pursuant to any Methodist Employee Benefit Program; (v) payment of compensation that would, in combination with any other payment, result in an “excess parachute payment” within the meaning of Section 280G of the Code; or (vi) any limitation or restriction on the right of Methodist to merge, amend or terminate any Methodist Employee Benefit Program.

(i) Each Methodist Employee Benefit Program that is a “nonqualified deferred compensation plan” (as defined under Section 409A of the Code) has been operated and administered in good faith compliance with Section 409A of the Code, and no compensation shall be includable in the gross income of any current or former employee, officer, director or consultant of Methodist or any ERISA

Affiliate as a result of the operation of Section 409A of the Code with respect to any applicable arrangements or agreements in effect prior to the Closing.

4.10 Litigation. There are no Material Actions pending or, to Methodist's Knowledge, threatened against Methodist or with respect to any Methodist Assets. To Methodist's Knowledge, there exist no facts known to Methodist that might form the basis of any such Action. There is no pending or, to Methodist's Knowledge, threatened, litigation, arbitration, investigation or other proceeding involving Methodist or Methodist Assets of or before any court, arbitrator or governmental, regulatory or administrative official, body or authority that is reasonably likely to prevent or materially delay or affect the consummation of the Affiliation.

4.11 Tax Exempt Status. Methodist and Methodist Foundation are each California nonprofit public benefit corporations and are exempt from federal and state income taxation.

4.12 Certain Affiliations. Except as set forth on Schedule 4.12, no officer or director of Methodist, nor any child, spouse, parent or sibling or any other family member of any such officer or director of Methodist:

(a) directly or indirectly owns, in whole or in part, any property, asset or right of material significance, used in connection with the Methodist Operations; or

(b) directly or indirectly has an interest in or is party to any Material Contract to which Methodist is a party.

4.13 Operation of the Methodist Operations. To Methodist's Knowledge, the Methodist Assets constitute all assets, properties, goodwill and businesses necessary to conduct the Methodist Operations, in the aggregate and with respect to each Methodist Healthcare Service, in all Material respects in the manner in which the Methodist Operations are currently conducted.

4.14 Intellectual Property. To Methodist's Knowledge, Methodist owns or has sufficient right to use all Methodist Intellectual Property Assets (as defined below) that are necessary for the operation of the business of Methodist as it is currently conducted. For purposes of this Agreement, "**Methodist Intellectual Property Assets**" means: (a) the name of Methodist, all fictional business names, trade names, registered and unregistered trademarks, service marks and applications for same; (b) all patents and patent applications; (c) all copyrights in both published works and unpublished works; (d) all rights in mask works; and (e) all know-how, trade secrets, confidential information, customer lists, software, technical information, data, process technology, plans, drawings and blueprints and other intellectual property rights owned, used or licensed by Methodist as licensee or licensor.

4.15 Insurance. Schedule 4.15 includes a list of all insurance policies (including the policy type, carrier, retention, term and claim limits) to which Methodist is a party and that provide coverage to Methodist or the Methodist Operations, or any director, manager or officer of Methodist (the "**Methodist Insurance Policies**"). All Methodist Insurance Policies (a) are valid, outstanding, and enforceable, and (b) are sufficient for compliance in all material respects with all applicable Contracts to which Methodist is a party. The consummation of the Affiliation by Methodist does not result in a default under any of the Methodist Insurance Policies. Methodist has paid all premiums due, and has otherwise performed all of its obligations in all material respects, under each Methodist Insurance Policy to which the Methodist is a party or that provides coverage to the business of Methodist or any officers, directors or managers thereof.

4.16 Methodist Operations. To Methodist's Knowledge, the Methodist Assets constitute all assets, properties, goodwill and businesses necessary to conduct the Methodist Operations, in the aggregate

and with respect to each Methodist Healthcare Service, in all material respects in the manner in which the Methodist Operations are currently conducted.

4.17 Material Misstatements or Omissions. Subject to qualifications expressly set forth in this Article IV regarding Methodist's Knowledge, the representations and warranties of Methodist in this Article IV, together with the disclosures set forth in the Methodist Schedules, do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the representations and warranties of Methodist in this Article IV not misleading in any material respect.

4.18 Due Diligence. Methodist has provided the material items responsive to the USC Due Diligence Request and such items, either individually or in the aggregate, do not, to Methodist's Knowledge, contain any untrue statement of material fact or omit to state any material fact that is reasonably expected to be material to Parent's decision regarding the Affiliation. In addition, Methodist has used good faith and commercially reasonable efforts to inform Parent of any fact that is reasonably expected to be material to Parent regarding the Affiliation.

4.19 No Other Representations. Parent acknowledges and agrees that, except as expressly set forth in this Agreement, the New Methodist Organizational Documents, and the New Methodist Bylaws, Methodist and its officers, directors, attorneys, financial advisors, agents or other representatives (collectively "Representatives") are not making any representation or warranty, express or implied, with respect to Methodist.

4.20 Survival of Representations and Warranties. The representations and warranties of Methodist set forth in this Article IV shall not survive the Closing Date.

ARTICLE V REPRESENTATIONS AND WARRANTIES OF PARENT

Except as otherwise set forth on the schedules prepared by Parent, dated as of the Execution Date and updated pursuant to Section 6.2(b) (collectively, "Parent Schedules"), Parent represents and warrants to Methodist as of the Execution Date as follows:

5.1 Organization, Power, Absence of Conflicts

(a) Organization; Good Standing. Each Parent Entity is a corporation or limited liability company, as the case may be, is duly organized, validly existing and in good standing under the laws of the State and has full power and authority to carry on its respective business in the State and to own or lease and operate the Parent Assets and other properties at and where now owned or leased and operated by it. No Parent Entity is licensed, qualified or admitted to do business in any jurisdiction other than the State and there is no other jurisdiction in which the ownership, use or leasing of any Parent Asset, or the conduct or nature of the Parent Operations, makes such licensing, qualification or admission necessary.

(b) Authority; No Conflict; Required Filings and Consents.

(i) Parent has all requisite corporate power and authority to conduct its businesses, including those of the Parent Entities, as now being conducted, to execute, deliver and enter into this Agreement, to consummate the Affiliation contemplated hereby and to perform its obligations hereunder. The execution and delivery of this Agreement, and the consummation of the Affiliation contemplated hereby, have been duly authorized by all necessary corporate or other action on the part of all Parent Entities, as may be required under Law. No other corporate or other proceeding on the part of any Parent Entity is necessary to authorize this Agreement and the Affiliation contemplated hereby. This

Agreement has been duly executed and delivered by Parent and is a legal, valid and binding obligation of Parent, enforceable against each Parent Entity in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, reorganization, insolvency, moratorium or other Laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether such enforceability is considered in a proceeding at law or in equity. As of Closing, no vote or written consent of any holder of any membership or ownership interests of any Parent Entity is necessary to approve this Agreement or the Affiliation contemplated hereby.

(ii) To Parent's Knowledge, the execution and delivery by Parent of this Agreement does not, and the consummation of the Affiliation contemplated hereby will not, (A) result in any breach or contravention of, or permit the acceleration of the maturity of, any Material Encumbrances of any Parent Entity, (B) result in the creation of any Material Encumbrances on the Parent Assets (other than Encumbrances created pursuant to the terms of this Agreement and the other agreements and documents executed in connection with the consummation of the Affiliation contemplated hereby), (C) conflict with, or result in any violation or breach of any provision of the formation or governing documents of any Parent Entity, as amended to date, or (D) conflict with or result in a breach of, or give rise to a right of termination or amendment of or loss of benefit under, or accelerate the performance required by the terms of any judgment, court order or consent decree, or any material Contract or constitute a default thereunder for any Parent Entity.

5.2 Third-Party Rights. There are no Contracts with, or rights of, any Person to acquire, directly or indirectly, any Material Parent Assets, or any interest therein.

5.3 Legal Compliance.

(a) To Parent's Knowledge, each Parent Entity is and, during the Lookback Period has been, in all material respects, in compliance with all Laws and, to Parent's Knowledge, has timely filed all reports, data and other information required to be filed with Governmental Entities. During the Lookback Period, no Parent Entity has received notice from any Person of any proceeding or investigation by Governmental Entities alleging or based upon a violation of any Laws that is currently pending. To Parent's Knowledge, no Parent Entity has been threatened by any Person with any proceeding or investigation by Governmental Entities alleging a violation of any Laws with respect to the Parent Operations.

(b) To Parent's Knowledge: (i) each Parent Entity has (a) developed a compliance plan for being in compliance with the Health Information Laws, and (b) used its best efforts to implement those provisions of such compliance plan in all respects necessary to ensure that the applicable Parent Operations are in compliance with the Health Information Laws.

(c) To Parent's Knowledge, each Parent Entity and each Parent Healthcare Service meets all requirements of participation, claims submission and payment of the Government Payment Programs and other third-party payment programs and is a party to valid participation agreements for payment by such Government Payment Programs and other third-party payment programs, as applicable. To Parent's Knowledge, no Parent Entity nor any of their respective officers, directors, employees, agents or contractors has been or is currently excluded from participation in any Government Payment Program.

(d) Each Parent Entity and Parent Healthcare Service, as applicable, is qualified for participation in and has current and valid provider Contracts with, the Government Payment Programs and/or their fiscal intermediaries or paying agents and, to Parent's Knowledge, complies in all material respects with the conditions of participation therein. To Parent's Knowledge, there are no Material Government Payment Program recoupments or Material recoupments of any third-party payor being sought, requested, claimed, or threatened against any Parent Entity. To Parent's Knowledge, (i) there is no

Action pending, received or threatened against any Parent Entity which relates in any way to a violation of any Law pertaining to the Government Payment Programs or which is reasonably expected to result in the imposition of material penalties on or the exclusion of any Parent Entity or any Parent Healthcare Service from participation in any Government Payment Programs, and (ii) no Parent Entity or any of their respective officers, directors, employees or agents have engaged in any activities which are cause for civil penalties or mandatory or permissive exclusion from any Government Payment Program. No Parent Entity is a party to any corporate integrity agreements, deferred prosecution agreements, monitoring agreements, consent decrees, settlement orders, plans of correction or similar agreements imposed by any Governmental Entity.

(e) To Parent's Knowledge, each Parent Entity, as applicable, is in material compliance with all Laws regarding the selection, deselection, and credentialing of contracted providers, including, but not limited to, verification of licensing status and eligibility for reimbursement under the Government Payment Programs. To Parent's Knowledge, each Parent Entity's contracted providers are properly licensed and hold appropriate clinical privileges, as applicable, for the services which they provide, and, with respect to providers that perform services eligible for reimbursement under any Government Payment Program, are not debarred or excluded from any such Government Payment Program.

(f) To Parent's Knowledge, during the Lookback Period, all reports, data, and information required to be filed by any Parent Entity in connection with any Government Payment Program have been timely filed and were true and complete at the time filed (or were corrected in or supplemented by a subsequent filing). There are no Actions or appeals pending (and to Parent's Knowledge, no Parent Entity has made any filing or submission that would result in any Actions or appeals) before any court, regulatory body, administrative agency, governmental body, arbitrator or other authority (including governmental administrative contractors) with respect to any Government Payment Program reports or claims filed by any Parent Entity on or before the date hereof, or with respect to any disallowances by any regulatory body, administrative agency, governmental body or other authority (including governmental administrative contractors) in connection with any audit. No material validation review or program integrity review related to any Parent Entity or any Parent Healthcare Service has been conducted by any regulatory body, administrative agency, governmental body or other authority (including governmental administrative contractors) in connection with any Government Payment Program during the Lookback Period and, to Parent's Knowledge, no such reviews are scheduled, pending, or threatened against or affecting any Parent Entity or any Parent Healthcare Service.

(g) To Parent's Knowledge, each Parent Entity holds all necessary Licenses for its respective part of the Parent Operations. All such Licenses are in good standing and, to Parent's Knowledge, are not subject to meritorious challenge. To Parent's Knowledge, the Parent Operations and Parent Healthcare Services are in compliance in all material respects with such licensing requirements.

5.4 Parent Financial Statements. Attached as Schedule 5.4 are copies of the Parent Financial Statements. Except as set forth on Schedule 5.4, the Parent Financial Statements fairly and accurately present in all material respects the financial condition and results of operations of the Parent Operations as of the respective dates thereof and for the period therein referred to, subject to normal recurring year-end adjustments (the effect of which will not, individually or in the aggregate, be Material) and the absence of notes; and the Parent Financial Statements reflect the consistent application of Generally Accepted Accounting Principles throughout the periods involved.

5.5 Absence of Material Change. Since the date of the last Parent Financial Statements, no Material change has occurred in the financial condition, assets, liabilities, income or prospects of Parent. To Parent's Knowledge, there has not been any event, change, occurrence or circumstance that has had or is reasonably expected to have a Parent Material Adverse Change.

5.6 Real Property.

(a) A Parent Entity owns fee simple title to the Parent Real Property, free and clear of any Encumbrances, other than those Encumbrances listed on Schedule 5.6(a).

(b) To Parent's Knowledge, no Parent Entity has received notice of condemnation or similar proceeding relating to the Parent Real Property or any part thereof.

(c) Except for those tenants in possession of the Parent Real Property under Contracts, to Parent's Knowledge there are no Persons in possession of, or claiming any possession, adverse or not, to or other interest in, any portion of the Parent Real Property other than a Parent Entity, whether as lessees, tenants at sufferance, trespassers or otherwise. To Parent's Knowledge, during the Lookback Period, no Parent Entity has received any written notice of any material default or breach on the part of the landlord under any lease of Parent Real Property which has not been cured, nor does there exist any such default or breach on the part of the landlord.

5.7 Environmental Matters.

(a) To Parent's Knowledge, (i) no Parent Entity is subject to any Action or any other Material liability arising under any Environmental Laws, and (ii) no circumstances exist that are reasonably expected to constitute a Material violation of Environmental Laws by any Parent Entity. During the three (3) year period prior to the Execution Date, to Parent's Knowledge, no Parent Entity has received any written communication (or reduced to writing any oral communication) from any Person alleging that any Parent Entity is not in full compliance with Environmental Laws.

(b) To Parent's Knowledge, during the Lookback Period, there has been no Material Environmental Claim pending or threatened against any Person whose liability for any Environmental Claim has or may have been retained or assumed either contractually or by operation of law by a Parent Entity.

5.8 Employment Matters.

(a) Employee and Employee Relations.

(i) There is no pending or, to Parent's Knowledge, threatened employee strike, work stoppage or slowdown, labor dispute or unfair labor practices in connection with the Parent Operations.

(ii) Except as set forth on Schedule 5.8(a)(ii), (A) there are no employees of any Parent Entity who are represented by, or have made demand for recognition of, a labor union or employee organization with respect to their work at the Parent Operations, or (B) to Parent's Knowledge, there is no other union organizing or collective bargaining activities by or with respect to any employees of any Parent Entity with respect to such employment.

(iii) To Parent's Knowledge, Parent has complied with all Material obligations and liabilities under any Plant Closure Laws during the Lookback Period and as a result of (i) the Parent Operations on or prior to the Closing Date, and/or (ii) the consummation of the Affiliation.

(b) Pending Proceedings. There are no active, pending or, to Parent's Knowledge, threatened Material administrative or judicial proceedings under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Fair Labor Standards Act, the Occupational Safety and

Health Act, the National Labor Relations Act, the Fair Employment and Housing Act, the California Labor Code, ERISA or any other foreign, federal, state or local law (including common law), ordinance or regulation relating to current employees or former employees of any Parent Entity. No employee or independent contractor of any Parent Entity is entitled to receive any compensation, payment, or remuneration from any Person as a result of the execution and delivery of this Agreement or the occurrence of the Closing

5.9 Employee Benefit Plans.

(a) Schedule 5.9 sets forth a true, correct and complete list of each Parent Employee Benefit Program.

(b) Each Parent Employee Benefit Program that is intended to qualify under Section 401(a) of the Code has received a favorable determination or opinion letter from the IRS regarding its qualification thereunder, and during the Lookback Period no event has occurred and no condition exists that would reasonably be expected to result in the loss of such tax-qualified status or the imposition of any liability, penalty or tax under ERISA, the Code or any other Laws. With respect to each Parent Employee Benefit Program, all reports, returns, notices, and other documentation that are required to have been filed with or furnished to the IRS, the DOL, the PBGC, the SEC, or any other Governmental Entity, or to the participants or beneficiaries of such Parent Employee Benefit Program, have been filed or furnished on a timely basis.

(c) With respect to each Parent Employee Benefit Program, Parent has provided to Methodist: all documents embodying or governing such Parent Employee Benefit Program, and any funding medium for the Parent Employee Benefit Program (including plan documents, trust agreements and amendments thereto); (ii) the most recent IRS determination letter with respect to such Parent Employee Benefit Program under Code Section 401(a); and (iii) any insurance policy related to such Parent Employee Benefit Program.

(d) Except as set forth in Schedule 5.9(d)(i), each Parent Employee Benefit Program has been established, operated, and administered in all material respects in accordance with the requirements of Law, including ERISA and the Code, and is being administered and operated in all material respects in accordance with its terms, and is being administrated in a manner that avoids the imposition of material penalties imposed by Law, including penalty taxes. Except as set forth in Schedule 5.9(d)(ii), no Parent Employee Benefit Program is subject to Title IV of ERISA or is a Multiemployer Plan, within the meaning of ERISA Section 3(37) and during the Lookback Period no Parent Entity or any ERISA Affiliate has sponsored, maintained, contributed to or had any liability in respect to any employee benefit plan subject to Title IV of ERISA or any Multiemployer Plan.

(e) Neither any Parent Employee Benefit Program fiduciary nor any Parent Employee Benefit Program has engaged in any transaction in violation of Section 406 of ERISA or any "prohibited transaction" (as defined in Section 4975(c)(1) of the Code), which transaction is not exempt under Section 4975(d) of the Code or Section 408 of ERISA and which is reasonably expected to result in material liability under ERISA or the Code. No Parent Entity or ERISA Affiliate or any Person appointed or otherwise designated to act on behalf of such Parent Entity or such ERISA Affiliate, has engaged in any transactions in connection with any Parent Employee Benefit Program that is reasonably expected to result in the imposition of a material penalty pursuant to Section 502(i) of ERISA, material damages pursuant to Section 409 of ERISA or a material Tax pursuant to Section 4975(a) of the Code.

(f) No administrative investigation, audit or other administrative proceeding by the DOL, the PBGC, the Internal Revenue Service or any other Governmental Entity is pending, with respect

to any Parent Employee Benefit Program. Except as set forth on Schedule 5.9(f), there is no material pending, or to Parent's Knowledge, threatened, legal action, proceeding, or investigation, other than routine claims for benefits, concerning any of the Parent Employee Benefit Programs, or, any fiduciary or service provider thereof. Parent does not have liability by virtue of its being a member of a controlled group with a person who has liability under the Code or ERISA.

(g) Each Employee Welfare Benefit Plan which is a group health plan (within the meaning of Section 5000(b)(1) of the Code) complies in all material respects with and has been maintained and operated in all material respects in accordance with each of the requirements of Section 4980B of the Code and Part 6 of Subtitle B of Title I of ERISA. Except as set forth in Schedule 5.9(g), no Parent Employee Benefit Program provides for health or welfare benefits (other than as required pursuant to Section 4980B of the Code or pursuant to State health continuation laws) to any current or future retiree or former employee beyond the month of termination.

(h) Except as set forth in Schedule 5.9(h), neither the execution and delivery of this Agreement nor the consummation of the Affiliation will result in (A) any increase in severance pay otherwise due upon any termination of employment after the date of this Agreement; (B) the acceleration of the time of payment or vesting or result in any funding of compensation or benefits; (C) result in any payment, compensation or benefit becoming due, or increase in the amount of any payment, compensation or benefit due, to any current or former employee of any Parent Entity; (D) any new obligation pursuant to any Parent Employee Benefit Program; (E) payment of compensation that would, in combination with any other payment, result in an "excess parachute payment" within the meaning of Section 280G of the Code; or (F) any limitation or restriction on the right of any Parent Entity to merge, amend or terminate any Parent Employee Benefit Program.

(i) Each Parent Employee Benefit Program that is a "nonqualified deferred compensation plan" (as defined under Section 409A of the Code) has been operated and administered in good faith compliance with Section 409A of the Code, and no compensation shall be includable in the gross income of any current or former employee, officer, director or consultant of any Parent Entity or any ERISA Affiliate as a result of the operation of Section 409A of the Code with respect to any applicable arrangements or agreements in effect prior to the Closing.

5.10 Litigation. There are no Material Actions pending or, to Parent's Knowledge, threatened against any Parent Entity or with respect to any Parent Assets. To Parent's Knowledge, there exist no facts known to Parent that might form the basis of any such Action. There is no pending or, to Parent's Knowledge, threatened, litigation, arbitration, investigation or other proceeding involving any Parent Entity or Parent Assets of or before any court, arbitrator or governmental, regulatory or administrative official, body or authority that is reasonably likely to prevent or materially delay or affect the consummation of the Affiliation.

5.11 Tax Exempt Status. Parent Entities are California nonprofit public benefit corporations exempt from federal and state income taxation.

5.12 Certain Affiliations. Except as set forth on Schedule 5.12, no officer or director of any Parent Entity, nor any child, spouse, parent or sibling or any other family member of any such officer or director of any Parent Entity:

(a) directly or indirectly owns, in whole or in part, any property, asset or right of material significance, used in connection with the Parent Operations; or

(b) directly or indirectly has an interest in or is party to any Material Contract to which a Parent Entity is a party.

5.13 Intellectual Property. To Parent's Knowledge, the Parent Entities own or have sufficient right to use all Parent Entities Intellectual Property Assets (as defined below) that are necessary for the operation of the business of the Parent Entities as they are currently conducted. For purposes of this Agreement, "*Parent Entities Intellectual Property Assets*" means, for each of the Parent Entities: (a) the name of each such Parent Entity, all fictional business names, trade names, registered and unregistered trademarks, service marks and applications for same; (b) all patents and patent applications; (c) all copyrights in both published works and unpublished works; (d) all rights in mask works; and (e) all know-how, trade secrets, confidential information, customer lists, software, technical information, data, process technology, plans, drawings and blueprints and other intellectual property rights owned, used or licensed by the Parent Entities as licensee or licensor.

5.14 Insurance. Parent maintains all appropriate insurance policies that provide coverage to the Parent Entities or the Parent Operations, or any director, manager or officer of the Parent Entities (the "*Parent Entities Insurance Policies*"). All Parent Entities Insurance Policies (a) are valid, outstanding, and enforceable, and (b) are sufficient for compliance in all material respects with all applicable Contracts to which a Parent Entity is a party. The consummation of the Affiliation by Parent does not result in a default under any of the Parent Entities Insurance Policies. Parent has paid all premiums due, and has otherwise performed all of its obligations in all material respects, under each of the Parent Entities Insurance Policy to which a Parent Entity is a party or that provides coverage to the business of the Parent Entities or any officers, directors or managers thereof.

5.15 Parent Operations. To Parent's Knowledge, the Parent Assets constitute all assets, properties, goodwill and businesses necessary to conduct the Parent Operations, in the aggregate and with respect to each Parent Healthcare Service, in all material respects in the manner in which the Parent Operations are currently conducted.

5.16 Material Misstatements or Omissions. Subject to qualifications expressly set forth in this Article V regarding Parent's Knowledge, the representations and warranties of Parent in this Article V, together with the disclosures set forth in the Parent Schedules, do not contain any untrue statement of material fact or omit to state any material fact necessary in order to make the representations and warranties of Parent in this Article V not misleading in any material respect.

5.17 Due Diligence. Parent has provided the material items responsive to the Methodist Due Diligence Request and such items, either individually or in the aggregate, do not, to Parent's Knowledge, contain any untrue statement of material fact or omit to state any material fact that is reasonably expected to be material to Methodist's decision regarding the Affiliation. In addition, Parent has used its good faith and commercially reasonable efforts to inform Methodist of any fact that is reasonably expected to be material to Methodist regarding the Affiliation.

5.18 No Other Representations. Methodist acknowledges and agrees that, except as expressly set forth in this Agreement and the New Parent Organizational Documents, Parent and its Representatives are not making any representation or warranty, express or implied, with respect to Parent.

5.19 Survival of Representations and Warranties. The representations and warranties of Parent set forth in this Article V shall not survive the Closing Date.

ARTICLE VI
PRE-CLOSING COVENANTS

6.1 Consents and Approvals.

(a) California Attorney General.

(i) As soon as reasonably practicable following the Execution Date, Methodist shall notify the California Attorney General (the “*Attorney General*”) in writing of the proposed Affiliation in accordance with Sections 5914 et seq. of the California Corporations Code (“*Section 5914*”). As of the Execution Date, Parent and Methodist hereby agree that Parent has reviewed and approved Methodist’s proposed written notice to the Attorney General, and that Methodist shall submit to the Attorney General the written notice in substantially the same form as reviewed and approved by Parent. Methodist shall use commercially reasonable efforts to provide such other information as the Attorney General shall request, and shall generally use its commercially reasonable efforts to obtain the Attorney General’s approval of the Affiliation. Parent shall provide such information and communications to the Attorney General as Methodist may reasonably request and shall otherwise cooperate with Methodist in obtaining the Attorney General’s approval of the transaction.

(ii) Participation; No Consent. Each Party shall be entitled to participate, to the extent practicable, in conversations with personnel in the Office of the Attorney General in connection with the Affiliation contemplated hereby. If the Attorney General challenges, objects to, prohibits, enjoins, places conditions upon or fails to provide any consent or approval required to complete the transaction contemplated by this Agreement, the Parties shall mutually agree on: (A) the acceptance of any conditions imposed on the transaction by the Attorney General, (B) the decision to pursue any remedies a Party may have against the Attorney General, or (C) the decision to contest or appeal the Attorney General’s challenge, objection to, prohibition, enjoyment of, or failure to approve the transaction. In the event the Parties agree to take any action set forth in the foregoing sentence, each Party shall bear its own costs and expenses pertaining thereto. In furtherance of the foregoing, the Parties shall use good faith efforts to mutually accept the conditions imposed upon the transaction by the Attorney General and enter into an amendment of this Agreement evidencing the same (as the Parties deem necessary or appropriate, or as required by the Attorney General), including with respect to any conditions imposed that affect the material obligations or commitments of either Party hereunder. In the event that the Parties do not mutually agree upon the action to be taken by the Parties contemplated under this Section 6.1(a)(ii), the Parties shall attempt to resolve such disagreement pursuant to the meet and confer process set forth in Section 17.10 (which process shall be expedited in consideration of any requirements or other requests of the Attorney General with respect to timing).

(b) HSR Act.

(i) To the extent required by Law, Parent and Methodist each agree to file the appropriate Notification and Report Form pursuant to the HSR Act with respect to the Affiliation as soon as reasonably practicable after the Execution Date. After filing, Parent and Methodist agree to respond promptly to any requests for additional information by any such Governmental Entity and keep the other promptly apprised of any communications with, and inquiries or requests for information from, such Governmental Entity. Parent and Methodist each agree to request early termination of the waiting period under the HSR Act. In addition, Parent and Methodist each agree to promptly make any other filing that may be required under any antitrust law or by any antitrust authority and effect all other filings with and notifications to the government agencies in any other jurisdiction where such filings and notifications are required.

(ii) Parent and Methodist shall each instruct their respective counsel to cooperate with each other and use commercially reasonable efforts to facilitate and expedite the identification and resolution of any issues under any antitrust law and, consequently, expiration or termination of the applicable HSR Act waiting period at the earliest practicable date. Parent and Methodist shall supply each other with copies of all correspondence, filings or communications with antitrust authorities, with respect to the Affiliation; provided, however, that to the extent any of the documents or information are commercially or competitively sensitive, a Party may satisfy its obligations by providing such documents or information to the other Party's outside antitrust counsel, with the understanding that such antitrust counsel shall not share such documents and information with its client.

(c) Contracts. For those Contracts to which Methodist is a Party, Methodist shall use commercially reasonable efforts to obtain prior to Closing all required consents and approvals necessary from each Contract's parties to ensure that each Contract remains in full force and effect following the Closing Date.

6.2 Notification of Certain Matters.

(a) Methodist Schedule Amendments. From time to time prior to the Closing, Methodist may promptly supplement or amend the Methodist Schedules in Article IV in order to keep such information therein timely, complete and accurate, and each supplement to or amendment of the Methodist Schedules made after the Execution Date pursuant to this Section 6.2(a) shall be deemed to amend the Methodist Schedules as of the date the Methodist Schedule is accepted by Parent; *provided, however*, that if any such supplement or amendment is not acceptable to Parent, and Parent notifies Methodist of same within fifteen (15) days of Parent receiving the amended Methodist Schedule(s), the Parties shall work together in good faith to resolve the matter.

(b) Parent Schedule Amendments. From time to time prior to the Closing, Parent may promptly supplement or amend the Parent Schedules in Article V in order to keep such information therein timely, complete and accurate, and each supplement to or amendment of the Schedules made after the Execution Date pursuant to this Section 6.2(b) shall be deemed to amend the Parent Schedules as of the date the Parent Schedule is accepted by Methodist; *provided, however*, that if any such supplement or amendment is not acceptable to Methodist, and Methodist notifies Parent of same within fifteen (15) days of Methodist receiving the amended Parent Schedule(s), the Parties shall work together in good faith to resolve the matter.

6.3 Negative Covenants of Parent. From the Execution Date until the earlier of the Closing or the termination of this Agreement, Parent shall not (and shall not agree to) take any action which would cause Methodist to be in breach of any covenant, representation or warranty contained in this Agreement, or which would have a material adverse effect on the ability of any Party hereto to perform their respective covenants and agreements under this Agreement and the documents and agreements contemplated hereby, without the prior written consent of Methodist.

6.4 Negative Covenants of Methodist. From the Execution Date until the earlier of the Closing or the termination of this Agreement, Methodist shall not (and shall not agree to) take any action which would cause Parent to be in breach of any covenant, representation or warranty contained in this Agreement, or which would have a material adverse effect on the ability of any Party hereto to perform their respective covenants and agreements under this Agreement and the documents and agreements contemplated hereby, without the prior written consent of Parent.

6.5 Conduct of the Methodist Operations. After the Execution Date and up to the Closing, except as expressly contemplated by this Agreement or as Parent otherwise consents to in writing, which

consent shall not be unreasonably delayed, conditioned or withheld, Methodist shall conduct the Methodist Operations in the ordinary course of business consistent with past practices. Without limiting the generality of the foregoing, except as expressly contemplated by this Agreement, Methodist shall, in the ordinary course of business and consistent with past practices:

(a) use commercially reasonable efforts to preserve the business organization and ordinary course of operations of Methodist and Methodist Operations intact, preserve the Methodist Assets, keep available the services Methodist's present employees involved in the Methodist Operations (other than terminations consistent with past practice and Methodist policies), and preserve the goodwill of Methodist's suppliers, patients, physicians and others with whom Methodist has business relationships relating to the Methodist Operations;

(b) not enter into or materially change the terms of any employment agreement with any Executive Team member, or increase the compensation, bonus or benefits of any Executive Team member, except in the ordinary course of business consistent with past practice; and

(c) not terminate, amend or otherwise modify any Methodist Employee Benefit Program in any material respect, except for amendments required to comply with Laws.

6.6 Access and Information; Due Diligence. From the Execution Date until the Closing Date, each Party shall give, and shall cause each Party's affiliates to give, to the other Party and its Representatives, reasonable access during normal business hours to such Party's (and such Party's affiliates) corporate, financial, litigation, insurance and personnel files, books, accounts, records and all other relevant documents and information as Representatives of the requesting Party may from time to time request for any purpose related to its due diligence review of the other Party in connection with Affiliation contemplated hereunder, all in such manner as to not unduly disrupt normal business activities and in compliance with Law and any contractual obligations relating to confidentiality. The access to and disclosure of all such books, contracts and records shall be subject to and continued to be governed by the terms and conditions of that certain Mutual Nondisclosure Agreement between Parent and Methodist dated as of March 17, 2020 and that certain Clean Team Confidentiality Agreement between Parent and Methodist dated as of April 9, 2021.

6.7 No Negotiation.

(a) Until the earlier of the Closing or the termination of this Agreement, Methodist shall not, and shall cause its respective Representatives to not, without the prior written consent of Parent:

(i) offer for sale, purchase, lease or any other transaction any of its material assets or any portion of its equity interest in or control of its affiliated businesses in which the party owns less than 100% beneficial interest ("*Affiliated Businesses*"), whether by merger, consolidation, tender offer, substitution of corporate member or otherwise;

(ii) solicit, encourage, negotiate or take any other action to facilitate offers to sell any material portion of its assets, business, equity or any portion of its equity interest in any Affiliated Businesses, whether by merger, consolidation, tender offer, substitution of corporate member or otherwise;

(iii) hold any discussions with any party (other than the other party hereto) involving such offers, solicitations, or transactions as described above; or

(iv) enter into any agreement with any party (other than the other party hereto) with respect to an affiliation relationship that involves any form of transfer of any part of Methodist's assets, equity or business.

(b) Until the earlier of the Closing or the termination of this Agreement, Parent shall not, and shall cause its respective Representatives to not, without the prior written consent of Methodist:

(i) solicit, encourage, negotiate or take any other action to facilitate offers to buy or acquire any hospital assets or equity interest in any party that owns or operates a hospital (other than the other party hereto) located within the Methodist PSA or Methodist SSA, whether by merger, consolidation, tender offer, substitution of corporate member or otherwise;

(ii) hold any discussions with any party (other than the other party hereto) involving such offers, solicitations, or transactions as described above; or

(iii) enter into any agreement with any hospital in the Greater San Gabriel Valley or any party that owns or operates a hospital in the Greater San Gabriel Valley (other than the other party hereto) with respect to an affiliation relationship, acquisition, or joint venture involving any part of any such hospital's assets, equity, or business (including individual service lines).

6.8 Methodist's Efforts to Close. Methodist shall use commercially reasonable efforts to satisfy all of the conditions precedent set forth in Article X to the Parties' obligations under this Agreement to the extent that Methodist's action or inaction can control or influence the satisfaction of such conditions.

6.9 Parent's Efforts to Close. Parent shall use commercially reasonable efforts to satisfy all of the conditions precedent set forth in Article X to the Parties' obligations under this Agreement to the extent that Parent's action or inaction can control or influence the satisfaction of such conditions.

6.10 Growth and Alignment Planning. During the period from the Execution Date through the Closing Date, the Parties will develop service line-specific implementation plans, including specific timelines, to establish the following Parent services at Methodist Hospital following the Closing (and the loss of revenue to Parent, if any, resulting from carrying out such implementation plans will not be attributed to Methodist):

- (a) Cardiovascular
 - (i) Cath Lab (PCI and EP)
 - (ii) Cardiac Surgery
 - (iii) Vascular Surgery
- (b) Neurosciences
 - (i) Neurosurgery
 - (ii) Neuro-IR
 - (iii) Neuro-hospitalists
 - (iv) Neuro-intensivist

- (c) Hepatobiliary Surgery
- (d) Oncology/Cancer Care
- (e) Breast Surgery
- (f) Thoracic Surgery
- (g) Orthopedics

6.11 Financing Documents.

(a) Between the Execution Date and the Closing Date, Methodist will deliver to Parent, not later than concurrent with delivery to the Master Trustee, copies of all quarterly reports and other written materials that Methodist is required to submit, or chooses voluntarily to submit, to the Master Trustee in connection with the Financing Documents.

(b) Between the Execution Date and the Closing Date, Methodist will promptly (*e.g.*, within two (2) Business Days) provide Parent with copies of any correspondence (including but not limited to all breach or default notices) or any other communication received from the Master Trustee in connection with the Financing Documents.

ARTICLE VII
ADDITIONAL COVENANTS AND AGREEMENTS

7.1 Government Authorizations. Methodist shall promptly apply for and use good faith efforts to obtain, as promptly as practicable, all material Government Authorizations that are necessary to consummate the proposed transaction as set forth in this Agreement. For purposes of the preceding, “*Government Authorizations*” means all Licenses, consents or approvals of any Governmental Entity which are required for Methodist to continue operating all material aspects of the Methodist Operations after Parent becomes Methodist’s sole member.

7.2 Further Assurances. Each Party shall execute and deliver such instruments, in form and substance mutually agreeable to the Parties, as the other Party may reasonably require in order to carry out the terms of this Agreement or the Affiliation.

ARTICLE VIII
TERMINATION OF AGREEMENT

8.1 Termination of Agreement.

(a) Mutual Agreement. This Agreement may be terminated at any time prior to the Closing by the mutual written agreement of the Parties.

(b) Breach of Agreement.

(i) Breach By Methodist. This Agreement may be terminated by Parent at any time prior to the Closing if Methodist has materially breached any of its covenants, representations or warranties prior to the Closing, or if any representation or warranty of Methodist set forth in this Agreement is determined to have been materially inaccurate or misleading when made.

(ii) Breach By Parent. This Agreement may be terminated by Methodist at any time prior to the Closing if Parent has materially breached any of its covenants, representations or warranties prior to the Closing, or if any representation or warranty of Parent set forth in this Agreement is determined to have been materially inaccurate or misleading when made.

(c) Failure of Condition. This Agreement may be terminated by Parent or Methodist if the Closing has not occurred on or before the first (1st) anniversary of the Execution Date (the “*Drop Dead Date*”); *provided, however*, that (i) Parent shall not be permitted to terminate this Agreement if the Closing is delayed beyond the Drop Dead Date by the breach of a covenant by Parent or the failure of a condition which was Parent’s responsibility to fulfill, and (ii) Methodist shall not be permitted to terminate this Agreement if the Closing is delayed beyond the Drop Dead Date by the breach of a covenant by Methodist or the failure of a condition which was Methodist’s responsibility to fulfill.

(d) Failure to Finalize Schedules. This Agreement may be terminated by: (i) Parent, in accordance with Section 6.2(a), if Parent and Methodist are unable to resolve Parent’s reasonable objection to an amendment to the Methodist Schedules proposed by Methodist after the Execution Date; and (ii) Methodist, in accordance with Section 6.2(b), if Parent and Methodist are unable to resolve Methodist’s reasonable objection to an amendment to the Parent Schedules proposed by Parent after the Execution Date.

(e) Failure to Obtain Satisfactory Attorney General Approval. This Agreement may be terminated by any Party if the Attorney General does not approve (with terms mutually satisfactory to the Parties in accordance with Section 6.1(a)(ii)) the Affiliation pursuant to Section 5914 within eight (8) months after the Attorney General has received the completed notice from Methodist.

ARTICLE IX CONDITIONS TO CLOSING

9.1 Conditions Precedent to Obligations of Parent. The obligations of Parent to complete the Affiliation at the Closing shall be subject to fulfillment of all of the following conditions, except those conditions which are waived by Parent:

(a) Accuracy of Representations and Warranties. The representations and warranties of Methodist, as amended pursuant to this Agreement, shall be true and correct in all material respects on the Closing Date.

(b) Attorney General Approval. The consent of the Attorney General with respect to the Membership Issuance shall have been obtained and each condition imposed by the Attorney General with respect to the Membership Issuance has been approved by Parent, in its sole discretion (which shall not be unreasonably withheld). It is expressly understood that this condition may not be waived by Parent, and that if the consent of the Attorney General is not obtained as required herein, this Agreement shall automatically terminate and no Party shall have any liability to any other Party, except as specifically provided in this Agreement.

(c) HSR Act. The waiting period pursuant to the HSR Act and any extensions thereof shall have expired or been terminated.

(d) Performance of Covenants and Agreements. Methodist shall have performed in all material respects all covenants and agreements contained in this Agreement required to be performed by Methodist before the Closing.

(e) Licenses and Other Government Authorizations. Any Government Authorizations listed on Schedule 9.1(e) required for Parent to become the sole corporate member of Methodist and or to consummate any of the terms set forth in this Agreement shall have been obtained.

(f) Third Party Approvals. The consents and approvals of third parties listed on Schedule 9.1(f) shall have been obtained.

(g) Approval of Documentation. The form and substance of all certificates, transfer documents, opinions, consents, instruments and other documents and agreements contemplated hereby delivered to Parent shall be reasonably satisfactory in all respects to Parent's counsel.

(h) No Litigation. No Material Action shall be pending or threatened against Methodist or Parent in relation to or affecting the consummation of the Affiliation contemplated by this Agreement.

(i) Officers Certificates. Methodist shall deliver to Parent, in forms reasonably acceptable to Parent, (i) a closing and incumbency certificate of an officer of Methodist, (ii) resolutions of the Methodist Board of Directors authorizing the execution and delivery of this Agreement and the performance by Methodist of its obligations hereunder, and (iii) a bring-down certificate to the effect of Section 9.1(a) (collectively, the "*Methodist Certificates*").

(j) Supplemental Schedules. Pursuant to Section 6.2(a), any supplements or modifications to the Methodist Schedules delivered by Methodist prior to or at Closing shall be reasonably acceptable to Parent.

(k) Methodist Material Adverse Change. There has been no Methodist Material Adverse Change with respect to Methodist since the Execution Date.

(l) Due Diligence Investigation. Parent shall be fully satisfied, in its sole and absolute discretion (which shall not be unreasonably withheld), with the results of its due diligence investigation of Methodist conducted by Parent prior to the Closing Date.

(m) Internal Approvals. All necessary internal approvals shall have been obtained, including the Parent Board of Directors and USC Board of Trustees.

(n) Financing Document Compliance. Except as otherwise disclosed by Methodist, Methodist shall not be in material breach of any covenant (including the debt service covenant) contained in, or otherwise in default under, the Financing Documents.

(o) Deliveries at Closing. All of the deliverables described in Section 10.2 shall have been provided to Parent or waived by Parent.

9.2 Conditions Precedent to Obligations of Methodist. The obligations of Methodist to complete the Affiliation at the Closing shall be subject to fulfillment of all of the following conditions, except those conditions that are waived by Methodist:

(a) Accuracy of Representations and Warranties. The representations and warranties of Parent, as amended pursuant to this Agreement, shall be true and correct in all material respects on the Closing Date.

(b) Attorney General Approval. The consent of the Attorney General with respect to the Membership Issuance shall have been obtained and each condition imposed by the Attorney General with respect to the Membership Issuance has been approved by Methodist, in its sole discretion (which shall not be unreasonably withheld). It is expressly understood that this condition may not be waived by Methodist, and that if the consent of the Attorney General is not obtained as required herein, this Agreement shall automatically terminate and no Party shall have any liability to any other Party, except as specifically provided in this Agreement.

(c) HSR Act. The waiting period pursuant to the HSR Act and any extensions thereof shall have expired or been terminated.

(d) Performance of Covenants and Agreements. Parent shall have performed in all material respects all covenants and agreements contained in this Agreement required to be performed by Parent before the Closing.

(e) Licenses and Other Government Authorizations. Any Government Authorizations required for Parent to become the sole corporate member of Methodist and or to consummate any of the terms set forth in this Agreement shall have been obtained.

(f) Approval of Documentation. The form and substance of all certificates, opinions, consents, instruments and other documents and agreements contemplated hereby delivered to Methodist under this Agreement shall be reasonably satisfactory in all respects to Methodist and Methodist's counsel.

(g) No Litigation. No Material Action shall be pending or threatened against Methodist or Parent in relation to or affecting the consummation of the Affiliation contemplated by this Agreement.

(h) Officers Certificates. Parent shall each deliver to Methodist, in forms reasonably acceptable to Methodist, (i) a closing and incumbency certificate of an officer of Parent, (ii) resolutions of the Parent Board of Directors authorizing the execution and delivery of this Agreement and the performance by Parent of their obligations hereunder, and (iii) a bring-down certificate to the effect of Section 9.2(a) (collectively, the "*Parent Certificates*").

(i) Supplemental Schedules. Pursuant to Section 6.2(b), any supplements or modifications to the Parent Schedules delivered by Parent prior to or at Closing shall be reasonably acceptable to Methodist.

(j) Parent Material Adverse Change. There has been no Parent Material Adverse Change with respect to a Parent Entity since the Execution Date.

(k) Due Diligence Investigation. Methodist shall be fully satisfied, in its sole and absolute discretion (which shall not be unreasonably withheld), with the results of its due diligence investigation of Parent conducted by Methodist prior to the Closing Date.

(l) Internal Approvals. All necessary internal approvals shall have been obtained, including the Methodist Board of Directors.

(m) Deliveries at Closing. All of the deliverables described in Section 10.3 shall have been provided to Methodist or waived by Methodist.

ARTICLE X
CLOSING

10.1 Closing, Closing Date and Effective Time. Subject to the provisions of this Article X, the closing of the Affiliation (the “*Closing*”) shall take place remotely via exchange of documents and signature pages on the date (the “*Closing Date*”) that is as promptly as practical (but no more than five (5) Business Days) after satisfaction or waiver of the conditions set forth in Sections 9.1 and 9.2, and other than those conditions that by their nature are to be satisfied at Closing but subject to fulfillment or waiver of those conditions. The Membership Issuance and Affiliation contemplated by the Parties pursuant to this Agreement shall occur at 12:01 a.m. (Pacific Time) on the day immediately following the Closing (the “*Effective Time*”). All proceedings to take place at the Closing shall take place simultaneously.

10.2 Deliveries by Methodist. At the Closing, Methodist shall deliver to Parent the following:

- (a) Methodist Certificates. Certified copies of the Methodist Certificates.
- (b) Good Standing Certificate. An original Certificate of Status for Methodist, or comparable status, issued by the California Secretary of State dated no earlier than a date which is ten (10) calendar days prior to the scheduled Closing Date.
- (c) Other Documents. Any other documents contemplated by this Agreement or requested by Parent and reasonably required or necessary for the consummation of the Affiliation.

10.3 Deliveries by Parent. At the Closing, Parent shall deliver to Methodist the following:

- (a) Parent Certificates. Certified copies of the Parent Certificates.
- (b) Good Standing Certificates. For each Parent Entity, original Certificates of Status, or comparable status, issued by the California Secretary of State dated no earlier than a date which is ten (10) calendar days prior to the scheduled Closing Date.
- (c) Other Documents. Any other documents contemplated by this Agreement or requested by Methodist and reasonably required or necessary for the consummation of the Affiliation.

ARTICLE XI
CONFIDENTIALITY

11.1 Confidentiality and Announcements. Prior to the date on which notice to the Attorney General is filed by Methodist pursuant to Section 6.1(a), no Party shall, without the written consent of the other Party, make any public announcement or press release with respect to this Agreement except to their consultants, accountants, investors, attorneys, the Attorney General, Governmental Entities, and/or to other Persons when such announcement or press release to other Persons is necessary to comply with any Law, governmental or court order or regulation. Additionally, the Parties shall mutually develop a plan in conjunction with this Agreement providing for the processes and requirements of any internal and external communications with respect to the terms of this Agreement, which the Parties shall comply with prior to the Closing. Parties shall mutually agree on any internal announcements pertaining to the Affiliation made by a Party or its affiliates or Representatives prior to the date on which notice to the Attorney General is filed by Methodist pursuant to Section 6.1(a).

ARTICLE XII
POST-CLOSING RIGHTS AND OBLIGATIONS

12.1 Illegality.

(a) If, at any time during the Transition Period, Methodist determines in good faith based on advice of qualified legal counsel specializing in healthcare matters that any federal, state, or local law or regulation renders the affiliation entered into pursuant to this Agreement illegal, then Methodist may give written notice thereof to Parent (“*Notice of Illegality*”) if such action is approved by the affirmative vote of a majority of the actual number of individuals then sitting on the Methodist Board of Directors. If Parent disputes the conclusion set forth in the Notice of Illegality, Parent shall notify Methodist of such dispute (the “*Illegality Dispute*”) within ten (10) days after Parent’s receipt of the Notice of Illegality. The Parties shall attempt to resolve such Illegality Dispute in accordance with the meet and confer process set forth in Section 17.10; *provided, however*, that the Parties agree that such meet and confer process shall be on an expedited basis and all time frames set forth under Section 17.10 shall be deemed modified hereunder, to reflect that any such Illegality Dispute shall be resolved within ninety (90) days after a Party receives the Notice of Illegality or Illegality Dispute (as applicable). In the event that the Parties do not come to resolution on the Illegality Dispute, either Party may submit the Illegality Dispute to binding arbitration pursuant to Section 17.11. In the event a final determination is made that the Affiliation is illegal, Parent and Methodist shall work together in good faith to alter their relationship to the minimum extent necessary to comply with applicable laws or regulations or otherwise resolve the legal problem. If, after diligent good faith efforts, Parent and Methodist are unable to mutually agree upon such alteration after a period of ninety (90) days, or if such alteration is not legally possible, then Parent and Methodist shall work together in good faith to modify their organizational documents and take all other actions necessary and appropriate to terminate Parent’s membership in Methodist and unwind the Affiliation between Parent and Methodist contemplated in this Agreement, the New Methodist Organizational Documents and the New Parent Organizational Documents. The Parties acknowledge and agree that in the event Parent’s membership in Methodist is terminated pursuant to the terms set forth in this Section 12.1 (an “*Illegality Unwind Event*”), Methodist shall have the right to assume the assets and liabilities of Methodist pursuant to the terms set forth in **Exhibit A** attached hereto and incorporated herein.

12.2 Methodist Unwind. The Parties acknowledge and agree that after the Closing Date and until the expiration of the Transition Period, if Parent initiates, approves and affirmatively causes any of the following events without first obtaining the approval of the Methodist Board of Directors, Methodist shall have the right to terminate Parent’s membership in Methodist and assume the assets and liabilities of Methodist pursuant to the terms set forth on **Exhibit A**: (a) cause the closure of Methodist Hospital or the dissolution of Methodist, (b) sell, transfer, or dispose of all or substantially all of the assets of Methodist, (c) cause another entity to become the beneficial owner of one hundred percent (100%) of the voting ownership interests of the entity that owns Methodist Hospital, or (d) undergo a change of corporate member that results in University of Southern California not being the majority member of Parent (each a “*Methodist Unwind Event*”). Subject to the foregoing rights of the Methodist Board of Directors, the Parties agree that after the Closing Date, Parent shall have the unilateral right to initiate, approve, and affirmatively cause a Methodist Unwind Event, which unilateral right also may require the approval of the USC Board of Trustees.

12.3 Material Breach. During the Transition Period, if Methodist determines in good faith that Parent has materially breached this Agreement, such as Parent failing to contribute to Methodist a material portion of the Strategic Capital commitment indicated in Section 12.7(b), or failing to maintain Methodist as a “full service” hospital in accordance with Section 12.6, then the Parties shall attempt to resolve such alleged material breach in accordance with the meet and confer process set forth in Section 17.10, *provided* that such meet and confer process will be resolved by a committee comprised of no less than three (3)

members of the Methodist Board of Directors and three (3) members of the Parent Board of Directors instead of by each Party's designated senior executives as described in Section 17.10. If the Parties are unable to resolve such Dispute in accordance with this modified meet and confer process, then Methodist may submit the Dispute to binding arbitration pursuant to Section 17.11, and the arbitrator may utilize the unwind process outlined in **Exhibit A** as a potential remedy to resolve such alleged material breach.

12.4 Name Change. As of the Effective Time, the Parties shall rename Methodist Hospital to "USC Arcadia Hospital."

12.5 Growth and Alignment.

(a) Physician Alignment and Network Development.

(i) Ambulatory and Digital/Virtual Services. Within eighteen (18) months after the Closing Date, both Parties will develop and begin implementation of a multi-year strategy to expand ambulatory and digital/virtual services throughout the Methodist PSA and Methodist SSA.

(ii) Arcadia "Pod" within USC Care. The Parties will develop an implementation plan set to begin within eighteen (18) months after the Closing Date to extend Parent's physician alignment models and supporting capabilities to Arcadia and throughout the Methodist PSA and Methodist SSA. Priorities will include retention and growth of Parent medical staff and the local physician network, and to expand geographic coverage and access to needed clinical services. This model will include establishing a specific Methodist/Arcadia "pod" or division within Parent's physician vehicles that offer various opportunities for physician alignment, including employment or clinically integrated affiliation that offers contracting and management services.

(iii) Physician Network. Within eighteen (18) months after the Closing Date, the Parties will implement a multi-year, Arcadia-based physician network strategy. The strategy will be pluralistic in approach and which will include:

(A) The acquisition or affiliation of primary care and/or specialist physicians within Arcadia or the surrounding Methodist PSA; and

(B) Affiliation and relationship development to better align with key IPAs operating in the Methodist PSA and Methodist SSA.

(iv) Clinical Programs. Within eighteen (18) months after the Closing Date, Methodist will become the exclusive hospital member of Parent, as well as the exclusive provider of Parent hospital-based clinical services, within the Methodist PSA (unless waived by the Methodist Board of Directors). For a period of three (3) years after the Closing Date, without the approval of the Methodist Board of Directors, Parent will not add any new hospital member or any new hospital-based clinical service program, including through the expansion of Parent's existing clinical service programs and Parent-affiliated physician practice locations as set forth on Schedule 12.5(a)(iv), to a new location within the Methodist SSA.

(v) Value Based Services Organizations. Parent will provide Methodist with support and access to clinical protocols, care coordination, analytics, tools, leadership, and other supporting programs and infrastructure (e.g., Parent Value-Based Services Organization), in order to enhance care delivery, improve quality, reduce variations in care and unnecessary costs of care.

(b) Teaching Programs. Within eighteen (18) months after the Closing Date, the Parties will develop a feasibility plan to establish residency and fellowship programs at Methodist Hospital to increase the physician base and expand access to care throughout the Methodist PSA and Methodist SSA.

(c) Payor Relations. In conjunction with the other activities of the Parties under this Section 12.5 and consistent with the timeframes thereunder, the Parties agree to co-develop and implement a value-based managed care strategy to improve value and access for residents of in the Methodist PSA and Methodist SSA. Implementation will include (i) partnering with key payors to participate in shared-risk relationships that enable expanded access to Parent and Methodist physicians and technology, and (ii) developing a private label insurance product in partnership with an existing health plan, which targets the local communities.

(d) Timeframes for Development and Implementation. The Parties shall use good faith and best efforts to develop and implement the activities identified under this Section 12.5 in accordance with the corresponding timeframes identified hereunder. In order to ensure implementation within the timeframes identified in this Section 12.5, the Parties agree to commence efforts for each activity as soon as possible (and no later than within thirty (30) days following the Closing Date), and at such time, shall agree upon specific timelines, milestones, and priorities for all such activities (individually and as a whole), which in no way shall delay or postpone completed implementation within the timeframes stated in this Section 12.5.

12.6 Operations

(a) Full Service Hospital. Parent will maintain Methodist Hospital as a “full-service” hospital for a period not less than ten (10) years after the Closing Date, with no material reduction in the following clinical services:

- (i) 24/7 Emergency Department
 - (A) STEMI Receiving Center
 - (B) Comprehensive Stroke Center
 - (C) EDAP Certified
- (ii) Maternal Child Health (deliveries)
- (iii) Cath labs/Angiography suites
- (iv) Vascular IR
- (v) Cardiovascular Services
 - (A) PCI, EP, TVR
 - (B) Cardiac Surgery
 - (C) Vascular Surgery
- (vi) Neurosciences
 - (A) Neuro IR

- (B) Neurosurgery
- (C) Neuro-hospitalists
- (vii) Orthopedics (including TJR and JSP)
- (viii) General Surgery (including bariatrics)
- (ix) Interventional Gastroenterology
- (x) Cancer Care (GYN, colorectal, breast, other)
- (xi) Inpatient Rehabilitation.

(b) Hospital-Based Agreements. During the Transition Period (and anytime thereafter without the limitations described below), Parent will have the right to replace any existing Methodist hospital-based provider agreements (*e.g.*, emergency department, anesthesia, critical care, hospitalists, etc.) (the “*Hospital-Based Agreements*”) with Parent-based provider agreements if (i) such existing Hospital-Based Agreements are terminated for-cause by the Methodist Board of Directors, or (ii) any Methodist-based clinical programs or hospital-based providers do not meet current Parent quality, outcome or other performance standards based on an annual evaluation. Any Methodist hospital-based providers identified after the Closing Date who do not meet current Parent quality, outcome or other performance standards will be given the opportunity to meet such benchmarks to the reasonable satisfaction of Parent.

12.7 Capital Commitment and Strategic Capital.

(a) Routine Capital. On an annual basis during the Transition Period, Parent will reinvest capital from Methodist’s Operations into Methodist (including routine capital and any required seismic retrofit of affected areas of Methodist Hospital in connection with the requirements of the Alfred E. Alquist Hospital Seismic Safety Act of 1983) in an annual amount estimated on a historical basis to be between Eight Million Dollars (\$8,000,000) and Twelve Million Dollars (\$12,000,000) based on industry-accepted benchmarks and using ‘A’ rated organization medians for capital spending as a percent of depreciation. If Methodist’s annual operating margin performance falls below average industry-accepted benchmarks, then the annual amount for routine capital will adjust downward or Methodist will utilize the retained cash from operations prior to Closing for routine annual capital, which is the cash retained in Section 13.1. The Parties agree that this arrangement will ensure that the budgeted amount of annual routine capital for Methodist does not fall below the amount required for Methodist to maintain compliance with all applicable Laws.

(b) Strategic Capital. Parent hereby commits Two Hundred Million Seven Hundred Thousand Dollars (\$200,700,000) to Methodist during the Transition Period for strategic capital investments (the “*Strategic Capital*”).

(c) Methodist Foundation Capital. Methodist will retain exclusive control over the Methodist Foundation and its operations. The Methodist Foundation hereby commits to make annual distributions (historically between Four Million Dollars (\$4,000,000) and Six Million Dollars (\$6,000,000)) to Methodist to be used for the benefit of Methodist and its surrounding service area.

12.8 Executive Team Retention. For a period of not less than three (3) years after the Closing Date, Parent will retain (or cause Methodist to retain) the individuals identified herein as the Executive Team as of the Closing Date, subject to each member of the Executive Team meeting Parent’s standard

conditions for employment and successfully passing a satisfactory background screening that is acceptable to Parent. For a period of not less than three (3) years after the Closing Date, each member of the Executive Team will receive total compensation and benefits in an aggregate amount not less than their respective compensation arrangements immediately prior to the Closing Date. Notwithstanding the foregoing, during the three (3)-year period following the Closing Date, the Methodist Board of Directors will have the right to remove any Executive Team member from his or her senior management position or reduce this or her respective total compensation and benefits.

ARTICLE XIII POST-CLOSING RIGHTS OF METHODIST

13.1 Methodist Cash. As of the Effective Time, and continuing for a period up to but not exceeding the Transition Period, all cash, cash equivalents and investments held by Methodist immediately prior to the Effective Time will continue to be held by Methodist for uses that benefit Methodist and the local area, which will include servicing its debt and providing for routine capital needs consistent with Section 12.7(a). The Methodist Board of Directors will have discretion over the use of such assets consistent with their fiduciary duties, subject to the Parent Board of Directors right to review and approve expenditures that individually or in the aggregate exceed Five Million Dollars (\$5,000,000) (except with respect to the occurrence of a Methodist Unwind Event).

13.2 Methodist Foundation. After the Closing Date, the Methodist Board of Directors will have reserved powers to approve (a) any change of control of Methodist Foundation, and (b) any use of Methodist Foundation assets that are not used for Methodist and local area purposes.

13.3 Exclusive Hospital. In accordance with the time periods identified in Section 12.5(a)(iv), the Methodist Board of Directors shall be required to approve any decision by the Parent Board of Directors for the Parent to take any action that would prevent Methodist Hospital from being identified as the exclusive hospital member of Parent within the Methodist PSA and in the Methodist SSA.

13.4 Executive Team Matters.

(a) During the three (3) year period immediately following the Closing Date, the Methodist Board of Directors will have sole authority to remove, or reduce the compensation and benefit plans of, the Executive Team. After such three (3) year period, the Methodist Board of Directors will have the right to consult on the removal of any remaining incumbent member of the Executive Team.

(b) The Methodist Board of Directors will have the right to: (i) nominate the individual serving as the first successor Methodist CEO, subject to the right of incumbent Methodist CEO to make recommendations of such successor Methodist CEO; and (ii) consult on the selection and removal of all future Methodist CEOs.

13.5 Methodist Board Members. After the Closing Date, the Methodist Board of Directors shall have the right to recommend nominees for the appointment of members to the Methodist Board of Directors.

ARTICLE XIV PARENT RESERVED POWERS

14.1 Budgets. After the Closing Date, Parent will develop an annual operating and capital budget for Methodist in collaboration with the recommendations of the Methodist Board of Directors, *provided* that Parent, in its capacity as sole member of Methodist, will have the final authority to approve each annual operating and capital budget.

14.2 Capital Expenditures. After the Closing Date, Parent will establish all capital expenditure thresholds for Methodist in collaboration with the recommendations of the Methodist Board of Directors, *provided* that Parent, in its capacity as sole member of Methodist, will have the final authority to establish all capital expenditure thresholds.

14.3 Executive Team.

(a) After the three (3) year period immediately following the Closing Date, the Parent Board of Directors will have the right to remove any Executive Team member from their senior management position, each in consultation with the Methodist Board of Directors.

(b) After the Closing Date, subject to the requirement under Section 12.8 to retain the current Methodist CEO for a period of not less than three (3) years after the Closing Date, the Parent Board of Directors will have the right to hire or remove all successor Methodist CEOs; *provided, that*, the Methodist Board of Directors shall have the right to consult with and propose nominations of successor Methodist CEOs, and the current Methodist CEO shall have the right to make a recommendation regarding his successor Methodist CEO.

(c) After the Closing Date, subject to the requirement under Section 12.8 to retain the current Executive Team for a period of not less than three (3) years after the Closing Date, the Parent Board of Directors will have the right to hire or remove all successor members of the Executive Team.

14.4 Methodist Board Members. After the Closing Date, the Parent Board of Directors will have the right to appoint members to the Methodist Board of Directors in accordance with this Agreement and subject to the right of the Methodist Board of Directors to recommend nominees for each such appointment. After the Transition Period, the Parent Board of Directors will have the right to remove members from the Methodist Board of Directors, subject to the Methodist Board of Directors right to consult on any such removals.

14.5 Strategic Plan. After the Closing Date, Parent shall have the right to develop or modify all future strategic and business plans for Methodist, subject to input from the Methodist Board of Directors.

14.6 Settlement or Consent Decree. After the Closing Date, the Methodist Board of Directors shall not enter into any settlement or consent decree on behalf of Methodist with any government authority without the prior approval of the Parent Board of Directors.

14.7 Independent Auditor. After the Closing Date, the Parent Board of Directors shall have the right to select the independent auditor of Methodist.

14.8 Indebtedness; Obligated Group. After the Closing Date, the Parent Board of Directors shall have the right to make recommendations, in collaboration with the recommendations of the Methodist Board of Directors, to the USC Board of Trustees regarding: (a) new indebtedness for Methodist; (b) changes to the existing indebtedness structure of Methodist; and (c) which legal entities affiliated with Parent, should be included in the obligated group for bond financing purposes.

14.9 Methodist Organizational Documents. After the Closing Date, subject to Section 12.2 and Section 15.1(e), the Parent Board of Directors shall have the right to approve any amendment or restatement of the articles of incorporation or the bylaws (or equivalent documents) of Methodist.

14.10 Sale, Transfer or Disposition of Assets to Third Parties. After the Closing Date, the Methodist Board of Directors shall not have any right to: (a) enter into any change of control transaction

with respect to Methodist, including any transaction in which Parent would no longer be the sole member of Methodist; (b) merge, consolidate, convert or otherwise reorganize Methodist; (c) dissolve Methodist; (d) change the tax status of Methodist as a tax-exempt organization or as a public charity; (e) amend the mission or charitable purposes of Methodist; or (f) sell, transfer or otherwise dispose of a significant portion of the assets of Methodist, each without the prior approval of the Parent Board of Directors.

ARTICLE XV JOINT POWERS

15.1 Joint Powers. During the ten (10) year period commencing immediately after the Closing Date, the following actions will require approval from both the Parent Board of Directors and Methodist Board of Directors, which shall be reflected in the New Methodist Organizational Documents and the New Parent Organizational Documents (and equivalent or successor documents thereto). After the expiration of such period and subject to Methodist's reserved powers in Article XIII, Parent in its capacity as sole member of Methodist, will have the right to take such actions.

- (a) Any change in structure of Methodist that affects its tax-exempt status;
- (b) The discontinuation of any material clinical service line at Methodist Hospital;
- (c) Any material change to the mission, vision and values of Methodist;
- (d) Any change to the size, qualifications or composition of the Methodist Board, including the number of Methodist Board members who must reside within the City of Arcadia and the number of Methodist Board members who must be members of the Methodist Hospital medical staff;
- (e) Any amendment or restatement of the New Methodist Organizational Documents (or equivalent or successor documents); and
- (f) Any reduction or elimination of the services or operations listed in Section 12.6, subject at all times to the approval of the Attorney General.

ARTICLE XVI REMEDIES

16.1 Remedies on or Prior to the Closing Date. The Parties acknowledge and agree that the sole and exclusive remedy of the Parties hereto arising out of: (a) any breach of, or any inaccuracy in, any representation or warranty made by a Party in this Agreement that occurs on or prior to the Closing Date; or (b) any breach of any covenant, obligation or agreement of a Party in this Agreement that occurs on or prior to the Closing Date, shall be the right to terminate this Agreement pursuant to Article VIII; *provided, however,* that nothing contained in this Section 16.1 shall in any way limit or restrict the right of any Party to bring a cause of action based on actual fraud or knowing and willful misrepresentation.

16.2 Remedies After the Closing Date. The Parties shall attempt to resolve any dispute, claim or controversy arising out of or relating to any breach of any covenant, obligation or agreement of a Party in this Agreement that occurs after the Closing Date through the meet and confer process set forth in Section 17.10; *provided, however,* that if the Parties are unable to resolve a dispute, claim or controversy through such meet and confer process, each Party shall have the right to seek any legal or equitable recourse or remedy available to such Party.

ARTICLE XVII
MISCELLANEOUS

17.1 Notices. All notices, requests, demands and other communications under this Agreement must be in writing and shall be deemed duly given, unless otherwise expressly indicated to the contrary in this Agreement, (a) when personally delivered, or (b) one Business Day after delivery to a nationally recognized overnight courier service for next Business Day delivery, in any case addressed to the Parties or their permitted assigns at the following addresses (or at such other address as is given in writing by a Party to the other Parties):

To Parent:	USC Health System Office of the General Counsel 2551 Trousdale Parkway, ADM 352 Los Angeles, California 90089 Attention: General Counsel
With a copy to:	McDermott Will & Emery LLP 2049 Century Park East, Suite 3200 Los Angeles, California 90067 Attention: Gary B. Gertler, Esq.
To Methodist:	Methodist Hospital of Southern California 300 West Huntington Drive Arcadia, California 91007 Attn: President and Chief Executive Officer
With a copy to:	Nixon Peabody LLP 300 South Grand Avenue Suite 4100 Los Angeles, California 90071 Attention: Jill H. Gordon, Esq.

17.2 Counterparts. This Agreement may be executed in one or more counterparts and may be exchanged by email transmission, each of which shall be deemed to be an original but all of which together shall constitute one and the same document. The Parties may deliver executed signature pages to this Agreement by facsimile, electronic mail (including pdf or any electronic signature complying with the U.S. federal E-SIGN Act of 2000, *e.g.*, www.docusign.com) or other transmission method.

17.3 Captions and Section Headings. Captions and section headings are for convenience only, are not a part of this Agreement and may not be used in construing it.

17.4 Cooperation. Each of the Parties agrees to cooperate in the effectuation of the Affiliation and to execute any and all additional documents and to take such additional action as is reasonably necessary or appropriate for such purposes.

17.5 Time of Essence. The time of making payments and keeping the agreements made herein is specifically made of the essence of this Agreement.

17.6 Entire Agreement. This Agreement, including any certificate, schedule, exhibit or other document delivered pursuant to its terms, constitutes the entire agreement between the Parties, and supersedes all prior agreements and understandings between the Parties relating to the subject matter hereof.

There are no verbal agreements, representations, warranties, or undertakings between the Parties other than as provided herein, and this Agreement may not be amended or modified in any respect, except by a written instrument signed by the Parties to this Agreement. In the event of any inconsistency or conflict between the terms and conditions set forth in this Agreement and the terms of the New Methodist Organizational Documents or the New Parent Organizational Documents, the terms and condition of this Agreement shall govern.

17.7 Governing Laws. This Agreement is to be governed by and construed in accordance with the internal laws of the State.

17.8 Assignment. This Agreement shall not be assigned or otherwise transferred by any Party without the prior written consent of the other Parties, which may be granted or withheld in the other Parties' sole and absolute discretion.

17.9 Expenses. Each Party shall be responsible for the payment of all attorney fees and costs incurred by such Party in connection with the negotiation, due diligence and completion of the final terms of this Agreement and the Affiliation. Notwithstanding the foregoing, the Parties agree that the Parties shall equally share all costs and expenses incurred in connection with Methodist's notice to the Attorney General under Section 6.1(a) (not including each Party's respective attorney fees).

17.10 Meet and Confer. Except as otherwise provided in this Agreement, a Party shall notify the other Party of any dispute, claim or controversy arising out of or relating to this Agreement, or the breach, termination, enforcement, interpretation, or validity thereof (collectively, a "*Dispute*"). If, within ninety (90) days after a Party receives written notice of a Dispute (the "*Dispute Notice*"), the Parties do not resolve such dispute, then the Dispute shall be referred to the designated senior executives with authority to resolve the Dispute from each Party for further negotiation (the "*Meet and Confer*") for not less than ninety (90) days. The obligation to conduct a Meet and Confer pursuant to this Section 17.10 does not obligate any Party to agree to any compromise or resolution of the Dispute that such Party does not determine, in its sole and absolute discretion, to be a satisfactory resolution of the Dispute. The Meet and Confer shall be considered a settlement negotiation for the purpose of all applicable laws protecting statements, disclosures, or conduct in such context, and any offer in compromise or other statements or conduct made at or in connection with any Meet and Confer shall be protected under such laws, including California Evidence Code Section 1152. Additionally, nothing in this Agreement shall prevent a Party from seeking provisional measures from any court of competent jurisdiction, and any such request shall not be deemed incompatible with the agreement to Meet and Confer.

17.11 Arbitration. Any Dispute not resolved by the end of the Meet and Confer process may be submitted, at the option of either Party, to binding arbitration administered by the commercial panel of the American Arbitration Association under its Commercial Arbitration Rules, as modified by any written instruments that the Parties may mutually agree upon. There shall be a single arbitrator who shall be experienced in healthcare and hospital related matters, and such arbitrator shall be chosen in accordance with the Commercial Arbitration Rules. The place of arbitration shall be Los Angeles, California. California law shall apply. Unless the parties agree otherwise, depositions may be taken for the purpose of preserving testimony and discovery may be obtained (subject to a limit of five (5) interrogatories with respect to any person). The award rendered by the arbitrator shall be final and binding upon the Parties hereto, and judgment upon the award may be entered in any court of competent jurisdiction in the United States. The arbitrator may decide the Dispute in accordance with the applicable substantive law of the State of California. The award shall include written findings of fact, a summary of the evidence, and reasons underlying the decision and conclusions of law. As part of the award, the arbitrator may award reasonable costs actually incurred by the prevailing Party, including that Party's share of the arbitrator's fees, costs and expenses, as well as any administration fees. The arbitrator may also include reasonable attorneys'

fees in an award of costs if the arbitrator finds that the Party against whom the fees are assessed acted frivolously or in bad faith in its demand for, or participation in, the arbitration.

17.12 No Third-Party Beneficiaries. Except as expressly provided otherwise in this Agreement, the terms and provisions of this Agreement (including provisions regarding employee and employee benefit matters) are intended solely for the benefit of the Parties and their respective successors and permitted assigns, and are not intended to confer third-party beneficiary rights upon any other person.

17.13 Waiver. No delay or failure to require performance of any provision of this Agreement shall constitute a waiver of the performance of such provision or any other instance. Any waiver granted by a Party must be in writing, and shall apply solely to the specific instance expressly stated.

17.14 Severability. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the Parties to the greatest extent possible. All other provisions of this Agreement shall remain in full force and effect.

17.15 Successors and Assigns. The covenants and conditions contained herein, subject to the provisions as to assignment and subletting, apply to and bind the heirs, successors, executors, administrators and assigns of the Parties.

[Signature page follows]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement effective as of the date first above written.

METHODIST:

METHODIST HOSPITAL OF SOUTHERN CALIFORNIA, a California nonprofit public benefit corporation

By: 

Name: Dan Ausman

Title: President/CEO, Methodist Hospital

PARENT:

USC HEALTH SYSTEM, a California nonprofit public benefit corporation

By: 

Name: Rodney Hanners

Title: President/CEO, USC Health System

Methodist Schedules

Attached.

**METHODIST DISCLOSURE SCHEDULES
TO THE
AFFILIATION AGREEMENT
BETWEEN
USC HEALTH SYSTEM
AND
METHODIST HOSPITAL OF SOUTHERN CALIFORNIA**

Dated as of October 11, 2021

METHODIST DISCLOSURE SCHEDULES

The following are the Methodist Schedules (“*Methodist Schedules*”) to the Affiliation Agreement (the “*Agreement*”) by and between **USC Health System**, a California nonprofit public benefit corporation (“*Parent*”), and **Methodist Hospital of Southern California**, a California nonprofit public benefit corporation (“*Methodist*”).

Notwithstanding anything to the contrary set forth in the Agreement, no information contained in any portion of the Methodist Schedules shall be deemed to be an admission by any party to any third Person of any matter whatsoever, including an admission of any violation of any law or breach of any contract. The Methodist Schedules shall constitute formal disclosure to Parent of the facts and circumstances which are, or may be, inconsistent with the representations and warranties referred to in Article 4 of the Agreement. Such facts and circumstances shall be deemed to qualify such representations and warranties. The Methodist Schedules are arranged in sections corresponding to the sections contained in the Agreement merely for convenience, and the disclosure of an item in one section of the Methodist Schedules as an exception to a particular representation or warranty will be deemed adequately disclosed as an exception with respect to all other representations and warranties to the extent that the relevance of such item to such other representations or warranties is reasonably apparent on the face of such disclosure, notwithstanding the presence or absence of a specific cross reference thereto.

Capitalized terms used in these Methodist Schedules have the meanings assigned to them in the Agreement.

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Schedule 4.15, Insurance

Schedule 4.1(b)(i)

Corporate Membership

The Methodist membership includes those persons who comprise the Board of Directors of Methodist and thirteen (13) representatives appointed by the Executive Committee of the United Methodist Women of the California Pacific Conference of the United Methodist Church, which, as of the Effective Date of the Agreement, includes the following individuals:

Methodist Hospital Board of Directors 2020-21

1. George P. Blanco
2. Diane Gin
3. Richard Hale, Jr.
4. Andrew Lee, M.D.
5. Aja Tulleners Lesh, Ph.D., R.N.
6. Kevin Lussier
7. Kevin McFarlane
8. E. DeWayne McMullin
9. Reverend Sandra K. Olewine
10. William M. Petmecky, III
11. Natalie Poole
12. James Romo, Chair
13. Elias Tarakji, M.D.
14. Michael Tsia
15. Douglas Van Kirk

California Pacific United Methodist Women Executive Board 2020-21

1. Diane Gin, President
2. Young Mae Kim
3. Jackie Vazquez
4. Barbara Simon
5. Angel Copeland-Wolf
6. Elizabeth Martinez
7. Lisa Kadowaki
8. Kathleen Smith
9. Brenda Tuita
10. Julieta Salazar
11. Barbara Grode
12. Julie Asuncion
13. Nicole Nonies

Schedule 4.4(a)

Financial Statements

The following Methodist Financial Statements, as described below, are attached hereto:

1. Balance Sheet and Income Statement of Methodist as of and for the year ended December 31, 2020.
2. Interim Balance Sheet and Income Statement of Methodist as of May 31, 2021.

METHODIST HOSPITAL OF SOUTHERN CALIFORNIA

Consolidated Balance Sheets

May 31, 2021 and December 31, 2020

(In thousands of dollars)

Assets	<u>2021</u>	<u>2020 (Audited)</u>
Current assets:		
Cash and cash equivalents	\$ 32,850	44,734
Short-term investments	7,487	8,243
Patient accounts receivable	45,326	42,593
Current portion of pledges receivable, net	98	98
Due from third-party payors	1,431	2,716
Inventories	3,939	3,876
Medi-Cal provider fee	35,393	34,443
Prepaid expenses and other	<u>6,320</u>	<u>5,714</u>
Total current assets	<u>132,844</u>	<u>142,417</u>
Long-term investments	239,729	226,134
Pledges receivable, less current portion	246	260
Gift annuity, trust receivable, and charitable remainder trusts	1,765	1,734
Operating lease assets	1,485	1,745
Plant and equipment, net	221,211	223,476
Self-insurance claims receivable	2,989	2,989
Other assets	<u>14,846</u>	<u>11,924</u>
Total assets	<u>\$ 615,115</u>	<u>610,679</u>

METHODIST HOSPITAL OF SOUTHERN CALIFORNIA

Consolidated Balance Sheets

May 31, 2021 and December 31, 2020

(In thousands of dollars)

Liabilities and Net Assets	<u>2021</u>	<u>2020 (Audited)</u>
Current liabilities:		
Accounts payable	\$ 21,418	16,862
Accrued expenses and other liabilities	16,112	18,936
Medi-Cal provider fee	34,205	31,634
Current operating lease liabilities	752	736
Current maturities of long-term debt	6,175	4,520
Current portion of accrued self-insurance claims	<u>4,309</u>	<u>4,616</u>
Total current liabilities	82,971	77,304
Noncurrent operating lease liabilities	749	1,024
Long-term debt, less current maturities	259,264	263,989
Accrued self-insurance claims, less current portion	8,309	8,675
Other liabilities	<u>1,963</u>	<u>1,905</u>
Total liabilities	<u>353,256</u>	<u>352,897</u>
Net assets:		
Net assets without donor restrictions	247,544	243,098
Net assets with donor restrictions	<u>14,315</u>	<u>14,684</u>
Total net assets	<u>261,859</u>	<u>257,782</u>
Total liabilities and net assets	<u>\$ 615,115</u>	<u>610,679</u>

METHODIST HOSPITAL OF SOUTHERN CALIFORNIA

Consolidated Statements of Operations

Five Months ended May 31, 2021 and 2020

(In thousands of dollars)

	<u>2021</u>	<u>2020</u>
Net revenue, gains and other support without donor restrictions:		
Patient service revenue (net of contractual allowances and discounts)	\$ 101,978	103,410
Medi-Cal provider fee	<u>6,582</u>	<u>14,480</u>
Net patient service revenue	108,560	117,890
Other operating revenue	1,470	1,571
CARES Act	—	6,069
Net assets released from restrictions to support operations	<u>960</u>	<u>443</u>
Total net revenue, gains, and other support without donor restrictions	<u>110,990</u>	<u>125,973</u>
Expenses:		
Salaries and benefits	63,667	63,051
Supplies	20,896	19,237
Purchased services	13,509	11,853
Medi-Cal provider fee	6,582	14,480
Depreciation and amortization	5,593	5,832
Interest	4,791	4,848
Other	<u>4,244</u>	<u>4,085</u>
Total expenses	<u>119,282</u>	<u>123,386</u>
Operating income	(8,292)	2,587
Investment income, net	<u>12,668</u>	<u>(6,001)</u>
Excess (Deficiency) of revenue over expenses	4,376	(3,414)
Net assets released from restrictions for the acquisition of plant and Equipment	<u>71</u>	<u>28</u>
Change in net assets without donor restrictions	\$ <u>4,447</u>	<u>(3,386)</u>

Schedule 4.4(b)

Financial Forecast

METHODIST HOSPITAL OF SOUTHERN CALIFORNIA					
INCOME AVAILABLE FOR DEBT SERVICE (in 000s)					
FOR THE YEAR TO DATE ENDING AUGUST 31, 2021 AND PROJECTED					
	YTD Aug Actual	Sep-Dec Budget	Other	2021 Forecast	2022 Plan
Excess of revenues over expenses	\$4,890	\$366		\$ 5,256	\$ 7,053
Less: Due diligence costs (less budgeted amount)			(\$500)	(500)	
Plus: Beneficial interest change in MHF net assets	2,972	1,200		4,172	3,000
Plus: Depreciation and amortization expense	8,945	4,559		13,504	15,045
Plus: Interest expense	7,664	3,821		11,485	11,895
Plus: Unrealized investment losses	4,460			4,460	-
Less: Unrealized investment gains	(6,714)			(6,714)	-
Income available for debt service, YTD	\$22,217	\$9,945	(\$500)	\$31,662	\$41,107
Debt service requirement				\$ 16,618	\$ 17,460
DSC Ratio				1.91	2.35
Notes: Unrealized gains and losses include both MHSC and MHF					
	Historic DSC Ratio				
	2013	1.78			
	2014	1.80			
	2016	1.67			
	2017	2.52			
	2018	1.78			
	2019	2.74			
	2020	2.45			

Schedule 4.6(a)

Encumbrances

1. That certain Master Trust Indenture dated as of December 1, 2018, by and between Methodist Hospital of Southern California and the Bank of New York Mellon Trust Company, N.A., including all amendments and supplements thereto, and all associated loan agreements, bond indentures, ancillary agreements, financing statements and other related documents.
2. That certain Term Loan Agreement dated as of May 15, 2020, by and between Methodist Hospital of Southern California and JPMorgan Chase Bank, National Association, including all amendments and supplements thereto, and all associated loan agreements, bond indentures, ancillary agreements, financing statements and other related documents.
3. *See* leases set forth on Schedule 4.6(d), incorporated herein by reference.

Schedule 4.6(d)

Real Property Under Contracts

1. Premises Lease Agreement, by and between the City of Arcadia (as Lessor) and Methodist Hospital of Southern California (as Lessee) dated May 28, 1953, for the hospital premises located at 300 West Huntington Drive, Arcadia, California, as amended by that certain First Amendment dated August 9, 1955, that Second Amendment dated July 5, 1956, that Third Amendment to Lease dated September 18, 1961, that Fourth Amendment to Lease dated December 23, 1963, that Fifth Amendment to Agreement and Lease dated August 5, 1980, that Sixth Amendment dated February 1, 2009, that Seventh Amendment dated November 18, 2015, and that Eighth Amendment dated [DATE].
2. Premises Lease Agreement, by and between Windrose Santa Anita Properties, LLC (as Landlord) and Methodist Hospital of Southern California (as Tenant) dated September 3, 2013, as amended by the First Amendment dated December 20, 2013 and Second Amendment dated January 31, 2019, for Tenant Suite 618 in the Santa Anita Medical Plaza located at 301 W. Huntington Drive, Arcadia, California.
3. Premises Lease Agreement, by and between Welltower OM Group LLC (successor in interest to Windrose Santa Anita Properties, LLC) (as Landlord) and Methodist Hospital of Southern California (as Tenant) dated as of October 15, 2007, as amended by the First Amendment dated as of December 31, 2012, Second Amendment dated as of December 31, 2013, Third Amendment dated as of March 9, 2018, and Fourth Amendment dated as of July 30, 2020, for Tenant Suite 207 in the Santa Anita Medical Plaza located at 301 W. Huntington Drive, Arcadia, California.
4. Sublease by and between Methodist Hospital of Southern California (as Sublandlord) and The American National Red Cross (as Subtenant) dated October 15, 1982, as amended by the First Amendment dated October 15, 1982, and related Subordination, Non-Disturbance and Attornment Agreement by and between The American National Red Cross and The Bank of New York Mellon Trust Company, N.A., dated February 4, 2009.

Schedule 4.6(e)

Current Construction or Capital Projects

The following construction or capital projects are identified as “active/in review” under the purview of California’s Office of Statewide Health Planning and Development (“OSHPD”):

1. OSHPD Project No. I190013-19-00: Partial Demolition of West Wing – Building 5 (BLD-00362). The West Wing is an SPC-1 building and the intent of the construction is to demolish the superstructure for this building. The basement of the West Wing will be saved and would be reclassified first to SPC-2 and then to SPC-4D.
2. OSHPD Project No. I190014-19-00: Partial Demolition of East Wing – Building 2 (BLD-00359). The East Wing is an SPC-1 Building and the intent of the construction is to demolish the superstructure for this building. The one-story Electrical Room in front of the building will be saved and would be reclassified first to SPC-2 and then to SPC-4D.

The following construction or capital projects are identified as “in progress” or “pending construction start” under the purview of OSHPD:

1. OSHPD Project No. S180896-19-00: Methodist Pharmacy USP 800 Remodel Remodel of Existing Compounding Pharmacy to new USP 800 Standards and Requirement.
2. OSHPD Project No. I190013-19-01: AB2190: Partial Demolition of West Wing - Bldg. 05 (BLD-00362) Demolition of the West Wing. The basement will be saved and reclassified first to SPC-2 and then to SPC-4D.
3. OSHPD Project No. I190013-19-02: AB2190: Partial Demolition of West Wing - Bldg. 05 (BLD-00362). West Wing is an SPC-1 building. The intent of the construction is to demolish the superstructure for this building. The basement of the West Wing will be saved and reclassified first to SPC-2 and then to SPC-4D.
4. OSHPD Project No. I190014-19-01: AB2190: Partial Demolition of East Wing - Bldg. 02 (BLD-00359) Demolition of the East Wing. The one-story Electrical Room in front of the building will be saved and first reclassified to SPC-2 and then to SPC-4D.
5. OSHPD Project No. I190014-19-02: AB2190: Partial Demolition of East Wing - Bldg. 02 (BLD-00359) East Wing is an SPC-1 Building. The intent of the construction is to demolish the superstructure for this building. The one-story Electrical Room in front of the building will be saved and reclassified first to SPC-2 and then to SPC-4D.
6. OSHPD Project No. S202010-19-00: Cath Lab #3 - BiPlane Equipment Replacement Project Replacement of the existing imaging equipment at Cath Lab #3 on the basement floor level with associated structural support. The scope of the construction will include but is not limited to minor demolition of finish floor and ceiling upgrades, lab equipment installation, additional mechanical, power, and data for lab equipment. There will be no plumbing work.
7. OSHPD Project No. H201691-19-00: Material Testing and Condition Assessment Program (MTCAP) East Wing - Bldg 02 (BLD-00359) - Material Testing and Condition Assessment Program for SPC-2 Upgrade. The construction work will include to extract material samples for laboratory testing and repair the area of extraction back to its original state.

8. OSHPD Project No. S210903-19-00: Berger Patient Tower Second Floor Nurse Call System Replacement. The construction will replace the existing nurse call system on the second floor of the Berger Patient Tower.
9. OSHPD Project No. S211192-19-00: Sterilizer replacement. The construction will replace the existing sterilizer equipment with new sterilizer equipment.

Schedule 4.8(a)(ii)

Labor Union or Employee Organization Employees

1. Collective Bargaining Agreement by and between Methodist Hospital of Southern California and California Nurses Association/National Nurses United, dated January 15, 2020.
2. Caregivers & Healthcare Employees Union.

Schedule 4.9(a)

Employee Benefit Programs

2021 Employee Benefits

Medical Plans

- Medical PPO - HealthPlans Inc.
- Doctors On Demand App - telemedicine

Prescription Drug Coverage

- Express Scripts

Dental Plans

- Cigna PPO Dental Plan
- Cigna HMO Dental Plan

Vision Plan

- VSP

Insurance (different offerings based on employee level)

- Cigna Long Term Disability (only offered for Executives)
- Cigna Whole Life & ADD Insurance
- Cigna Voluntary Life & ADD Insurance
- Cigna Voluntary Short Term Disability
- Unum Voluntary Critical Illness Insurance
- Unum Voluntary Whole Life Insurance

Patient Advocacy Center - HST

Health Savings Accounts

- Healthy Rewards – Cigna
- Flexible Spending Account – HealthPlans, Inc.
- Dependent Care Spending Account

Retirement Accounts

- 403(b) Retirement Savings Plan (3% match) – Nationwide (offered to full time, part time, per diem, payplus, and temporary employees)
- 457(b) Retirement Savings Plan – Nationwide (only offered to certain executive-level employees)
- Split Dollar Retention and Loan Supplement Executive Retirement Plan funded through Zurich American Life Insurance

Education

- Tuition Reimbursement – Full Time
- Tuition Reimbursement – Part Time
- Career Advancement Scholarship – up to \$3,000

Vacation/Sick Time

- Paid Time Off (PTO) Program
- California Sick Time (only offered for per diem, temporary, and payplus employees)

Transportation

- Free Parking

Child Care

- Kathy Kredel Nursery School
- Handle With Care - child care for mildly ill children

Jury Duty

Miscellaneous

- Cell Phone Savings - \$25 per month (only offered to Directors/Managers and employees working remotely)
- Cafeteria Discount – 20% off food
- Cigna's Life Assistance Program
- Credit Union – The Foothill Credit Union
- Pay Plus – 15% additional pay option for Non-exempt employees if all benefits are declined.

Schedule 4.9(g)

Employee Health or Welfare Benefits

None.

Schedule 4.9(h)

Employee Health or Welfare Benefits

1. Split Dollar Retention and Loan Supplement Executive Retirement Plan funded through Zurich American Life Insurance.
2. Employment Agreement by and between Dan F. Ausman (President and Chief Executive Officer) and Methodist Hospital of Southern California, dated February 23, 2017.
3. Employment Agreement by and between Bala S. Chandrasekhar, M.D., (SVP & Chief Medical Officer) and Methodist Hospital of Southern California, dated June 13, 2017.
4. Employment Agreement by and between Clifford Daniels (Chief Strategy Officer) and Methodist Hospital of Southern California, dated March 8, 2012.
5. Employment Agreement by and between William E. Grigg (SVP & Chief Financial Officer) and Methodist Hospital of Southern California dated June 13, 2017.
6. Employment Agreement by and between Deborah McCoy (Chief Nursing Officer) and Methodist Hospital of Southern California, dated, May 24, 2018.
7. Employment Agreement by and between John F. Peeples (Vice President & Chief Human Resources Officer) and Methodist Hospital of Southern California, dated October 9, 2018.
8. Employment Agreement by and between Steven Sisto (Vice President & Chief Operating Officer) and Methodist Hospital of Southern California, dated June 13, 2017.
9. Employment Agreement by and between Cari Toneck, RN (VP / Chief Compliance and Risk Officer) and Methodist Hospital of Southern California, dated [DATE].

Schedule 4.12
Certain Affiliations

None.

Schedule 4.15

Insurance

1. Healthcare Professional and General Liability Insurance Policy, insured by California Healthcare Insurance Company, effective January 1, 2021 to January 1, 2022, with \$5 million/ \$15 million aggregate limit and \$100,000 deductible, Policy No. HP 00853.
2. Healthcare Umbrella Liability Insurance Policy, insured by Admiral Insurance Company, effective January 1, 2021 to January 1, 2022, with \$15 million excess of primary and \$5 million limit and the following deductibles: (1) \$5 million/\$15 million for professional, general liability and employee benefit, (2) \$1 million automobile liability, and (3) \$1 million employer's liability, Policy No. CEL-CA-10273-0118-04.
3. Directors & Officers (Primary Layer) Insurance Policy, insured by RSUI Indemnity Company, effective February 27, 2021 to February 27, 2022, with \$5,000,000 limit for directors and officer's (D&O)/employment practices (EPL) liability insurance and the following deductibles: (1) \$100,000 for D&O and (2) \$250,000 EPL/Retention, Policy No. NPP692079.
4. Directors & Officers (1st Excess) Insurance Policy, insured by Market American Insurance Co., effective February 27, 2021 to February 27, 2022, with \$5,000,000 excess and \$5,000,000 limit and deductibles including underlying insurance for RSUI of \$5,000,000, Policy No. MKLM3MXM000243.
5. Directors & Officers (2nd Excess) Insurance Policy, insured by Allied World Specialty Insurance Company, effective February 27, 2021 to February 27, 2022, with \$5,000,000 excess and \$10,000,000 limit and the following deductibles of underlying insurance for (1) RSUI of \$5,000,000, and (2) Market of \$5,000,000, Policy No. 0312-7576.
6. Directors & Officers (3rd Excess) Insurance Policy, insured by Ironshore Indemnity, Inc., effective February 27, 2021 to February 27, 2022, with \$5,000,000 excess and \$15,000,000 limit and the following deductibles of underlying insurance of (1) RSUI for \$5,000,000, (2) Market for \$5,000,000 and (3) AWAC for \$5,000,000, Policy No. DO6NABYJX3002.
7. Side A Difference In Condition Insurance Policy, insured by ACE/Chubb, effective February 27, 2021 to February 27, 2022, with \$5,000,000 excess and \$20,000,000 limit and the following deductibles of underlying coverages, Policy No. G25563141 007.
8. Fiduciary Responsibility Insurance Policy, insured by Chubb/Federal Insurance Company Insurance, effective February 27, 2021 to February 27, 2022, with \$3,000,000 limit and \$10,000 deductible for each loss, Policy No. 6801-5553.
9. Crime Insurance Policy, insured by Chubb/Federal Insurance Company Insurance, effective February 27, 2021 to February 27, 2022, with \$2,500,000 employee dishonesty limit, \$2,500,000 forgery limit, \$2,500,000 computer fraud limit, \$2,500,000 funds fraud transfer fraud, and \$2,500,000 money orders & counterfeit fraud, no deductible, Policy No. 6801-5553.
10. Kidnap and Ransom Insurance Policy, insured by Chubb/Federal Insurance Company Insurance, effective February 27, 2021 to February 27, 2022, with \$1,000,000 limit, no deductible, Policy No. 6801-5553.

11. Commercial Property Insurance Policy, insured by Alliant Property Insurance Program, Hospital All Risk Property Program and Lexington Insurance Company, effective July 1, 2021 to July 1, 2022, with \$750,000,000 property limit and \$100,000,000 boiler and machinery limit and the following deductibles: (1) \$100,000 for property and (2) \$100,000 for flood, Policy No. 017471589/07-06.
12. Storage Tank System Third Party Liability & Cleanup (Underground Storage Tank) Insurance Policy, insured by Nautilus Insurance Company, effective September 1, 2021 to September 1, 2022, with \$1,000,000/\$1,000,000 aggregate limit (for 300 W. Huntington Drive), with \$25,000 deductible on each claim, Policy No. CST152098618.
13. Auto Insurance Policy, insured by NonProfits United, effective July 1, 2021 to July 1, 2022, with \$1,000,000 liability, \$5,000 medical payment, and \$1,000,000 uninsured motorist's limits, which includes non-owned liability & hired Auto Liability and a \$500 deductible on comprehensive & collision, Policy No. 2200.
14. Cyber Liability Insurance Policy, insured by Lloyds of London, effective August 1, 2021 to August 1, 2022, with \$10,000,000 limit and a \$100,000 deductible for each claim, Policy No. 1130618.
15. Excess Workers' Compensation, insured by Safety National, effective January 1, 2021 to January 1, 2022, with statutory limits on workers' compensation and a \$1,000,000 on Employer's Liability, and a deductible of \$1,000,000, Policy No. SP 4064313.

Parent Schedules

Attached.

Parent Schedules to the Affiliation Agreement

The following are the Parent Schedules (“*Parent Schedules*”) to the Affiliation Agreement (the “*Agreement*”) by and between **USC Health System**, a California nonprofit public benefit corporation (“*Parent*”), and **Methodist Hospital of Southern California**, a California nonprofit public benefit corporation (“*Methodist*”).

Notwithstanding anything to the contrary set forth in the Agreement, no information contained in any portion of the Parent Schedules shall be deemed to be an admission by any party to any third Person of any matter whatsoever, including an admission of any violation of any law or breach of any contract. The Parent Schedules shall constitute formal disclosure to Methodist of the facts and circumstances which are, or may be, inconsistent with the representations and warranties referred to in Article 5 of the Agreement. Such facts and circumstances shall be deemed to qualify such representations and warranties. The Parent Schedules are arranged in sections corresponding to the sections contained in the Agreement merely for convenience, and the disclosure of an item in one section of the Parent Schedules as an exception to a particular representation or warranty will be deemed adequately disclosed as an exception with respect to all other representations and warranties to the extent that the relevance of such item to such other representations or warranties is reasonably apparent on the face of such disclosure, notwithstanding the presence or absence of a specific cross reference thereto.

Capitalized terms used in these Parent Schedules have the meanings assigned to them in the Agreement.

SCHEDULE 5.4

PARENT FINANCIAL STATEMENTS

See attached (i) income statement of Parent for the years ended June 30, 2020 and June 30, 2019, (ii) the audited financial statements of University of Southern California for the years ended June 30, 2020 and June 30, 2019, and (iii) the draft, unaudited financial statements of University of Southern California for the years ended June 30, 2021 and June 30, 2020.

USC Health System
Subsidiary of USC*
 [\$ in 000s]

	<u>FY2020</u>	<u>FY2019</u>
INCOME STATEMENT FY2020		
<u>Revenue:</u>		
Hospital (Technical)	\$ 1,483,607	\$ 1,379,932
Physician (Professional)	\$ 243,881	\$ 226,838
Pharmacy	\$ 284,527	\$ 264,645
<u>Other</u>	<u>\$ 20,323</u>	<u>\$ 18,903</u>
Total Revenue	\$ 2,032,338	\$ 1,890,318
Salaries and Wages	\$ 489,027	\$ 424,476
Premium Pay Contract Labor	\$ 24,261	\$ 22,438
Contract Labor	\$ 32,387	\$ 29,566
Physician Services from Keck School of Medicine (KSOM) Faculty	\$ 235,321	\$ 225,458
<u>Employee Benefits and Tax</u>	<u>\$ 267,618</u>	<u>\$ 239,784</u>
Total Salaries Wages and Benefits	\$ 1,048,613	\$ 941,722
Medical Supplies and Pharmaceuticals	\$ 426,601	\$ 435,715
Medical and Clinical Fees	\$ 90,289	\$ 84,842
Other Professional Fees	\$ 41,552	\$ 55,676
Purchased Services	\$ 192,632	\$ 148,768
Rentals and Leases	\$ 36,249	\$ 35,142
Insurance	\$ 2,433	\$ 2,817
Provider Fee Expense	\$ 21,788	\$ 27,130
<u>Other Expense</u>	<u>\$ 31,980</u>	<u>\$ 45,436</u>
Total Operating Expenses	\$ 1,892,138	\$ 1,777,250
Earnings Before Interest, Depreciation, Amortization (EBIDA)	\$ 140,200	\$ 113,068
EBIDA Percentage	6.9%	6.0%
Depreciation and Amortization	\$ 59,093	\$ 54,028
<u>Interest Expense</u>	<u>\$ 16,810</u>	<u>\$ 19,817</u>
Operating Margin	\$ 64,297	\$ 39,222
Operating Margin Percentage	3.2%	2.1%
Transfers to KSOM	\$ 90,013	\$ 82,239
Total Net Income	\$ (25,717)	\$ (43,017)

* Many figures are estimates, other figures require elimination entries, expenses require elimination entries when consolidated with the University.



Consolidated Financial Statements
For the Years Ended
June 30, 2020 and 2019



Report of Independent Auditors

To the Board of Trustees of the University of Southern California

We have audited the accompanying consolidated financial statements of the University of Southern California and its subsidiaries (collectively the "University"), which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Southern California and its subsidiaries as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers LLP", is written over a horizontal dotted line.

November 23, 2020

Consolidated Balance Sheets

in thousands

	June 30, 2020	June 30, 2019
Assets		
1 Cash and cash equivalents	\$1,816,338	\$1,042,239
2 Accounts receivable, net	482,155	471,711
3 Notes receivable, net	55,642	61,066
4 Pledges receivable, net	439,888	462,329
5 Investments	6,816,264	6,351,236
6 Inventories, prepaid expenses and other assets	355,247	386,941
7 Property, plant and equipment, net	4,529,893	4,363,842
8 Total Assets	\$14,495,427	\$13,139,364
Liabilities		
9 Accounts payable	\$245,925	\$285,359
10 Accrued liabilities	1,567,833	1,373,097
11 Refundable advances	22,786	21,477
12 Deposits and deferred revenue	301,165	257,066
13 Revolving line of credit	500,000	-
14 Actuarial liability for annuities payable	92,834	104,442
15 Federal student loan funds	53,067	67,936
16 Asset retirement obligations	139,227	132,918
17 Capital lease obligations	77,545	75,869
18 Bonds and notes payable	2,042,413	1,626,346
19 Other liabilities	18,330	6,692
20 Total Liabilities	5,061,125	3,951,202
Net Assets		
21 Without donor restrictions	4,360,865	4,279,003
22 With donor restrictions	5,073,437	4,909,159
23 Total Net Assets	9,434,302	9,188,162
24 Total Liabilities and Net Assets	\$14,495,427	\$13,139,364

The accompanying notes are an integral part of these statements.

Consolidated Statements of Activities

in thousands

			Year Ended	Year Ended
	Without Donor	With Donor	June 30, 2020	June 30, 2019
	Restrictions	Restrictions	Total	Total
			Net Assets	Net Assets
Operating				
Revenues:				
1	Net student tuition and fees	\$1,620,730	\$1,620,730	\$1,575,446
2	Health care services	2,032,338	2,032,338	1,890,318
3	Contracts and grants	699,346	699,346	571,059
4	Auxiliary enterprises	249,787	249,787	372,584
5	Sales and services	170,922	170,922	157,850
6	Contributions	284,573	284,573	273,875
7	Other	120,766	120,766	139,619
8	Allocation of endowment spending	262,065	262,065	245,579
9	Total Revenues	5,440,527	5,440,527	5,226,330
10	Net assets released from restrictions	95,207	(\$95,207)	
11	Total Revenues and Reclassifications	5,535,734	(95,207)	5,440,527
Expenses:				
12	Salaries and benefits	3,312,828	3,312,828	3,078,232
13	Operating expenses	1,848,051	1,848,051	2,162,650
14	Depreciation	296,943	296,943	281,159
15	Interest on indebtedness	64,892	64,892	64,324
16	Total Expenses before Insurance recoveries	5,522,714	5,522,714	5,586,365
Increase (decrease) in Net Assets from Operating Activities before				
17	Insurance recoveries	13,020	(95,207)	(82,187)
18	Insurance recoveries (refer to Note 14)	108,500	108,500	
19	Increase (decrease) in Net Assets from Operating Activities	121,520	(95,207)	(360,035)
Non-operating				
20	Allocation of endowment spending to operations	(103,414)	(158,651)	(245,579)
21	Changes in funding status of defined benefit plan	(4,636)	(4,636)	13,165
22	Other components of net periodic benefit costs	(2,223)	(2,223)	(35,962)
23	Investment and endowment income	56,455	457	88,892
24	Net appreciation in fair value of investments	25,306	252,057	215,501
25	Contributions	5,211	157,132	172,887
26	Present value adjustment to annuities payable		8,490	9,181
27	Loss on bond refunding	(16,357)	(16,357)	
28	(Decrease) increase in Net Assets from Non-operating Activities	(39,658)	259,485	219,827
29	Total increase in Net Assets	81,862	164,278	(141,950)
30	Beginning Net Assets	4,279,003	4,909,159	9,269,531
31	Cumulative effect of accounting change			60,581
32	Beginning Net Assets as restated			9,330,112
33	Ending Net Assets	\$4,360,865	\$5,073,437	\$9,434,302

Consolidated Statements of Activities

in thousands

			Year Ended June 30, 2019
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Operating			
Revenues:			
1 Net student tuition and fees	\$1,575,446		\$1,575,446
2 Health care services	1,890,318		1,890,318
3 Contracts and grants	571,059		571,059
4 Auxiliary enterprises	372,584		372,584
5 Sales and services	157,850		157,850
6 Contributions	273,875		273,875
7 Other	139,619		139,619
8 Allocation of endowment spending	245,579		245,579
9 Total Revenues	5,226,330		5,226,330
10 Net assets released from restrictions	228,859	(\$228,859)	
11 Total Revenues and Reclassifications	5,455,189	(228,859)	5,226,330
Expenses:			
12 Salaries and benefits	3,078,232		3,078,232
13 Operating expenses	2,162,650		2,162,650
14 Depreciation	281,159		281,159
15 Interest on indebtedness	64,324		64,324
16 Total Expenses	5,586,365		5,586,365
17 Decrease in Net Assets from Operating Activities	(131,176)	(228,859)	(360,035)
Non-operating			
18 Allocation of endowment spending to operations	(112,895)	(132,684)	(245,579)
19 Changes in funding status of defined benefit plan	13,165		13,165
20 Other components of net periodic benefit cost	(35,962)		(35,962)
21 Investment and endowment income	88,343	549	88,892
22 Net appreciation in fair value of investments	59,833	155,668	215,501
23 Contributions	5,973	166,914	172,887
24 Present value adjustment to annuities payable		9,181	9,181
25 Increase in Net Assets from Non-operating Activities	18,457	199,628	218,085
26 Total decrease in Net Assets	(112,719)	(29,231)	(141,950)
27 Beginning Net Assets	4,331,141	4,938,390	9,269,531
28 Cumulative effect of accounting change	60,581		60,581
29 Beginning Net Assets, as restated	4,391,722	4,938,390	9,330,112
30 Ending Net Assets	\$4,279,003	\$4,909,159	\$9,188,162

Consolidated Statements of Cash Flows

in thousands

1	Change in Net Assets	\$246,140	(\$81,369)
	Adjustments to reconcile change in net assets to net cash provided by operating activities:		
2	Depreciation	296,943	281,159
3	(Gain) loss on the disposal/sale of plant assets	(230)	248
4	In-kind receipt of property, plant and equipment	(532)	(4,797)
5	Present value adjustment to annuities payable	(8,270)	(9,003)
6	Increase in accounts receivable	(10,444)	(10,660)
7	Increase in pledges receivable	22,441	9,528
8	Increase in inventories, prepaid expenses and other assets	(42,186)	(22,472)
9	Decrease in accounts payable	(67,149)	(410)
10	Increase in accrued liabilities	326,629	505,825
11	Increase in refundable advances	1,309	5,503
12	Increase (decrease) in deposits and deferred revenue	44,099	(4,827)
13	Increase in other liabilities	11,638	1,756
14	Loss on bond refunding	16,357	-
15	Contributions received for property, plant and equipment and permanent investment	(100,544)	(163,965)
16	Net realized gain on sale of investments	(506,536)	(185,014)
17	Net unrealized depreciation (appreciation) in investments	229,265	(28,396)
18	Net Cash provided by Operating Activities	458,930	293,106
	Cash Flows from Investing Activities		
19	Proceeds from note collections	12,378	12,972
20	Notes issued	(6,436)	(4,612)
21	Proceeds from sale and maturity of investments	6,576,709	4,775,556
22	Purchase of investments	(6,823,883)	(4,652,547)
23	Purchase of property, plant and equipment	(428,208)	(448,171)
24	Net Cash used in Investing Activities	(669,440)	(316,802)
	Cash Flows from Financing Activities		
	Contributions received for permanent investment:		
25	Endowment	76,234	190,368
26	Plant	22,846	70,632
27	Trusts and other	1,464	1,292
28	Repayment of long-term debt	(1,540)	(23,555)
29	Proceeds from revolving line of credit	500,000	-
30	Proceeds from issuance of long-term debt	403,812	-
31	(Decrease) increase in federal student loan funds	(14,869)	3,617
32	Investment gain on annuities payable	6,153	8,500
33	Payment on annuities payable	(11,380)	(11,007)
34	Increase to annuities payable resulting from new contributions	1,889	7,110
35	Net Cash provided by Financing Activities	984,609	246,957
36	Net increase in Cash and Cash equivalents	774,099	223,261
37	Cash and Cash equivalents at beginning of year	1,042,239	818,978
38	Cash and Cash equivalents at end of year	\$1,816,338	\$1,042,239

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Note 1.

Significant Accounting Policies Followed by the University of Southern California are Set Forth Below:

General:

The University of Southern California ("university") is a not-for-profit ("NFP"), major private research university. The university is generally exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3). The university is also generally exempt from payment of California state income, gift, estate and inheritance taxes.

Basis of Presentation:

The consolidated financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America and with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*, which requires the university to classify its net assets into two categories according to donor-imposed restrictions: net assets without donor-imposed restrictions and net assets with donor-imposed restrictions. All material transactions between the university and its subsidiaries have been eliminated.

Net Assets Without and With Donor Restrictions:

Net assets without donor restrictions are the part of net assets of a not-for-profit entity that are not subject to donor-imposed restrictions. A donor-imposed restriction is a donor stipulation that specifies a use for a contributed asset that is more specific than broad limits resulting from the following: a) the nature of the not-for-profit entity, b) the environment in which it operates and c) the purposes specified in its articles of incorporation or bylaws or comparable documents.

This classification includes all revenues, gains and expenses not restricted by donors. The university reports all expenses, with the exception of investment expenses, which are required to be netted against investment return, in this class of net assets, since the use of restricted contributions in accordance with donors' stipulations results in the release of the restriction.

The part of net assets of a not-for-profit entity that is subject to donor-imposed restrictions includes contributions for which donor-imposed restrictions have not been met (primarily future capital projects), endowment appreciation, charitable remainder unitrusts, pooled income funds, gift annuities and pledges receivable.

Measure of Operations:

The university's measure of operations as presented in the consolidated statements of activities includes revenue from tuition (net of certain scholarships and fellowships) and fees, grants and contracts, health care services, contributions for operating programs, the allocation of endowment spending for operations and other revenues. Operating expenses are reported on the consolidated statements of activities by natural classification.

The university's non-operating activity within the consolidated statements of activities includes investment returns and other activities related to endowment, long-term benefit plan obligation funding changes, present value adjustment to annuities payable, gain/losses on extinguishment of debt, student loan net assets and contributions related to land, buildings and equipment that are not part of the university's operating activities.

Other Accounting Policies:

Cash and cash equivalents consist of U.S. Treasury bills, certificates of deposit, money market funds and all other short-term investments available for current operations with original maturities of 90 days or less at the time of purchase. Cash equivalents that are part of the University's investment portfolio are reported as investments and included in Note 6.

Notes to Consolidated Financial Statements

Note 1. (continued)

Investments are stated at fair value. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments, is shown in the consolidated statements of activities. Realized gains and losses upon the sale of investments are calculated using the specific identification method and trade date.

Alternative investment holdings and certain other limited partnership interests are invested in both publicly traded and privately owned securities. The fair values of private investments are based on estimates and assumptions of the general partners or partnership valuation committees in the absence of readily determinable market values. Such valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments and other pertinent information.

The university applies the provision of FASB ASC 820, *Fair Value Measurements*, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the university for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level I – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level II - Inputs other than Level I that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level III - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level III investments are valued by the university based upon valuation information received from the relevant entity, which may include last trade information, third-party appraisals of real estate or valuations prepared by custodians for assets held in trusts by other trustees where the university is named as a beneficiary. The university may also utilize industry standard valuation techniques, including discounted cash flow models. Significant increases or decreases in these inputs in isolation may result in a significantly lower or higher fair value measurement, respectively.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The university applies the authoritative guidance contained in FASB ASC 820-10, *Fair Value Measurements and Disclosures*, for estimating the fair value of investments in investment funds that have calculated Net Asset Value (NAV) per share in accordance with FASB ASC 946-10, *Financial Services-Investment Companies* (formerly the American Institute of Certified Public Accountants Audit and Accounting Guide, *Investment Companies*). According to this guidance, in circumstances in which NAV per share of an investment is not determinative of fair value, a reporting entity is permitted to estimate the fair value of an investment in an investment fund using the NAV per share of the investment (or its equivalent) without further adjustment, if the NAV per share of the investment is determined in accordance with FASB ASC 946-10 as of the reporting entity's measurement date. Accordingly, the university uses the NAV as reported by the money managers as a practical expedient to determine the fair value of investments in investment funds which (a) do not have a readily determinable fair value and (b) either have the attributes of an investment fund or prepare their financial statements consistent with the measurement principles of an investment fund. At June 30, 2020 and 2019, the fair value of all such investments in investment funds has been determined by using NAV as a practical expedient, adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio.

Inventories are valued at the lower of cost (first-in, first-out) or net realizable value.

Notes to Consolidated Financial Statements

Note 1. (continued)

Property, plant and equipment, including collections of works of art and historical treasures, are stated at cost or fair value at the date of contribution, plus the estimated value of any associated legal retirement obligations, less accumulated depreciation, computed on a straight-line basis over the estimated useful or component lives of the assets (equipment and library books useful lives ranging from 4 to 10 years and buildings component lives ranging from 5 to 50 years). Equipment is removed from the records at the time of disposal. The university follows the policy of recording contributions of long-lived assets directly in net assets without donor restrictions, when the asset is placed in service.

The university's split interest agreements with donors consist primarily of gift annuities, unitrusts, pooled income funds and life estates. For irrevocable agreements where the university is the trustee, assets contributed are included in the university's investments and stated at fair value. Contribution revenue is recognized at the date each trust is established after recording liabilities for the actuarially determined present value of the estimated future payments to be made to the beneficiaries. The actuarial liability is discounted at an appropriate risk-adjusted rate at the inception of each agreement and the applicable actuarial mortality tables. Discount rates on split interest agreements range from 2.2% to 7.5%. The liabilities are adjusted during the terms of the trusts for changes in the fair value of the assets, accretion of discounts and other changes in the estimates of future benefits. The valuation follows generally accepted actuarial methods and is based on the requirements of FASB ASC 958.

The 2012 Individual Annuity Mortality Basic Table (without margin) for Males and Females with Projection Scale G2 for Males and Females were used in the valuations. For split interest agreements related to the state of Washington, the university holds a Certificate of Exemption issued by the state of Washington's Office of Insurance Commissioner to issue charitable gift annuities. The university has been in compliance with Revised Code of Washington 48.38.010(6) throughout the time period covered by the financial statements.

The university has recorded conditional asset retirement obligations associated with the legally required removal and disposal of certain hazardous materials, primarily asbestos, present in its facilities. When an asset retirement obligation is identified, the university records the fair value of the obligation as a liability. The fair value of the obligation is also capitalized as property, plant and equipment and then amortized over the estimated remaining useful life of the associated asset. The fair value of the conditional asset retirement obligations is estimated using a probability weighted, discounted cash flow model. The present value of future estimated cash flows is calculated using the credit adjusted interest rate applicable to the university in order to determine the fair value of the conditional asset retirement obligations. For the years ended June 30, 2020 and 2019, the university recognized accretion expense related to conditional asset retirement obligations of approximately \$6,889,000 and \$6,526,000, respectively. For the years ended June 30, 2020 and 2019, the university settled asset retirement obligations of approximately \$903,000 and \$944,000, respectively. As of June 30, 2020, and 2019, included in the consolidated balance sheets are asset retirement obligations of \$139,227,000 and \$132,918,000, respectively.

The university recognizes tuition and fees revenue on a straight-line basis over each academic session based on gross price, net of explicit price concessions such as scholarships, discounts and waivers ("Financial aid"), and is displayed in the consolidated statements of activities in "Net student tuition and fees". Given the timing of each year's academic sessions, nearly all performance obligations are satisfied by the university within the fiscal year. Tuition and fees revenue is derived from degree programs and executive and continuing education programs. Financial aid is awarded to students based on need and merit. Financial aid does not include payments made to students for services rendered to the university.

Financial aid for the year ended June 30, 2020, consists of the following (in thousands):

	Undergraduate	Graduate	Total
Institutional scholarships	\$358,183	\$189,885	\$548,068
Endowed scholarships	35,442	18,789	54,231
External financial aid	23,316	12,360	35,676
Total	\$416,941	\$221,034	\$637,975

Notes to Consolidated Financial Statements

Note 1. (continued)

Financial aid for the year ended June 30, 2019, consists of the following (in thousands):

	Undergraduate	Graduate	Total
Institutional scholarships	\$330,683	\$170,758	\$501,441
Endowed scholarships	36,488	18,842	55,330
External financial aid	30,182	15,585	45,767
Total	\$397,353	\$205,185	\$602,538

Room and board revenues are included as part of auxiliary enterprises, however the revenue recognition process mirrors that for tuition and fees. Each of these items is supported by separate contracts entered into between the university and the individual student. Tuition and fees and room and board revenues are recognized as operating revenue in the period in which the university satisfies its performance obligations to its students. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of accounting in ASC 606. The university's performance obligations are to provide education to the student and, in certain instances, other performance obligations such as room and board. The value that is recognized for each performance obligation is set forth in publicly available university price lists, which the university believes approximates the stand alone selling price, and is codified in the individual contracts with each student. Individual contracts for tuition and fees and room and board display the transaction price on a standalone basis for each service to be provided to each specific student. Additionally, the contract will contain the price adjustment in the form of financial aid grants that are being awarded to the student.

The timing(s) of billings, cash collections and revenue recognition results in accounts receivable and deferred revenue and student deposits on the consolidated statements of financial position. Receivables are recognized only to the extent that the university has an unconditional right to consideration to which it is entitled in exchange for goods and services transferred to the student. Receipts received in advance of goods and services performed are recorded as deposits and deferred revenue.

Sponsored research agreements are primarily considered non-exchange transactions which are recognized in contracts and grants revenue on the consolidated statements of activities as the associated barriers are overcome, which generally is as allowable expenditures under such agreements are incurred. Non-exchange agreements are considered conditional if the terms of the agreement include both a right of return/release of assets received/promised and a barrier. Any funding received in advance of expenditure is recorded as a refundable advance. For sponsored research agreements considered to be exchange transactions, revenues are recognized as performance obligations are satisfied which in most cases mirrors the timing of when related costs are incurred. Net assets include contributions to the university and its various schools and departments. The university has determined that any donor-imposed restrictions of contributions for current or developing programs and activities are generally met within the operating cycle of the university and therefore, the university's policy is to record these net assets as without donor restrictions. Internally designated net assets are those which have been appropriated by the Board of Trustees or designated by management, and reflected in net assets without donor restrictions.

The university receives federal reimbursement for a portion of the costs of its facilities and equipment used in organized sponsored research. The federal Office of Management and Budget establishes principles for determining such reimbursable costs and requires conformity of the lives and methods used for federal cost reimbursement accounting and financial reporting purposes. The university's policies and procedures are in conformity with these principles.

Unconditional contributions from donors, including contributions receivable (unconditional promises to give), are recorded as revenues in the year received. Noncash contributions are recorded at fair value using quoted market prices, market prices for similar assets, independent appraisals or appraisals performed by university management. Contributions receivable are reported at their discounted value using credit-adjusted borrowing rates and an allowance for amounts estimated to be uncollectible is provided. Donor-restricted contributions, which are received and either spent or deemed spent within the same year, are reported as revenue without donor restrictions.

Notes to Consolidated Financial Statements

Note 1. (continued)

Contributions of long-lived assets with no donor-imposed time restrictions are reported as revenue without donor restrictions in the year received. Contributions restricted to the acquisition or construction of long-lived assets or subject to other time or purpose restrictions are reported as revenue with donor restrictions. The donor-restricted net assets resulting from these contributions are released to net assets without donor-restricted when the donor-imposed restrictions are fulfilled or the assets are placed in service. Contributions received for endowment investment are held in perpetuity and recorded as revenue with donor restrictions. For the years ended June 30, 2020 and 2019, the university recognized approximately \$140,000,000 and \$145,000,000 of private contracts and grants revenue in contributions on the consolidated statements of activities.

Health care services revenues include the net patient service revenues associated with Keck Hospital of USC, USC Norris Cancer Hospital, USC Verdugo Hills Hospital and USC Care Medical Group, Inc (“Health System”). Healthcare services revenue is reported at the amount that reflects the consideration to which the organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors, government programs and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the university bills patients and third-party payors several days after the services are performed or the patient is discharged. Revenue is recognized as performance obligations are satisfied. Health care services revenues also include the revenues associated with the professional services agreement with the County of Los Angeles.

The majority of the Health System services are rendered to patients with commercial or managed care insurance, or under the federal Medicare and California State Medi-Cal programs. Reimbursement from these various payors is based on a combination of prospectively determined rates per discharge, per diem payments, discounted charges and reimbursed costs. Amounts received under the Medicare program are subject to retroactive settlements based on review and final determination by program intermediaries or their agents. The gross charges may be reduced by explicit price concessions, which include contractual adjustments based on agreements with third party payers or implicit price concessions provided to uninsured patients. Provisions for contractual adjustments and retroactive settlements related to these payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as additional information becomes known or as final settlements are determined.

Net patient service revenue is recorded over time during the period these performance obligations are satisfied and at the determined transaction price, which represents the estimated net realizable amounts due from patients, third-party payers and others for health care services rendered. Estimated net realizable amounts represent amounts due, net of implicit and explicit price concessions. Implicit price concessions are based on management’s assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage and other collection indicators. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. The university believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute care or patients receiving care in our outpatient centers. The university measures the performance obligation from admission into the hospital or commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services.

Sales and services revenue includes revenues from university pharmacies and student clinics. The university recognizes revenue as it provides pharmaceutical products and consultative services to the community (students, faculty, staff, retired employees, alumni, broader Los Angeles market). The transaction price is the amount the university expects to be entitled to in exchange for the products provided (either published rates available on the university pharmacy websites or agreed upon rates from third party payers). Retail pharmacy sales revenue is recognized at a point in time when the pharmaceutical is provided to the patient, and consultative services revenue, although the patient benefits over time from the university, is also recognized at a point in time as the services are provided to the patient on the same day. This is due to consultative services being outpatient in nature, and thus, all services are provided on the same day.

Notes to Consolidated Financial Statements

Note 1. (continued)

Auxiliary enterprise revenue includes multiple revenue streams which are included in the consolidated statements of activities, and reported as net assets without donor restrictions. These multiple revenue streams include point of sale transactions from hospitality, food, beverage, bookstore transactions, transportation and revenue generated from athletics. Revenue generated from hospitality, food, beverage, and bookstore goods is recognized at a point in time, and the value that is recognized for each performance obligation is explicitly listed at each location, which the university believes approximates the stand alone transaction price. Transportation revenue is recognized at a point in time and satisfied within the fiscal year. The transaction price for revenue related to athletics is publicly available on the university ticket office website. The performance obligation related to football season tickets is completely satisfied within the fiscal year, and any season ticket sales that occur in advance of the next fiscal year are recognized as deferred revenue.

In January 2020, the World Health Organization declared the novel strain of coronavirus (“COVID-19”) a Public Health Emergency of International Concern. The outbreak of COVID-19 has caused domestic and global disruption in operations for institutions of higher education. In addition, COVID-19 has negatively impacted the financial markets and may continue to materially affect the returns on and value of the university’s investments and/or endowment. Other adverse consequences of COVID-19 or any other similar outbreaks in the future may have a negative effect on the university’s various revenue streams. The full impact of COVID-19 and the scope of any adverse impact on the university’s finances and operations cannot be fully determined at this time.

The COVID-19 pandemic has caused a disruption to our nation’s healthcare system. Such disruption includes reduction in availability of staffing and reductions in the availability of personal protective equipment to prevent spread of the disease during patient treatment. During the initial stages of the COVID-19 outbreak in March 2020, and for several months thereafter, elective procedures were postponed in order to prepare for the increased volume of COVID-19 patients and reduce the risk of exposure to COVID-19. The Health System continues to monitor developments and the directives of federal, state and local officials to determine what ongoing precautions, procedures, and protocols need to be followed by the organization.

On March 27, 2020, the Federal Government passed the CARES Act (Coronavirus Aid, Relief, and Economic Stimulus Act), which allotted \$175 billion dollars to healthcare providers and suppliers through Medicare reimbursements, grants and other direct federal payments. As of June 30, 2020, the Health System received and recognized \$90.8 million from the Department of Health & Human Services (“HHS”) CARES Act: Provider Relief Fund within “contracts and grants revenue” on the consolidated statements of activities. The Health System recognized revenue related to the CARES Act provider relief funding based on information contained in laws and regulations, as well as interpretations issued by HHS, governing the funding that was publicly available at June 30, 2020. In September and October 2020, HHS issued new reporting requirements for the CARES Act provider relief funding. Due to these new reporting requirements there is at least a reasonable possibility that amounts recorded under CARES Act provider relief funding by the Health System may change in future periods. In addition, the Health System received \$192.9 million of advanced payments from the Centers for Medicare and Medicaid Services (CMS) under the Accelerated and Advance Payments Program, which is recorded as accrued liabilities on the consolidated balance sheet as of June 30, 2020. In October 2020, Congress gave hospitals and other providers that received Medicare Accelerated and Advance Payments one year from when the first loan payment was made to begin making repayments, thus delaying the start of the repayment period from 120 days to one year from when the funding was provided.

Furthermore, the CARES Act allowed employers to defer the deposits and payments of the employer’s share of Social Security taxes. As of June 30, 2020, \$30.2 million was deferred and recorded within “accrued liabilities” on the consolidated balance sheet.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Certain reclassifications have been made to prior years’ financial statements for comparative purposes.

Notes to Consolidated Financial Statements

Note 1. (continued)

Recent Accounting Pronouncements:

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the consolidated balance sheets. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019. The university will adopt this ASU on July 1, 2020 and is implementing a new lease system in connection with this adoption. Management is progressing with implementation and continuing to evaluate the effect to the university's consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. The standard addresses the classification of certain transactions within the statement of cash flows, including cash payments for debt repayment or debt extinguishment costs, contingent considerations payments made after a business combination, and distributions received from equity method investments. The university adopted ASU 2016-15 for the fiscal year ended June 30, 2020. Adoption did not have a material impact on the university's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, a standard on Restricted Cash. This ASU clarifies how entities should present restricted cash and restricted cash equivalents in the consolidated statements of cash flows and requires entities to present changes in total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement as well. The university adopted ASU 2016-18 for the fiscal year ended June 30, 2020 and applied it retroactively. Adoption did not have a material impact on the university's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendment requires the bifurcation of net benefit cost where the service cost component continues to be presented with other employee costs in operating income (or capitalized in assets) and the other components (such as interest, expected return on plan assets, and amortization of actuarially determined amounts) are required to be presented as a nonoperating change in net assets without restrictions. The new standard requires retrospective application and allows a practical expedient that permits an employer to use the amounts disclosed in its employee benefits footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation. The university utilized the practical expedient to estimate the impact on the fiscal 2019 information. The adoption of the standard resulted in the reclassification of \$36.0 million in net periodic benefit costs, other than service costs, from "salaries and benefits" operating expense to "other components of net periodic benefit cost" nonoperating expense presented in the *consolidated statements of activities*. Therefore, the fiscal 2019 "decrease in net assets from operating activity" was reduced by \$36.0 million, from \$396.0 million to \$360.0 million.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This standard removes certain disclosures, modifies certain disclosures and adds additional disclosures related to fair value measurement. The ASU is effective for the university beginning in fiscal year 2021. The university is currently evaluating the effect of adoption to the financial statements.

Notes to Consolidated Financial Statements

Note 2.

Liquidity and Availability:

USC's financial assets available within one year of the consolidated balance sheet date for general expenditure are as follows as of June 30 (in thousands):

	Year Ended June 30, 2020	Year Ended June 30, 2019
Total assets at year end	\$14,495,427	\$13,139,364
<i>Less:</i>		
Notes receivable due in more than one year	(7,954)	(9,337)
Pledges receivable due in more than one year	(357,804)	(381,413)
Donor-restricted endowment funds	(4,408,725)	(4,222,348)
Board-designated endowment funds	(1,505,633)	(1,517,217)
Annuities and living trusts	(165,533)	(169,328)
Inventories, prepaid expenses and other assets	(156,127)	(127,154)
Property, plant and equipment	(4,529,893)	(4,363,842)
Financial assets available at year end for current use	\$3,363,758	\$2,348,725

The university's endowment funds consist of donor-restricted and board-designated endowment funds. Income from donor-restricted endowments is restricted for specific purposes and therefore, is not available for general expenditure. As described in Note 7, for fiscal year 2020 and 2019, the Board of Trustees approved current distribution of 103% of the prior year's payout, within a minimum of 4% and a maximum of 6% of the average market value for the previous 12 calendar quarters. Under the provision of the spending rule, for fiscal year 2020 and 2019, the Board of Trustees approved an endowment pool payout of \$30.33 a share, for a total spending rule allocation of \$261,989,000 and \$246,551,000. As described in Note 6, the university also has unfunded commitments on alternative investments totaling \$796,831,000 and \$749,821,000 for fiscal year 2020 and 2019.

As part of the university's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the university invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the university drew down \$500,000,000 from the revolving line of credit. Additionally, the university has a board-designated endowment of \$1,505,633,000 as of June 30, 2020. Although the university does not intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available if necessary. However, both the board-designated endowment fund and donor-restricted endowments contain investments with lock-up provisions that reduce the total investments that could be made available (see Note 6 for disclosures about investments).

Note 3.

Accounts Receivable:

Accounts receivable are summarized as follows at June 30 (in thousands):

	2020	2019
U.S. Government	\$39,516	\$40,010
Student and other, net of allowance for doubtful accounts of \$20,457 (2020), \$12,505 (2019)	197,709	157,919
Patient care	244,930	273,782
Total	\$482,155	\$471,711

Notes to Consolidated Financial Statements

Note 4.

Notes and Loans Receivable:

The university is required to disclose the nature of credit risk inherent in the portfolio of financing receivables, its analysis and assessment in arriving at the allowance for credit losses (doubtful accounts) and the changes and reasons for those changes in the allowance for credit losses.

Long-term financing receivables as of June 30, 2020, consist of the following (in thousands):

	June 30, 2020		Net
	Financing Receivables, Gross	Allowance for Doubtful Accounts	
Perkins loans	\$31,170		\$31,170
University student loans	6,724	(\$1,937)	4,787
Other student loans	19,685		19,685
Total student loans	57,579	(1,937)	55,642
Faculty and other loans	25,095		25,095
Total	\$82,674	(\$1,937)	\$80,737

Long-term financing receivables as of June 30, 2019, consist of the following (in thousands):

	June 30, 2019		Net
	Financing Receivables, Gross	Allowance for Doubtful Accounts	
Perkins loans	\$38,255		\$38,255
University student loans	8,552	(\$2,106)	6,446
Other student loans	16,365		16,365
Total student loans	63,172	(2,106)	61,066
Faculty and other loans	31,052		31,052
Total	\$94,224	(\$2,106)	\$92,118

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral and where applicable, the existence of any guarantees or indemnifications. The university's Perkins loans represent the amounts due from current and former students under the Federal Perkins Loan Program. Loans disbursed under the Federal Perkins Loan Program are able to be assigned to the federal government in certain non-repayment situations. In these situations, the federal portion of the loan balance is guaranteed. Included in other student loans are loans related to the Federal Health Professional Student Loan Program and Loans for Disadvantaged Students.

Notes to Consolidated Financial Statements

Note 4. (continued)

Factors also considered by management when performing its assessment of the adequacy of the allowance, in addition to general economic conditions and the other factors described above include, but are not limited to a detailed review of the aging of the student loan receivable detail and a review of the default rate by loan category in comparison to prior years. The level of the allowance is adjusted based on the results of management's analysis. It is the university's policy to write off a loan only when it is deemed to be uncollectible.

The following table illustrates the aging analysis of receivables as of June 30, 2020 (in thousands):

	1-60 Days Past Due	61-90 Days Past Due	> 91 Days Past Due	Current	Total Financing Receivables
Perkins loans	\$1,022	\$248	\$5,391	\$24,509	\$31,170
University student loans	153	24	3,285	3,262	6,724
Other student loans	35	-	216	19,434	19,685
Total student loans	1,210	272	8,892	47,205	57,579
Faculty and other loans				25,095	25,095
Total	\$1,210	\$272	\$8,892	\$72,300	\$82,674

The following table illustrates the aging analysis of receivables as of June 30, 2019 (in thousands):

	1-60 Days Past Due	61-90 Days Past Due	> 91 Days Past Due	Current	Total Financing Receivables
Perkins loans	\$1,188	\$273	\$6,281	\$30,513	\$38,255
University student loans	135	14	4,221	4,182	8,552
Other student loans	172	-	224	15,969	16,365
Total student loans	1,495	287	10,726	50,664	63,172
Faculty and other loans				31,052	31,052
Total	\$1,495	\$287	\$10,726	\$81,716	\$94,224

Considering the other factors already discussed herein, management considers the allowance for credit losses to be prudent and reasonable. Furthermore, the university's allowance is general in nature and is available to absorb losses from any loan category. Management believes that the allowance for credit losses at June 30, 2020 and 2019, is adequate to absorb credit losses inherent in the portfolio as of these dates.

As part of the program to attract and retain exemplary faculty and senior staff, the university provides home mortgage financing assistance. Notes receivable amounting to \$25,095,000 and \$31,052,000 were outstanding as of June 30, 2020 and 2019, respectively, and are collateralized by deeds of trust. No allowance for doubtful accounts has been recorded against these loans based on their collateralization and prior collection history. At June 30, 2020, there were no amounts past due under the faculty and staff loan program.

Determination of the fair value of notes receivable, which are primarily federally sponsored student loans with U.S. government-mandated interest rates and repayment terms, and subject to significant restrictions as to their transfer or disposition, could not be made without incurring excessive costs.

Notes to Consolidated Financial Statements

Note 5.

Pledges Receivable:

Unconditional promises are included in the consolidated financial statements as pledges receivable and revenue in the appropriate net asset category. Pledges are recorded after discounting using rates ranging from 1% to 6% in order to derive the present value of the future cash flows.

Unconditional promises are expected to be realized in the following periods as of June 30 (in thousands):

	2020	2019
Less than one year	\$103,525	\$80,916
One to five years	302,876	313,667
More than five years	143,381	194,727
Less: discount	(58,895)	(75,398)
Less: allowance	(50,999)	(51,583)
Total	\$439,888	\$462,329

Pledges receivable at June 30 have the following restrictions (in thousands):

	2020	2019
Endowment for departmental programs and activities	\$191,060	\$203,837
Endowment for scholarship	26,477	28,133
Building construction	98,917	97,515
Departmental programs and activities	123,434	132,844
Total	\$439,888	\$462,329

Conditional pledges for the university, which depend on the occurrence of specified future and uncertain events, at June 30, 2020 and 2019, was \$272,607,000 and \$316,536,000, respectively. The majority of these conditional pledges are related to construction of the Ellison Institute for Transformative Medicine.

Notes to Consolidated Financial Statements

Note 6.

Investments:

Investments consist of the following at June 30 (in thousands):

	2020	2019
Equities	\$2,153,449	\$2,344,188
Fixed income securities	1,638,549	1,024,505
Alternative investments:		
Hedge funds	1,202,078	1,217,195
Private capital	1,392,974	1,340,500
Real estate and other	290,763	276,671
Assets held by other trustees	138,451	148,177
Total	\$6,816,264	\$6,351,236

The following table summarized the levels of financial instruments carried at fair value as defined by ASC 820 valuation hierarchy defined previously, for the year ended June 30, 2020 (in thousands):

	Level I	Level II	Level III	NAV	Total
Investments:					
Equities	\$2,051,233	\$494	\$15,403	\$86,319	\$2,153,449
Fixed income securities	424,597	1,196,799	17,153		1,638,549
Hedge funds				1,202,078	1,202,078
Private capital				1,392,974	1,392,974
Real estate and other			30,567	260,196	290,763
Assets held by other trustees			138,451		138,451
Total	\$2,475,830	\$1,197,293	\$201,574	\$2,941,567	\$6,816,264

The following table summarized the levels of financial instruments carried at fair value as defined by ASC 820 valuation hierarchy defined previously, for the year ended June 30, 2019 (in thousands):

	Level I	Level II	Level III	NAV	Total
Investments:					
Equities	\$2,133,797	\$984	\$94,425	\$114,982	\$2,344,188
Fixed income securities	263,994	736,046	24,464		1,024,504
Hedge funds				1,217,196	1,217,196
Private capital				1,340,500	1,340,500
Real estate and other			30,566	246,105	276,671
Assets held by other trustees			148,177		148,177
Total	\$2,397,791	\$737,030	\$297,632	\$2,918,783	\$6,351,236

Notes to Consolidated Financial Statements

Note 6. (continued)

The following table summarized the university's Level III reconciliation of investments for the year ended June 30, 2020 (in thousands):

	Beginning Balance	Purchases	Sales and Maturities	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Transfers In	Transfers Out	Ending Balance
Investments:								
Equities	\$94,425		(\$261,452)	\$182,439		-	(\$9)	\$15,403
Fixed income securities	24,464	\$8,188	(14,262)	(810)	(\$427)			17,153
Real estate and other	30,566		(245)	(40)	286			30,567
Assets held by other trustees	148,177		(1,638)	(170)	(7,918)			138,451
Total	\$297,632	\$8,188	(\$277,597)	\$181,419	(\$8,059)	\$0	(\$9)	\$201,574

The following table summarized the university's Level III reconciliation of investments for the year ended June 30, 2019 (in thousands):

	Beginning Balance	Purchases	Sales and Maturities	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Transfers In	Transfers Out	Ending Balance
Investments:								
Equities	\$94,416					\$9		\$94,425
Fixed income securities	31,737	\$34,523	(\$41,437)	\$160	(\$70)		(\$449)	24,464
Real estate and other	36,245		(4,480)	(1,350)	237		(86)	30,566
Assets held by other trustees	149,728	4,979	(8,298)	1,787	(19)			148,177
Total	\$312,126	\$39,502	(\$54,215)	\$597	\$148	\$9	(\$535)	\$297,632

The university uses the NAV to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Investment income and gains presented on the consolidated statements of activities contains endowment appreciation utilized to fund the spending rule, and investment income net of expenses. Current year investment return reported in non-operating activities is net of external and direct internal investment costs, reduced by endowment appreciation utilized to fund the spending rule. The university's total investment return for the years ended June 30, 2020 and 2019, was \$334,275,000 and \$304,393,000, respectively.

Notes to Consolidated Financial Statements

Note 6. (continued)

The following table lists investments by major category, measured using the NAV practical expedient, for the year ending June 30, 2020 (in thousands):

At June 30, 2020						
Category of Investment	Investment Strategy	Fair Value Determined Using NAV	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions and Terms
Distressed Obligation Partnerships	U.S. and Non-U.S. Distressed Debt Securities	\$6,192	\$12,903	Approximately 1 Year	Redemptions are not permitted during the life of the fund.	Not Applicable
Hedge Funds	U.S. and Non-U.S. Investments in Relative Value, Event Driven, Long/Short and Directional Strategies	1,202,078	78,368	98.3% of NAV has an open-ended life and 1.7% of NAV will be liquidated on an undetermined basis.	Ranges between bimonthly redemption with 120 days notice, quarterly redemption with up to 185 days notice, semiannual redemption with up to 90 days notice, annual redemption with up to 90 days notice, biannual redemption with 90 days notice and 5-year lockup with 90 days notice.	0.1% of NAV is locked-up for 1 month, 15.1% of NAV is locked-up for 3 months, 14.0% of NAV is locked-up 6 months, 13.1% on NAV is locked-up for 9 months, 16.9% of NAV is locked-up for 1 year and 40.8% of NAV is locked-up for more than 1 year.
Natural Resources Partnerships	U.S. and Non-U.S. Investments in Upstream, Midstream and Downstream Natural Resources Investments	342,149	155,189	Approximately 3 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Private Capital Partnerships	U.S. and Non-U.S. Private Equity and Venture Capital Investments	1,044,633	301,203	Approximately 3 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Private Real Estate Partnerships	U.S. and Non-U.S. Real Estate	260,079	249,168	Approximately 5 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Equity Funds	U.S. and Non-U.S. Equity Securities	86,319	Not Applicable	Open Ended	Minimum monthly	None
Other Funds	U.S. and Non-U.S. Investments in Securities Other than Equity and Fixed Income	117	Not Applicable	Open Ended	Monthly	None
Total		\$2,941,567	\$796,831			

Notes to Consolidated Financial Statements

Note 6. (continued)

The following table lists investments by major category, measured using the NAV practical expedient, for the year ending June 30, 2019 (in thousands):

At June 30, 2019

Category of Investment	Investment Strategy	Fair Value Determined Using NAV	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions and Terms
Distressed Obligation Partnerships	U.S. and Non-U.S. Distressed Debt Securities	\$9,867	\$15,255	Approximately 2 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Hedge Funds	U.S. and Non-U.S. Investments in Relative Value, Event Driven, Long/Short and Directional Strategies	1,217,196	98,576	99.9% of NAV has an open-ended life and 0.1% of NAV will be liquidated on an undetermined basis.	Ranges between bimonthly redemption with 75 days notice, quarterly redemption with up to 185 days notice, semiannual redemption with up to 120 days notice, annual redemption with up to 120 days notice, biannual redemption with 90 days notice and 5-year lockup with 90 days notice.	2% of NAV is locked-up for 1 month, 11% of NAV is locked-up for 3 months, 45% of NAV is locked-up for 1 year and 42% of NAV is locked-up for more than 1 year.
Natural Resources Partnerships	U.S. and Non-U.S. Investments in Upstream, Midstream and Downstream Natural Resources Investments	417,816	151,782	Approximately 4 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Private Capital Partnerships	U.S. and Non-U.S. Private Equity and Venture Capital Investments	912,817	273,424	Approximately 3 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Private Real Estate Partnerships	U.S. and Non-U.S. Real Estate	239,056	210,784	Approximately 5 Years	Redemptions are not permitted during the life of the fund.	Not Applicable
Equity Funds	U.S. and Non-U.S. Equity Securities	114,982	Not Applicable	Open Ended	Minimum monthly	None
Other Funds	U.S. and Non-U.S. Investments in Securities Other than Equity and Fixed Income	7,049	Not Applicable	Open Ended	Monthly	None
Total		\$2,918,783	\$749,821			

Notes to Consolidated Financial Statements

Note 7.

Endowment:

Endowment net assets are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and only the income and realized gains be utilized for current and future needs. Long-term investment net assets (board-designated endowment funds) have been established from restricted contributions whose restrictions have been met and unrestricted contributions which have been designated by the Board of Trustees or management for similar purposes as endowment as determined on an annual basis. The university also has a beneficial interest in the net income earned from assets which are held and managed by other trustees.

Donor-restricted and board-designated endowment funds are summarized as follows for the year ended June 30, 2020 (in thousands):

	Board-Designated Endowment Funds	Donor-Restricted Endowment	Total
Pooled	\$1,413,415	\$4,091,783	\$5,505,198
Non-pooled	92,218	316,942	409,160
Total	\$1,505,633	\$4,408,725	\$5,914,358

Donor-restricted and board-designated endowment funds are summarized as follows for the year ended June 30, 2019 (in thousands):

	Board-Designated Endowment Funds	Donor-Restricted Endowment	Total
Pooled	\$1,421,852	\$4,093,419	\$5,515,271
Non-pooled	95,365	128,929	224,294
Total	\$1,517,217	\$4,222,348	\$5,739,565

Pooled investments represent donor-restricted and board-designated endowment funds which have been commingled in a unitized pool (unit value basis) for purposes of investment. At June 30, 2020 and 2019, the pool is comprised of cash and cash equivalents (2.33% and (0.65%), equities (56.42% and (56.70%), fixed income securities (12.58% and (11.86%), alternative investments (24.16% and (26.61%) and real estate and other investments (4.51% and (4.18%), respectively. Access to or liquidation from the pool is on the basis of the market value per unit on the preceding monthly valuation date. The unit value at June 30, 2020 and 2019, was \$662.69 and \$676.76, respectively.

The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the original contribution as of the contribution date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the university classifies as donor-restricted funds (a) the original value of contributions donated to the endowment, (b) the original value of subsequent contributions to the endowment and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the university considers various factors in making a determination to appropriate or accumulate endowment funds including: duration and preservation of the fund, economic conditions, effects of inflation or deflation, expected return on the funds and other economic resources of the university.

Notes to Consolidated Financial Statements

Note 7. (continued)

Endowment net asset composition by type of funds as of June 30, 2020 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds		\$4,408,725	\$4,408,725
Board-designated endowment funds	\$1,505,633		1,505,633
Total	\$1,505,633	\$4,408,725	\$5,914,358

Endowment net asset composition by type of funds as of June 30, 2019 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds		\$4,222,348	\$4,222,348
Board-designated endowment funds	\$1,517,217		1,517,217
Total	\$1,517,217	\$4,222,348	\$5,739,565

Changes in endowment net assets for the year ended June 30, 2020 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at July 1, 2019	\$1,517,217	\$4,222,348	\$5,739,565
Total investment return, net	69,240	260,340	329,580
Contributions and transfers	22,590	84,688	107,278
Appropriation of endowment assets for expenditure	(103,414)	(158,651)	(262,065)
Endowment net assets at June 30, 2020	\$1,505,633	\$4,408,725	\$5,914,358

Changes in endowment net assets for the year ended June 30, 2019 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at July 1, 2018	\$1,484,150	\$4,060,117	\$5,544,267
Total investment return, net	114,815	138,274	253,089
Contributions and transfers	31,147	156,641	187,788
Appropriation of endowment assets for expenditure	(112,895)	(132,684)	(245,579)
Endowment net assets at June 30, 2019	\$1,517,217	\$4,222,348	\$5,739,565

Notes to Consolidated Financial Statements

Note 7. (continued)

Endowments classified with donor restrictions are to be utilized for the following purposes:

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA as of June 30 (in thousands):

	2020	2019
Restricted for scholarship support	\$988,152	\$982,166
Restricted for faculty support	965,655	975,872
Restricted for program support	2,454,918	2,264,310
Total endowment assets with donor restrictions	\$4,408,725	\$4,222,348

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor contribution amounts (deficit). When donor-restricted endowment fund deficits exist, they are classified as a reduction of net assets with donor restrictions. Deficits of this nature exist in various donor-restricted endowment funds, which together have an original value of \$160,837,000 and a current value of \$158,254,000 with a deficiency of \$2,583,000 and an original value of \$36,070,000 and a current fair value of \$35,756,000 and a deficiency of \$314,000 as of June 30, 2020 and 2019, respectively. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments and authorized appropriation that was deemed prudent. The university has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

The university has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under these policies, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The university expects its endowment funds over time to provide an average rate of return of approximately 6.7% annually. Actual returns in any given year may vary from this amount.

To achieve its long-term rate of return objectives, the university relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The university targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The university utilizes a spending rule for its pooled endowment. The spending rule determines the endowment income and realized gains to be distributed currently for spending with the provision that any amounts remaining after the distribution be transferred and reinvested in the endowment pool as board-designated as endowment.

For the 2020 fiscal year, the Board of Trustees approved current distribution of 103% of the prior year's payout, within a minimum of 4% and a maximum of 6% of the average market value for the previous 12 calendar quarters. Under the provisions of the spending rule, \$30.33 was distributed to each time-weighted unit for a total spending rule allocation of \$261,989,000. Investment income amounting to \$4.41 per time-weighted unit was earned, totaling \$38,059,000, and \$223,930,000 was appropriated for current operations from cumulative gains of pooled investments. Endowment pool earnings allocated for spending in fiscal year 2020 represent 4.76% of the market value of the endowment pool at June 30, 2020.

Notes to Consolidated Financial Statements

Note 7. (continued)

For the 2019 fiscal year, the Board of Trustees approved current distribution of 102% of the prior year's payout, within a minimum of 4% and a maximum of 6% of the average market value for the previous 12 calendar quarters. Under the provisions of the spending rule, \$29.45 was distributed to each time-weighted unit for a total spending rule allocation of \$246,551,000. Investment income amounting to \$7.14 per time-weighted unit was earned, totaling \$59,756,000, and \$186,795,000 was appropriated for current operations from cumulative gains of pooled investments. Endowment pool earnings allocated for spending in fiscal year 2019 represent 4.47% of the market value of the endowment pool at June 30, 2019.

Note 8.

Property, Plant and Equipment:

Property, plant and equipment consisted of the following at June 30 (in thousands):

	2020	2019
Land and improvements	\$207,608	\$201,409
Buildings and improvements	5,822,617	5,538,709
Buildings under capital leases	65,822	65,822
Equipment	775,976	740,141
Library books and collections	444,005	421,392
Construction-in-progress	335,747	253,250
	7,651,775	7,220,723
Less: Accumulated depreciation	3,121,882	2,856,881
Total	\$4,529,893	\$4,363,842

Notes to Consolidated Financial Statements

Note 9.

Leases:

The university is the lessee of various equipment and space under non-cancelable operating and capital leases. Operating lease rental expense is recognized as operating expenses in the Statement of Activities for the years ended June 30, 2020 and 2019, was approximately \$48,688,000 and \$42,122,000, respectively. Space leases contain customary escalation clauses, which are included in annual aggregate minimum rentals.

Future aggregate minimum rental payments as of June 30, under operating and capital leases are as follows (in thousands):

Future minimum rental payments:	Operating	Capital
2021	\$52,358	\$1,685
2022	51,691	1,730
2023	43,780	1,775
2024	38,507	1,823
2025	35,400	1,872
Thereafter	186,606	662,599
	408,342	671,484
Less: Interest on capital leases		(593,939)
Total	\$408,342	\$77,545

The university entered into a lease agreement with the Los Angeles Memorial Coliseum Commission (LAMCC) to assume the operations of the Los Angeles Memorial Coliseum and Los Angeles Memorial Sports Arena.

The lease agreement with the LAMCC expires in 2033, or in 2054, if all options are exercised, at which time a second lease agreement with the California Science Center (CSC), an institution of the state of California, commences. The lease with the CSC expires in 2111, assuming all options are exercised. Under the terms of both lease agreements, the university is required to make certain capital improvements. The present value of the future minimum lease payments as of June 30, 2020 and 2019, is \$77,545,000 and \$75,869,000, respectively.

Notes to Consolidated Financial Statements

Note 10.

Bonds Payable and Line of Credit

Bonds payable and Line of Credit outstanding as of June 30 (*in thousands*):

	Interest %	Maturity	2020	2019
<i>California Educational Facilities Authority Revenue Bonds and Notes:</i>				
Series 2009C	5.25	2025		\$82,305
Premium				3,051
Series 2012A	5.00	2024		41,595
Premium				4,389
Series 2015A	5.00	2026		42,960
Premium				6,248
<i>University of Southern California Bonds:</i>				
Series 2011 Taxable	5.25	2112	\$300,000	300,000
Discount			(2,451)	(2,478)
Series 2016 Taxable	3.03	2040	722,580	722,580
Discount			(3,078)	(3,236)
Series 2017 Taxable	3.84	2048	402,320	402,320
Discount			(1,623)	(1,682)
Series 2020A Taxable	3.23	2121	320,000	
Discount			(2,823)	
Series 2020B Taxable	2.81	2051	308,835	
Discount			(1,347)	
<i>California Infrastructure Revenue Bonds (USC- Soto Street Health Sciences):</i>				
Series 2010 (Soto)	3.25-5.00	2018-2032		26,750
Premium				1,544
<i>Line of Credit</i>				
Revolving line of credit	Variable	2021	500,000	
			2,542,413	1,626,346
Less: current portion of long-term debt			500,000	1,540
Total			\$2,042,413	\$1,624,806

Principal payment requirements relating to bonds and notes payable, after giving effect to refunding, for the next five fiscal years are approximately: 2021 \$500,000,000; 2022 \$0; 2023 \$0; 2024 \$0; 2025 \$0, thereafter \$2,053,735,000.

Interest payments for fiscal year 2020 and 2019 were \$67,520,000 and \$63,428,000, respectively.

On February 4, 2020, the university issued \$320,000,000 of Series 2020A taxable bonds. On February 12, 2020, the university issued \$308,835,000 of Series 2020B taxable bonds. \$223,659,000 of the proceeds of the Series 2020B Bonds were irrevocably deposited into separate refunding escrow accounts in amounts that are sufficient to pay interest and principal for the CEFA Series 2009C, Series 2012A, Series 2015A and California Infrastructure Revenue Bonds Series 2010 (Soto) outstanding bonds. The related proceeds and repayment of the defeased bonds are considered non-cash financing activities and are not reflected in the consolidated statements of cashflow. The remaining proceeds of these Bonds will be used by the university for its general corporate purposes, including, but not limited to, the acquisition, construction, renovation, improvement, rehabilitation and/or equipping by the university of higher educational and healthcare facilities, and to pay all or a portion of the costs of issuance.

Notes to Consolidated Financial Statements

Note 10. (continued)

The university has a revolving line of credit with a bank with a maturity date of November 30, 2025. The credit agreement was amended during fiscal year 2020 in order to extend the maturity date and improve certain terms and conditions, including the applicable rate. The committed size of the revolving line of credit remains at \$500,000,000. The line of credit accrues interest based on LIBOR and contains a fee on the unused portion. The line of credit contains certain restrictive covenants which include a minimum credit rating of "A" and "A2" from Standard and Poor's and Moody's, respectively, as well as a minimum total net assets of \$5,500,000,000. USC was in compliance with these covenants during fiscal years ending June 30, 2020 and 2019. On March 20, 2020 the University drew down \$500,000,000 on the bank line of credit for general corporate purposes, and the full balance remained outstanding as of June 30, 2020.

Note 11.

Retirement Benefits:

Retirement benefits for eligible university employees are provided through the Teachers Insurance and Annuity Association, The Vanguard Group, AIG Sun America, Fidelity Investments and Prudential Financial. Under these defined contribution plans, the university and plan participants make contributions to purchase individual, fixed or variable annuities equivalent to retirement benefits earned or to participate in a variety of mutual funds. Under the USC Retirement Savings Program, the university makes a 5% non-elective contribution to all eligible employees and also matches dollar for dollar the first 5% of the employees' contributions. Newly hired employees on or after January 1, 2012, will have the university non-elective contribution subject to a four year vesting schedule. Employees hired on or after January 1, 2019, are subject to a one year waiting period counted under the lapsed time method. Benefits commence upon termination or retirement and pre-retirement survivor death benefits are also provided. Charges to operating expenses for the university's share of costs were approximately \$186,888,000 and \$181,478,000 during the years ended June 30, 2020 and 2019, respectively.

Retirement benefits for employees of USC Verdugo Hills Hospital, Las Vegas Culinary Health Center and University Physician Associates are provided by a defined contribution 401(k) plan through Fidelity Investments. Until August 2011, the Keck and Norris hospital employees covered under a collective bargaining agreement with California Nurses Association were also covered under this 401(k) plan. Until January 2017, the National Union of Healthcare Workers ("NUHW") employees at Keck and Norris hospitals were also covered under this 401(k) plan. Under the 401(k) defined contribution plan, participants make contributions to purchase a variety of mutual funds.

Effective January 2018, the university contribution to the 401(k) plan is made on a paycheck-by-paycheck basis. Prior to this, the university made its contribution in a lump sum following the end of the calendar year and matched 100% of the participants' contributions up to 4% of eligible earnings, providing the participant was employed on the last day of the calendar year. In addition, the university made a 1% retiree medical benefit contribution to all NUHW participants who were both employed on the last day of the calendar year and worked 1,500 hours in that calendar year. The university contribution is subject to a five year vesting schedule, although previously credited years prior to the Tenet, Las Vegas and Verdugo acquisitions have been carried over. Benefits commence at age 59 1/2, termination of employment or retirement. Pre-retirement survivor death benefits are also provided. Charges to operating activities expenses for the university's share of costs were approximately \$0 and \$0 during the years ended June 30, 2020 and 2019, respectively.

Notes to Consolidated Financial Statements

Note 11. (continued)

Retirement benefits for non-exempt university employees are provided through a noncontributory defined benefit pension plan, the USC Support Staff Retirement Plan ("Plan"). The following table sets forth the Plan's funded status at June 30 (in thousands):

Changes in Projected Benefit Obligation	2020	2019
Benefit obligation at end of prior year	\$148,165	\$229,537
Interest cost	5,372	8,779
Actuarial gain	20,659	30,498
Annuity purchase for plan participants	-	(108,958)
Benefits paid	(1,379)	(11,691)
	\$172,817	\$148,165
Change in Plan Assets		
Fair value of plan assets at the end of prior year	\$126,672	\$208,841
Actual return on plan assets	17,913	16,481
Employer contribution	-	22,000
Annuity purchase for plan participants	1,260	(108,958)
Benefits paid	(1,379)	(11,691)
	\$144,466	\$126,673
Reconciliation of Funded Status		
Accumulated benefit obligation at end of year	(\$172,817)	(\$148,165)
Projected benefit obligation at end of year	(172,817)	(148,165)
Fair value of plan assets at end of year	144,466	126,672
Funded status	(\$28,351)	(\$21,493)
Components of Net Periodic Benefit Cost		
Interest cost	\$5,372	\$8,779
Expected return on plan assets	(6,661)	(10,300)
Amortization of net loss	3,512	3,702
Settlement	-	33,781
Total benefit cost	\$2,223	\$35,962
Amounts recognized in the Statement of Financial Position		
Accrued liabilities	(\$28,351)	(\$21,493)
Amounts not yet recognized as components of Net Periodic Benefit Cost		
Net loss	\$52,855	\$48,219

Notes to Consolidated Financial Statements

Note 11. (continued)

Changes in the net reduction to Without Donor Restrictions	2020	2019
Net loss	\$8,148	\$24,318
Amortization of net (gain)	(3,512)	(3,702)
Recognition of net (gain) due to settlement	-	(33,781)
Total benefit cost	\$4,636	(\$13,165)

The estimated net loss/(gain) and prior service cost for the Plan that will be recognized as components of net periodic benefit cost over the next fiscal year is \$3,854,000.

The Plan was amended to freeze benefit accruals for all remaining active union participants effective December 23, 2009, and to provide full vesting for those participants. On April 5, 2019, a payment of \$108,957,844 was made to purchase annuities for 1,720 retirees and beneficiaries who were receiving monthly benefit payments from the Plan, and thereby transferring the responsibility for payment of the pension benefits to the insurance company. The effect of the settlement was determined based on a measurement date of March 31, 2019, in accordance with ASC 715-30-35-66A. As a result of the annuity purchase, 44.15% of the benefit obligation for the Plan was settled, and a prorata portion of the net actuarial loss was recognized in expense, resulting in additional pension expense during fiscal 2019 of \$33,781,181.

Weighted-average assumptions used to determine net periodic benefit cost for year ended June 30:

	2020	2019
Discount rate	3.65%	4.40%
Expected return on plan assets	5.30%	5.70%
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net year-end benefit obligations at June 30:

	2020	2019
Discount rate	2.90%	3.65%
Rate of compensation increase	N/A	N/A

Plan Assets

In managing the Plan assets, the university's objective is to be a responsible fiduciary while minimizing financial risk. Plan assets include a diversified mix of fixed income securities and equity securities across a range of sectors and levels of capitalization to maximize the long-term return for a prudent level of risk. In addition to producing a reasonable return, the investment strategy seeks to minimize the volatility in the university's expense and cash flow. The target allocation for pension benefit plan assets is 40% equity securities and 60% fixed income securities.

As described in Note 1, the university uses a hierarchy to report invested assets, including the invested assets of the Plan. Following is a description of the valuation methodologies used for assets measured at fair value.

Notes to Consolidated Financial Statements

Note 11. (continued)

Fair Value

The Plan's interest in collective trusts is valued based on the net asset value information reported by the investment advisor. The fund is valued at the normal close of trading on the New York Stock Exchange every day the exchange is open (a "Business Day"). Equity securities are valued at the official closing price of, or the last reported sales price on, the exchange or market on which such securities are traded, as of the close of business on the day the securities are being valued or at the last available bid price. In cases where equity securities are traded on more than one exchange, the securities are valued on the exchange or market determined to be the most representative market, which may be either a securities exchange or the over-the-counter market. Short-term investments are carried at fair value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

At June 30, 2020, a summary of fair value measurements by level for Plan investments measured at fair value on a recurring basis is as follows (in thousands):

	Level I	Level II	Level III	NAV	Total
Collective Trust Funds:					
Short-term investment fund		\$1,320			\$1,320
Equity securities		57,160			57,160
Fixed income securities		85,986			85,986
Total		\$144,466			\$144,466

At June 30, 2019, a summary of fair value measurements by level for investments measured at fair value on a recurring basis is as follows (in thousands):

	Level I	Level II	Level III	NAV	Total
Collective Trust Funds:					
Short-term investment fund		\$3,637			\$3,637
Equity securities		46,715			46,715
Fixed income securities		76,321			76,321
Total		\$126,673			\$126,673

Allocation of Assets

The year-end asset allocation, which approximates the weighted-average allocation for the Plan assets as of June 30 and in comparison to target percentages for each asset category, is as follows:

Asset Category	Actual at	Target at	Actual at	Target at
	June 30, 2020	June 30, 2020	June 30, 2019	June 30, 2019
Short-term investment fund	1.0%	0.0%	2.9%	0.0%
Equity securities	40.0%	40.0%	36.9%	40.0%
Fixed income securities	59.0%	60.0%	60.2%	60.0%
Total	100.0%	100.0%	100.0%	100.0%

Notes to Consolidated Financial Statements

Note 11. (continued)

The portfolio is evaluated annually or when the actual allocation percentages are plus or minus 2% of the stated target allocation percentages. Changes in policy may be indicated as a result of changing market conditions or anticipated changes in the pension plan's needs. Prohibited transactions include investment transactions prohibited by the Employee Retirement Income Security Act of 1974 and speculative investments including commodities or unregistered stock without specific prior approval by the university's Investment Committee.

Contributions

No contribution to the plan is required to be made during the fiscal year ending June 30, 2020. At this time, it is anticipated that the university will make discretionary contributions to the pension plan during the next fiscal year, although the total amount of such contributions has not yet been determined.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

	Fiscal Year Ending June 30
2021	\$3,157
2022	3,966
2023	4,700
2024	5,421
2025	6,070
2026-2030	38,307

Notes to Consolidated Financial Statements

Note 12.

Net Assets:

The university's net assets as of June 30, 2020, includes the following (in thousands):

Nature of Specific Net Assets	Without Donor Restrictions	With Donor Restrictions	Year Ended
			June 30, 2020
			Total Net Assets
Internally reserved	\$1,120,119		\$1,120,119
Donor-restricted		\$59,291	59,291
Pledges		439,888	439,888
Unexpended endowment income	327,914		327,914
Annuity and living trusts		165,533	165,533
Donor-restricted endowment funds		4,408,725	4,408,725
Board-designated endowment funds	1,505,633		1,505,633
Debt service funds	128,646		128,646
Invested in plant	1,278,553		1,278,553
Total	\$4,360,865	\$5,073,437	\$9,434,302

The university's net assets as of June 30, 2019, includes the following (in thousands):

Nature of Specific Net Assets	Without Donor Restrictions	With Donor Restrictions	Year Ended
			June 30, 2019
			Total Net Assets
Internally reserved	\$1,030,039		\$1,030,039
Donor-restricted		\$55,154	55,154
Pledges		462,329	462,329
Unexpended endowment income	302,203		302,203
Annuity and living trusts		169,328	169,328
Donor-restricted endowment funds		4,222,348	4,222,348
Board-designated endowment funds	1,517,217		1,517,217
Debt service funds	120,696		120,696
Invested in plant	1,308,848		1,308,848
Total	\$4,279,003	\$4,909,159	\$9,188,162

Notes to Consolidated Financial Statements

Note 13.

Functional Expenses:

Expenses are presented below by functional classification in accordance with the overall service mission of the university. Each functional classification displays all expenses related to the underlying operations by natural classification. Depreciation expense is allocated based on square footage occupancy. Interest expense on external debt is allocated to the functional categories which have benefited from the proceeds of the external debt. Plant operations and maintenance represents space related costs which are allocated to the functional categories directly and/or based on the square footage occupancy. See Note 1 for the impact to fiscal year 2019 financial information related to the adoption of ASU 2017-07.

For the year ended June 30, 2020, functional expense consists of the following (in thousands):

	Academic, Health Care and Student Services	Support Services	Fundraising Activities	Year Ended June 30, 2020
Compensation	\$2,225,842	\$359,546	\$34,136	\$2,619,524
Fringe benefits	569,656	114,667	11,204	695,527
Operating expenses	1,111,219	562,802	13,493	1,687,514
Cost of goods sold	80,009	32,355		112,364
Travel	38,354	9,146	673	48,173
Allocations:				
Depreciation	200,727	94,369	1,847	296,943
Interest	21,785	43,107		64,892
Plant operations and maintenance	165,169	(167,999)	2,830	
Total	\$4,412,761	\$1,047,993	\$64,183	\$5,524,937

For the year ended June 30, 2019, functional expense consists of the following (in thousands):

	Academic, Health Care and Student Services	Support Services	Fundraising Activities	Year Ended June 30, 2019
Compensation	\$2,040,161	\$340,824	\$32,563	\$2,413,548
Fringe benefits	578,002	111,633	11,011	700,646
Operating expenses	1,100,015	858,153	14,865	1,973,033
Cost of goods sold	85,483	43,982		129,465
Travel	48,734	10,640	778	60,152
Allocations:				
Depreciation	188,348	91,127	1,684	281,159
Interest	21,239	43,085		64,324
Plant operations and maintenance	162,475	(165,365)	2,890	
Total	\$4,224,457	\$1,334,079	\$63,791	\$5,622,327

Notes to Consolidated Financial Statements

Note 14.

Commitments and Contingencies

Contractual commitments for educational plant amounted to approximately \$75,743,000 and \$104,934,000 at June 30, 2020 and 2019, respectively. It is expected that the resources to satisfy these commitments will be provided from certain unexpended plant net assets, anticipated contributions and/or debt proceeds.

During the year ended June 30, 2007, the university entered into an agreement with the County of Los Angeles to provide professional services at Los Angeles County+USC Medical Center. Under the terms of the agreement, the contract automatically renews on an annual basis unless either party gives four years' notice of the termination. To date, no such notice has been provided by either party.

The university is contingently liable as guarantor on certain obligations relating to equipment loans, student and parent loans, and various campus organizations.

The university has a broad portfolio of civil litigation, which reflects the complexity of the higher education environment and the diversity of issues facing universities today. Among other matters, these include lawsuits regarding the retirement plan, research and faculty recruitment, student disciplinary matters, athletic injuries, inappropriate touching, tuition refund, medical malpractice, and employment litigation. In preparing these financial statements, management reviewed the entire litigation portfolio with the assistance of legal counsel and in accordance with ASC 450, Contingencies, and recorded a contingent liability on the consolidated balance sheets to properly account for the entire litigation portfolio.

Of note, during fiscal years ended June 30, 2019 and 2020, the university was named in additional civil lawsuits in connection with alleged misconduct by a physician who was previously employed by the university and practiced at the university student health center; this individual was alleged to have engaged in inappropriate conduct and made inappropriate statements to patients. On February 25, 2020, the court in the federal class action litigation issued final approval of a \$215 million settlement, plus attorneys' fees not to exceed \$25 million. The balance of the claims are currently being processed in accordance with the terms of the federal settlement and are expected to be resolved in the first quarter of 2021. As of June 30, 2020, approximately 800 individuals have opted out of the federal class action settlement, and of these, approximately 760 are plaintiffs in active state court cases.

Management has assessed the risk of loss related to the alleged misconduct above together with other litigation and for those matters deemed estimable and probable has accrued expenses included in operating expenses in the consolidated statements of activities. As of June 30, 2020, \$108.5 million has been recovered in indemnity payments from the university's insurers in connection with this litigation. While the university continues to expect that an additional portion of the settlement accrual and the liability will be covered by insurance, there can be no guarantee of the ultimate amount of coverage. Amounts of future insurance reimbursements are unknown as of June 30, 2020, and as a result no insurance recovery accruals have been recorded in the 2019 and 2020 consolidated financial statements. The university recognizes that the ultimate outcome of these matters may be different than the estimates made in the consolidated financial statements as of and for the years ended June 30, 2019 and 2020, and those differences may be material to the university's financial position.

During the fiscal year ended June 30, 2020, the university was named in civil putative class action lawsuits that assert various legal claims seeking a partial refund of tuition and fees as a result of the university's campus closure and transition to remote instruction in response to COVID-19 starting midway through the Spring 2020 semester and continuing to the present. Although the outcome of this litigation is difficult to predict, the university believes it has strong defenses to these lawsuits and has not recorded any liabilities in relation to these lawsuits at this time.

Notes to Consolidated Financial Statements

Note 15.

Grants and Contracts:

Executed contracts, grants, subcontracts and cooperative agreements for future sponsored research activity which are not reflected in the consolidated financial statements at June 30 are summarized as follows (in thousands):

	2020	2019
Current sponsored awards	\$1,165,773	\$780,063
Executed grants and contracts for future periods	1,325,318	1,414,199
Total	\$2,491,091	\$2,194,262

Note 16.

Related Parties

Members of the Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the university. For senior management, the university requires annual disclosure of significant financial interest in entities doing business with the university. These annual disclosures cover both senior management and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the university. The university has a written conflict of interest policy that requires, among other things, that no member of the Board of Trustees can participate in any decision in which he or she or an immediate family member has a material financial interest. Each trustee is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether the university does business with an entity in which a trustee has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring the recusal of the conflicted trustee and that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the university, and in accordance with applicable conflict of interest laws.

Note 17.

Subsequent Events

The university has performed an evaluation of subsequent events through November 23, 2020, which is the date the financial statements were issued.

Events Subsequent to Original Issuance of Financial Statements (Unaudited)

In connection with the reissuance of the financial statements, the university has evaluated subsequent events through March 31, 2021, the date the financial statements were reissued.

As described in Note 14. Commitments and Contingencies, as of June 30, 2020, approximately 800 individuals opted out of the federal class action settlement, and approximately 766 of these individuals filed lawsuits in state court. Subsequent to June 30, 2020 approximately 56 of these individuals had their cases resolved through settlement or dismissal. On March 25, 2021, the university and counsel for the remaining 710 state court plaintiffs announced that they had reached a global settlement agreement in the amount of \$851,600,000. The settlement will be paid in two equal payments, with the first to be made by August 15, 2021, and the second to be made by August 15, 2022. Pursuant to the settlement agreement, the university will obtain a letter of credit in the amount of \$421,200,000 established in plaintiffs' favor by August 15, 2021. This settlement agreement is expected to resolve all outstanding claims asserted against the university by patients related to this matter.

Consolidated Balance Sheets

in thousands

	June 30, 2021	June 30, 2020
Assets		
1 Cash and cash equivalents	\$1,075,383	\$1,816,338
2 Accounts receivable, net	576,233	482,155
3 Notes receivable, net	46,949	55,642
4 Pledges receivable, net	377,926	439,888
5 Investments	9,486,609	6,816,264
6 Inventories, prepaid expenses and other assets	421,282	355,247
7 Right-of-use assets - operating leases	230,117	-
8 Property, plant and equipment, net	4,498,491	4,529,893
9 Total Assets	\$16,712,990	\$14,495,427
Liabilities		
10 Accounts payable	\$256,613	\$245,925
11 Accrued liabilities	1,798,636	1,567,833
12 Refundable advances	39,135	22,786
13 Deposits and deferred revenue	227,519	301,165
14 Revolving line of credit	-	500,000
15 Actuarial liability for annuities payable	99,712	92,834
16 Federal student loan funds	45,410	53,067
17 Asset retirement obligations	145,883	139,227
18 Operating lease obligations	239,100	-
19 Finance lease obligations	82,609	77,545
20 Bonds and notes payable	2,441,248	2,042,413
21 Other liabilities	19,468	18,330
22 Total Liabilities	5,395,333	5,061,125
Net Assets		
23 Without donor restrictions	4,600,715	4,360,865
24 With donor restrictions	6,716,942	5,073,437
25 Total Net Assets	11,317,657	9,434,302
26 Total Liabilities and Net Assets	\$16,712,990	\$14,495,427

The accompanying notes are an integral part of these statements.

Consolidated Statements of Activities

in thousands

	Year Ended June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Operating			
Revenues:			
1 Net student tuition and fees	\$1,620,730		\$1,620,730
2 Health care services	2,032,338		2,032,338
3 Contracts and grants	699,346		699,346
4 Auxiliary enterprises	249,787		249,787
5 Sales and services	170,922		170,922
6 Contributions	284,573		284,573
7 Other	120,766		120,766
8 Allocation of endowment spending	262,065		262,065
9 Total Revenues	5,440,527		5,440,527
10 Net assets released from restrictions	95,207	(95,207)	
11 Total Revenues and Reclassifications	5,535,734	(95,207)	5,440,527
Expenses:			
12 Salaries and benefits	3,312,828		3,312,828
13 Operating expenses	1,748,051		1,748,051
14 Depreciation	296,943		296,943
15 Interest on indebtedness	64,892		64,892
16 Total Expenses before Insurance recoveries and Settlement	5,422,714		5,422,714
Increase (decrease) in Net Assets from Operating Activities before Insurance recoveries and Settlement			
17 Insurance recoveries (refer to Note 14)	108,500		108,500
Increase (decrease) in Net Assets from Operating Activities before Settlement			
18 Settlement (refer to note 14)	(100,000)		(100,000)
19 Settlement	221,520	(95,207)	126,313
20 Settlement (refer to note 14)	(100,000)		(100,000)
21 Increase (decrease) in Net Assets from Operating Activities	121,520	(95,207)	26,313
Non-operating			
22 Allocation of endowment spending to operations	(103,414)	(158,651)	(262,065)
23 Changes in funding status of defined benefit plan	(4,636)		(4,636)
24 Other components of net periodic benefit costs	(2,223)		(2,223)
25 Investment and endowment income	56,455	457	56,912
26 Net appreciation in fair value of investments	25,306	252,057	277,363
27 Contributions	5,211	157,132	162,343
28 Present value adjustment to annuities payable		8,490	8,490
29 Loss on bond refunding	(16,357)		(16,357)
30 (Decrease) increase in Net Assets from Non-operating Activities	(39,658)	259,485	219,827
31 Total increase in Net Assets	81,862	164,278	246,140
32 Beginning Net Assets	4,279,003	4,909,159	9,188,162
33 Ending Net Assets	\$4,360,865	\$5,073,437	\$9,434,302

Consolidated Statements of Activities

in thousands

			Year Ended June 30, 2021	Year Ended June 30, 2020
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets	Total Net Assets
Operating				
Revenues:				
1 Net student tuition and fees	\$1,580,621		\$1,580,621	\$1,620,730
2 Health care services	2,262,870		2,262,870	2,032,338
3 Contracts and grants	675,011		675,011	699,346
4 Auxiliary enterprises	50,794		50,794	249,787
5 Sales and services	143,206		143,206	170,922
6 Contributions	278,554		278,554	284,573
7 Other	85,872		85,872	120,766
8 Allocation of endowment spending	275,902		275,902	262,065
9 Total Revenues	5,352,830		5,352,830	5,440,527
10 Net assets released from restrictions	159,435	(\$159,435)		
11 Total Revenues and Reclassifications	5,512,265	(159,435)	5,352,830	5,440,527
Expenses:				
12 Salaries and benefits	3,240,562		3,240,562	3,312,828
13 Operating expenses	1,867,776		1,867,776	1,748,051
14 Depreciation	306,782		306,782	296,943
15 Interest on indebtedness	84,128		84,128	64,892
16 Total Expenses before Insurance recoveries and Settlement	5,499,248		5,499,248	5,422,714
Increase (decrease) in Net Assets from Operating Activities before				
17 Insurance recoveries and Settlement	13,017	(159,435)	(146,418)	17,813
18 Insurance recoveries (refer to Note 14)	10,000		10,000	108,500
Increase (decrease) in Net Assets from Operating Activities				
19 before Settlement	23,017	(159,435)	(136,418)	126,313
20 Settlement (refer to Note 14)	(450,000)		(450,000)	(100,000)
21 (Decrease) increase in Net Assets from Operating Activities	(426,983)	(159,435)	(586,418)	26,313
Non-operating				
22 Allocation of endowment spending to operations	(102,246)	(173,656)	(275,902)	(262,065)
23 Changes in funding status of defined benefit plan	18,471		18,471	(4,636)
24 Other components of net periodic benefit costs	(1,246)		(1,246)	(2,223)
25 Investment and endowment income	40,174	2,134	42,308	56,912
26 Net appreciation in fair value of investments	706,887	1,746,207	2,453,094	277,363
27 Contributions	4,793	240,598	245,391	162,343
28 Present value adjustment to annuities payable		(12,343)	(12,343)	8,490
29 Loss on bond refunding				(16,357)
30 Increase in Net Assets from Non-operating Activities	666,833	1,802,940	2,469,773	219,827
31 Total increase in Net Assets	239,850	1,643,505	1,883,355	246,140
32 Beginning Net Assets	4,360,865	5,073,437	9,434,302	9,188,162
33 Ending Net Assets	\$4,600,715	\$6,716,942	\$11,317,657	\$9,434,302

Consolidated Statements of Cash Flows

in thousands

	Year Ended June 30, 2021	Year Ended June 30, 2020
Cash Flows from Operating Activities		
1 Change in Net Assets	\$1,883,355	\$246,140
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
2 Depreciation	306,782	296,943
3 Loss (gain) on the disposal/sale of plant assets	4,793	(230)
4 In-kind receipt of property, plant and equipment	(213)	(532)
5 Present value adjustment to annuities payable	12,294	(8,270)
6 Increase in accounts receivable	(94,078)	(10,444)
7 Decrease in pledges receivable	61,962	22,441
8 Increase in inventories, prepaid expenses and other assets	(98,211)	(42,186)
9 Increase in right-of-use assets - operating leases	(230,117)	-
10 Increase (decrease) in accounts payable	16,243	(67,149)
11 Increase in accrued liabilities	271,089	326,629
12 Increase in refundable advances	16,349	1,309
13 (Decrease) increase in deposits and deferred revenue	(73,646)	44,099
14 Increase in other liabilities	1,138	11,638
16 Increase in operating lease obligation	239,100	-
15 Increase in finance lease obligation	5,064	-
17 Loss on bond refunding	-	16,357
18 Contributions received for property, plant and equipment and permanent investment	(204,132)	(100,544)
19 Net realized gain on sale of investments	(566,354)	(506,536)
20 Net unrealized (appreciation) depreciation in investments	(1,887,118)	229,265
21 Net Cash (used) provided by Operating Activities	(335,700)	458,930
Cash Flows from Investing Activities		
22 Proceeds from note collections	11,623	12,378
23 Notes issued	(2,763)	(6,436)
24 Proceeds from sale and maturity of investments	3,864,419	6,576,709
25 Purchase of investments	(4,090,736)	(6,823,883)
26 Purchase of property, plant and equipment	(274,948)	(428,208)
27 Net Cash used in Investing Activities	(492,405)	(669,440)
Cash Flows from Financing Activities		
Contributions received for permanent investment:		
28 Endowment	109,641	76,234
29 Plant	94,601	22,846
30 Trusts and other	(110)	1,464
31 Repayment of finance lease obligation	(3,909)	-
32 Repayment of long-term debt	-	(1,540)
33 Revolving line of credit	(500,000)	500,000
34 Proceeds from issuance of long-term debt	400,000	403,812
35 Decrease in federal student loan funds	(7,657)	(14,869)
36 Investment gain on annuities payable	3,643	6,153
37 Payment on annuities payable	(10,788)	(11,380)
38 Increase to annuities payable resulting from new contributions	1,729	1,889
39 Net Cash provided by Financing Activities	87,150	984,609
40 Net (decrease) increase in Cash and Cash equivalents	(740,955)	774,099
41 Cash and Cash equivalents at beginning of year	1,816,338	1,042,239
42 Cash and Cash equivalents at end of year	\$1,075,383	\$1,816,338

The accompanying notes are an integral part of these statements.

SCHEDULE 5.6(a)

REAL PROPERTY – ENCUMBRANCES

None.

SCHEDULE 5.8(a)(ii)

EMPLOYEES AND EMPLOYEE RELATIONS

1. **California Nurses Association:** 1,423 members
CBA May 1, 2017 – April 30, 2021 (Expired)
Note: Contract renewal negotiations are in progress
2. **Unite Here Local 11:** 11 members
CBA July 1, 2019 – June 30, 2023
3. **National Union of Healthcare Workers:** 1,499 members
CBA May 1, 2021 – April 30, 2024
 - o Keck Hospital of USC and USC Norris Cancer Hospital
 - o USC Care and Ambulatory Services
 - o Alhambra Call Center

SCHEDULE 5.9

EMPLOYEE BENEFIT PLANS

Eligible employees are provided benefit plan offerings that align with the employee’s reporting organization or home department. In some cases, the employee status, Union affiliation, and/or pay class of the employee may further impact the benefits available and associated premium costs. The following review of benefit plans is illustrative of the typical array of programs available to similarly situated employees that meet eligibility criteria. Reporting organizations/home departments are identified in **bold text**.

Keck Medicine of USC

Retirement Benefits: USC Retirement Savings 403(b) Retirement Program, 5% non-elective contribution and 100% pre-tax or Roth contributions up to 5%

Health Plans: Anthem MyChoice HMO (certain Union employees only), Anthem HMO, Kaiser Permanente HMO, USC EPO, USC EPO+, USC PPO

Non-Medical Benefits: Dental (United Concordia, Delta Dental), Vision (VSP), Health Care FSA, Dependent Care FSA, Accident (MetLife), Critical Illness (MetLife), Hospital Indemnity (MetLife), Legal (MetLife), Basic and Supplemental Life Insurance (MetLife), Tuition Assistance Program (as applicable)

Severance: Employees of Keck Medicine of USC may be eligible for a severance program in certain circumstances. Generally, the severance program provides:

- Employees with four or fewer completed years of cumulative service receive four weeks of severance pay and health insurance subsidy
- Employees with five or more completed years of cumulative service receive one week of severance pay for each full year of cumulative service and health insurance subsidy

CBA Representation: See SCHEDULE 5.8(a)(ii) EMPLOYEES AND EMPLOYEE RELATIONS.

Time Off: USC-provided Holiday, Sick, Vacation, and Winter Recess for Staff Employees (unless otherwise provided PTO within Union CBAs)

- University-provided Holidays (though recognized, certain departments may be required to work on these dates):
 - New Year’s Day
 - Martin Luther King Day
 - Presidents’ Day
 - Memorial Day
 - Independence Day
 - Labor Day
 - Thanksgiving (and Day-After Thanksgiving)
 - Christmas
- Sick Time

	Hours/Workweek	Hours Accrued Per Pay Period	Maximum Hours Accrued
--	----------------	------------------------------	-----------------------

Biweekly Pay Cycle	37.5	3.47	90
	40	3.70	96
	36 (3/12 alternative schedule)	3.33	86.4
Monthly Pay Cycle	37.5	7.5	90
	40	8	96

- Vacation Time
 - Upon Hire – Four-Years of Service: accrue vacation equivalent to 12 working days per year, with a maximum of 24 working days
 - Five-Years – Nine-Years of Service: accrue vacation equivalent to 18 working days per year, to a maximum of 36 working days
 - Following 10-Years of Service: staff accrue vacation equivalent to 24 working days per year, to a maximum of 48 working days

- Winter Recess
 - 24-hours of Winter Recess

University of Southern California

Retirement Benefits: USC Retirement Savings Program, 5% non-elective contribution and 100% pre-tax or Roth contributions up to 5%

Health Plans: Anthem HMO, Kaiser Permanente HMO, USC EPO, USC EPO+, USC PPO

Non-Medical Benefits: Dental (United Concordia, Delta Dental), Vision (VSP), Health Care FSA, Dependent Care FSA, Accident (MetLife), Critical Illness (MetLife), Hospital Indemnity (MetLife), Legal (MetLife), Basic and Supplemental Life Insurance (MetLife), Tuition Assistance Program (as applicable)

Severance: Employees of the University of Southern California may be eligible for a severance program in certain circumstances. Generally, the severance program provides:

- Employees with four or fewer completed years of cumulative service receive four weeks of severance pay and health insurance subsidy
- Employees with five or more completed years of cumulative service receive one week of severance pay for each full year of cumulative service and health insurance subsidy

CBA Representation: See SCHEDULE 5.8(a)(ii) EMPLOYEES AND EMPLOYEE RELATIONS.

Time Off: USC-provided Holiday, Sick, Vacation, and Winter Recess for Staff Employees (unless otherwise provided PTO within Union CBAs)

- University-provided Holidays (though recognized, certain departments may be required to work on these dates):
 - New Year’s Day
 - Martin Luther King Day
 - Presidents’ Day
 - Memorial Day
 - Independence Day
 - Labor Day

- Thanksgiving (and Day-After Thanksgiving)
- Christmas
- Sick Time

	Hours/Workweek	Hours Accrued Per Pay Period	Maximum Hours Accrued
Biweekly Pay Cycle	37.5	3.47	90
	40	3.70	96
	36 (3/12 alternative schedule)	3.33	86.4
Monthly Pay Cycle	37.5	7.5	90
	40	8	96

- Vacation Time
 - Upon Hire – Four-Years of Service: accrue vacation equivalent to 12 working days per year, with a maximum of 24 working days
 - Five-Years – Nine-Years of Service: accrue vacation equivalent to 18 working days per year, to a maximum of 36 working days
 - Following 10-Years of Service: staff accrue vacation equivalent to 24 working days per year, to a maximum of 48 working days
- Winter Recess
 - 37.5-hour workweek = 30 hours of Winter Recess
 - 40-hour workweek = 32 hours of Winter Recess

Verdugo Hills Hospital of USC

Retirement Benefits: Keck Medicine of USC 401(k) Retirement Plan, 100% match of pre-tax or Roth contributions up to 4%

Health Plans: Verdugo Hills PPO Plan

Non-Medical Benefits: USC Verdugo Hills Dental Plan, USC Verdugo Hills Vision Plan, Health Care FSA, Dependent Care FSA, Accident (MetLife), Critical Illness (MetLife), Hospital Indemnity (MetLife), Legal (MetLife), Basic and Supplemental Life Insurance (MetLife), Tuition Assistance Program (as applicable)

Severance: Employees of Verdugo Hills Hospital of USC may be eligible for a severance program in certain circumstances. Generally, the severance program provides:

- Employees with four or fewer completed years of cumulative service receive four weeks of severance pay and health insurance subsidy
- Employees with five or more completed years of cumulative service receive one week of severance pay for each full year of cumulative service and health insurance subsidy

CBA Representation: See SCHEDULE 5.8(a)(ii) EMPLOYEES AND EMPLOYEE RELATIONS.

Time Off: USC-provided Holiday, Sick, Vacation, and Winter Recess for Staff Employees (unless otherwise provided PTO within Union CBAs)

Paid Time Off

Vacation 15 days

Holidays 9 days

Sick 6 days

Winter Recess 0 days

Total: 30 days

SCHEDULE 5.9(d)(i)

BENEFIT PLANS - COMPLIANCE

None.

SCHEDULE 5.9(d)(ii)
MULTIEMPLOYER PLANS

None.

SCHEDULE 5.9(f)

BENEFIT PLANS – PENDING ACTIONS

Munro, et al. v. USC, et al. - This is an ERISA class-action in which current and former university employees allege that the university's Retirement Plan Oversight Committee mismanaged two retirement plans, breaching fiduciary duties of loyalty and prudence. The parties are currently engaging in discovery. The case is before the Honorable Virginia A. Phillips in the Central District of California Federal Court.

SCHEDULE 5.9(g)

BENEFIT PLANS – FORMER EMPLOYEES

None.

SCHEDULE 5.9(h)

ACCELERATED PAYMENTS

None.

SCHEDULE 5.12
CERTAIN AFFILIATIONS

None.

Schedules to Affiliation Agreement

Attached.

Schedule 9.1(e)

Government Authorizations

1. Notice to and consent of the Office of the California Attorney General in accordance with Sections 5914 et seq. of the California Corporations Code.
2. Notification and Report Form to be filed with, and consent to be obtained from, the Federal Trade Commission pursuant to Hart-Scott-Rodino Antitrust Improvements Act of 1976.
3. New License Application to be filed with, and consent to be obtained from, the California Board of Pharmacy with respect to hospital pharmacy permit and sterile compounding permit held by Methodist.
4. Change of Ownership Application to be filed with, and consent to be obtained from, the California Department of Public Health – Laboratory Field Services Division with respect to each biologics (blood bank license) and tissue bank license held by Methodist.
5. Change of Ownership Application to be filed with, and consent to be obtained from, the Department of Social Services – Community Licensing Division with respect to the issued child care license held by Methodist.
6. Change of Ownership Notification Letter to be sent to the California Department of Public Health – Radioactive Materials Division with respect to the radioactive materials license held by Methodist.
7. Change of Ownership Application to be filed with, and consent to be obtained from, the Federal Communications Commission with respect to the radio station registration held by Methodist.
8. Change of Ownership Notification and description of the affiliation to be sent to The Joint Commission, with respect to the hospital accreditation held by Methodist.
9. Notification of affiliation to be sent to, and consent to be obtained from, the County of Los Angeles Department of Health and Human Services with respect to the comprehensive stroke system certification held by Methodist.

Schedule 9.1(f)

Third Party Approvals

1. Consent pursuant to that certain County of Los Angeles for Comprehensive Stroke System by and between Methodist Hospital of Southern California and County of Los Angeles Department of Health and Human Services, dated August 31, 2018, as amended by Amendment No.1 dated August 31, 2018, and Amendment No. 2 dated June 28, 2019.
2. Consent pursuant to that certain County of Los Angeles Hospital Preparedness Program Agreement by and between Methodist Hospital of Southern California and County of Los Angeles Department of Health and Human Services, dated January 1, 2018, as amended by Amendment No. 1 dated January 1, 2018.
3. Consent pursuant to that certain MRI Maintenance Agreement by and between Methodist Hospital of Southern California and GE Healthcare, dated May 1, 2015.
4. Financial Services Agreement by and between Methodist Hospital of Southern California and RelayHealth Financial Services, dated September 19, 2016.
5. Consent pursuant to that certain Master Trust Indenture dated as of December 1, 2018, by and between Methodist Hospital of Southern California and the Bank of New York Mellon Trust Company, N.A.
6. Consent pursuant to that certain Term Loan Agreement dated as of May 15, 2020, by and between Methodist Hospital of Southern California and JPMorgan Chase Bank, National Association.
7. Consent for assignment pursuant to that certain Premises Lease Agreement, by and between the City of Arcadia (as Lessor) and Methodist Hospital of Southern California (as Lessee) dated May 28, 1953, for the hospital premises located at 300 West Huntington Drive, Arcadia, California, as amended by that certain First Amendment dated August 9, 1955, that Second Amendment dated July 5, 1956, that Third Amendment to Lease dated September 18, 1961, that Fourth Amendment to Lease dated December 23, 1963, that Fifth Amendment to Agreement and Lease dated August 5, 1980, that Sixth Amendment dated February 1, 2009, that Seventh Amendment dated November 18, 2015, and that Eighth Amendment dated [DATE].
8. Premises Lease Agreement, by and between Windrose Santa Anita Properties, LLC (as Landlord) and Methodist Hospital of Southern California (as Tenant) dated September 3, 2013, as amended by the First Amendment dated December 20, 2013 and Second Amendment dated January 31, 2019, for Tenant Suite 618 in the Santa Anita Medical Plaza located at 301 W. Huntington Drive, Arcadia, California.
9. Notice pursuant to that certain Facility Participation Agreement, by and among UnitedHealthcare of California, UnitedHealthcare Benefits Plan of California and other United Affiliates, and Methodist Hospital of Southern California, dated February 1, 2017.
10. Notice pursuant to that certain Institution Agreement by and between California Physician's Services, Inc. dba Blue Shield of California and Methodist Hospital of Southern California dated November 1, 2014, as amended by that certain First Amendment dated November 1, 2014.

11. Notice pursuant to that certain PPO Hospital Agreement, by and between Preferred Health Network, Inc. and Methodist Memorial dated July 1, 1999, as amended by that certain First Amendment dated September 1, 2001.
12. Notice pursuant to that certain Managed Care Agreement, by and among Aetna US Healthcare of California Inc. and Aetna Health Management and Methodist Hospital of Southern California, dated April 1, 2002, as amended by that certain Amendment 1 dated June 1, 2004, Amendment 2 dated June 1, 2006, Amendment 3 dated July 13, 2009, and Amendment 4 dated April 1, 2016.
13. Notice pursuant to that certain Facility Agreement, by and between Blue Cross of California dba Anthem Blue Cross and Methodist Hospital of Southern California, dated June 15, 2011, as amended by that certain Amendment dated June 15, 2014, Amendment dated June 15, 2015, and Amendment dated June 15, 2016, Amendment dated November 1, 2017, and Amendment dated January 1, 2018.
14. Consent pursuant to the Fee For Service Hospital Agreement by and between California Physicians' Service, dba Blue Shield of California and Methodist Hospital of Southern California, dated January 1, 2013, as amended by that certain First Amendment dated January 1, 2015, Amendment dated October 1, 2015, Second Amendment dated January 1, 2016, Third Amendment dated January 1, 2018, and Fourth Amendment dated January 1, 2021.
15. Consent pursuant to that certain Hospital Services Agreement, by and between Universal Care, Inc. dba Brand New Day, Universal Care Medical Group, and Methodist Hospital of Southern California, dated December 1, 2013, as amended by that certain First Amendment effective January 1, 2022.
16. Notice pursuant to that certain Participating Hospital Agreement by and between Brandman Health Plan and Methodist Hospital of Southern California dated January 1, 2021.
17. Notice pursuant to that certain Hospital Services Agreement, by and between Central Health Plan of California and Methodist Hospital of Southern California, dated October 1, 2018.
18. Consent pursuant to that certain Easy Choice Health Plan Participating Provider Hospital Agreement, by and between Easy Choice Health Plan and Methodist Hospital of Southern California, dated October 1, 2015.
19. Notice pursuant to that certain Hospital Provider Services Agreement, by and among Health Net, Inc. and Affiliates and Methodist Hospital of Southern California, dated February 1, 2001, as amended by that certain Amendment dated June 1, 2013, Amendment dated January 1, 2014, Amendment dated November 1, 2014, Amendment dated August 1, 2015, and Amendment dated December 1, 2017.
20. Consent pursuant to that certain Hospital Participation Agreement, by and among Humana Health Plan, Inc., Humana Insurance Company, and Methodist Hospital of Southern California, dated July 3, 2013.
21. Consent pursuant to that certain Hospital Services Agreement, by and between DaVita Healthcare Partners Plan, Inc. and Methodist Hospital of Southern California, dated January 1, 2016, as amended by that certain Amendment 1 dated January 1, 2016, Amendment 2 dated December 1, 2016, Amendment 3 dated January 1, 2017, and Amendment 4 dated October 1, 2017.

Schedule 12.5(a)(iv)

Physician Practice Locations

1206(d) Clinics

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip Code	Practice / Office - Main Phone Number	Fax Number
1206D Ambulatory Practices									
1	Evaluation and Treatment Center (ETC)	All specialties - existing patients	1500 San Pablo St.	1st Floor	Los Angeles	CA	90033	(323) 442-9922	(323) 442-9959
2	Keck Medicine of USC - Center for Advanced Lung Disease (CALD)	Pulmonary Cystic Fibrosis Sleep Medicine	1510 San Pablo St.	Suite 514	Los Angeles	CA	90033	(323) 442-9590	(323) 865-9208
3	Keck Medicine of USC - Cardiac Vascular Surgery	Cardiac Vascular	1520 San Pablo St.	Suite 4300	Los Angeles	CA	90033	(323) 442-5908	Vascular - (323) 442-5721
4	Keck Medicine of USC - Cardiology	Cardiology	1520 San Pablo St.	Suite 4600	Los Angeles	CA	90033	(323) 865-1000	(323) 865-1010
5	Keck Medicine of USC - CVTI Clinic		1520 San Pablo St.	Suite 4300	Los Angeles	CA	90033	(323) 442-5849	CVTI Clinic: (323) 442-5956 Vascular Surgery: (323) 865-9556
6	Keck Medicine of USC - CVTI Diagnostics	Noninvasive Cardiovascular Testing	1520 San Pablo St.	Suite 4107	Los Angeles	CA	90033	(323) 442-6011	(323) 442-6005
7	Keck Medicine of USC - Cystic Fibrosis	Cystic Fibrosis	1510 San Pablo St.	Suite 514	Los Angeles	CA	90033	(323) 442-8522	(323) 442-8415

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip Code	Practice / Office - Main Phone Number	Fax Number
8	Keck Medicine of USC - Internal Medicine	Clinical Nutrition Endocrinology General Internal Medicine GI / Liver Infectious Diseases Nephrology Pulmonary Rheumatology	1520 San Pablo St.	Suite 1000	Los Angeles	CA	90033	(323) 442-5100	(323) 442-5625
9	Keck Medicine of USC - Neurology	Movement Disorder Multiple Sclerosis Epilepsy Neurophysiology Headache / Pain Memory & Aging Stroke	1520 San Pablo St.	Suite 3000	Los Angeles	CA	90033	(323) 442-5710	(323) 442-5736
10	Keck Medicine of USC - Neurosurgery	Cerebrovascular Skull base / Pituitary Tumor Epilepsy Peripheral Nerve	1520 San Pablo St.	Suite 3800	Los Angeles	CA	90033	(323) 442-5720	(323) 442-7543
11	Keck Medicine of USC - Occupational Therapy	Occupational Therapy Specialties: Edema/Lymphedema; Neurology	1500 San Pablo St.	3rd Floor	Los Angeles	CA	90033	(323) 442-8850	

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip Code	Practice / Office - Main Phone Number	Fax Number
12	Keck Medicine of USC - Occupational Therapy	Occupational Therapy Specialties: Hand & Upper Extremity Therapy; Low Vision & Vision Rehab; Neurology; Pulmonary (Cystic Fibrosis/Advanced Lung Disease); Cancer; Heart Failure	1520 San Pablo St.	Suite 2200	Los Angeles	CA	90033	(323) 442-6050	
13	Keck Medicine of USC - Orthopaedic Surgery	Sports Medicine Joint Preservation and Replacement Musculoskeletal Oncology Hand Center Foot and Ankle Center Trauma	1520 San Pablo St.	Suite 2000	Los Angeles	CA	90033	(323) 442-5860	(323) 442- 6990
14	Keck Medicine of USC - Otolaryngology - Head & Neck Surgery	Head and Neck Cancer Voice and Swallow Disorder Hearing and Balance Loss Nasal and Sinus Disease Thyroid and Parathyroid Disease Sleep Disorder Facial cosmetic and reconstruction Speech therapy Cochlear implants	1450 San Pablo St.	Suite 5100	Los Angeles	CA	90033	(323) 442-5790	(323) 442-5820
15	Keck Medicine of USC - Radiation Oncology	Radiation Oncology	1441 Eastlake Ave.	Ground Floor	Los Angeles	CA	90033	(323) 865-3050	(323) 865-0000
16	Keck Medicine of USC - Radiology		1520 San Pablo St.	Suite LL1600	Los Angeles	CA	90033	(323) 442-7450	(323) 865-9519

Execution Version

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip Code	Practice / Office - Main Phone Number	Fax Number
17	Keck Medicine of USC - Radiology - PET		1510 San Pablo St.	Suite 350	Los Angeles	CA	90033	(323) 442-5940	(323) 442-6875
18	Keck Medicine of USC - Speech Therapy	Speech Therapy Specialties: Speech/Language, Passy-Muir Valve, Voice, Swallow, Cognition	1520 San Pablo St.	Suite 2200	Los Angeles	CA	90033	(323) 442-6050	
19	Keck Medicine of USC - Spine Center	Orthopaedic Surgery Neurosurgery Physiatry / Physical Medicine	1450 San Pablo St.	Suite 5400	Los Angeles	CA	90033	(323) 442-5300	(323) 442-5301
20	Keck Medicine of USC - Sleep Disorder Center	Sleep Medicine	1500 San Pablo St.	3rd Floor	Los Angeles	CA	90033	Clinic: (323) 865-7947 Testing: (323) 442-8459	(323) 865-5624
21	Keck Medicine of USC - Transplant Center	Liver Transplant Kidney Transplant Pancreas Transplant Lung Transplant	1516 San Pablo St.	Suite 3200	Los Angeles	CA	90033	(323) 442-5908	(323) 442-5721
22	Keck Medicine of USC - Treatment Center (Los Angeles)	Oncology Hematology Blood Disorders Cancer Therapy	1516 San Pablo St.	Suite 3400	Los Angeles	CA	90033	(323) 276-3706	(323) 276-4811
23	Keck Medicine of USC - USC Institute of Urology	Urology GU Oncology	1516 San Pablo St.	Suite 3500	Los Angeles	CA	90033	(323) 865-3700	(323) 276-4815

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip Code	Practice / Office - Main Phone Number	Fax Number
24	Keck Medicine of USC - USC Roski Eye Institute	Cornea Glaucoma Retina Neuro Comprehensive Lasik Refractive surgery Oculoplastics Oncology Retinal implant Optometry	1450 San Pablo St.	Suite 4401	Los Angeles	CA	90033	(323) 442-6335	(323) 442-6338
25	Keck Medicine of USC - Women's Specialty Care	OBGYN Gynecology Oncology Breast Center & Imaging	1516 San Pablo St.	Suite 3300	Los Angeles	CA	90033	Women's Center: (323) 276-3705 Breast Imaging Center: (323) 865-3463	(323) 442-8974
26	Norris Cancer Hospital - Clinic 1,2,3,4,5,6,7	Clinical Nutrition Dermatology Hematology Oncology Medical Oncology	1441 Eastlake Ave.		Los Angeles	CA	90033	(323) 865-3000	(323) 865-9557
27	Norris Cancer Hospital - Day Hospital	Central line draw, IV Chemotherapy, Supportive Care Infusions, Blood Transfusions, Therapeutic Phlebotomy, Injections	1441 Eastlake Ave.	1st Floor	Los Angeles	CA	90033	(323) 865-3400	(323) 865-3499
28	USC Physical Therapy - Health Sciences Campus, HC2	Physical Therapy	1520 San Pablo St.	Suite 2200	Los Angeles	CA	90033	(323) 442-6050	

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip Code	Practice / Office - Main Phone Number	Fax Number
29	USC Physical Therapy - Health Sciences Campus, Keck Hospital	Physical Therapy	1500 San Pablo St.		Los Angeles	CA	90033	(323) 442-8850	
Satellites that are 1206D									
30	Keck Medicine of USC - Arcadia	Dermatology Hematology/Oncology Hepatobiliary OHNS Pain Management Rheumatology Sarcoma	125 W. Huntington Dr.	Suite A200	Arcadia	CA	91007	(626) 574-2720	(626) 574-2775
31	Keck Medicine of USC - Arcadia Radiation Oncology	Radiation Oncology	125 W. Huntington Dr.	Suite B100	Arcadia	CA	91007	(626) 574-2860	(626) 574-2897
32	Keck Medicine of USC - Arcadia Treatment Center	Hematology Oncology	125 W. Huntington Dr.	Suite A300	Arcadia	CA	91007	(626) 574-2730	(626) 574-2770
33	Keck Medicine of USC - Beverly Hills	Dermatology Neurology Urology	9033 Wilshire Blvd.	Suite 360	Beverly Hills	CA	90211	(310) 601-3366 Urology: (310) 601-2166	(310) 601-3344 Urology: (310) 601-2161
34	Keck Medicine of USC - Beverly Hills Ortho Spine	Orthopaedic Surgery Spinal Disorders	9033 Wilshire Blvd.	Suite 400	Beverly Hills	CA	90211	(310) 601-2177	(310) 601-2181
35	Keck Medicine of USC - Buena Park	Oncology Medical Oncology / Hematology	5832 Beach Blvd.	Suite 201	Buena Park	CA	90621	(714) 522-0908	(714) 522-0919
36	Keck Medicine of USC - Buena Park - Radiation Oncology	Radiation Oncology Urology	5832 Beach Blvd.	Suite 101	Buena Park	CA	90621	(714) 288-2650	(714) 288-2655

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip Code	Practice / Office - Main Phone Number	Fax Number
37	Keck Medicine of USC - Downtown Los Angeles	Dermatology Clinical Nutrition Executive Health General Internal Medicine Imaging Neurology/Headache Pulmonary Gynecology Urology	830 S Flower St.	Suite A100	Los Angeles	CA	90017	(213) 437-1000	(323) 865-9322
38	Keck Medicine of USC - Oncology Hematology - Koreatown	Oncology Hematology	500 S. Virgil Ave.	Suite 502	Los Angeles	CA	90020	(213) 388-0908	(213) 388-0919
39	Keck Medicine of USC - Pasadena	Cardiology Cardiothoracic Clinical Laboratory Clinical Nutrition Colorectal Dermatology Endocrinology Family Medicine Gyn-Onc Hepatobiliary Med-Onc Neurosurgery Nutrition Medicine and Nutrition Counseling Occupational Therapy Ophthalmology Orthopaedic Surgery Plastics & Reconstructive Surgery Rheumatology Social Services Urology Vascular Surgery	625 S Fair Oaks Ave.	Suite 400	Pasadena	CA	91105	(626) 568-1622	(323) 865-9560

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip Code	Practice / Office - Main Phone Number	Fax Number
40	Keck Medicine of USC - Huntington Beach Healthcare Center	Hematology Oncology Neurology	19582 Beach Blvd.	Suite 206	Huntington Beach	CA	92648	(714) 861-1000	(714) 861-1008
41	Keck Medicine of USC - Huntington Beach Treatment Center	Hematology Oncology Neurology	19582 Beach Blvd.	Suite 115	Huntington Beach	CA	92648	(714) 861-4334	(714) 861-4329
42	Keck Medicine of USC - USC Norris Oncology/Hematology Newport Beach	Oncology Hematology Blood Disorders Cancer Therapy	520 Superior Ave.	Suite 300	Newport Beach	CA	92663	(949) 646-6441	Main Fax: (877) 865-0887 Front Desk Fax Line: (949) 646-5719

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip Code	Practice / Office - Main Phone Number	Fax Number
43	Keck Medicine of USC Norris Treatment Center Newport Beach	Infusion Chemotherapy	300 Old Newport Rd.		Newport Beach	CA	92663	(949) 722-0350	(949) 722-1986

Non-1206(d) Clinics

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip	Practice / Clinic / Office - Main Phone Number	Fax Number
Non-1206D Ambulatory Practices									
1	Employee Health Services	General Employee Health	1510 San Pablo St.	HCC-400	Los Angeles	CA	90033	(323) 442-8355	(323) 442-8355
2	Keck Medicine of USC - USC Student Health	Primary Care	1031 W. 34th St.	Suite 100	Los Angeles	CA	90089	(213) 740-9355	
3	Keck Medicine of USC - Student Health Center - Counseling and Mental Health	Counseling and Mental Health	1031 W. 34th St.	Suite 304	Los Angeles	CA	90089	(213) 740-9355	(213) 740-6815
4	Eric Cohen Student Health Center	Primary Care	1510 San Pablo St.	Suite 104	Los Angeles	CA	90033	(323) 442-5631	(323) 442-6029
5	Keck Medicine of USC - Arcadia	Family Medicine	125 W. Huntington Dr.	Suite A100	Arcadia	CA	91007	(626) 574-2710	(626) 574-2810
6	Keck Medicine of USC - Arcadia	Colorectal Surgery Family Medicine Neurology Spine Urology	125 W. Huntington Dr.	Suite B200	Arcadia	CA	91007	(626) 574-2800	(626) 458-6400
7	Keck Medicine of USC - Beverly Hills	Otolaryngology	9033 Wilshire Blvd.	Suite 305	Beverly Hills	CA	90211	(310) 601-3367	(310) 601-3344
8	Keck Medicine of USC - Beverly Hills - Center for Primary Care & Westside Diabetes Center	Primary Care Endocrinology	9033 Wilshire Blvd.	Suite 406	Beverly Hills	CA	90211	(310) 272-8222	(310) 272-8206

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip	Practice / Clinic / Office - Main Phone Number	Fax Number
9	Keck Medicine of USC - Dermatology	Laser therapy Allergy Test Cosmetic procedures Skin diseases Phototherapy MOHS	1450 San Pablo St.	Suite 2000	Los Angeles	CA	90033	(323) 442-6200	(323) 442-6299
10	Keck Medicine of USC - Downtown Los Angeles	Dermatology / MOHS Gynecology Neurology Occupational Therapy Orthopaedic Surgery Otolaryngology Head & Neck Surgery	830 S Flower St.	Suite B100	Los Angeles	CA	90017	(213) 437-1000	(323) 865-9322
11	Keck Medicine of USC - Family Medicine	Family Medicine Geriatrics Pediatrics Primary Care	1520 San Pablo St.	Suite 1300	Los Angeles	CA	90033	(323) 442-5900	(323) 442-5714
12	Keck Medicine of USC - Glendale	Family Medicine	1808 Verdugo Blvd.	Suite 112	Glendale	CA	91208	(818) 658-5970	(818) 658-5952
13	Keck Medicine of USC - Glendale Obstetrics and Gynecology and Gynecologic Specialties	Gynecology Generalists, Maternal Fetal Medicine (MFM) and Gynecology Oncology	1808 Verdugo Blvd.	Suite 413	Glendale	CA	91208	(818) 658-5980	(818) 658-5989
14	Keck Medicine of USC - Keck Signature Care	Primary Care/General Internal Medicine	1450 San Pablo St.	Suite 1900	Los Angeles	CA	90033	(323) 865-8178	(323) 865-9588
15	Keck Medicine of USC - La Cañada	Cardiology Dermatology Internal Medicine Rheumatology Spine	1751 Foothill Blvd.	Suite 2 & 3	La Cañada	CA	91011	(818) 952-2171	(818) 583-4947

Execution Version

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip	Practice / Clinic / Office - Main Phone Number	Fax Number
16	Keck Medicine of USC - Pain Center	Medicine Management Trigger Point Therapy Nerve Block Psychological Care	1520 San Pablo St.	Suite 3450	Los Angeles	CA	90033	(323) 442-6202	(323) 442-6255
17	Keck Medicine of USC - Palmdale	Breast Surgery Colorectal Surgery Urology	38660 Medical Center Dr.	Suite A200	Palmdale	CA	93551	(661) 273-9644	(661) 273-9663
18	Keck Medicine of USC - Pre-Op Clinic		1520 San Pablo St.	Suite 1000	Los Angeles	CA	90033	(323) 442-8682	(323) 442-8684
19	Keck Medicine of USC - Psychiatry	Mood disorder Anxiety OCD Depression Schizophrenia	1520 San Pablo St.	Suite 1652	Los Angeles	CA	90033	(323) 442-6000	(323) 442-6001
20	Keck Medicine of USC - Psychiatry and Behavioral Health Services	Behavioral Health Psychiatry	1031 W. 34th St.	Suite 500	Los Angeles	CA	90089	213-764-2800	(213) 764-2888
21	Keck Medicine of USC - Radiation Oncology - Koreatown	Radiation Oncology	500 S. Virgil Ave.	Suite 101	Los Angeles	CA	90020	(213) 739-5090	(213) 739-0919
22	Keck Medicine of USC - Santa Clarita	Colorectal Surgery	25751 McBean Pkwy	Suite 220	Santa Clarita	CA	91355	(661) 839-1800	(323) 865-9548
23	Keck Medicine of USC - Street Medicine	Street Medicine	N/A	N/A	Los Angeles	CA	90033	(323) 442-5900	(323) 442-5714

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip	Practice / Clinic / Office - Main Phone Number	Fax Number
24	Keck Medicine of USC - Surgery	Laparoscopic / Bariatric Surgery Breast Reconstructive / Soft Tissue Thoracic Foregut Plastic & Reconstructive Hepatobiliary & Pancreatic Colorectal	1450 San Pablo St.	Suite 6200	Los Angeles	CA	90033	Bariatric - (323) 442-6868 Breast/Soft Tissue/Thyroid - (323) 865-3918 Hepatobiliary and Pancreas - (323) 442 5837 Plastic & Reconstructive - (323) 442-7920 Soft Tissue, Tumor and Endocrine - (323) 865-3918 Thoracic (Esophageal and Lung) - (323) 442-9066 Upper GI and General Surgery - (323) 442-6868 Colorectal - (323) 865-3690	Hepatobiliary and Pancreas - (323) 442-7173 Plastic & Reconstructive - (323) 442-7573 Soft Tissue, Tumor and Endocrine - (323) 865-0164 Thoracic (Esophageal and Lung) - (323) 442-5872 Front Desk - (323) 442-5966
25	Keck Medicine of USC - University Park Campus	Internal Medicine Dermatology Gynecology Orthopaedic Surgery	1031 W. 34th St.	Suite 430	Los Angeles	CA	90089	(213) 821-6500	Faculty on 4th Floor: (213) 821-7501 Internal Medicine: (323) 442-5660
26	Keck Medicine of USC - USC Cardiology - Monterey Park	Cardiology	500 N. Garfield Ave.	Suite 304	Monterey Park	CA	91754	(626) 307-6600	(626) 656-8076

Execution Version

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip	Practice / Clinic / Office - Main Phone Number	Fax Number
27	Keck Medicine of USC - USC Norris Irvine	Hematology Oncology	16105 Sand Canyon Ave.	Suite 220	Irvine	CA	92618	(949) 474-5730	(949) 679-2264
28	Keck Medicine of USC - USC Orthopaedic Surgery - Sports Medicine and Spine Center	General Orthopaedics Spine Sports Medicine	555 N. Nash Street	Suite B	El Segundo	CA	90245	(855) 727-7678 855-SCSPORT	(323) 865-5480
29	Keck Medicine of USC - USC Orthopaedic Surgery - Verdugo Hills - Suite 402	General Orthopaedics	1818 Verdugo Blvd.	Suite 402	Glendale	CA	91208	(818) 952-0670	(323) 865-9215
30	Keck Medicine of USC - USC Roski Eye Institute - Arcadia	Cornea Glaucoma Retina Oculoplastics Neuro Ophthalmology	65 North First Ave.	Suite 101	Arcadia	CA	91006	(626) 446-2122	(626) 446-0513
31	Keck Medicine of USC - Verdugo Hills Surgery	Colorectal General Surgery Vascular Plastic Breast Non-Invasive Vascular Testing	1808 Verdugo Blvd.	Suite 208 Suite 209	Glendale	CA	91208	Bariatric - (323) 442-6868 Breast/Soft Tissue/Thyroid - (323) 865-3918 Hepatobiliary and Pancreas - (323) 442 5837 Plastic & Reconstructive - (323) 442-7920 Soft Tissue, Tumor and Endocrine - (323) 865-3918 Thoracic (Esophageal and Lung) - (323) 442-9066 Upper GI and	(323) 865-9517

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip	Practice / Clinic / Office - Main Phone Number	Fax Number
								General Surgery - (323) 442-6868 Colorectal - (323) 865-3690	
32	USC Fertility	Infertility	1127 Wilshire Blvd.	Suite 1400	Los Angeles	CA	90017	(213) 975-9990	(213) 975-9997
33	USC Fetal Surgery (OBGYN Maternal-Fetal Medicine) - Pasadena	Acardiac Twins, Alloimmune Thrombocytopenia, Alloimmunization and Fetal Anemia, Amniotic Band Syndrome, Bronchopulmonary Sequestration, Cardiac Abnormalities of the Fetus, Chorioangioma, Congenital Diaphragmatic Hernia, Congenital Pulmonary Airway Malformation of the Lung, Iatrogenic Preterm Premature Rupture of Membranes, Lower Urinary Tract Obstruction, Pleural Effusions, Selective Intrauterine Growth Restrictions, Twin-Twin Transfusion Syndrome, Vasa Previa	39 Congress St.	Suite 302	Pasadena	CA	91105	(626) 356-3360	(626) 356-3379

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip	Practice / Clinic / Office - Main Phone Number	Fax Number
34	USC Occupational Therapy Faculty Practice	Occupational Therapy Specialties: Lifestyle Redesign, Pain Management; Chronic Headache/Migraine Management; Weight Management; Diabetes Management; Mental Health; Primary Care; Ergonomics	1640 Marengo St	Suite 500	Los Angeles	CA	90089	(323) 442-3340	
35	USC Occupational Therapy Faculty Practice, UPC	Occupational Therapy Specialties: Lifestyle Redesign, Pain Management; Chronic Headache/Migraine Management; Weight Management; Diabetes Management; Mental Health; Primary Care; Ergonomics; Student health	1031 W. 34th Street	Suite 452	Los Angeles	CA	90089	(213) 821-6530	
36	USC Perinatal Group (OBGYN Maternal-Fetal Medicine) - Burbank	Prenatal Diagnosis, Fetal Ultrasound, Fetal Echocardiography, Genetic Counseling, Pre-conception counseling, Perinatal Consultation for diabetes, hypertension, thyroid, Amniocentesis, Fetal Blood Sampling	191 S. Buena Vista St.	Suite 435	Burbank	CA	91505	(818) 845-5802	(818) 845-5856

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip	Practice / Clinic / Office - Main Phone Number	Fax Number
37	USC Perinatal Group (OBGYN Maternal-Fetal Medicine) - Downtown Los Angeles	Prenatal Diagnosis, Fetal Ultrasound, Fetal Echocardiography, Genetic Counseling, Pre-conception counseling, Perinatal Consultation for diabetes, hypertension, thyroid, Amniocentesis, Fetal Blood Sampling	1400 S. Grand Ave.	Suite 805	Los Angeles	CA	90015	(213) 763-1500	(213) 763-1500
38	USC Perinatal Group (OBGYN Maternal-Fetal Medicine) - Hollywood	Prenatal Diagnosis, Fetal Ultrasound, Fetal Echocardiography, Genetic Counseling, Pre-conception counseling, Perinatal Consultation for diabetes, hypertension, thyroid, Amniocentesis, Fetal Blood Sampling	1300 N. Vermont Ave.	Suite 301	Los Angeles	CA	90027	(323) 361-6070	(323) 361-6069
39	USC Perinatal Group (OBGYN Maternal-Fetal Medicine) - Mission Hills	Prenatal Diagnosis, Fetal Ultrasound, Fetal Echocardiography, Genetic Counseling, Pre-conception counseling, Perinatal Consultation for diabetes, hypertension, thyroid, Amniocentesis, Fetal Blood Sampling	11550 Indian Hills Rd.	Suite 380	Mission Hills	CA	91345	(818) 256-1460	(818) 256-1461

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip	Practice / Clinic / Office - Main Phone Number	Fax Number
40	USC Perinatal Group (OBGYN Maternal-Fetal Medicine) - Pasadena	Prenatal Diagnosis, Fetal Ultrasound, Fetal Echocardiography, Genetic Counseling, Pre-conception counseling, Perinatal Consultation for diabetes, hypertension, thyroid, Amniocentesis, Fetal Blood Sampling, Chorionic Villus Sampling	39 Congress St.	Suite 301	Pasadena	CA	91105	(626) 796-2700	(626) 796-2701
41	USC Physical Therapy - Health Sciences Campus, Marengo Clinic	Physical Therapy	1640 Marengo St.	HRA 102	Los Angeles	CA	90033	(323) 865-1200	
42	USC Physical Therapy - University Park Campus	Physical Therapy	1031 W. 34th St.	Suite 450	Los Angeles	CA	90089	(213) 740-0215	
43	USC Village Optometry	Optometry	835 W. Jefferson Blvd.	Unit 1720	Los Angeles	CA	90007	(213) 740-6960	
University Physician Associates (UPA) Practices									
44	Keck Medicine of USC - Bakersfield	Urology	9500 Stockdale Highway	Suite 202	Bakersfield	CA	93311	(661) 323-6660	(661) 323-3534
45	Keck Medicine of USC - USC Orthopaedic Surgery - Verdugo Hills	General Orthopaedics Spine Hand Foot & Ankle Joint Reconstruction Sports Medicine	1818 Verdugo Blvd.	Suite 300	Glendale	CA	91208	(818) 658-5920	(323) 865 - 9215

	Practice Name	Specialties	Address 1	Address 2	City	State	Zip	Practice / Clinic / Office - Main Phone Number	Fax Number
46	USC Caruso Family Center for Childhood Communication	Pediatric, Audiology, Speech Language Pathology and Educational Counseling	1640 Marengo St.	Suite 600 - Clinic Suite 106 - (Audiology)	Los Angeles	CA	90033	(213) 764-2843	(213) 764-2899
47	USC Institute of Urology - 1808 Verdugo	Urology	1808 Verdugo Blvd.	Suite 318	Glendale	CA	91208	(818) 790-1278	(323) 865-8690
48	USC Otolaryngology Associates - Glendale	Otolaryngology	222 W. Eulalia St.	Suite 200	Glendale	CA	91204	(818) 649-3919	(818) 507-9115
49	USC Otolaryngology Associates - La Cañada	Otolaryngology	1370 Foothill Blvd.	Suite 100	La Canada	CA	91011	(818) 649-3919	(818) 952-2632

EXHIBIT A

Unwind

1. Methodist Unwind Event. If Parent causes a Methodist Unwind Event, Parent shall promptly notify Methodist in writing of the same (the “*Methodist Unwind Event Notice*”). Upon Methodist’s receipt of the Methodist Unwind Event Notice, or in the event that Parent fails to properly notify Methodist and Methodist becomes aware of any Methodist Unwind Event, Methodist shall have the right, but not the obligation, to terminate Parent’s membership in Methodist (the “*Methodist Unwind Right*”) pursuant to the terms of this **Exhibit A**. Methodist shall give Parent notice of Methodist’s intent to exercise the Methodist Unwind Right within thirty (30) days of Methodist’s receipt of the Methodist Unwind Event Notice from Parent (“*Exercise of Unwind Notice*”), which intent to exercise the Methodist Unwind Right shall have been approved by the affirmative vote of a majority of the actual number of individuals then sitting on the Methodist Board of Directors.

2. Process.

(a) As soon as practical after (i) the receipt of the Exercise of Unwind Notice, (ii) an arbitrator determines that Parent materially breached this Agreement and that unwinding the Affiliation shall be the remedy to resolve such material breach pursuant to Section 12.3 of this Agreement (the “*Breach Unwind*”), or (iii) the occurrence of an Illegality Unwind Event as described in Section 12.1 of this Agreement, the Parties shall meet and confer in order to mutually agree to the actions necessary to effectuate the termination of Parent’s membership in Methodist and an estimated date of termination for Parent’s membership in Methodist (the “*Anticipated Termination Date*”). Thereafter, Parent and Methodist shall work together in good faith to promptly modify their organizational documents, take all actions agreed to by the Parties, and promptly take all other actions necessary and appropriate to terminate Parent’s membership in Methodist, which shall result in Methodist assuming all assets and liabilities of Methodist.

(b) In connection with the termination of Parent’s membership in Methodist, and in exchange for fair market value compensation, Methodist may require Parent to provide reasonable management or other administrative services to Methodist on mutually agreed upon terms for a reasonable period of time after Parent’s membership in Methodist is terminated to minimize any economic or operational injury to Methodist. Parent and Methodist agree to work together in good faith to agree upon such services if requested by Methodist.

(c) Within ninety (90) days after receiving the Exercise of Unwind Notice, the determination of the Breach Unwind is made, or the occurrence of an Illegality Unwind Event, as applicable, Parent shall provide Methodist its accounting of and anticipated payment dates (all of which shall be prior to the Anticipated Termination Date) during the unwind period of the following amounts due from/due to each other as of the Anticipated Termination Date. In the event that Methodist disagrees with Parent’s accounting or payment dates, the Parties shall work in good faith to resolve such dispute prior to the Anticipated Termination Date.

(i) The aggregate amount to be paid by Methodist to Parent shall be equal to: (A) the actual aggregate Strategic Capital invested or contributed by Parent (or its Affiliates) after the Closing Date (“*Investment in Methodist*”), *plus* (B) an amount equal to the Interest (as defined in section 2(c)(ii) below) accrued on the Investment in Methodist until the date of payment.

(ii) For purposes of this Exhibit A, “*Interest*” shall be defined as the amount of interest owed, if any (as of the date of repayment by Methodist), by Parent to the University of Southern California (or its Affiliates) on the Investment in Methodist being repaid to Parent by Methodist.

(d) Once all actions necessary and appropriate to terminate Parent's membership in Methodist have been completed and all payments due from/due to the Parties have been made or agreed to, the Parties shall execute a final notice indicating that all actions have been completed to effectuate the termination of Parent's membership in Methodist (the "*Final Notice*"). The execution date of the Final Notice shall be the date on which Parent's membership in Methodist shall be effectively terminated.

(e) Methodist acknowledges and agrees that if Parent's membership in Methodist has not been effectively terminated within thirty (30) months after Methodist receives the Methodist Unwind Event Notice, then unless the Parties otherwise agree in writing, the Methodist Unwind Right shall automatically expire and terminate as to that Methodist Unwind Event Notice.

2. No Restrictions. In the event Parent's membership in Methodist is terminated pursuant to the terms set forth in this **Exhibit A**, the Parties acknowledge and agree that after the effective date of such membership termination there shall be no restrictions on the operations or actions of any Party or its affiliated entities. Without limiting the generality of the foregoing, in the event Parent's membership in Methodist is terminated pursuant to the terms set forth in this **Exhibit A**, the Parties: (a) shall not be restricted from competing with each other in any way; and (b) shall not be restricted from soliciting or recruiting each other's employees or affiliated physicians in any way. The Parties further acknowledge and agree that in the event Parent's membership in Methodist is terminated pursuant to the terms set forth in this **Exhibit A**, any medical practitioner providing services on behalf of Parent, Methodist or any of their respective Affiliates may elect to either: (i) continue providing services on behalf of such entity; or (ii) provide services for any other entity. The Parties agree that Methodist and Parent may solicit physicians and other providers during any unwind period.

3. Termination of Agreement. Notwithstanding anything in this Agreement that may be construed to the contrary, the Parties acknowledge and agree that in the event Parent's membership in Methodist is terminated pursuant to the terms set forth in this **Exhibit A** (either as a result of a Methodist Unwind Event, Breach Unwind, or an Illegality Unwind Event), this Agreement shall automatically terminate upon the effective date of the termination of Parent's membership interest in Methodist.

Attachment 2.1(a)

Amended and Restated Articles of Incorporation of Methodist

Attached.

**AMENDED AND RESTATED ARTICLES OF INCORPORATION
OF
METHODIST HOSPITAL OF SOUTHERN CALIFORNIA
A California Nonprofit Public Benefit Corporation**

THE UNDERSIGNED CERTIFY THAT:

1. They are the President and Secretary, respectively, of Methodist Hospital of Southern California, a California nonprofit public benefit corporation (this "Corporation").
2. The Articles of Incorporation of this Corporation are amended and restated to read as follows:

ONE: The name of this corporation is USC ARCADIA HOSPITAL.

TWO: This corporation's address is 300 West Huntington Drive, Arcadia, California, 91007.

THREE: The name and address in the State of California of this corporation's initial agent for service of process is:

William Grigg
300 West Huntington Drive
Arcadia, California, 91007

FOUR: This corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the California Nonprofit Public Benefit Corporation Law for public and charitable purposes. This corporation is organized and operated exclusively for the following charitable, scientific, and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as now in effect or as may hereafter be amended (the "Code"), and Section 214 of the California Revenue and Taxation Code, as now in effect or as may hereafter be amended (the "R&TC"):

- 1) To establish, equip, maintain, and operate a nonprofit hospital as part of the integrated health care system of USC Health System;
- 2) To coordinate the activities of this corporation in a manner that enhances the accessibility, quality and cost-effectiveness of health care services related to the communities served by this corporation, provides associated services including, but not limited to, outpatient care and emergency care, to all persons without regard to sex, race, age, religion, creed, color or national origin, sexual orientation, or physical or mental disability, and supports the educational and research missions of this corporation and USC Health System;

- 3) To participate in activities designed and carried on to provide and improve the general public health and health of patients served by this corporation and USC Health System; and
- 4) In furtherance of the purpose, mission and activities of this corporation and USC Health System, to provide other forms of aid and assistance to, for the benefit of, or in connection with the nonprofit components of this corporation and USC Health System.

In furtherance thereof, this corporation may receive property by gift, devise or bequest, invest or reinvest the same, and apply the income and principal thereof, as the directors may from time to time determine, either directly or through contributions to any charitable organization or organizations, exclusively for charitable, scientific, or educational purposes, and engage in any lawful act or activity for which corporations may be organized under the California Nonprofit Public Benefit Corporation Law. In furtherance of its corporate purposes, this corporation shall have all the general powers enumerated in Sections 5140 and 5141 of the California Nonprofit Public Benefit Corporation Law, as now in effect or as may hereafter be amended, together with the power to solicit grants and contributions for such purposes.

FIVE: The sole member of this corporation shall be USC Health System, a California nonprofit public benefit corporation (the "Member"). The rights of the Member shall be as fixed in this corporation's Bylaws.

SIX: No substantial part of the activities of this corporation shall consist of carrying on propaganda, or otherwise attempting to influence legislation (except as otherwise permitted by Section 501(h) of the Code and in any corresponding laws of the State of California), and this corporation shall not participate in or intervene in (including the publishing or distribution of statements concerning) any political campaign on behalf of (or in opposition to) any candidate for public office.

Notwithstanding any other provision of these Articles of Incorporation, this corporation shall not, except to an insubstantial degree, carry on any activity or exercise any powers not permitted to be carried on or exercised (a) by a corporation exempt from Federal income taxation as a corporation described in Section 501(c)(3) of the Code, or (b) by a corporation, contributions to which are deductible under Section 170(c)(2) of the Code.

SEVEN: The property of this corporation is irrevocably dedicated to charitable, scientific, and educational purposes meeting the requirements for exemption under Section 214 of the R&TC and Section 501(c)(3) of the Code. No part of the net earnings of this corporation shall inure to the benefit of, or be distributable to any director or officer of this corporation, or any other private person, except that this Corporation shall be authorized and empowered to pay reasonable compensation for services rendered to or for this Corporation and to make payments and distributions in furtherance of the purposes set forth in Article FOUR hereof.

In the event of dissolution or final liquidation of this corporation, all of the remaining assets and property of this corporation shall, after paying or making provision for the payment of all of the liabilities and obligations of this corporation and for necessary expenses thereof, be distributed in accordance with this corporation's Bylaws, *provided*, that any such recipient shall be an organization described in Section 214 of the R&TC and Section 501(c)(3) (or successor provision) of the Code. In no event shall any of such assets or property be distributed to any director or officer, or any private individual.

3. The foregoing Amended and Restated Articles of Incorporation of this Corporation have been duly approved by the required vote of the board of directors of this Corporation.
4. The foregoing Amended and Restated Articles of Incorporation of this Corporation have been approved by the required vote of the members of this Corporation.

(Remainder of page intentionally left blank)

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this Declaration are true and correct of our knowledge:

Dated: _____

By: _____

Name: Dan Ausman

Title: President and CEO

By: _____

Name: William Grigg

Title: Secretary

Attachment 2.1(b)

Amended and Restated Bylaws of Methodist

Attached.

**BYLAWS
OF
USC ARCADIA HOSPITAL**

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**ARTICLE I
PURPOSE OF THE CORPORATION**

1. Name.

The name of this corporation is USC Arcadia Hospital, and references to this “**Corporation**” shall mean USC Arcadia Hospital, a California nonprofit public benefit corporation. References herein to “Hospital” refer to that certain general acute care hospital in Arcadia, California known as USC Arcadia Hospital that is owned and operated by the Corporation. References herein to the “Law” refer to the Nonprofit Corporation Law of the State of California.

2. Purposes.

This Corporation is established for the purposes set forth in the Articles of Incorporation.

The property of this Corporation is irrevocably dedicated to charitable purposes. No part of the net income or assets of this Corporation shall ever inure to the benefit of any director or Officer thereof, or to the benefit of any other private person. The Corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the California Nonprofit Public Benefit Corporation Law (the “**Law**”) for public and charitable purposes. The Corporation is organized for the charitable, scientific and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as now in effect or as may hereafter be amended (the “**Code**”), and Section 214 of the California Revenue and Taxation Code, as now in effect or as may hereafter be amended (the “**R&TC**”), as set forth in the Articles of Incorporation.

3. Dissolution.

Upon the dissolution or winding up of this Corporation during the period that is five (5) years after the Closing Date (such period, the “**Transition Period**”), its assets remaining after payment, or provision for payment, of all debts and liabilities of this Corporation shall be distributed to the United Methodist Women of the California Pacific Conference of the United Methodist Church (“**UMW**”), provided that if, at that time UMW is not an organization described in Section 214 of the R&TC and Section 501(c)(3) (or successor provision) of the Code, then said assets shall be distributed to another organization then described in Section 214 of the R&TC and Section 501(c)(3) (or successor provision) of the Code, as this Corporation’s Board of Directors may select.

Upon the dissolution or winding up of this Corporation after the Transition Period, its assets remaining after payment, or provision for payment, of all debts and liabilities of this Corporation shall be distributed to the Sole Member, provided that if, at that time the Sole Member is not an organization described in Section 214 of the R&TC and Section 501(c)(3) (or successor provision) of the Code, then said assets shall be distributed to another organization then described in Section 214 of the R&TC and Section 501(c)(3) (or successor provision) of the Code, as the Sole Member may select.

4. Unwind.

If a Final Notice (as defined in the Affiliation Agreement) indicating that all actions have been completed to effectuate the termination of Sole Member's membership in this Corporation is executed by Sole Member and this Corporation, then, effective on the date of such execution, and subject to full compliance with Section 5341 of the California Corporations Code, the following shall occur: (a) the Sole Member shall automatically, without any action or further notice required, cease to be a member of this Corporation, and (b) the individuals then serving on the Board of Directors who were nominated by this Corporation shall automatically, without any action or further notice required, become members of this Corporation, authorized and empowered to take all actions which members of this Corporation are entitled to take under applicable law, this Corporation's Articles of Incorporation, and these Bylaws. Without limiting the generality of the foregoing, such new member(s) may immediately take all actions necessary or desirable to remove existing Directors of this Corporation, amend this Corporation's Articles of Incorporation, and amend these Bylaws; *provided* that such amendments are consistent and in compliance with Section 214 of the R&TC and Section 501(c)(3) of the Code.

ARTICLE II OFFICES AND SEAL

1. Offices.

The principal office for the transaction of the business of the Corporation shall be in the County of Los Angeles, State of California. The Corporation may also have an office or offices within or outside the State of California as the Board of Directors may from time to time establish.

2. Seal.

The Corporation may, but shall not be required to, have a corporate seal, and the same shall have inscribed thereon the name of the Corporation, the date of its incorporation and the word "**California.**"

ARTICLE III MEMBERSHIP

1. Membership.

The membership of the Corporation shall consist of a single member, USC Health System, a California nonprofit public benefit corporation (the "**Sole Member**").

2. Actions by the Sole Member.

(a) Action of the Sole Member. The Sole Member may act by or through its Board of Directors, the President of the Sole Member, or by or through any committee, person or persons duly authorized by its Board of Directors to act in the name and on behalf of the Sole Member in its capacity as Sole Member of the Corporation.

(b) Methods of Voting and Other Actions of the Sole Member; Action by Written Consent. Any action required or permitted to be taken by the Sole Member at a meeting may be taken without a meeting if the Sole Member shall consent in writing to such action. Such consent shall have the same force and effect as a vote of the Sole Member at a meeting, so long as it is executed in its name by an authorized officer of the Sole Member. The written consents of the Sole Member shall be filed with the minutes of the proceedings of the Corporation.

3. Rights of the Sole Member.

Subject to the terms of that certain Affiliation Agreement entered into by and between the Sole Member and this Corporation, executed on October 11, 2021 (the “**Affiliation Agreement**”), which was consummated on [_____], 2022 (the “**Closing Date**”) and the rights and authority expressly reserved to the Board of Directors of this Corporation under the Law or these Bylaws, the Sole Member shall have all rights, privileges, preferences, and powers of a “member” under Law and the authority to exercise all powers of the Corporation, including as follows:

(a) Subject to the approval powers reserved to the Board of Directors in Article IV of these Bylaws, the Sole Member shall have the power to approve the following actions (and after the termination of the Interim Period, the Sole Member shall have the right to initiate the taking of any of the following actions):

(i) Any change in the structure of this Corporation that affects its tax-exempt status;

(ii) The discontinuation of any material clinical service line at the Hospital;

(iii) Any material change to the mission, vision, and values of this Corporation;

(iv) Any change to the size, qualifications or composition of the Board of Directors, including the number of Directors who must reside within the City of Arcadia and the number of Directors who must be members of the Hospital medical staff, as set forth in Article IV, Section 3 of these Bylaws;

(v) Any amendment or restatement of this Corporation’s Articles of Incorporation or Bylaws (subject to Article XIV of these Bylaws); and

(vi) Any reduction or elimination of the services or operations of the Hospital required to be maintained under the terms of the Affiliation Agreement for the duration of the ten (10) year period commencing as of the Closing Date (such period, the “**Interim Period**”).

(b) The Sole Member shall have the power to take the following actions:

(i) Develop the annual operating and capital budget of this Corporation in collaboration with the recommendations of the Board of Directors, *provided* that

the Sole Member will have the final authority to approve each annual operating and capital budget;

(ii) Establish the capital expenditure thresholds for this Corporation in collaboration with the recommendations of the Board of Directors, *provided* that the Sole Member will have the final authority to establish all capital expenditure thresholds;

(iii) After the expiration of the three (3) year period following the Closing Date, the final authority to approve the compensation and benefit plans of the following Officers of this Corporation: Chief Executive Officer (“**CEO**”), Chief Strategy Officer, Chief Operating Officer, Chief Financial Officer, Chief Medical Officer, Chief Human Resources Officer, Chief Nursing Officer, Chief Compliance and Risk Officer, and the President of the Foundation (collectively, the “**Executive Team**”) and the final authority to remove each from their senior management position;

(iv) Hiring and removal of the CEO of the Corporation, subject to the following: (A) the right of the Board of Directors to consult with and propose nominations of each successor CEO (each, a “**Successor CEO**”) to the CEO holding office on the Closing Date (the “**Initial CEO**”), and (B) the right of the Initial CEO to make a recommendation regarding his Successor CEO, and (C) the restrictions on removal of such individual under Section 3(b)(iii) of Article III of these Bylaws;

(v) Hiring and removal of all successor members of the Executive Team (other than the CEO), subject to the restrictions on removal of such individuals under Section 3(b)(iii) of Article III of these Bylaws, as applicable;

(vi) Appointment of successor members to the Board of Directors in place as of the Closing Date, subject to the right of the Board of Directors to recommend nominees for each such appointment;

(vii) After the Transition Period, the right to remove members from the Board of Directors, subject to the right of the Board of Directors to consult on any such removals;

(viii) Develop or modify all strategic and business plans for this Corporation, subject to input from the Board of Directors;

(ix) Approve any settlement or consent decree on behalf of this Corporation with any government authority;

(x) Select the independent auditor for this Corporation;

(xi) The right to make recommendations, in collaboration with the recommendations of the Board of Directors, to the Board of Trustees of University of Southern California, the Sole Member’s sole member (“**USC**”) regarding: (A)

new indebtedness for this Corporation; (B) changes to the existing indebtedness structure of this Corporation; and (C) which legal entities affiliated with the Sole Member, should be included in the obligated group for bond financing purposes; and

(xii) Subject to Section 12.6(b) of the Affiliation Agreement, the right to replace any existing Methodist hospital-based provider agreements (e.g., emergency department, anesthesia, critical care, hospitalists, etc.) with Sole Member-based provider agreements in accordance the limitations described in Section 12.6(b) of the Affiliation Agreement.

ARTICLE IV BOARD OF DIRECTORS

1. Powers.

Except as otherwise provided by law, by this Corporation's Articles of Incorporation, these Bylaws or the Affiliation Agreement, the activities and affairs of the Corporation, including as related to quality of care and operating performance, shall be conducted and all corporate powers shall be exercised by or under the direction of the Board of Directors, subject to any necessary approvals of the Sole Member as described herein and in the Affiliation Agreement. The Board of Directors may delegate the management of the Corporation to any person or persons, management company or committee however composed, *provided* that the affairs of the Corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board of Directors, as consistent and in compliance with the Corporation's Articles of Incorporation, these Bylaws, and the Affiliation Agreement. Subject to the powers reserved to the Sole Member as set forth in these Bylaws and the applicable terms of the Affiliation Agreement, the Board of Directors shall have the power and responsibility to take the following actions:

(a) Approve any change of control of Methodist Hospital Foundation, this Corporation's wholly-owned subsidiary (the "**Foundation**");

(b) Approve any use of the Foundation's assets that are not used for this Corporation and the Corporation's local area purposes;

(c) In accordance with the time periods identified in Section 12.5(a)(iv) of the Affiliation Agreement, approve any action that would result in this Corporation no longer being identified as the exclusive hospital member of the Sole Member within the "**Methodist PSA**" and in the "**Methodist SSA**" (as each such term is defined under the Affiliation Agreement);

(d) During the three (3) year period immediately following the Closing Date, the sole authority to remove, or reduce the compensation and benefit plans of, the Executive Team;

(e) After the Transition Period, the right to consult on the removal of any remaining incumbent member of the Board of Directors;

(f) Nominate the individual serving as the first Successor CEO;

- (g) Consult on the selection and removal of each CEO;
- (h) Nominate successor members to serve on the Board of Directors, subject to approval of the Sole Member in accordance with Section 3(b)(vi) of Article III of these Bylaws;
- (i) During the Interim Period, approve the following actions:
 - (i) Any change in the structure of this Corporation that affects its tax-exempt status;
 - (ii) The discontinuation of any material clinical service line at the Hospital;
 - (iii) Any material change to the mission, vision, and values of this Corporation;
 - (iv) Any change to the size, qualifications or composition of the Board of Directors, including the number of Directors who must reside within the City of Arcadia and the number of Directors who must be members of the Hospital medical staff, as set forth in Article IV, Section 3 of these Bylaws;
 - (v) Any amendment or restatement of this Corporation's Articles of Incorporation or Bylaws (subject to Article XIV of these Bylaws); and
 - (vi) Any reduction or elimination of the services or operations of the Hospital required to be maintained under the terms of the Affiliation Agreement for the duration of the Interim Period.
- (j) Nominate one (1) voting member to serve on the Sole Member's Board of Directors to serve in accordance with the Sole Member's Bylaws, and one (1) representative to be invited to attend the Sole Member's Board of Directors meetings without vote, each subject to the Sole Member's approval (which shall not be unreasonably withheld);
- (k) During the Transition Period, retain discretion over the use of all cash, cash equivalents, and investments held by the Corporation immediately prior to the Closing Date for uses that benefit the Corporation and the Corporation's local area, which shall include servicing the Corporation's debt and providing for routine capital needs, subject to the Sole Member's authority to review and approve expenditures that individually or in the aggregate exceed Five Million Dollars (\$5,000,000) (except with respect to the occurrence of a "Methodist Unwind Event," as such term is defined in the Affiliation Agreement);
- (l) During the three (3) year period immediately following the Closing Date, approve the Sole Member's addition of any new hospital member or any hospital-based clinical service program, including through the expansion of an existing clinical service program and USC-affiliated physician practice location as set forth on Schedule 12.5(a)(iv) of the Affiliation Agreement, to a new location within the "**Methodist SSA**" (as defined under the Affiliation Agreement);

(m) Subject to Section 12.6(b) of the Affiliation Agreement, the right to terminate any hospital-based provider agreements of the Hospital (e.g., emergency department, anesthesia, critical care, hospitalists, etc.); and

(n) Subject to, and in accordance with, the terms of the Affiliation Agreement and Section 5341 of the California Corporations Code, during the Transition Period, the Board of Directors shall have the right to terminate the membership of the Sole Member in the event that any of the following events occur:

(i) The Sole Member takes or approves any of the following events without obtaining the approval of the Board of Directors: (A) the closure of the Hospital or the dissolution of the Corporation, (B) the sale, transfer, or disposition of all or substantially all of the assets of the Corporation, (C) any action that causes another entity to become the beneficial owner of one hundred percent (100%) of the voting ownership interests of the entity that owns the Hospital, or (D) the Sole Member undergoes a change of corporate member that results in USC no longer being the majority member of the Sole Member;

(ii) An arbitrator determines that the Sole Member materially breached the Affiliation Agreement and identifies the termination of the Sole Member's membership of the Corporation as the remedy for such material breach; or

(iii) A final determination is made in accordance with Section 12.1 of the Affiliation Agreement that the affiliation of the Corporation and the Sole Member under the Affiliation Agreement is illegal and the Corporation and the Sole Member are unable to mutually agree upon any necessary alteration to the Affiliation Agreement and/or their respective governance documents (including these Bylaws), or if such alteration is not legally possible.

2. Certain Limitations on Power. Subject to Article IV, Section 1(n) and without otherwise limiting any right of the Sole Member provided in these Bylaws, after the Closing Date, the Board of Directors will not, without the prior approval of the Sole Member, take any of the following actions:

(a) Enter into any change of control transaction with respect to this Corporation, including any transaction in which the Sole Member would no longer be the sole member of this Corporation;

(b) Merge, consolidate, convert or otherwise reorganize this Corporation;

(c) Dissolve this Corporation;

(d) Change the tax status of this Corporation as a tax-exempt organization or as a public charity;

(e) Amend the mission or charitable purposes of this Corporation; or

(f) Sell, transfer or otherwise dispose of a significant portion of the assets of this Corporation.

3. Number and Qualification.

(a) The Board of Directors shall consist of no more than fifteen (15) directors (each, a “**Director**” and collectively, the “**Directors**” or “**Board of Directors**” or “**Board**”). The Board of Directors shall be appointed by the Sole Member, subject to and in accordance with Article III, Section 3.

(i) All Directors shall fulfill at least one (1) of the competencies from the Core Competencies Matrix developed and approved by the Governance Committee;

(ii) Not less than twenty-five percent (25%) of the Directors shall be residents of the City of Arcadia, California;

(iii) Not less than seventy-five percent (75%) of the Directors shall be residents of Southern California;

(iv) Not less than two (2) of the Directors shall be practicing physicians that are members in good standing of the medical staff of the Hospital;

(v) Not less than two (2) of the Directors shall be appointed by the Sole Member, one of which shall be non-management member of the Sole Member’s Board of Directors or a member of the USC Board of Trustees, based on availability and appropriateness; and

(vi) One (1) of the Directors shall be the President of the United Methodist Women of the California Pacific Conference of the United Methodist Church (“**UMW**”). If she is unable to serve, the Executive Committee of the UMW may nominate another member of the Executive Committee to serve as an *ex-officio* Director with a vote.

(b) The Board of Directors shall invite *ex officio* non-voting representatives to attend meetings of the Board of Directors, as follows:

(i) During the Transition Period, the Sole Member may invite *ex officio* non-voting representatives to meetings of the Board of Directors on an as needed basis;

(ii) After the Transition Period, two (2) shall be identified by the Sole Member on an *ad hoc* basis;

(iii) One (1) shall be the Chief of Staff of the Medical Staff of the Hospital; and

(iv) One (1) shall be the Chairman of the Board of the Foundation.

Persons serving as non-voting representatives shall be invited to all Board of Directors meetings and have the opportunity to hear and be heard on all matters not discussed in

executive session. Non-voting representatives shall not be taken into account for purposes of notice, quorum, voting or other rights to which directors are entitled under the Law and these Bylaws.

4. Interested Persons as Directors.

No more than forty-nine percent (49%) of the persons serving on the Board may be “interested persons.” An interested person is (a) any person compensated by the Corporation for services rendered by such person within the previous twelve (12) months, whether as a full-time or part-time employee, independent contractor, or otherwise, excluding any reasonable compensation paid to a Director for services in such capacity; and (b) any brother, sister, ancestor, descendant, spouse, brother-in-law, sister-in-law, son-in-law, daughter-in-law, mother-in-law, or father-in-law of such person. Notwithstanding the above, any violation of this paragraph shall not affect the validity or enforceability of transactions entered into by the Corporation.

5. Term, Election and Tenure.

(a) The Directors listed in Article IV, Section 3(a)(vi) shall be Directors while their aforementioned terms of office continue, or for such Directors identified by the Sole Member, for the duration as determined by the Sole Member. The remaining Directors of the Board of Directors shall be classified so that the term of office of one-third (1/3) of their number shall be elected or re-elected by the Sole Member, subject to the right of the Board of Directors to recommend nominees for each such appointment and subject to the following: the term of office of each Director serving at the time that these Bylaws are adopted (i.e., as of the Closing Date) shall be a period of five (5) years, and thereafter, each Director shall serve for a period of three (3) years and until the election of his or her successor. The term of office of a non-voting Representative serving due to his or her position shall be coterminous with his or her position, such that he or she shall remain a non-voting Representative so long as he or she remains in that position and shall be succeeded by the next individual who occupies the indicated office.

(b) Other than the Directors listed in Article IV, Section 3(a)(vi), no Director shall serve for more than four (4) consecutive full terms or twelve (12) consecutive years, whichever is the last to occur. Such a Director who has served up to such maximum terms or years shall only be eligible for re-election after the lapse of a one (1) year period while such person does not serve on the Board. The term limits of this Section 5(b) shall not apply to those persons who serve as *ex officio* representatives invited to attend meetings of the Board of Directors.

6. Resignation.

Any Director may resign at any time, either by oral tender of resignation at any meeting of the Board of Directors or by giving written notice thereof to the Secretary of the Corporation. Such resignation shall take effect at the time specified therefor and, unless otherwise specified with respect thereto, the acceptance of such resignation shall not be necessary to make it effective. Notwithstanding the foregoing, no Director may resign if the Corporation would then be left without a duly appointed director or directors in charge of its affairs, except upon notice to the California Attorney General.

7. Removal.

(a) A Director may be removed, with or without cause, as follows:

(i) During the Transition Period, by the action of two-thirds (2/3) of the authorized number of Directors; and

(ii) After the Transition Period, by the Sole Member, in consultation with the Board of Directors.

(b) The Board of Directors, or after the Transition Period, the Sole Member (subject to the restrictions of Section 7(a)(i)), may declare vacant the office of a Director who has been declared of unsound mind by a final order of court, or convicted of a felony, or been found by a final order or judgment of any court to have breached any duty under the standards of conduct required of directors under the Law, or if the director has unexcused failure to attend three (3) regular Board meetings during any consecutive twelve (12) months. "Unexcused failure to attend" refers to failures to attend meetings where (i) the Director has not notified the Chairman of the Board, the President or the Secretary of the anticipated nonattendance and the reason(s) therefor at least five (5) hours in advance of the scheduled time of a Board meeting, and (ii) the Chairman or a majority of the Board of Directors has not found the reason(s) sufficient.

8. Vacancies.

Any vacancy occurring in the Board of Directors shall be filled by the Sole Member, subject to the right of the Directors to recommend nominees for each such appointment and any requirements for the Director whose office is vacant. A Director elected to fill a vacancy occurring in the Board of Directors shall serve for the unexpired term of his or her predecessor in office.

9. Organizational Meeting of the Board of Directors.

The annual or organizational meeting of the Board of Directors shall be held on the date designated by the Board of Directors for the purpose of conducting necessary actions or any such other business as may come before the meeting.

10. Regular Meetings.

Regular meetings of the Board of Directors shall be at such time and place as the Board may fix by resolution from time to time.

11. Special Meetings.

Special meetings of the Board of Directors may be called by or at the request of two (2) or more Directors, the Chairman, the Vice Chairman, the President and Chief Executive Officer, or the Secretary.

12. Notice of Meetings.

Notice of the time and place of all meetings shall be delivered personally or by telephone, including a voice messaging system or by electronic transmission by the Corporation to each Director or sent by first-class mail, charges prepaid, addressed to each Director at the Director's address as it is shown on the records of the Corporation. In case the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. In case the notice is delivered personally or by telephone, it shall be delivered personally or by telephone at least forty-eight (48) hours before the time for the holding of the meeting. The notice need not specify the purpose of the meeting nor the place if the meeting is to be held at the principal office of the Corporation.

13. Quorum and Voting.

A majority of the authorized number of voting members of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but if fewer than a majority thereof are present at the meeting, a majority of the Directors present may adjourn and reconvene the meeting from time to time without further notice. If the meeting is adjourned for more than twenty-four (24) hours, notice of an adjournment to another time or place shall be given prior to the time of the adjourned meeting to the Directors who were not present at the time of the adjournment.

Each voting Director shall have one (1) vote on each matter presented to the Board of Directors for action. No Director may vote by proxy.

14. Validation of Meeting.

The transactions of the Board of Directors at any meeting, however called or noticed or wherever held, shall be as valid as though had at a meeting duly held after call and notice if a quorum be present and if, either before or after the meeting, each Director not present signs a written waiver of notice or a consent to the holding of such meeting or an approval of the minutes thereof. Notice of a meeting shall also be deemed given to any Director who attends the meeting without protesting the lack of adequate notice before the meeting or at its commencement. All such waivers, consents or approvals shall be filed with the corporate records and made a part of the minutes of the meeting.

15. Unanimous Action Without Meeting.

An action required or permitted to be taken by the Board of Directors may be taken without a meeting if all Directors individually or collectively consent in writing to that action and if, subject to subdivision (a) of Section 5224 of the Law, the number of Directors then in office constitutes a quorum. The written consent or consents shall be filed with the minutes of the proceedings of the Board of Directors. The action by written consent shall have the same force and effect as a unanimous vote of the Directors. For purposes of this paragraph only, "all Directors" does not include an "interested director" as defined in subdivision (a) of Section 5233 of the Law or a "common director" as described in subdivision (b) of Section 5234 of the Law who abstains in writing from providing consent, where (1) the facts described in paragraph (2) or (3) of subdivision

(d) of Section 5233 of the Law are established or the provisions of paragraph (1) or (2) of subdivision (a) of Section 5234 of the Law are satisfied, as appropriate, at or prior to execution of the written consent or consents; (2) the establishment of those facts or satisfaction of those provisions, as applicable, is included in the written consent or consents executed by the non-interested or non-common Directors or in other records of the Corporation; and (3) the non-interested or non-common directors, as applicable, approve the action by a vote that is sufficient without counting the votes of the interested directors or common directors.

Any certificate or other document filed on behalf of this Corporation relating to an action taken by the Board of Directors without a meeting shall state that the action was taken by unanimous written consent of the Board without a meeting, and that the Bylaws of the Corporation authorize its Directors to so act.

16. Telecommunications Equipment.

Directors may participate in a meeting through use of conference telephone, electronic video screen communication or other communications equipment. Participation in a meeting through use of conference telephone or electronic video screen communication or other communications equipment constitutes presence in person at that meeting as long as all Directors participating in the meeting are able to hear one another. Directors may also participate through use of electronic transmission by and to the Corporation (as permitted by and in compliance with Sections 20 and 21 of the California Corporations Code) if both of the following apply:

(a) each Director participating in the meeting can communicate concurrently with all other Directors; and

(b) each Director is provided the means of participating in all matters before the Board, including the capacity to propose or to interpose an objection to, a specific action to be taken by the Corporation.

17. Compensation.

The Corporation shall not pay any compensation to Directors for services rendered to the Corporation, except that Directors may be reimbursed for expenses incurred in the performance of their duties to the Corporation, in reasonable amounts as approved by the Board of Directors.

18. Director Emeritus.

The Board of Directors may appoint one or more former Directors to serve as Directors Emeritus. Upon request of the Chairman of the Board, such Directors Emeritus may serve as advisors to the Board of Directors. All Directors Emeritus shall be invited to attend the annual meeting. A Director Emeritus shall not have the authority to vote.

19. Contracts with Directors.

Neither the Board of Directors nor any committee of the Board of Directors shall approve or permit the Corporation to engage in a contract or transaction between the Corporation and any

domestic or foreign corporation, firm or association of which one or more of the Corporation's Directors is a director, unless:

(a) The material facts as to the contract or transaction and as to such Director's other directorship, officership, or financial interest are fully disclosed in good faith and noted in the minutes or known to the Board, and the Board authorizes, approves or ratifies the contract or transaction in good faith by a vote sufficient without counting the vote of the interested Director or Directors.

(b) Before authorizing or approving the transaction, the Board considers and in good faith decides after reasonable investigation, that the Corporation could not obtain a more advantageous arrangement with reasonable effort under the circumstances.

(c) The Corporation, for its own benefit enters into the transaction, which is fair and reasonable to the Corporation at the time the transaction is entered into.

(d) This Section shall not apply to a transaction that is part of an educational, religious or charitable program of this Corporation if it: (i) is approved or authorized by the Corporation in good faith and without unjustified favoritism, and (ii) results in a benefit to one or more Directors or their families because they are in the class of persons intended to be benefited by the educational, religious or charitable program of this Corporation.

20. Conflict of Interest Policy.

The Sole Member shall adopt on behalf of the Corporation a conflict of interest policy (the "**Conflict of Interest Policy**") applicable to the Directors and Officers and, as the Sole Member deems appropriate, to employees and agents of the Corporation, which shall establish procedures for disclosure and resolution of conflicts of interest, material financial interests, interlocking directorships, business and familial relationships and similar matters of significance to the integrity of decision making on behalf of the Corporation.

21. Directors' Inspection Rights.

Every Director shall have the right at any reasonable time to inspect the Corporation's books, records, and documents of every kind, and to inspect the physical properties of the Corporation. The inspection may be made in person or by the Director's agent or attorney. The right of inspection includes the right to copy and make extracts of books, records, and documents of every kind, subject to the requirements and restrictions of federal and state protected health information and privacy laws and regulations.

22. Annual Report.

The Board shall cause an annual report to be sent to the Directors within one hundred twenty (120) days after the end of the Corporation's fiscal year. The report shall contain the following information, in appropriate detail: (a) the assets and liabilities, including the trust funds, of the Corporation as of the end of the fiscal year; (b) the principal changes in assets and liabilities, including trust funds during the fiscal year; (c) the Corporation's revenue or receipts, both unrestricted and restricted to particular purposes; (d) the Corporation's expenses or disbursements

for both general and restricted purposes during the fiscal year; (e) any other information required by these Bylaws; and (f) an independent accountant's report or, if none, the certificate of an authorized Officer of the Corporation that such statements were prepared without audit from the Corporation's books and records. If the Board approves, the Corporation may send the report and any accompanying material sent pursuant to this section by electronic transmission.

23. Annual Statement of Transactions with Interested Persons and of Indemnification.

The Corporation annually shall prepare and mail, deliver, or send by electronic transmission by the Corporation to each Director a statement of any transaction or indemnification of the following kind: (a) Any transaction: (i) in which the Corporation was a party, (ii) in which an "interested person" had a direct or indirect material financial interest, and (iii) that involved more than \$50,000 or was one of several transactions with the same interested person involving, in the aggregate, more than \$50,000. For this purpose, an "interested person" is any Director or Officer of the Corporation or its Sole Member, or its subsidiary(ies); or any holder of more than ten percent (10%) of the voting power of the Corporation, its Sole Member, or its subsidiary(ies). The statement shall include a brief description of the transaction, the names of interested persons involved, their relationship to the Corporation, the nature of their interest in the transaction, and, if practicable, the amount of that interest, *provided* that if the transaction was with a partnership in which the interested person is a partner, only the interest of the partnership need be stated; and (b) any indemnification sums or advances aggregating more than \$10,000 paid during the fiscal year to any Officer or Director of the Corporation under these Bylaws.

24. Standard of Care.

A Director shall perform the duties of a director, including duties as a member of any board committee on which the director may serve, in good faith, in a manner such director believes to be in the best interest of the Corporation and with such care, including reasonable inquiry, as an ordinary prudent person in a like situation would use under similar circumstances. In performing the duties of a Director, a Director shall be entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, in each case prepared or presented by:

(a) One or more Officers or employees of the Corporation whom the Director believes to be reliable and competent as to the matters presented;

(b) Counsel, independent accountants, or other persons as to matters which the Director believes to be within such person's profession or expert competence; or

(c) A committee of the Board upon which the Director does not serve, as to matters within its designated authority, provided that the Director believes such committee merits confidence; so long as in any such case, the Director acts in good faith after reasonable inquiry when the need therefor is indicated by the circumstances and without knowledge that would cause such reliance to be unwarranted.

ARTICLE V COMMITTEES

1. Committees Generally.

Except as otherwise provided by the Bylaws, the Board of Directors may, by resolution or resolutions passed by a majority of the Directors thereof, appoint standing or special committees for any purpose and, if such committees are comprised solely of Directors, delegate to such committees any of the powers and authority of the Board, except the power to: (a) take any final action on any matter that, under the Law or these Bylaws, also requires approval of the Sole Member or the Board of Directors; (b) fill vacancies on the Board or any committee of the Board; (c) fix compensation of the Directors for serving on the Board or on any committee; (d) amend or repeal Bylaws or adopt new Bylaws; (e) amend or repeal any resolution of the Board that by its express terms is not so amendable or repealable; (f) create any other committees of the Board or the members thereof; (g) expend corporate funds to support a nominee for Director if more people have been nominated for Director than can be elected; (h) approve any contract or transaction to which the Corporation is a party and in which one or more of its Directors has a material financial interest, except as special approval is provided for in Corporations Code §5233(d)(3); or (i) take any other actions that may be prohibited by law. Such committees shall have power to act only in intervals between meetings of the Board and shall at all times be subject to the control of the Board. The Board of Directors or, if the Board does not act, the committees shall establish rules and regulations for meetings and shall meet at such times as it is deemed necessary, *provided* that notice of all meetings shall be given to committee members in the manner provided in Section 12 of Article IV. No act of a committee shall be valid unless approved by the vote or written consent of a majority of such committee's members. Committees shall keep regular minutes of proceedings and report the same to the Board from time to time as the Board of Directors may require. Any committee composed of, one or more persons, who are not Directors, may act solely in an advisory capacity to the Board. All committees shall have a majority of non-interested Directors (as defined in Section 4 of Article IV of these Bylaws).

2. Executive Committee.

The Executive Committee shall be elected by a majority of the Directors in office and each member of the committee shall be a Director of the Corporation. The Executive Committee shall be composed of the Officers of the Corporation who are Directors, and two (2) or such number of "at-large" members elected by the Board sufficient to ensure that the majority of the Executive Committee members are non-interested (as defined in Section 4 of Article IV of these Bylaws).

The duties and responsibilities of the Executive Committee shall include but not be limited to the following:

(a) To have and exercise the authority of the Board of Directors in the management of the Corporation between meetings of the Board of Directors, excepting as to matters concerning which the full Board of Directors is required to act by law or by the Articles of Incorporation or by these Bylaws;

(b) To have and exercise such specific powers and perform such specific duties as prescribed by these Bylaws or as the Board of Directors shall from time to time prescribe or direct; and

(c) To approve the annual evaluation of the President and Chief Executive Officer's performance and the compensation of the President and Chief Executive Officer and Vice Presidents and other Officers performed by the Compensation Committee (provided no members of the Executive Committee shall participate in evaluating or making compensation decisions relating to their own compensation and performance).

3. Compensation Committee.

For the first three (3) years following the adoption date of these Bylaws, the Corporation shall have a Compensation Committee. The Compensation Committee shall be elected by a majority of the Directors in office and each member of the committee shall be a Director of the Corporation. The Compensation Committee shall be composed of at least three (3) Directors of the Board of Directors, two (2) of whom shall also be members of the Executive Committee and all of whom shall be non-interested directors (as defined in Section 4 of Article IV of these Bylaws).

The duties and responsibilities of the Compensation Committee shall be:

(a) To prepare and recommend a Compensation Philosophy and Executive Compensation Charter to the Executive Committee and then to the Board of Directors for final approval;

(b) To recommend necessary amendments to the Compensation Philosophy and Executive Compensation Charter to the Executive Committee and then to the Board of Directors for final approval from time to time based on changes to law or the business environment;

(c) Review the recommendations of the President and Chief Executive Officer regarding compensation of the other Officers and executive staff of the Corporation;

(d) To perform the evaluation of the President and Chief Executive Officer's performance and make recommendations to the Executive Committee regarding the compensation of the President and Chief Executive Officer; and

(e) To retain at least on a triennial basis the services of an independent consultant to survey the marketplace in order to assure that base salaries, incentive compensation and benefits are consistent with fair market value and with any Board Approved Executive Compensation Philosophy.

4. Finance and Compliance Committee.

The Finance and Compliance Committee shall be composed of a minimum of three (3) Directors of the Board of Directors, one (1) of whom shall be the Treasurer who shall serve as Chairman. The committee shall meet as often as necessary, but no less than four (4) times annually.

The duties and responsibilities of the Finance and Compliance Committee shall be:

(a) To set the overall corporate “tone” for quality financial reporting, sound business risk practices, and ethical behavior;

(b) To ensure that the Corporation has adopted and implemented policies and procedures which will require the Hospital and its employees to act in full compliance with all applicable laws, regulations and policies;

(c) To review and discuss financial information and earnings guidance provided to analyst and rating agencies;

(d) To provide oversight to the Corporate Compliance Program relating to the conduct of business that will ensure that high ethical conduct standards are met. Ensure that the Hospital’s mission, vision, values, and the Standards of Business Conduct are properly communicated to all employees on an ongoing basis, including annual dissemination and review of conflict of interest questionnaires. Conflict of Interest is a condition, either based on a one-time event or ongoing, in which the individual may have some other interest which may cause that person to act, or refrain from acting in a way which is contrary to the interests of Methodist Hospital. A covered individual may have such a conflict whether or not that person has acted upon it;

(e) To review matters relating to education, training and communication in connection with the Hospital’s Standards of Business Conduct to ensure that the Hospital’s policies and procedures on compliance are properly disseminated, understood and followed;

(f) To periodically review the malpractice and other liability claims pending against the Corporation;

(g) To advise the Board of Directors on methods and procedures which will assure that the financial policies and budgets adopted by the Board of Directors are carried out and to assist the Treasurer of the Corporation;

(h) To review and advise the Board of Directors on financial feasibility of corporate projects, acts and undertakings referred to it by the Board of Directors; to review and recommend the level of insurance coverage to be maintained by the Corporation;

(i) To provide oversight for the personnel practices and policies for the employed personnel of the hospital;

(j) To oversee and periodically review the performance and adequacy of or changes to the Hospital’s retirement plans; and

(k) To provide oversight for the preparation of the Corporation’s annual budgets, to review the same and to make recommendations thereon to the Board of Directors prior to the end of the Corporation’s fiscal year; to review the monthly financial statements of the Corporation, appraise the Corporation’s operating performance and make recommendations to the Board of Directors on both current and long term fiscal affairs;

5. Audit Committee.

To the extent that the Sole Member retains an audit and compliance committee, that committee shall serve as the audit and compliance committee of the Corporation.

6. Governance Committee.

The Governance Committee shall be composed of members of the Board appointed by the Board of Directors including one representative of the United Methodist Women. The duties and responsibilities of the Governance Committee shall be:

(a) To recommend to the Board of Directors for presentation to the Sole Member a slate of candidates to fill the positions of Directors whose terms expire each year, such slate to be submitted to the Board of Directors not later than thirty (30) days prior to the last regularly scheduled Board meeting held prior to the annual meeting of the Board;

(b) To recommend to the Board of Directors candidates for Officers of the Corporation, as necessary or requested by the Board of Directors;

(c) To periodically review the Bylaws of the Corporation and make recommendations to the Board for change, and also to discuss changes to these Bylaws proposed by others;

(d) To develop and recommend to the Board of Directors a self-assessment survey to be completed annually by Directors;

(e) To develop and recommend to the Board of Directors procedures for the introduction and training of new Directors; and

(f) To develop and recommend to the Board of Directors periodic informational and educational input for Directors.

7. Planning Committee.

The Planning Committee shall be composed of five (5) members of the Board of Directors, one (1) of whom shall be a member of the Executive Committee.

The duties and responsibilities of the Planning Committee shall be:

(a) To act as a liaison group between the Medical Staff and the Board of Directors on joint planning issues;

(b) To develop, maintain and recommend to the Board of Directors strategic plans and actions required to accomplish such plans;

(c) To review and recommend to the Board of Directors corporate financial feasibility and/or patient care service changes, consistent with: maintaining the high quality of care of the Hospital; Hospital purposes, needs and capabilities; and community needs; and

(d) To work jointly with the Medical Staff Planning Committee on planning issues which require joint study; to make recommendations to the Board of Directors on such issues; and to have general supervision over the maintenance, renovation and extension of the property of the Corporation as well as evaluating proposals for all significant facility and capital equipment expenditures.

8. Performance Improvement Committee.

The Performance Improvement Committee shall be composed of members of the Board of Directors and will meet quarterly with members of the Medical Staff (CQIS Committee) and Administration to review performance improvement indicators, results of the Hospital's safety program and special reports. From this review, a quarterly report will be presented to the Board which brings forth overview of quality and safety matters of the Hospital and the Medical Staff.

9. Investment Committee.

The Investment Committee shall be composed of at least three (3) members of the Board appointed by the Board of Directors including the Treasurer, *provided* that the Treasurer is a Director. The duties and responsibilities of the Investment Committee shall be:

(a) To approve the Corporation's investment policy, including the setting of investment objectives, goals and guidelines;

(b) To provide oversight of investment activities, including the retention of investment advisors and managers and the setting of asset allocations;

(c) To approve the establishment of custodial accounts for the holding of investments; and

(d) To meet periodically, but at least annually, with third party investment advisors to review investment results and to recommend to the Board of Directors changes to the investment portfolio as appropriate ensuring compliance with the Corporation's investment policy and procedures.

10. Quorum.

A majority of the members of a committee shall constitute a quorum and any transaction of a committee shall require a majority vote of the quorum present at any meeting. Each member of a committee, including the person presiding at the meeting, shall be entitled to one (1) vote.

11. Membership Appointment.

The Chairman and members of each committee other than the Executive Committee shall be appointed by the Chairman of the Board, subject to the approval of the Board of Directors. The members of the Executive Committee shall be appointed by the Board of Directors. The Chairman

of each committee shall be a member of the Board of Directors. Other members of committees need not be members of the Board of Directors except as otherwise provided in these Bylaws.

12. Term of Office.

The Chairman and members of each committee shall serve for one (1) year after appointment and until his or her successor is appointed, or until such committee is sooner terminated, or until he or she is removed, resigns or otherwise ceases to qualify as a Chairman or member, as the case may be, of the committee.

13. Removal of Committee Members.

The body or person that appointed the members of a committee may remove at any time, with or without cause, such members of that committee.

14. Meetings.

Members of committees shall meet not less frequently than once a year, except the Executive Committee shall meet at least four (4) times a year and in any event, at the call of the Chairman of the Board, the President and Chief Executive Officer or the Chairman of the committee at such a place as he, she or they shall designate. The provisions of Section 10, 11, 13, 15, and 16 of Article IV shall apply to all committee meetings. Each committee shall keep minutes of its proceedings and make a report to the Board of Directors of its action within a reasonable time subsequent thereto.

**ARTICLE VI
OFFICERS**

1. Officers.

The Officers of the Corporation (each an “**Officer**” and collectively, the “**Officers**”) shall be Chairman of the Board, a Vice Chairman, a President and Chief Executive Officer, a Secretary, a Treasurer, a Chief Financial Officer, Chief Strategy Officer, Chief Operating Officer, and Chief Medical Officer. Officers of the Corporation may be employees of the Corporation. The Corporation may also have, at the discretion of the Board of Directors, one or more Assistant Secretaries and one or more Assistant Treasurers. Any person may hold more than one office, except that neither the President and Chief Executive Officer nor the Chairman may serve concurrently as either the Secretary or Chief Financial Officer.

2. Appointment of Officers.

The Officers of the Corporation shall be appointed annually by the Sole Member subject to the restrictions set forth in Article II, Section 3 of these Bylaws and the rights of the Board of Directors set forth in Article IV, Section 1 of these Bylaws, respectively.

3. Subordinate Officers.

The Board of Directors may elect or authorize the appointment of such other Officers than those herein before mentioned as the business of the Corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in these Bylaws or as the Board of Directors from time to time may authorize.

4. Removal of Officer.

Any Officer may be removed either with or without cause by the Sole Member, subject to the restrictions set forth in Article III, Section 3 of these Bylaws, and the rights of the Board of Directors set forth in Article IV, Section 1 of these Bylaws. Should a vacancy occur in any office as a result of death, resignation, removal, disqualification or any other cause, the Board may delegate the powers and duties of such office to any Officer or to any Director until such time as a successor for such office has been selected.

5. Chairman of the Board.

The Chairman of the Board shall preside at all meetings of the Board, and shall have such other powers and duties as the Board may specify. The chairman may serve no more than three (3) consecutive one-year terms. Such a Chairman who has served up to such maximum term shall be eligible for re-election after a lapse of a one-year period while such person does not serve as Chairman.

6. Vice Chairman of the Board.

In the absence or disability of the Chairman of the Board, the Vice Chairman of the Board shall perform all the duties of the Chairman and, when so acting, shall have all the powers of, and be subject to, all the restrictions upon the Chairman. The Vice Chairman shall have such other powers and duties as may be specified by the Board of Directors. The Vice Chairman shall succeed the Chairman when such Chairman is not reelected or when he/she has reached his/her term limits.

7. President and Chief Executive Officer.

The President and Chief Executive Officer shall be the chief executive officer of the Corporation. Subject to the control of the Board, he/she shall have general supervision of the business of the Corporation, shall be a member of all of the Committees, and shall have such other powers and duties usually vested in such an Officer.

8. Secretary.

The Secretary shall be a Director, shall keep or cause to be kept the minutes of the meetings of the members and the Board of Directors and its Committees in one or more books provided for that purpose, shall see that all notices are duly given in accordance with the provisions of these Bylaws and the Articles of Incorporation, as required by law, shall be custodian of the Corporation's records and of the seal of the Corporation and shall see that the seal is affixed to all documents, the execution of which on behalf of the Corporation under its seal is duly authorized, and in general shall perform all duties as from time to time may be prescribed by the Chairman of

the Board, the President and Chief Executive Officer or the Board of Directors. These duties may also be carried out by an Assistant Secretary so designated by the Board of Directors.

9. Treasurer.

The Treasurer shall oversee the financial condition of the Corporation and shall be the Chairman of the Finance Committee.

10. Chief Financial Officer.

The Chief Financial Officer, if required by the Board of Directors, shall give a bond for the faithful discharge of his or her duties in such form and with such surety or sureties as the Board of Directors shall determine. The Chief Financial Officer shall have charge and custody of all the funds of the Corporation. The Chief Financial Officer shall also be designated Assistant Treasurer and shall keep, or cause to be kept, in books belonging to the Corporation, full and accurate accounts of all receipts and disbursements, and shall deposit all money and other valuable effects in the name of the Corporation in such depositories as may be designated for that purpose by the Board of Directors. The Chief Financial Officer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Chairman of the Board of Directors at the meetings of the Board of Directors whenever requested by them an account of all his transactions as Chief Financial Officer and of the financial condition of the Corporation.

11. Compensation and Expenses.

Officers shall serve without salary unless they are also employees of the Corporation. Expenses incurred in connection with performance of their official duties may be reimbursed to Officers upon approval of the Board of Directors. Any compensation of the President and Chief Executive Officer and the Chief Financial Officer or Treasurer shall be determined in accordance with subdivision (g) of Section 12586 of the Government Code, if applicable.

**ARTICLE VII
ADMINISTRATION**

1. Administration.

The President and Chief Executive Officer shall be the Board of Directors' direct executive representative in the management of the Hospital. The President and Chief Executive Officer shall be in charge of the general management of the Hospital, including the establishment of internal controls to effectively operate the hospital, and subject to administrative policies adopted by the Board of Directors and orders resulting there from. The President and Chief Executive Officer shall act as the duly authorized representative of the Board of Directors in all matters in which the Board of Directors has not formally designated some other person to act. The authority and duties of the President and Chief Executive Officer shall be as follows:

- (a) Carrying out all policies established by the Board of Directors;

(b) Development of a plan of organization of the personnel and others concerned with the operation of the Hospital and submission thereof to the Board of Directors for approval;

(c) With the goal of conserving the physical and financial assets of the company, preparation of an annual operating and capital expenditure budget showing the expected receipts and expenditures and such other information as is required by the Board of Directors, and submission of such budgets to the Board of Directors for approval;

(d) Selection, employment, control, retention and discharge of employees, and development and maintenance of personnel policies and practices for the Hospital;

(e) Maintenance of physical properties in a good state of repair and operating condition;

(f) Establishing and maintaining information and support systems;

(g) Supervision of business affairs to insure that funds are collected and expended to the best possible advantage and within the provisions of the annual budgets;

(h) Cooperation with the Medical Staff and with all those concerned with the rendering of professional service to the end that high quality care may be rendered to the patients consistent with the policies set forth by the Board of Directors;

(i) Presentation to the Board of Directors, or to its authorized committees, of periodic reports reflecting the professional service and financial activities of the Hospital as prescribed by corporate administrative policies and preparation and submission of such special reports as may be required by the Board of Directors;

(j) Report all activities and recommendations of the Medical Staff to the Board;

(k) Execute contracts authorized by the Board of Directors subject to the limitations of authority delegated by the Board of Directors;

(l) Performance of other duties assigned by the Board of Directors that may be necessary in the best interest of the Hospital; and

(m) Designate a qualified individual who shall be responsible to the President in matters of administration and shall represent him or her during his or her absence.

The Board shall annually evaluate the performance of the President against key goals and management objectives, and such other criteria as the Board may from time to time establish.

ARTICLE VIII MEDICAL STAFF

1. Organization.

The Board of Directors shall cause to be created a medical staff organization to be known as the Medical Staff of the Hospital, whose membership shall be comprised of all physicians and other licensed practitioners who are privileged to attend patients in the Hospital. Only members of the Medical Staff with clinical privileges may admit patients to or treat patients at the Hospital, and those practitioners shall be directly responsible for each patient's diagnosis and treatment within the scope of his or her privileges. Membership in this medical staff organization shall be a prerequisite to the exercise of clinical privileges in the Hospital, except as otherwise specifically provided in the Medical Staff Bylaws.

2. Medical Staff Bylaws and Rules and Regulations.

(a) Purpose. The Medical Staff shall be responsible for the development, adoption and periodic review of Medical Staff Bylaws and Rules and Regulations that are consistent with Hospital policy and with any applicable legal or other requirements. Medical Staff Bylaws and Rules and Regulations shall be subject to, and effective upon, approval of the Board of Directors, which approval shall not be unreasonably withheld. The Medical Staff Bylaws shall create an effective administrative unit to discharge the functions and responsibilities assigned to the Medical Staff by the Board of Directors. The Medical Staff Bylaws and Rules and Regulations shall state the purposes, functions and organization of the Staff and shall set forth the policies by which the Medical Staff exercises and accounts for its delegated authority and responsibilities. The Medical Staff Bylaws shall also establish an effective formal means for the Medical Staff, as liaison, to participate in the development of Hospital policy.

(b) Procedure. The Medical Staff shall have the initial responsibility to formulate, adopt and recommend to the Board of Directors Medical Staff Bylaws and Rules and Regulations and amendments thereto which shall be effective when approved by the Board of Directors. Proposed changes to Medical Staff Bylaws and Rules and Regulations will be presented to a meeting of the Board of Directors and mailed to each Director at least ten (10) days prior to the meeting at which a vote is to be taken on adoption of the proposed change. No Medical Staff Bylaws and Rules and Regulations or amendments thereto shall become effective without approval by the Board as herein above provided except that revisions in Rules and Regulations within the scope of the Medical Staff Bylaws may be implemented immediately by the Medical Staff subject to the review and approval of the Board of Directors. Medical Staff Bylaws and Rules and Regulations shall be reviewed annually and revised as necessary. (These provisions are adopted pursuant to the California Administrative Code, Title 22, Section 70701)

3. Medical Staff Membership and Clinical Privileges.

(a) Delegation to the Medical Staff. The Board of Directors shall delegate to the Medical Staff the responsibility and authority to investigate and evaluate all matters relating to Medical Staff membership status, clinical privileges and corrective action, and shall require that the Staff adopt and forward to it specific written recommendations with appropriate supporting documentation that will allow the Board to take informed action. A "fast track" credentialing

procedure, as set forth in the Medical Staff Bylaws, shall be authorized in cases deemed to be appropriate under the Medical Staff Bylaws.

(b) Action by the Board of Directors. The Board of Directors shall consider and act upon each Medical Staff appointment and reappointment recommendation as set forth in these Bylaws and the Medical Staff Bylaws. Final action on all matters relating to Medical Staff membership status, clinical privileges and corrective action shall be taken by the Board after considering the Medical Staff recommendations, *provided* that the Board may initiate corrective action as permitted in the Medical Staff Bylaws; and shall take final action in the event the Staff fails to adopt and submit an appropriate recommendation within the time periods set forth in the Medical Staff Bylaws.

Any Board action, without a Medical Staff recommendation, shall be based on the same kind of documented investigation and evaluation of current ability, judgment and character as is required for Medical Staff recommendations.

In the event the Board does not concur in a Medical Staff recommendation relative to Medical Staff membership or credentialing, it shall refer the matter to an appropriate Ad Hoc or Joint Conference committee having equal members of Board and Medical Staff appointed members for review and recommendation before a final decision is made by the Board.

(c) Criteria for Board Action. When acting on matters of Medical Staff membership status, clinical privileges and/or corrective action, the Board shall consider the Medical Staff recommendations, the Hospital's and the community's needs, and such additional criteria as are set forth in the Medical Staff Bylaws, including but not limited to the practitioner's ability to conduct him or herself in a non-disruptive manner. In granting and defining the scope of clinical privileges to be exercised by each practitioner, the Board shall consider the Medical Staff recommendations, the supporting information on which they are based and such criteria as are set forth in the Medical Staff Bylaws. No aspect of membership status nor specific clinical privileges shall be limited or denied to a practitioner on the basis of sex, age, race, creed, color or national origin, or on the basis of any other criterion unrelated to good patient care at the Hospital, to professional qualifications, to the Hospital's purposes, needs and capabilities, or to community needs.

(d) Terms and Conditions of Staff Membership and Clinical Privileges. The terms and conditions of membership status on the Medical Staff and of the exercise of clinical privileges shall be as specified in the Medical Staff Bylaws or as more specifically defined in the notice of individual appointment. Each member of the Medical Staff shall have appropriate authority and responsibility for the care of his or her patients, subject to the requirements of these Bylaws and any requirements and/or limitations imposed under the Medical Staff Bylaws. Appointments to the Medical Staff shall be for a maximum term of two (2) years.

(e) Procedure. The procedure to be followed by the Medical Staff and the Board of Directors in acting on matters of membership status, clinical privileges and corrective action shall be as specified in the Medical Staff Bylaws.

4. Fair Hearing Procedures.

The Board of Directors shall require that any adverse recommendation made by the Medical Executive Committee or any adverse action taken by the Board with respect to a practitioner's Medical Staff appointment, reappointment, department affiliation, Medical Staff category, admitting prerogatives or clinical privileges shall, except under circumstances for which specific provision is made in the Medical Staff Bylaws and/or by contract, be accomplished in accordance with the Board approved fair hearing plan procedures as included in the Medical Staff Bylaws. Such Plan shall provide for procedure to assure fair treatment and afford opportunity for the presentation of all pertinent information. For the purposes of this section, an "adverse recommendation" of the Medical Executive Committee and an "adverse action" of the Board shall be defined in the Medical Staff Bylaws.

5. Allied Health Professional.

(a) Categories Eligible to Apply for Allied Health Professional Service Privileges. The categories of allied health professionals ("AHPs"), based on occupation or profession, that shall be eligible to apply for AHP membership and service authorization at the Hospital, and any corresponding service authorization privileges or prerogatives for each such AHP category, shall be designated by the Board of Directors, upon the recommendation of the Medical Executive Committee, and when approved by the Board of Directors, shall be set forth in the Medical Staff Rules and Regulations.

(b) Credentialing. The Board of Directors shall delegate to the Medical Staff the responsibility and authority to investigate and evaluate each application by an allied health professional for specified services, department affiliation and modification in the services such allied health professional may perform and shall require that the Medical Staff, or a designated component thereof, make recommendation to it or to its designee thereon.

(c) Appeal Procedure. The procedures for the credentialing of and corrective action against AHPs shall be set forth in the Medical Staff Bylaws. Where the Medical Executive Committee has upheld an action against an AHP following a grievance procedure filed by the AHP, the Board of Directors shall provide an opportunity for the AHP to appeal the Medical Executive Committee's decision to an up to three (3) member Appeal Board appointed by the Chair of the Board of Directors or his/her designee. The Appeal Board shall have at least one (1) member of the Board of Directors. Each party to the appeal, the AHP whose grievance prompted the appeal, and the Medical Executive Committee, may submit a written statement in support of its position to the Appeal Board within thirty (30) days of the Board of Director's acceptance of the appeal. There shall be no right to oral argument. The Appeal Board shall issue recommendations to the Board of Directors within fifteen (15) days of the deadline for receipt of the written statements. The Board of Directors shall issue a final decision at its next regular meeting.

6. Amendments.

The Board of Directors shall submit proposed amendments to this Article VIII of these Hospital Bylaws to the Executive Committee of the Medical Staff for its review and recommendations thirty (30) days prior to final consideration of such amendments by the Board.

**ARTICLE IX
QUALITY OF PROFESSIONAL SERVICES**

1. Board of Directors' Responsibility.

The Board of Directors shall require: (a) that the Medical and Administrative Staff prepare and maintain adequate and accurate medical records for all patients; (b) that the person responsible for each basic and supplemental medical service cause written policies and procedures to be developed and maintained and that such policies be approved by the Board, (c) the Medical and Administrative Staffs develop and maintain a system of continuous performance improvement that is more specifically defined in an annual written performance improvement plan to be approved by the Board. The Board shall further require, after considering the recommendations of the Medical Staff, the conduct of specific review and evaluation activities to assess, preserve and improve the overall quality and efficiency of patient care in the Hospital. The Board shall provide whatever administrative assistance is reasonably necessary to support and facilitate the implementation and the ongoing operation of these review and evaluation activities.

2. Medical Staff Responsibility.

The Medical Staff shall conduct, and be accountable to the Board for conducting activities that contribute to the preservation and improvement of the quality and efficiency of patient care provided in the Hospital. These activities shall include:

(a) The conduct of periodic meetings at regular intervals to review and evaluate the quality of patient care employing a combination of retrospective peer review, the monitoring of performance in important aspects of care as defined by each department, and other monitoring functions as defined by California state regulations and the Joint Commission or other applicable accrediting body.

(b) Definition of the clinical privileges which may be appropriately granted within the Hospital and within each department, delineation of clinical privileges for members of the Medical Staff commensurate with the individual credentials and demonstrated ability and judgment and assignment of patient care responsibilities to other healthcare professionals consistent with individual licensure, qualifications and demonstrated ability;

(c) Provision of continuing professional education, shaped primarily by the needs identified through the review and evaluation activities;

(d) Review of utilization of the Hospital's medical resources to provide for their allocation to meet the needs of the patients;

(e) Such other measures as the Board of Directors may, after considering the advice of the Medical Staff and other professional services and the Hospital Administration, deem necessary for the preservation and improvement of the quality and efficiency of patient care; and

(f) The Medical Staff, together with senior executive management, shall prepare and review annually a plan to assure the comprehensiveness and hospital-wide integration of the Hospital's Quality Improvement program.

3. Documentation.

The Board of Directors shall require, receive, consider and act upon the findings and recommendations emanating from the activities required by Section 2 of this Article IX. All such findings and recommendations shall be in writing, signed by the persons responsible for conducting the review activities and supported and accompanied by appropriate documentation upon which the Board can take informed action.

**ARTICLE X
AUXILIARIES**

From time to time the Board of Directors may approve the establishment of auxiliary organizations, including advisory boards and Hospital auxiliaries. Each such group shall establish its own Bylaws and Rules and Regulations and present them to the Board of Directors for approval, and all amendments thereto shall also be subject to the approval of the Board of Directors. These Bylaws and the Articles of Incorporation of this Corporation shall prevail and govern over the documents and actions of such adjunct and subordinate groups. All activities of such auxiliaries shall be subject to the approval of the Board of Directors.

**ARTICLE XI
GENERAL PROVISIONS**

1. Contracts.

The Board of Directors or the Executive Committee may authorize any Officer or Officers, agent or agents, to enter into any contract or execute or deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

2. Deposits.

All funds of the Corporation, not otherwise employed, shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors or the Executive Committee may direct or pursuant to a policy approved by the Board of Directors.

3. Checks.

All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such Officer or Officers,

agent or agents, of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors or the Executive Committee.

4. Loans.

Notwithstanding Section 5236 of the Law, the Corporation shall not make any loan of money or property to or guarantee the obligation of any Director or officer, or any other person in a position to exercise substantial influence over the affairs of the Corporation.

5. Review.

The Board will review these Bylaws every two (2) years.

**ARTICLE XII
INDEMNIFICATION AND INSURANCE**

1. Definitions.

For the purposes of this Article XII, “agent” means any person who is or was a Director, Officer, employee or other agent of the Corporation, or is or was serving at the request of the partnership, joint venture, trust, or other enterprise, or was a director, officer, employee or agent of a foreign or domestic corporation which was a predecessor corporation of the Corporation or of another enterprise at the request of such predecessor corporation; “proceeding” means any threatened, pending, or completed action or proceeding, whether civil, criminal, administrative, or investigative; and “expenses” includes without limitation, attorneys’ fees and any expenses of establishing a right to indemnification under Section 4 or 5 of this Article XII.

2. Indemnification in Third Party Actions.

The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any proceeding (other than an action by or in the right of the Corporation to procure a judgment in its favor, an action brought under Section 5233 of the Law or an action brought by the Attorney General or a person granted relator status by the Attorney General for any breach of duty relating to assets held in charitable trust) by reason of the fact that such person is or was an agent of the Corporation, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with such proceeding if such person acted in good faith and in a manner such person reasonably believed to be in the best interest of the Corporation and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of such person was unlawful. The termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in the best interest of the Corporation or that the person had reasonable cause to believe that person’s conduct was unlawful.

3. Indemnification in Derivative Actions.

The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action by or in the right of the Corporation,

or brought under Section 5233 of the Law or brought by the Attorney General or a person granted relator status by the Attorney General for breach of duty relating to assets held in charitable trust, to procure a judgment in its favor by reason of the fact that such person is or was an agent of the Corporation, against expenses actually and reasonably incurred by such person in connection with the defense or settlement of such action if such person acted in good faith, in a manner such person believed to be in the best interests of the Corporation and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances. however, no indemnification shall be made under this Section 3:

(a) In respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation in the performance of such person's duty to the Corporation, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for the expenses which such court shall determine;

(b) Of amounts paid in settling or otherwise disposing of a threatened or pending action, with or without court approval; or

(c) Of expenses incurred in defending a threatened or pending action which is settled or otherwise disposed of without court approval, unless it is settled with the approval of the Attorney General.

4. Indemnification Against Expenses.

(a) To the extent that an agent of the Corporation has been successful on the merits in defense of any proceeding referred to in Sections 2 or 3 of this Article XII or in defense of any claim, issue or matter therein, the agent shall be indemnified against expenses actually and reasonably incurred by the agent in connection therewith.

5. Required Determinations.

(a) Except as provided in Section 4 of this Article XII, any indemnification under this Article XII shall be made by the Corporation only if authorized in the specific case, upon a determination that indemnification of the agent is proper under the circumstances because the agent has met the applicable standard of conduct set forth in Sections 2 or 3 of this Article XII, by:

(a) A majority vote of a quorum consisting of Directors who are not parties to such proceeding;

(b) Approval of the Sole Member, with the persons to be indemnified not being entitled to vote thereon; or

(c) The court in which such proceeding is or was pending upon application made by the Corporation or the agent or the attorney or other person rendering services in connection with the defense, whether or not such application by the agent, attorney or other person is opposed by the Corporation.

6. Advance of Expenses.

(a) Expenses incurred in defending any proceeding may be advanced by the Corporation prior to the final disposition of such proceeding upon receipt of an undertaking by or on behalf of the agent to repay such amount unless it shall be determined ultimately that the agent is entitled to be indemnified as authorized in this Article XII.

7. Other Indemnification.

No provision made by the Corporation to indemnify its Directors or Officers for the defense of any proceeding, whether contained in the Articles of Incorporation, these Bylaws, a resolution of the Board of Directors, an agreement or otherwise, shall be valid unless consistent with this Article XII. Nothing contained in this Article XII shall affect any right to indemnification to which persons other than such Directors and Officers may be entitled by contract or otherwise.

8. Forms of Indemnification Not Permitted.

No indemnification or advance shall be made under this Article XII, except as provided in Sections 4 or 5, in any circumstances where it appears:

(a) That it would be inconsistent with a provision of the Articles of Incorporation, these Bylaws or an agreement in effect at the time of the accrual of the alleged cause of action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification;

(b) That it would be inconsistent with any condition expressly imposed by a court in approving a settlement; or

(c) That it would constitute an “excess benefit transaction” within the meaning of Section 4958 of the Internal Revenue Code of 1986, as amended.

9. Insurance.

The Corporation shall have power to purchase and maintain such insurance on behalf of any agent of the Corporation against any liability asserted against or incurred by the agent in such capacity or arising out of the agent’s status as such, whether or not the Corporation would have the power to indemnify the agent against such liability under the provision of this Article XII; provided however that the Corporation shall have no power to purchase and maintain such insurance to indemnify any agent of the Corporation for violation of Section 5233 of the California Corporations Code.

10. Nonapplicability to Fiduciaries of Employee Benefit Plans.

This Article does not apply to any proceeding against any Director, investment manager or other fiduciary of an employee benefit plan in such person’s capacity as such, even though such person may also be an agent of the Corporation as defined in Section 1 of this Article XII. The Corporation shall have power to indemnify such director, investment manager or other fiduciary to the extent permitted by Section 207(f) of the California Corporations Code.

**ARTICLE XIII
ACCOUNTING YEAR AND TAX AUDIT**

1. Accounting Year.

The accounting year of the Corporation shall be that of the Sole Member.

2. Audit.

At the end of the accounting year the books of the Corporation shall be closed and audited by a certified public accountant selected by the Sole Member. The financial report of the auditor shall be promptly mailed to each Director and a copy thereof shall be furnished to the Sole Member.

**ARTICLE XIV
AMENDMENTS**

These Bylaws and any part thereof may be amended or repealed, and new Bylaws may be adopted, only by the Sole Member; *provided, however*, if these Bylaws or any part thereof are amended or repealed (other than ministerial amendments that do not affect the rights of the Corporation or its Board of Directors provided for in the Affiliation Agreement, the Corporation's Articles of Incorporation, or these Bylaws), or new Bylaws adopted, during the Interim Period, then such change shall also require the approval of the Board of Directors of the Corporation through an affirmative vote of a majority of the total number of Directors then in office at any meeting of the Board of Directors of the Corporation. In addition, any amendment or restatement of the following terms of these Bylaws shall require the approval of both the Sole Member and the Board of Directors, as follows: (a) during the Interim Period, any provisions related to the size, composition, or qualifications of the Board of Directors of the Corporation, as referenced in Article IV, Section 3; and (b) any reference to the Affiliation Agreement in these Bylaws.

Adopted unanimously by the Board of Directors on _____, 2021

Chairman of the Board

Secretary

Amended 04/24/1986	Amended 08/07/1995	Amended 01/21/2003
Amended 06/25/1987	Amended 12/12/1995	Amended 04/09/2003
Amended 03/30/1990	Amended 05/09/2000	Amended 07/23/2003
Amended 11/30/1990	Amended 05/31/2000	Amended 04/28/2005
Amended 1/04/1992	Amended 11/09/2000	Amended 12/05/2010
Amended 02/10/1993		Amended 07/30/2015
		Amended / /2022

Attachment 3.1(a)(i)

Amended and Restated Articles of Incorporation of Parent

Attached.

**CERTIFICATE OF AMENDMENT
OF ARTICLES OF INCORPORATION**

The undersigned certify that:

1. They are the President and Secretary, respectively, of USC Health System, a California nonprofit public benefit corporation.
2. Article Four of the Articles of Incorporation of this corporation is amended to read as follows:

“The Corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law for public and charitable purposes. The Corporation is organized for the following exclusively charitable, scientific and educational purposes within the meaning of Section 501 (c)(3) of the Internal Revenue Code of 1986, as now in effect or as may hereafter be amended (the “Code”), and Section 214 of the California Revenue and Taxation Code, as now in effect or as may hereafter be amended (the “R&TC”). The Corporation is organized and shall be operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the University of Southern California, USC Care Medical Group, Inc., Keck Medical Center of USC, USC Verdugo Hills Hospital, and USC Arcadia Hospital. In this capacity, the Corporation shall:

- 1) Organize, coordinate, direct and operate an integrated health care system for the delivery of health care services by those hospitals and other health care providers that become affiliated with, or related to, the Corporation;
- 2) Enhance the accessibility, quality and cost-effectiveness of health care services related to the communities served by the Corporation and its affiliates; and
- 3) Encourage and participate in activities designed and carried on to provide and improve the general public health and health of patients served by the Corporation and its affiliates.

In furtherance thereof, the Corporation may receive property by gift, devise or bequest, invest or reinvest the same, and apply the income and principal thereof, as the directors may from time to time determine, either directly or through contributions to any charitable organization or organizations, exclusively for

charitable, scientific, or educational purposes, and engage in any lawful act or activity for which corporations may be organized under the California Nonprofit Public Benefit Corporation Law.

In furtherance of its corporate purposes, the Corporation shall have all the general powers enumerated in Sections 5140 and 5141 of the California Nonprofit Public Benefit Corporation Law, as now in effect or as may hereafter be amended, together with the power to solicit grants and contributions for such purposes.”

3. The foregoing amendment of Articles of Incorporation has been duly approved by the board of directors.
4. The foregoing amendment of Articles of Incorporation has been duly approved by the sole member.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

DATE: _____

Rod Hanners, President

Beong-Soo Kim, Secretary

Signature page to Certificate of Amendment of USC Health System articles of incorporation

Attachment 3.1(a)(ii)

Amended and Restated Bylaws of Parent

Attached.

**BYLAWS
OF
USC HEALTH SYSTEM**

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ARTICLE I

NAME AND PURPOSES

Section 1.1. Name. The name of the corporation is USC Health System.

Section 1.2. Purposes. The Corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the California Nonprofit Corporation Law (as defined herein) for public and charitable purposes. The Corporation is organized for the following exclusively charitable, scientific and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as now in effect or as may hereafter be amended (the "Code"), and Section 214 of the California Revenue and Taxation Code, as now in effect or as may hereafter be amended. The Corporation is organized and shall be operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the University of Southern California, a California nonprofit public benefit corporation and a tax-exempt organization described in Sections 501(c)(3) and 509(a)(1) of the Code. In this capacity, the Corporation shall:

- 1) Organize, coordinate, direct and operate an integrated health care system for the delivery of health care services by those hospitals and other health care providers that become affiliated with, or related to, the Corporation;
- 2) Enhance the accessibility, quality and cost-effectiveness of health care services related to the communities served by the Corporation and its affiliates; and
- 3) Encourage and participate in activities designed and carried on to provide and improve the general public health and health of patients served by the Corporation and its affiliates.

ARTICLE II

DEFINITIONS

Section 2.1. "Articles" means the articles of incorporation of the Corporation filed with the California Secretary of State.

Section 2.2. "Board of Directors" means the governing body of the Corporation organized pursuant to Section 4.1 of these Bylaws.

Section 2.3. "Bylaws" means these bylaws, including amendments hereto.

Section 2.4. "California Nonprofit Corporation Law" means California Corporations Code Sections 5000 et seq., as amended from time to time.

Section 2.5. "Conflict of Interest Policy" means the conflict of interest policy adopted by the Directors pursuant to Section 4.13 of these Bylaws, as in effect from time to time.

Section 2.6. “Control” shall have the same meaning as in Section 5045 of the California Nonprofit Corporation Law.

Section 2.7. “Corporation” means USC Health System, a nonprofit public benefit corporation.

Section 2.8. “Directors” means the individuals serving as the members of the Board of Directors of the Corporation from time to time.

Section 2.9. “Sole Member” is defined in Section 3.1 of these Bylaws.

Section 2.10. “Trustees” means the individuals serving as the members of the Board of Trustees of the Sole Member from time to time.

Section 2.11. Italicized Terms. Terms italicized in these Bylaws and not otherwise defined shall have the meanings given them in the California Nonprofit Corporation Law.

ARTICLE III

MEMBERSHIP

Section 3.1. Membership. The membership of the Corporation shall consist of a single member, the University of Southern California, a California nonprofit public benefit corporation.

Section 3.2. Actions by the Sole Member.

(a) Action of the Sole Member. The Sole Member shall act through its President, or any person or persons designated by its President to act in the name and on behalf of the University of Southern California in its capacity as Sole Member of the Corporation; provided, however, that the Sole Member shall exercise the following powers through the affirmative vote of its Board of Trustees (or a committee of the Board of Trustees): (i) the reserved powers of the Sole Member set forth in Section 3.3; and (ii) the amendment of these bylaws, to the extent such amendment affects the reserved powers of the Sole Member set forth in Section 3.3.

(b) Methods of Voting and Other Actions of the Sole Member.

(i) Action by Written Consent. Any action required or permitted to be taken by the Sole Member at a meeting may be taken without a meeting if the Sole Member shall consent in writing to such action. Such consent shall have the same force and effect as a vote of the Sole Member at a meeting, so long as it is executed in its name and on its behalf by a person duly authorized by the Sole Member whose authority to act for the Sole Member is stated in the written consent and certified by the secretary, an associate or assistant secretary or the general counsel of the Sole Member. The written consents of the Sole Member shall be filed with the minutes of the proceedings of the Corporation.

(ii) Reliance on Certain Authorizations from the Sole Member. The Corporation may rely on reasonable evidence of approval of any action of the Corporation that is subject to the rights and powers of the Sole Member under these Bylaws. Such reasonable

evidence includes but is not limited to written (including electronic) approval or confirmation from or under the apparent authority of the President of the Sole Member.

Section 3.3. Rights of the Sole Member. In addition to the rights, privileges, preferences and powers of a member under the California Nonprofit Corporation Law and those reserved to the Sole Member pursuant to and in accordance with applicable law, the Articles, and these Bylaws, the Sole Member shall have the power to:

- (a) approve amendments to the Corporation's articles of incorporations or bylaws;
- (b) elect or remove the Corporation's officers as described in Article VI below;
- (c) approve the Corporation's annual consolidated capital and operating budgets;
- (d) approve capital expenditures that exceed those budgeted for in the Corporation's annual capital and operating budgets, in accordance with the spending authority policy set forth by the Sole Member (the "Spending Authority Policy");
- (e) approve any transaction of the Corporation or any of its subsidiaries that (i) exceeds the Corporation's spending authority or otherwise requires approval by the Sole Member pursuant to the Sole Member's Spending Authority Policy, or (ii) results in a change of Control with respect to the Corporation or any of the Corporation's subsidiaries;
- (f) approve any sale, assignment, or any other transfer of the Corporation's or any of its subsidiaries' interest in any ground lease of real property (and all improvements thereon) owned by the University ("Ground Leases"), or the mortgaging, encumbering or any other hypothecation of the Corporation or its subsidiary's interest in any of the Ground Leases or real properties (including any improvements thereon) that are the subject of the Ground Leases;
- (g) approve the borrowing of, incurrence of, or guaranteeing of debt in any amount, other than debt incurred in the ordinary course of business that is anticipated in and consistent with the annual capital and operating budget for which the debt was incurred;
- (h) review the Corporation's annual strategic plan, prior to adoption by the Corporation; and
- (i) select any external auditors of the Corporation or any of its subsidiaries.

ARTICLE IV

DIRECTORS

Section 4.1. Directors. The overall responsibility for the operation and management of the affairs of the Corporation shall be in a governing body comprised of individuals functioning as a board, who shall have and may exercise all the powers of the Corporation, except as reserved to the Sole Member by law, the Articles, and these Bylaws. The Board of Directors may delegate the management of the activities of the Corporation to any person or persons or committee however composed, provided that the activities and affairs of the Corporation shall be managed

and all corporate powers shall be exercised under the ultimate direction of the Board of Directors.

Section 4.2. Composition of the Board of Directors.

(a) The Board of Directors shall consist of between eleven and sixteen directors as follows:

(i) up to four shall be individuals elected by the Sole Member from among then-current or former Trustees of the Sole Member (“Trustee Directors”);

(ii) up to four shall be individuals elected by the Sole Member from among then-current members of the Sole Member’s administration who are nominated by the Sole Member’s President (the “Administration Directors”);

(iii) the President of the Sole Member shall serve as an *ex officio* voting member (the “*Ex Officio* Director,” and together, with the Trustee Directors and the Administration Directors, the “University Directors”);

(iv) up to four shall be individuals elected by the Sole Member from among persons nominated in accordance with Section 4.3 of these Bylaws (“Outside Directors”);

(v) one shall be an individual elected by the Sole Member from among persons nominated by USC Arcadia Hospital for approval by the Sole Member (which approval shall not be unreasonably withheld); and

(vi) up to two may be elected by the Sole Member or appointed or designated by agreement in connection with transactions or affiliations approved by the Sole Member.

(b) Restriction on Interested Directors. No more than 49% of the directors may be *interested persons* at any time. An “interested person” means either:

(i) any person currently being compensated by the Corporation for services rendered to it within the previous 12 months, whether as a full-time or part-time employee, independent contractor, or otherwise, excluding any reasonable compensation paid to a director in his or her capacity as director; or

(ii) any brother, sister, ancestor, descendant, spouse, brother-in-law, sister-in-law, son-in-law, daughter-in-law, mother-in-law, or father-in-law of any such person.

(c) Ex Officio Representative. In addition to the above Directors, the Corporation shall invite one (1) *ex officio* representative without voting rights to be identified by the USC Arcadia Hospital Board of Directors to attend all of the Corporation’s Board of Director meetings.

Section 4.3. Nomination and Election of Outside Directors. To fill each vacancy of Outside Directors created by enlargement, expiration of term or otherwise, the Nominating and Governance Committee shall propose to the Board of Directors the criteria, qualifications and

other considerations for selection of candidates in consultation with the President of the Corporation. The Board of Directors shall approve the selection criteria to be used by the Nominating and Governance Committee. The Nominating and Governance Committee shall select and nominate candidates for election as Outside Directors. The Sole Member shall elect Outside Directors from among such nominees.

Section 4.4. Promotion of Diversity. The Corporation shall strive to nominate candidates with a variety of business, professional, and cultural backgrounds and shall seek to develop a diverse Board of Directors that reflects the communities served by the Corporation.

Section 4.5. Term of Office.

(a) Each director elected in accordance with Section 4.2(a) above shall serve for a term of three years commencing on the effective date of election and ending at the end of the third fiscal year after the term commences, unless such director sooner dies, resigns or is removed, and until such director's successor is duly elected and qualified. Director terms shall be staggered so that the terms of approximately one third of the directors expire in each year.

(b) Any person who has served as an elected director for three consecutive terms (not including either an initial term of less than three years necessary to initiate the classification of the elected directors nor any partial term filling another's unfinished term created by vacancy) shall not be eligible for election to the Board until one year has elapsed from the date on which the third consecutive term ended; provided, however, that this provision shall not apply to Administration Directors.

(c) The term of office of the *Ex Officio* Director shall be the duration of the individual's tenure as President of the Sole Member. Such term shall end immediately upon termination of the individual's tenure, without further action, and the individual succeeding to the office of President of the Sole Member shall immediately become the *Ex Officio* Director, without need of further action.

Section 4.6. Vacancies. A vacancy shall be deemed to exist on the Board in the event that the actual number of directors is less than the authorized number for any reason. Vacancies shall be filled in the same manner as the director whose office is vacant was selected.

Section 4.7. Resignation and Removal of Directors. Resignation of a director shall be effective upon receipt in writing by the Chair, the President and Chief Executive Officer, or the Secretary of the Corporation, unless a later effective date is specified in the resignation. If the resignation is to be effective at a later time, a successor may be elected, designated or otherwise authorized to take office when the resignation becomes effective. The Corporation shall notify the California Attorney General if the resignation of a director would leave the Corporation without a duly elected director or directors in charge of its affairs. The Board or the Sole Member may by resolution declare vacant the office of a director who has been declared of unsound mind by an order of court, convicted of a felony, found by final order or judgment of any court to have breached a duty under the California Nonprofit Corporation Law, or determined to have acted in a manner that is inconsistent with the Corporation's mission or detrimental to the reputation or operations of the Corporation.

Section 4.8. Meetings.

(a) Annual Board Meeting. An annual meeting of the Board of Directors shall be held at least once a year for the purpose of conducting actions necessary or advisable for good order. Annual meetings shall be called by the Chair, or any two directors, and noticed in accordance with Section 4.8(d).

(b) Regular Board Meetings. Regular meetings of the Board of Directors shall be held at least three times per year at such time and place as may be fixed by the Board of Directors. Regular meetings shall be called by the Chair or Co-Chair(s), or any two directors, and noticed in accordance with Section 4.8(d).

(c) Special Board Meetings. Special meetings of the Board of Directors may be called by the President and Chief Executive Officer, the Chair, or any two directors and noticed in accordance with Section 4.8(d).

(d) Notice. Notice of the annual meeting, regular meetings, and any special meetings of the Board of Directors shall be given to each director at least four days before any such meeting if given by first-class mail or 48 hours before any such meeting if given personally or by telephone, including a voice messaging system or by electronic transmission by the Corporation, and shall state the date, place, and time of the meeting. A notice need not specify the purpose of any regular or special meeting.

(e) Waiver of Notice. The transactions of any meeting of the Board of Directors, however called and noticed and wherever held, shall be valid as though taken at a meeting duly held after proper call and notice, if a quorum is present, and if, either before or after the meeting, each of the directors not present signs a written waiver of notice, a consent to holding the meeting, or an approval of the minutes. The waiver of notice or consent need not specify the purpose of the meeting. All waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Notice of a meeting shall also be deemed given to any director who attends the meeting without protesting the lack of adequate notice before the meeting or at its commencement.

Section 4.9. Voting. Each Director shall have one vote. Directors may not vote by proxy.

(a) Quorum. A majority of the total number of directors then in office shall constitute a quorum. The act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, except as otherwise provided in these Bylaws or in the California Nonprofit Corporation Law. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

(b) Action Without a Meeting. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all members of the Board of Directors (other than any director interested in a transaction so approved or any common director) shall individually or collectively consent to such action. Such written consents shall be filed with the

minutes of the proceedings of the Board. Such written consents shall have the same force and effect as the unanimous vote of such directors.

(c) Telephone and Electronic Meetings. Directors may participate in a meeting through use of conference telephone, electronic video screen communication or other communications equipment. Participation in a meeting through use of conference telephone or electronic video screen communication or other communications equipment constitutes presence in person at that meeting as long as all directors participating in the meeting are able to hear one another. Directors may also participate through use of electronic transmission by and to the Corporation (as permitted by and in compliance with Sections 20 and 21 of the California Corporations Code) if all of the following apply:

- (i) each Director participating in the meeting can communicate with all of the other Directors concurrently;
- (ii) each Director is provided with the means of participating in all matters before the Board of Directors, including the capacity to propose, or to interpose an objection to, a specific action to be taken by the Corporation; and
- (iii) the requirements of Section 9.6 have been met.

Section 4.10. Standard of Care; Conflicts of Interest.

(a) General. A Director shall perform the duties of a Director, including duties as a member of any board committee on which the Director may serve, in good faith, in a manner such Director believes to be in the best interest of the Corporation and with such care, including reasonable inquiry, as an ordinary prudent person in a like situation would use under similar circumstances.

In performing the duties of a Director, a Director shall be entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, in each case prepared or presented by:

- (A) one or more officers or employees of the Corporation whom the Director believes to be reliable and competent as to the matters presented;
- (B) counsel, independent accountants, or other persons as to matters which the Director believes to be within such person's profession or expert competence; or
- (C) a committee of the Board of Directors upon which the Director does not serve, as to matters within its designated authority, provided that the Director believes such committee merits confidence;

so long as in any such case, the Director acts in good faith after reasonable inquiry when the need therefor is indicated by the circumstances and without knowledge that would cause such reliance to be unwarranted.

(b) Self-Dealing Transactions. Except as provided in the Conflict of Interest Policy, the Board of Directors shall not approve, nor permit the Corporation to engage in, any self-dealing transaction. A “self-dealing transaction” is a transaction to which the Corporation is a party and in which one or more of its Directors has a material financial interest, unless the transaction comes within Section 5233(b) of the California Nonprofit Corporation Law.

(c) Loans. Notwithstanding Section 5236 of the California Nonprofit Corporation Law, the Corporation shall not make any loan of money or property to or guarantee the obligation of any Director or officer, or any other person in a position to exercise substantial influence over the affairs of the Corporation.

(d) Common Directors. Neither the Board of Directors nor any committee of the Board of Directors shall approve or permit the Corporation to engage in a contract or transaction between the Corporation and any domestic or foreign corporation, firm or association of which one or more of the Corporation’s Directors is a Director, unless:

(i) The material facts as to the contract or transaction and as to such Director’s other directorship are fully disclosed or known to the Board or board committee, and the Board or board committee authorizes, approves or ratifies the contract or transaction in good faith by a vote sufficient without counting the vote of the common Director or Directors; or

(ii) The contract or transaction is just and reasonable to the Corporation at the time entered into.

Section 4.11. Minutes. Minutes shall be kept of each meeting of the Board of Directors and shall be filed with the corporate records.

Section 4.12. Compensation of Directors; Substantial Contributors. The Corporation shall not pay any compensation to Directors for services rendered to the Corporation, except that Directors may be reimbursed for expenses incurred in the performance of their duties to the Corporation, in reasonable amounts as approved by the Board of Directors; provided, however, that in no event shall the Corporation reimburse the expenses of any “substantial contributor” to the Corporation, or any family member of a substantial contributor, as defined in Sections 4958(c)(3)(B) and (C) of the Code.

Section 4.13. Conflict of Interest Policy. The Board of Directors shall adopt a conflict of interest policy applicable to the Directors and officers and, as the Board of Directors deems appropriate, to employees and agents of the Corporation, which shall establish procedures for disclosure and resolution of conflicts of interest, material financial interests, interlocking directorships, business and familial relationships and similar matters of significance to the integrity of decision making on behalf of the Corporation.

ARTICLE V

COMMITTEES

Section 5.1. Board Committees. The Board of Directors may, by resolution adopted by a majority of the Directors then in office, create any number of board committees, each consisting

of three or more Directors, to serve at the pleasure of the Board of Directors. Appointments to any board committee shall be by a majority vote of the Directors then in office. Board committees may be given all the authority of the Board of Directors, except for the powers reserved solely to the full Board of Directors pursuant to the California Nonprofit Corporation Law or to the Sole Member.

Where it is not reasonably practicable to obtain approval of the Board of Directors before entering into a self-dealing transaction (as defined in Section 4.10(b)), a board committee may approve such transaction; provided that the board committee and the Board of Directors comply with the requirements of the Conflict of Interest Policy.

Section 5.2. Audit and Compliance Committee. The Audit and Compliance Committee shall be composed of a minimum of three Directors and shall be responsible for making recommendations to the Board with respect to the Corporation's annual audit, the Corporation's compliance program and undertaking such other tasks as the Board may require from time to time to effect the foregoing responsibilities.

Section 5.3. Finance Committee. The Finance Committee shall be composed of a minimum of three Directors and shall include the Chief Financial Officer of the Corporation and a trustee of the Sole Member who also serves on the Sole Member's Finance Committee. The Finance Committee shall be responsible for advising the Corporation's management and Board of Directors regarding the financial affairs of the Corporation and undertaking such other tasks as the Board of Directors may require from time to time to effect the foregoing responsibilities.

Section 5.4. Quality and Safety Committee. The Quality and Safety Committee shall be responsible for overseeing the health system's quality and safety program and to make recommendations for quality, patient safety, risk management, patient care assessment, patient satisfaction, and education to the Directors, the administrative staff, and the medical staff.

Section 5.5. Nominating and Governance Committee. The Nominating and Governance Committee shall be composed of a minimum of three Directors. Unless the Board shall otherwise determine from time to time, the Nominating and Governance Committee is responsible for (i) nominating the Outside Directors in accordance with Section 4.3, (ii) conducting an annual evaluation and assessment of the Board of Directors, and (iii) developing a formal process for on-boarding, training, and succession planning of the Directors.

Section 5.6. Advisory Committees. The Board of Directors may establish one or more advisory committees to the Board of Directors. The members of any advisory committee may include or consist of non-directors and may be appointed as the Board of Directors determines. Advisory committees may not exercise the authority of the Board of Directors to make decisions on behalf of the Corporation, but shall be restricted to making recommendations to the Board of Directors or board committees, and implementing Board of Directors or board committee decisions and policies under the supervision and control of the Board of Directors or board committee.

Section 5.7. Meetings.

(a) Board Committees. Meetings and actions of board committees shall be governed by and held and taken in accordance with the provisions of ARTICLE III of these Bylaws concerning meetings and actions of the Board of Directors, with such changes in the content of those Bylaws as are necessary to substitute the board committee and its members for the Board of Directors and its members. Minutes shall be kept of each meeting of any board committee and shall be filed with the corporate records.

(b) Advisory Committees. Advisory committees may determine their own meeting rules and whether minutes shall be kept.

The Board of Directors may adopt rules for the governance of any board or advisory committee not inconsistent with the provisions of these Bylaws.

ARTICLE VI

OFFICERS

Section 6.1. Officers. The officers of the Corporation shall be a Chair, a President and Chief Executive Officer, a Treasurer, and a Secretary. The Corporation may also have, at the discretion of the Directors, such other officers, including a Chief Operating Officer, a Chief Financial Officer and one or more Vice Presidents, as may be appointed by the Sole Member.

Any number of offices may be held by the same person, except that neither the Secretary nor the Treasurer may serve concurrently as the President and Chief Executive Officer or Chair. The President and Chief Executive Officer and other officers of the Corporation may but need not be Directors of the Corporation. The Board of Directors may appoint one or more officers to attend and participate in all meetings of the Board of Directors, other than executive sessions of the Board of Directors, but such officers shall not vote at any such meetings.

Section 6.2. Election. The officers of the Corporation shall be elected annually by the Sole Member, and each shall serve at the pleasure of the Sole Member, subject to the rights, if any, of an officer under any contract of employment.

Section 6.3. Removal. Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, with or without cause, by the Sole Member.

Section 6.4. Resignation. Any officer may resign at any time by giving written notice to the Corporation. Any resignation shall take effect on receipt of that notice by such officer or at any later time specified by that notice and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party.

Section 6.5. Vacancies. Vacancies in any office for any reason shall be filled as they occur in the same manner as these Bylaws provide for election to that office.

Section 6.6. Chair. The Chair shall preside at all meetings of the Board of Directors and shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws. The Chair or Co-Chair(s) shall be elected from among the University Directors.

Determinations concerning the procedures for the conduct of meetings of the Board of Directors shall be made by the Chair, consistent with the provisions of these Bylaws and applicable law.

Section 6.7. President and Chief Executive Officer. The Chief Executive Officer of Keck Medicine of USC shall be the President and Chief Executive Officer of the Corporation, *ex officio*, and shall, subject to control of the Board of Directors, generally supervise, direct, and control the business and other officers of the Corporation. The President and Chief Executive Officer shall have the general powers and duties of management usually vested in the office of President and Chief Executive Officer of the Corporation and shall have such other powers and duties as may be prescribed by the Board of Directors or contract.

Section 6.8. Secretary. The Secretary shall supervise the keeping of a full and complete record of the proceedings of the Board of Directors and its committees, if any, and shall supervise the giving of such notices as may be proper or necessary, shall supervise the keeping of the minute books and membership records of the Corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws.

Section 6.9. Treasurer. The Treasurer shall supervise the charge and custody of all funds of the Corporation, the deposit of such funds in the manner prescribed by the Board of Directors, and the keeping and maintaining of adequate and correct accounts of the Corporation's properties and business transactions, shall render reports and accountings as required, and shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws.

ARTICLE VII

INDEMNIFICATION

Section 7.1. Indemnification. The Corporation, upon appropriate resolution of the Board of Directors, will indemnify and hold a person who is, or was, a Director or statutory officer of the Corporation harmless from and against all expenses, judgments, fines, settlements, and other amounts actually and reasonably incurred in any civil, criminal, administrative, investigative or other legal proceeding brought against them or any of them arising out of the performance of their duties as Directors or statutory officers of the Corporation to the full extent allowed under the California Nonprofit Corporation Law.

Section 7.2. Certain Tax Matters. Except as otherwise provided herein, in no case shall the Corporation indemnify, reimburse, or insure any person for any taxes imposed on such individual under Chapter 42 of the Code. Further, if at any time the Corporation is deemed to be a private foundation within the meaning of Section 509 of the Code then, during such time the Corporation (i) shall make no payment under this Article if such payment would constitute an act of self-dealing or a taxable expenditure, as defined in Section 4941(d) or Section 4945(d), respectively, of the Code, (ii) shall distribute its income for each taxable year (and principal, if necessary) at such time and in such manner as not to subject this Corporation to tax under Section 4942 of the Code, (iii) shall not retain any excess business holdings as defined in subsection (c) of Section 4943 of the Code, and (iv) shall not make any investments in such a manner as to subject this Corporation to tax under Section 4944 of the Code. Moreover, the

Corporation shall not indemnify, reimburse, or insure any person in any instance where such indemnification, reimbursement, or insurance is inconsistent with Section 4958 of the Code or any other provision of the Code applicable to corporations described in Section 501(c)(3) of the Code.

ARTICLE VIII

AMENDMENTS

These Bylaws and any part hereof may be amended or repealed and new Bylaws may be adopted only by the Sole Member.

ARTICLE IX

MISCELLANEOUS

Section 9.1. Fiscal Year. The fiscal year of the Corporation shall be that of the Sole Member.

Section 9.2. Execution of Documents. Except as otherwise required by law, all documents executed on behalf of the Corporation shall be executed by the President, or any other persons authorized by the Board of Directors, subject to any parameters set forth by the Board of Directors.

Section 9.3. Gender and Number. Words used in these Bylaws regardless of the number and gender specifically used shall be construed to include any other number, singular or plural, and any other gender, as the context requires.

Section 9.4. Governing Law. In all matters not specified in these Bylaws, or in the event these Bylaws shall not comply with applicable law, the California Nonprofit Corporation Law and the Government Code as then in effect shall apply.

Section 9.5. Annual Report. To the extent required by Section 6321 of the California Nonprofit Corporation Law, the Board of Directors shall cause an annual report with respect to the Corporation containing the information specified in such section to be sent to the Sole Member within 120 days after the end of each fiscal year of the Corporation.

Section 9.6. Electronic Transmissions. Subject to any guidelines and procedures that the Board of Directors may adopt from time to time, the terms “written” and “in writing” as used in these Bylaws include any form of recorded message in the English language capable of comprehension by ordinary visual means and may include electronic transmission, such as facsimile or e-mail, provided; (i) for electronic transmissions from the Corporation, the Corporation has obtained an unrevoked written consent from the recipient to the use of such means of communication; (ii) for electronic communications to the Corporation, the Corporation has in effect reasonable measures to verify that the sender is the individual purporting to have sent such transmission; and (iii) transmission creates a record that can be retained, retrieved, reviewed, and rendered into clearly legible form.

EXHIBIT 2

Title: Patient Financial Assistance/Charity Care	Page 1 of 13
Policy #: MA1023	
Type: Business Office	
Standard: N/A	

POLICY:

The purpose of this policy is to establish the criteria by which patients can apply for financial assistance and the process and guidelines used in that process in compliance with applicable financial assistance regulations. In keeping with its social mission and responsibility to the community, Methodist Hospital of Southern California (MHSC) will assist patients without insurance coverage in obtaining coverage through government means-tested programs such as Medi-Cal, Covered California (Affordable Care Act/ Medi-Cal HMOs) and other programs that may exist from time to time. Additionally MHSC may be able to provide temporary financial help for medical care (charity care) for uninsured patients with the greatest financial need.

MHSC provides a reasonable amount of its services without charge to financially eligible patients who cannot afford to pay for care. All emergency and medically necessary services as defined by Medicare as services or items reasonable and necessary for the diagnosis or treatment of illness or injury, except for elective cosmetic procedures, can be considered for financial assistance. Financial assistance discounts will be written off based on a determination under this policy that the patient/other responsible party has demonstrated an inability to pay. However, in cases where it is determined that the account has not been paid and no demonstrated hardship under this policy has been provided, such accounts will be characterized as "bad debts" and collection of such accounts will be pursued, including referrals of such accounts to a collection agency.

1.0 DEFINITIONS

1.1 **FINANCIAL ASSISTANCE** previously referred to as **CHARITY CARE**, IS DEFINED AS FOLLOWS:

1.2 Financial Assistance is financial aid to a patient or responsible party and does not include discounts normally given to insurance policy holders, contract prices that are negotiated with insurance companies or other adjustments once the final bill has been created. When the patient is able to pay part of their bill, consideration will be given to writing off a portion of that account as partial financial assistance. Financial Assistance may also

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include assistance to patients who have incurred high medical costs as defined as yearly healthcare costs greater than 10% of household income.

- 1.3 Financial Assistance is not to be considered a substitute for personal responsibility and patients are expected to cooperate with Hospital's procedure for applying for Financial Assistance, and to contribute to the cost of their care based on their individual ability to pay.
- 1.4 **REASONABLE PAYMENT PLAN:** means monthly payments that are not more than 10 percent of the patient's family income for a month, excluding deductions for essential living expenses. "Essential living expenses" means expenses of any of the following: rent or house payment and maintenance, food and household supplies, utilities and telephone, clothing, medical and dental payments, insurance, school or child care, child or spousal support, transportation and auto expenses, including insurance, gas, and repairs, installment payments, laundry and cleaning, and other extraordinary expenses.
- 1.5 If after a payment plan is established and there is a period of 90 days of no payment, the payment plan will be deemed to be no longer operative.

2.0 FINANCIAL ASSISTANCE PATIENTS ARE DEFINED AS FOLLOWS:

- 2.1 Uninsured patients (those without third party insurance, Medicare, Medicaid, or with injuries or conditions qualifying for coverage worker's compensation or automobile insurance for injuries) who do not have the ability to pay based on criteria described in the Eligibility section below.
- 2.2 Insured patients whose insurance coverage and ability to pay are inadequate to cover their out of pocket expenses.
- 2.3 Insured patient unable to pay for portion of the bill due to uncollected co-payments, deductibles and non-covered services. .
- 2.4 An insured or uninsured patient with high medical costs, whose household income does not exceed 350% of the federal poverty level, but whose out-of-pocket medical costs or expenses exceed 10% of their income for the prior year.
- 2.5 Any patient who demonstrates an inability to pay, versus bad debt, which is the unwillingness of the patient to pay.

3.0 AMOUNTS GENERALLY BILLED

- 3.1 The AGB, (Amounts Generally Billed) is defined as the maximum amount a patient who qualifies under the financial assistance policy for a discount which is equal to the average amounts historically allowed as a

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percentage of billed charges for all services provided under the Medicare program for a 12-month look back period calculated in accordance with IRC 501(r). Please see appendix A for the AGB calculation.

3.2 The amount “charged” is the amount the patient is personally liable to pay, after applying deductions, discounts and the insurance reimbursement.

3.2.1 In the event the patient has insurance, the total payments may exceed the AGB, however, the individual will only be required to pay an amount at or less than the AGB.

3.2.1.1 Exceptions for a person qualifying for charity under this policy is the AGB does not apply to government agencies, nonprofits or businesses that assume an individual’s debt.

3.2.1.1.1 The AGB limitations will apply for other individuals who assume an individual’s debt.

4.0 COVERED ENTITIES

4.1 Only Hospital, which includes all services and areas listed on our license from the state of California including but not limited to inpatient and outpatient services, Colorectal Clinic and Gynecologic Oncology Clinic is covered under this financial assistance policy. Any ancillary physician billing that may be generated during a patient’s stay, i.e. pathology, radiology, anesthesia services are not covered under this policy.

4.2 Emergency Room physicians are not covered under this financial assistance policy but have their own financial assistance policy per Health and Safety Code Sections 127450-127462. See appendix B for a list of providers that provide emergency and medically necessary services at Hospital.

5.0 PROCEDURES

5.1 The following are the procedures related to the Patient Financial Assistance/Charity Care at MHSC

6.0 NOTICE TO PATIENTS

6.1 Communication and notification of the availability of the financial assistance policy within the community of each hospital shall be in

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accordance with AB774, SB350, SB1276 and the federal Patient Protection and Affordable Care Act (PPACA).

- 6.2 The hospital will post notices informing patients of the hospital's financial assistance program. The notice will be posted in inpatient and outpatient areas of the hospital, including the emergency department, patient admissions and registration offices and outpatient settings. The notice will include contact information on how a patient may obtain more information on the financial assistance program.
 - 6.3 All patients will be informed of the hospital's financial assistance program at the time of admission or registration and will be offered a copy of the plain language version of the policy as well as an application for assistance.
 - 6.4 The hospital will provide the financial assistance policy and application translated into the language spoken by the patient consistent with section 12693.30 of the Insurance Code and Health and Safety Code Section 127410(a).
 - 6.5 All printed statements of accounts to the patient will include a summary of the financial assistance policy with contact information on how to obtain an application for assistance and the copy of the complete policy. A summary of the FAP, the application for assistance with instructions will be sent out with the first two statements of account to the guarantor.
 - 6.6 The financial assistance policy and the plain language summary are available on the hospital's web site and/or the on-line patient portal.
 - 6.7 All patients without insurance coverage will be counseled as to the financial options for paying their medical care upon registration, or as soon after presentation to the hospital as allowed under EMTALA.
 - 6.8 MHSC will include charity care services to patients for which MHSC is unable to assess the patient's financial condition prior to rendering services as required by the Emergency Medical Treatment & Active Labor Act (EMTALA). See amounts generally billed for charge amounts.
- 7.0 ELIGIBILITY DETERMINATION:
- 7.1 Gross income should fall within established standards for determination of the federal poverty level, considering family or household size, geographic area and other pertinent factors. {See grid in Appendix B}.
 - 7.2 The term "income" shall mean the annual family or household earnings and cash benefits from all sources before taxes, less payment made for alimony and child support. Proof of earnings may be determined by annualizing year-to-date family or household income. {see 2 (e) below for definition of Family or household}
 - 7.3 Financial assets will be considered to the extent allowed by financial assistance regulations.

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- 7.4 Employment status will be considered along with the projected availability of future earnings sufficient to meet the obligation within a reasonable period of time.
- 7.5 Family or household size will be considered. For this purpose, "Family or Household" for an adult patient is defined as spouse, domestic partner, dependent children under the age of 21, whether living at home or not and anyone else claimed as a dependent on the patient's federal tax return. For patients under the age of 18, "Family or household" is defined as the patient's parent(s) and/or caretaker relatives, other children under 21 years of age of the parent or caretaker relative and anyone else claimed as a dependent on the patient's federal tax return.
- 7.6 Other financial obligations, including living expenses and other items of a reasonable and necessary nature will be analyzed.
- 7.7 Patients whose out-of-pocket medical expenses exceed 10% of their prior year income and whose household income is 350% or below of the federal poverty level are eligible for financial assistance.
- 7.8 A letter is requested to be submitted, along with the other documentation, detailing the patient's need for financial assistance and stating a request for aid.
- 7.9 The amount(s) and frequency of the hospital bill(s) in relation to all of the factors outlined above will be considered.
- 7.10 There will be a credit report run to verify financial and related information that will assist in making a determination about the patient's eligibility for financial assistance.
- 7.11 Before making any determination of whether all or part of an account qualifies for financial assistance treatment and the amount of any write-off that should be applied, the patient shall be required to assist the Hospital in obtaining payment from and helping to assure that all other resources will be first applied, including Medi-Cal, welfare and other third-party sources.
- 7.12 Patients that are eligible for Government sponsored low-income assistance programs (e.g. Medi-Cal /Medicaid, Healthy Families, California Children's Services and any other applicable state or local low-income programs) to be automatically eligible for full financial assistance when payment is not made by the governmental program. For example, patients who qualify for Medi-Cal/Medicaid as well as other programs serving the needs of low-income patients (e.g. CHDP, Healthy Families, and some CCS) where the program does not make payment for all services or days during a hospital stay are eligible for Financial Assistance coverage. Under MHSC's financial assistance policy, these types of non-reimbursed patient account balances are eligible for full write-off as financial assistance. Specifically, included as financial assistance are charges related to denied stays or denied days of care. All Treatment Authorization Request (TAR) denials provided to Medi-Cal/Medicaid and other patients covered by qualifying low-income programs, and other

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denials (e.g. restricted coverage) are to be classified as Financial Assistance.

- 7.13 In cases where the patient is non-responsive and/or other sources of information are readily available to perform an individual assessment of financial need, i.e., existing eligibility for Medicaid this source of information can be used to support and/or validate the decision for qualifying a patient for full financial assistance.
- 7.14 Unless a patient is informed otherwise, Financial Assistance provided under this Policy shall be valid for six months beginning on the first day of the month of the screening. However, Hospital reserves the right to re-evaluate a patient's eligibility for Financial Assistance during that six-month time period if there is any change in the patient's financial status. Additionally, financial assistance provided to non-responsive patients based on other sources of information will not be valid for the full year, and will only be applicable for the eligible retroactive dates of service.
- 7.15 Patients will be notified in writing of the financial assistance approval amount. If a full discount was not approved the notification will indicate why and what additional steps if any that could be taken to obtain additional coverage.
- 7.16 The business office has the final authority to determine if reasonable efforts have been made to determine FAP eligibility.
- 7.17 Patients completing Financial Assistance Applications are responsible for making reasonable effort to supply the information needed to make a determination. Failure to provide that information may result in a denial of the Financial Assistance Application.
- 7.18 To the extent the patient is determined to not be FAP eligible or at least not determined to be eligible at the time of the charge, (i.e. billing was issued prior to submitting a completed application), the patient may be charged in excess of the AGB.
- 7.19 Under no circumstances will a FAP application be considered in excess of 240 days from the date of first billing.
- 7.20 Financial Assistance status will be determined after the time of discharge by the Business Office after all required documentation is submitted by the patient or responsible party (see Section 7(a) below). There may be some instances where, because of complications unforeseen at the time of admission, the hospital charges turn out to be considerably greater than anticipated or estimated, and the patient is unable to pay the full amount. A patient may request a financial assistance application form from a financial counselor at any time. If the patient is unable to complete the form, the patient's surrogate decision maker may assist in completing the form, or the patient may ask for assistance from the financial counselor.
 - 7.20.1 Once the account is settled, the information used for determination will be kept on file in the Business Office.

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7.20.2 Patients who are not eligible for financial assistance or are eligible to receive partial assistance which leaves them owing a balance due to the Hospital may request a payment plan from the Business Office.

7.20.3 In the event of non-payment of a discounted amount due under this financial assistance policy the hospital may engage in further collection activity. The details of the further collection actions can be found in the Billing and Collection policy. A copy of this policy can be obtained by contacting the business office.

7.21 For financial assistance consideration, (charity care policy), monetary assets are included in determining eligibility. The first ten thousand dollars (\$10,000) of a patient's monetary assets shall not be counted in determining eligibility, nor shall 50 percent of a patient's monetary assets over the first ten thousand dollars (\$10,000) be counted in determining eligibility. Discounts under other financial discount policies do not count monetary assets in determining eligibility.

8.0 FINANCIAL ASSISTANCE AND OTHER DISCOUNTS:

8.1 General Relief

8.1.1 General Relief patients usually do not qualify for Medi-Cal, because they are normally single, have no children, are unemployed and homeless. General Relief patients are considered financial assistance eligible patients.

8.2 Financial Assistance (full and partial)

8.2.1 To be eligible for financial assistance, a patient's or responsible family member's income must be at or below 350% of the federal poverty level. The patient or responsible family member must complete the financial assistance form and include the documentation as stated in Section IV.

8.2.1.1 Patients whose income and monetary assets are below 200% of the federal poverty level will receive financial assistance equal to 100% of the Amounts Generally Billed as defined in Section III above.

8.2.1.2 Patients whose income is between 200% and 250% of the federal poverty level will receive a financial assistance discount equal to 75% of the Amounts Generally Billed as defined in Section III above.

8.2.1.3 Patients whose income is between 250% and 300% of the federal poverty level will receive a financial assistance

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discount equal to 50% of the Amounts Generally Billed as defined in Section III above.

8.2.1.4 Patients whose income is between 300% and 350% of the federal poverty level will receive a financial assistance discount equal to 25% of the Amounts Generally Billed as defined in Section III above.

8.2.2 The remaining balance, for patients qualifying for partial financial assistance, may be paid in interest-free installments as mutually agreed upon between the patient and Methodist Hospital. If a payment plan cannot be agreed upon mutually, the "Reasonable Payment Plan" as defined will be applied. Payment will not be considered delinquent, nor will further collection activity occur, as long as any payments made pursuant to a payment plan are not more than 90 days delinquent under the terms of that plan. If an outside collection agency is utilized to collect the unpaid debt, the agency agrees to abide by the requirements of this policy and will not garnish wages or place a lien on a principal residence.

8.2.3 In accordance with this policy, Methodist Hospital of Southern California will appropriately determine the financial status of each patient to distinguish uncompensated costs between charity care and bad debt. CHARITY is defined as the demonstrated inability of a patient to pay, versus BAD DEBT as the unwillingness of the patient to pay.

9.0 ELIGIBILITY STANDARDS:

9.1 Sliding scale based on federal poverty guidelines will be used to evaluate the level of financial assistance. See MA1023 Appendix A for more details regarding the current federal poverty guidelines specific to MHSC

10.0 OTHER FUNDING

10.1 Victims of Crime (VOC)

10.1.1 Patients who are a victim of a crime could be eligible for State of California funding from the VOC program. The patient can apply at the District Attorney's office at the courthouse in Pasadena. The patient will not qualify if:

10.1.1.1 There is insurance involved

10.1.1.2 He/she initiated the crime

10.1.1.3 He/she expires

11.0 ITEMIZED BILLS

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- 11.1 The final bill will be produced within ten days after discharge. The Business Office will automatically send the itemized bill. If a bill is not received, one can be obtained by calling the Business Office Customer Service at (626) 574-3594.
- 11.2 If the patient wishes to request an itemized bill while still a patient in the hospital, they may do so by calling (626) 574-3594 or by asking a financial counselor. The patient should keep in mind that an itemized bill requested during their stay will be incomplete and only list charges that have been put in the system through midnight of the previous day.

12.0 FINANCIAL ASSISTANCE FORM

- 12.1 The financial assistance form is located in Appendix C of this policy.
 - 12.1.1 Instructions:
 - 12.1.2 Please print and complete the form. The following documents need to be included to complete the Financial Assistance qualification process:
 - 12.1.2.1 A financial hardship letter, explaining your circumstances and request for financial assistance regarding your current financial situation.
 - 12.1.2.2 A copy of your most recent year's tax form (all pages, including the electronic submission verification or signature page).
 - 12.1.2.3 Copies of your two most recent paycheck stubs for all jobs
 - 12.1.2.3.1 If you have no income, a letter of support from yourself or the person who is assisting you financially.
 - 12.1.2.3.2 Copies of any other documents assist in verifying income, such as social security, disability, unemployment. Proof of alimony or child support are also required.
 - 12.1.2.4 Copies of bank statements (all pages) for the past 2 months, for each account.
 - 12.1.2.5 If you have been denied support through a program like Medi-Cal, Social Security and etc. include copies of this as well.

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12.1.3 Then, hand deliver or mail the forms, letter, and supporting documents to:

Methodist Hospital of Southern California
Attn: Business Office - Financial Assistance Program,
Customer Service
300 West Huntington Drive
P.O. Box 60016
Arcadia, CA 91066

12.1.4 For questions regarding this form, please call: (626) 574-3594 from 8:00am-4:30pm Monday - Friday.

12.1.5 Assistance completing the application, obtaining copies of this policy, or answering any related financial assistance questions can be obtained by calling (626) 574-3594 from 8:00am-4:30pm Monday - Friday.

12.1.5.1 If the electronic copies are not a viable option, this Charity Policy, Charity application form, Billing and Collection Policy and Plain Language Summary (PLS) of the Financial Assistance Program are available upon request and without charge both by mail and in public locations within the hospital facility, including, at a minimum, in the emergency room and admission areas.

12.1.6 The approved application and any discounts can be applied to any subsequent hospital visits in the same calendar year the application was first approved, pending it is within the valid for six months beginning on the first day of the month of the screening.

12.1.7 The application and accompanying documents must be returned to business office within 15 days. If an additional time is needed to complete the application please call the business office.

12.1.8 Copies of all the financial assistance policies and the application can be found on our website <https://www.methodisthospital.org/For-Patients-Visitors/Financial-Assistance-for-Patients.aspx>

12.1.9 These polices are also available translated into the following written languages. Refer to Appendix C for an outline of the current language translations.

13.0 FINANCIAL ASSISTANCE APPLICATION REVIEW/APPROVAL PROCESS

13.1 A Financial Assistance Application will be reviewed by a business office financial counselor. If gross income is at or below 250% of FPG, the

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counselor may approve the financial assistance application, based on the information submitted with the application (proof of income required). If the gross income is more than 250% but less than 350% of FPG, an assessment for qualification of partial financial assistance based on income, assets, and medical debt load will be made by the financial counselor.

- 13.2 Financial Assistance Applications will be reviewed and approved, denied or returned to the patient with a request for additional information within thirty (30) business days of receipt.
- 13.3 Collection agency requests for financial assistance or Financial Assistance Applications received from a collections agency shall be reviewed by a MHSC Financial Counselor. The counselor shall follow the review process described above in determining ability to pay and approving partial, total or no financial assistance. Standard transaction approval levels will apply, regardless of the application source.
- 13.4 An approved financial assistance determination is applicable to all services referenced in the application AND services provided up to the end of the calendar year within which the services were rendered, provided there is no change in the applications financial status that would warrant a reevaluation or the services were within the valid six month period beginning on the first day of the month of the screening, of the calendar year.
- 13.5 If financial assistance is approved at 100%, any patient deposits paid toward accounts approved for financial assistance must be refunded to the account guarantor. This does NOT apply to any third-party payments, including casualty insurance payments or settlements paid from attorney trust accounts. Those payments will be retained and financial assistance will be granted for the difference between gross charges and the sum of those excluded payments. Refunds under this provision will include interest at the rate prescribed in Section 685.010 of the Code of Civil Procedure. In the event the refund is \$5 or less, no monies will be refunded.
- 13.6 In the granting of charity care, no consideration will be placed on a patient's race, religion, ethnic background, sexual orientation, gender, residency status, political affiliation, or other discriminatory factors. However, patients requesting charity care, discounted care or other financial assistance must make every reasonable effort to provide MHSC with required documentation of insurance coverage and of financial status. Failure to provide information that is reasonable and necessary may be

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considered by the hospital in making its determination. Additionally, patients who are eligible for coverage through government insurance or programs that provide financial assistance to pay for coverage under the ACA but refuse to obtain such coverage may be excluded from MHSC's charity program.

- 13.7 For a patient deemed to be ineligible for charity care, MHSC provides a discount from charges to patients without insurance coverage (See Cash Discount Policy MA 1035). Insured patients with a co-pay and/or deductible are not eligible for a further cash discount, per contractual obligations, as the insurer has already negotiated a discounted rate with MHSC. However, financial assistance is available in accordance with this document and/or payment plans may be available.
- 13.8 Patients will be notified in writing regarding MHSC's decision to approve or, deny charity care coverage or if there is a need for additional documentation to make a decision.
- 13.9 In instances where MHSC determines that only a portion of a patient's financial liability qualifies as charity care due after applying all other resources, the patient is expected pay the remaining portion. If the patient refuses to pay the amount determined to be his/her responsibility, the uncollectible remainder would become bad debt.

14.0 DISPUTE RESOLUTION

- 14.1 In the event of a dispute, a patient may seek review from the Finance Director by calling (626) 574-3401 or using the address provided in section 12.1.3 of this policy.

15.0 SOURCES

- 16.0 Treasury Regulation § 1.501(r)
- 17.0 California SB 1276

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Attachments: [Office Use Form](#), [Financial Assistance Application](#), [Appendix A](#), [Appendix B](#), [Appendix C](#)

Approvals:

Board of Directors: 11/17, 4/18
CFO: 11/17, 3/18
Chief Financial Officer: 8/14
Director of Patient Financial Services: 8/14
Executive Dir Finance: 11/17, 3/18
Governing Policy and Procedure Committee: 8/14, 11/17, 3/18
MAPPS: 5/90, 7/97, 12/02, 2/06, 1/07, 1/08, 6/11, 6/11

Effective Date: 5/90

Reviewed Dates: 5/90, 7/97, 12/02, 2/06, 1/07, 1/08, 6/11, 6/11, 8/14, 11/17, 4/18

Revised Dates: 7/97, 12/02, 2/06, 1/07, 1/08, 6/11, 6/11, 8/14, 11/17

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APPENDIX A

CALCULATION OF AMOUNT GENERALLY OWED BY INDIVIDUALS ELIGIBLE FOR FINANCIAL ASSISTANCE

Methodist Hospital of Southern California (MHSC) limits the amount owed by individuals eligible under this Financial Assistance Policy who received services except for cosmetic and elective procedures to an Amount Generally Billed (AGB) to patients covered by Medicare. In addition, the hospital also limits the eligible patient’s financial responsibility to less than total charges. The hospital shall periodically, at least once a year, update the AGB calculation and re-evaluate the method used. The AGB shall be based on all services provided to Medicare patients fully adjudicated as of the end of a recent 12-month look back period ending no more than 120 days prior to the effective date of the policy or every January 1st thereafter. The calculation of the current AGB is as follows:

1.0 Total Medicare Expected Reimbursement / Total Medicare Gross Charges = AGB Percentage
(current AGB is 14% effective January 1, 2021)

2.0 The eligible individual’s financial responsibility is calculated as follows and applied to the patient liability only (excluding any portion assumed or paid by insurance or other entities on behalf of the patient):

2.1 Total Gross Charges for the Services Rendered * AGB % = Patient Financial Responsibility

3.0 Below is the FAP Eligibility Percentage and the latest published Federal Poverty Level (FPL) Guideline:

Annual Income is	FAP Eligibility %
Below 200% of FPL	100% or FREE
200% to less than 250% of FPL	75%
250% to less than 300% of FPL	50%
300% to 350%	25%
Greater than 350%	0%

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Policy #: MA1023 – Appendix A	

Federal Poverty Guideline 2021

Household/ Family Size	138%	200%	250%	300%	350%	400%
1	\$17,774	\$25,760	\$32,200	\$38,640	\$45,080	\$51,520
2	\$24,040	\$34,840	\$43,550	\$52,260	\$60,970	\$69,680
3	\$30,305	\$43,920	\$54,900	\$65,880	\$76,860	\$87,840
4	\$36,570	\$53,000	\$66,250	\$79,500	\$92,750	\$106,000
5	\$42,835	\$62,080	\$77,600	\$93,120	\$108,640	\$124,160
6	\$49,100	\$71,160	\$88,950	\$106,740	\$124,530	\$142,320
7	\$55,366	\$80,240	\$100,300	\$120,360	\$140,420	\$160,480
8	\$61,631	\$89,320	\$111,650	\$133,980	\$156,310	\$178,640

APPENDIX B

Hospital Emergency & Other Providers

- 1.0 Emergency Room physicians are not covered under this financial assistance policy but have their own financial assistance policy per Health and Safety Code Sections 127450-127462.
- 2.0 The following providers may be utilized in providing emergency or medically necessary care, but these are NOT covered by the hospital's financial assistance policy. This list is not all inclusive. Only services provided by Hospital, excluding any professional services, are covered by the financial assistance policy.

Anesthesiology

Pacific Valley Medical Group
ABC Billing Solutions
8905 SW Nimbus Ave, Suite 300
Beaverton, OR 97008
503 372-2740

Pathology – Professional Fees

Medical Billing Management, Inc.
2320 Cotner Ave
Los Angeles, CA 90064
310 696 -5400

Emergency Physicians

Emergency Group Office
180 Via Verde, Suite 100
San Dimas, CA 91773
626 821 5702

Radiology – Interpretation Fees

California Medical Business Services
223 N. First Avenue, Suite 201
Arcadia, CA 91006
626 821-1411

- 3.0 In accordance with the state regulations the following specialties of physicians have medical staff privileges at MHSC however, the physician-patient relationship is affiliated with the independent physician practice. These groups may offer financial assistance programs but are NOT covered by this policy. It is the patient's responsibility to contact the physician and or group to inquire about any financial assistance programs offered.
- 4.0 Physician Specialties NOT included in the policy:

Physician Specialties Types		
Allergies	Hospitalist	Pathology
Anesthesiology	Infectious Disease	Pediatrics
Cardiology	Internal Medicine	Perinatology
Clinician	Med Neurology	Plastic Surgery
Colon/Rectal Surgery	Neonatology	Podiatry
Dermatology	Nephrology	Psychiatry
Emergency Medicine	Neurosurgery	Pulmonology

Endocrinology	Ob/Gyn	Radiology
Family Practice	Ophthalmology	Rheumatology
Gastroenterology	Oral Surgery	Thoracic Surgery
General Hospital Sta	Orthopedics	Urology
General Surgery	Other	Vascular Surgery
Gynecology	Otolaryngology	Vascular Surgery
Hematology/Oncology	Palliative Care	

- 5.0 As a normal act of the Hospital business, the physician specialties will be added or removed accordingly. As such the above listing is a reasonable representative sample of the physician / surgeons on staff that may vary at times.
- 6.0 In addition, MHSC owns and operates two clinics; these are the MHSC Colorectal Clinic and the MHSC Obstetrics/Gynecology Clinic. MHSC will bill for services provided at these clinics and ARE included in this financial assistance program. However, the physicians seeing the patient at these clinics are entitled to bill for their professional fees of which are NOT included under this financial assistance program. As such, this physician will bill for these professional fees under a separate billing and may have a separate financial assistance program for which the patient may inquire.

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APPENDIX C

FAP Application with Instruction Including the Medi-Cal Screening

The following is the Financial Assistance Program Application. This application, policy and other related information are also available translated into the following written languages:

Mandarin (Standard Chinese), Spanish and Cantonese (Standard Chinese).

The following pages are the Methodist Hospital of Southern California Financial Assistance Program Application complete with the related instructions and includes the Medi-Cal Screening document.

Financial Assistance Program

If you need help paying for your medical services you may be eligible for Methodist Hospital's Financial Assistance Program. Please use this brochure to help determine if you qualify, as well as to apply for financial assistance. The Financial Assistance Program is a discretionary program offered by Methodist Hospital to all patients for services that are medically necessary. You must apply within six months of when you received the services you are applying for.

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Policy #: MA1023 – Appendix C	

Applying for the Financial Assistance Program

You must meet the following criteria to be eligible for the Financial Assistance Program:

Types of Care: You must be receiving medically necessary services.

Other Payer Sources: We recommend that you apply for any private or public sector sources of medical financial assistance for which you're eligible, such as Medi-Cal or Healthy Families. You may be required to submit documentation of your application (or of the approval or denial of your application) to those sources. For services received which are the result of an accident you must show proof that there was no settlement before financial assistance can be considered.

Income: Your household income must be at or below 350 percent of the Federal Poverty Guidelines (FPG).

Household/ Family Size	Poverty Base Line at 100%	200% and Below	201% to 250%	251% to 300%	301% to 350%
% WriteOff	➔	100%	75%	50%	25%
— Income Levels for ALL income sources to the Household —					
1	\$12,880	\$25,760	\$32,200	\$38,640	\$45,080
2	\$17,420	\$34,840	\$43,550	\$52,260	\$60,970
3	\$21,960	\$43,920	\$54,900	\$65,880	\$76,860
4	\$26,500	\$53,000	\$66,250	\$79,500	\$92,750
5	\$31,040	\$62,080	\$77,600	\$93,120	\$108,640
6	\$35,580	\$71,160	\$88,950	\$106,740	\$124,530
7	\$40,120	\$80,240	\$100,300	\$120,360	\$140,420
8	\$44,660	\$89,320	\$111,650	\$133,980	\$156,310
8+ *	\$4,540	\$9,080	\$11,350	\$13,620	\$15,890

Source: Federal Register/Vol. 86, No. 19/Monday, February 1, 2021/Page 7733

* For households with more than 8 persons, add \$4,540 for each additional person

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Special Circumstances: If you have unusually high medical costs or you've experienced a catastrophic event, you may be eligible for the Financial Assistance Program under special circumstances, regardless of whether you meet the household income requirements described above. To qualify, you'll need to provide income documentation and copies of your out-of-pocket medical expenses for the past 12 months indicating that these expenses equal 10 percent or more of your annual gross income.

Please note: Not all medical expenses qualify for financial assistance. Exclusions include, but are not limited to, expenses for premiums and dues, optical and hearing aids, medical supplies, health education classes, transportation, over-the-counter drugs and lifestyle medications (fertility, cosmetic, etc.).

Documentation required:

- A financial hardship letter, explaining your current financial situation.
- A copy of your most recent federal tax return with electronic submission verification or your signature (include all pages and schedules); and
- A copy of a current pay stub with year-to-date (YTD) income included. If YTD income is not listed, then copies of two consecutive pay stubs; or
- Copies of other documents to verify income, such as letters from disability, social security, unemployment agencies, or proof of alimony/child support payments; or
- If you have no income, a letter of support that explains your means of living, and
- A copy of the most recent bank statement for all accounts; and
- Any other documentation that may be requested

Be sure to send only photocopies as originals will not be returned to you. You'll have an opportunity to appeal the decision if your application is denied. Corrected and/or additional documentation will be required to support your appeal request. Upon finalization of your application, notification of your determination will be mailed to the address on file.

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Submit Your Application To:

Methodist Hospital of Southern California
Business Office - Financial Assistance Program
300 West Huntington Drive
P.O. Box 60016
Arcadia, CA 91066-6016

Phone: (626) 574-3594
Fax: (626) 821-6917

Hours: Monday-Friday, 8:00 am – 5:00 pm

Help in Your Language

Interpreter lines are available during regular business hours to assist you with questions regarding the financial assistance program. In addition, you are able to get materials written in the languages outlined above (on page one of this appendix). For more information, call our Customer Service Line at (626) 574-3594, weekdays from 8:00 am to 5:00 pm.

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METHODIST HOSPITAL FINANCIAL ASSISTANCE PROGRAM

Methodist Hospital reserves the right to amend or retrace awards

APPLICATION

Patient Name: _____ Acct.# _____

Patient/Guarantor (Responsible Party Information):

Name: _____

Relationship to Patient: _____

Address: _____

City, State, ZIP: _____

Phone Number: _____ Date of Birth: _____

Social Security Number: _____ Mother's Maiden Name: _____

Patient's Birth City/State/Country _____

Marital Status: Married Divorced Widow(er) Single Domestic partner

Spouse/Domestic Partner Information:

Name: _____

Social Security Number: _____ Date of Birth: _____

Household size (including yourself, your spouse or domestic partner and all dependents): _____

List All Household Members you Financially Support:

Dependent's name: _____

Date of birth: _____ Relationship: _____

Dependent's name: _____

Date of birth: _____ Relationship: _____

Dependent's name: _____

Date of birth: _____ Relationship: _____

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METHODIST HOSPITAL FINANCIAL ASSISTANCE PROGRAM

Employment Status:

Patient currently employed? Yes No Employer: _____

Spouse/Domestic partner employed? Yes No Employer: _____

SECTION A: CURRENT MONTHLY GROSS INCOME (All income from household must be reported).

If household income is zero, please initial here _____ and give a brief explanation of your financial situation: _____

Who is the primary wage earner? (check one)	<input type="checkbox"/> Patient	<input type="checkbox"/> Spouse/Other
Gross monthly salary/wages (before taxes)	\$ _____	\$ _____
Cash income (not including gifts)	\$ _____	\$ _____
Gross Social Security income	\$ _____	\$ _____
Other income: <input type="checkbox"/> Unemployment benefits	\$ _____	\$ _____
<input type="checkbox"/> State disability income	\$ _____	\$ _____
<input type="checkbox"/> Alimony or child support	\$ _____	\$ _____
<input type="checkbox"/> Pension income	\$ _____	\$ _____
<input type="checkbox"/> Rental property income	\$ _____	\$ _____
<input type="checkbox"/> Other sources (describe)	\$ _____	\$ _____
\$ _____	\$ _____	\$ _____
Total monthly income:	\$ _____	\$ _____

SECTION B: ASSETS (MARKET VALUE OF THINGS YOU OWN)

Checking Acct	Bank _____	Acct# _____	\$ _____
Savings Acct:	Bank _____	Acct# _____	\$ _____
Other Acct(s):	Bank _____	Acct# _____	\$ _____
Home Value:			\$ _____
Other Real Estate Value (explain):	_____		\$ _____
Business Owned:	_____		\$ _____
Franchise:	_____		\$ _____
Other Assets:	_____		\$ _____
Total Assets:			\$ _____

SECTION C: MEDICAL EXPENSES

(If your household income exceeds 350 percent of the Federal Poverty Guidelines (FPG) or if you're applying for special circumstances, you must complete this section. Copies of receipts and/or itemized invoices are required.)

Out-of-pocket medical expenses due or paid in the last 12 months:

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METHODIST HOSPITAL FINANCIAL ASSISTANCE PROGRAM

- Hospital or office visits: \$ _____
- Prescribed medications: \$ _____
- Other expenses (please describe): \$ _____

SECTION D: MEDI-CAL SCREENING (if you currently don't have Medi-Cal you must complete this section.)

If you've already applied for Medi-Cal and have a recent approval, denial, or pending letter, please submit it with your completed Financial Assistance application.

If you answer YES to any of the questions below, contact your local County Social Security Office.

- Are you younger than 21 or older than 65? Yes No
- Are you currently enrolled in Supplemental Security Income (SSI)/State Supplemental Payment (SSP) or Security Disability Insurance? Yes No
- Are you enrolled in CalWorks (AFDC), Entrant or Refugee Cash Assistance (ECA/RCA), Foster Care or Adoption Assistance Programs, or In-home Support Services (IHSS)? Yes No
- Are you legally blind? Yes No
- Are you permanently disabled? Yes No
- Are you pregnant or have you been pregnant in the last three months..... Yes No
- Have you been diagnosed with breast, cervical or prostate cancer?..... Yes No
- Are you being transferred to a skilled nursing facility or intermediate home care?..... Yes No
- Do you have children younger than 21 (including unborn or adopted children) in the home? Yes No
 - If YES: Is one of the child's parents absent or deceased? Yes No
 - Is one of the child's parents permanently disabled? Yes No
 - Is the primary wage earner unemployed or working less than 100 hours per month? Yes No

SECTION E: MISSING INCOME DOCUMENTATION

If you don't have income documentation, your signed attestation in this application **may** satisfy the income verification requirement if you meet any of the following criteria:

- I don't receive a formal pay stub from my employer.
- I receive NO income. (if you check this box, you must provide a written explanation of your financial situation).
- I wasn't required to file a recent Federal or State Tax Return for the most recent tax year.

SECTION F: FINANCIAL AGREEMENT AND CREDIT REPORT AUTHORIZATION

I hereby declare under penalty of perjury that (i) all information set forth above in this application is true and accurate in all respects, and that all attachments are accurate copies of the original documents, or (ii) I am unable to provide documents relating to proof of income or other evidence of my income. I authorize employees and agents of Methodist Hospital of Southern California (MHSC) to investigate and verify that the information I have provided to it, including employment and credit

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METHODIST HOSPITAL FINANCIAL ASSISTANCE PROGRAM

history, for the purpose of determining my eligibility to participate in the Financial Assistance Program. I also acknowledge and agree that I am liable to MHSC for any and all amounts owing to MHSC for medical goods and services that are not covered by the Financial Assistance Program (the remaining amounts).]

Signature of Applicant/Guardian _____ Date _____

Signature of Spouse of Applicant/Guardian _____ Date _____