

INTEGRITY HEALTHCARE, INC.
ADDITIONAL DILIGENCE ITEMS

In performing diligence with respect to the acquisition of a hospital, there are corporate, financial and regulatory documents that are reviewed. We performed a high-level review of the documentation available on the SmartRoom site as of May 20, 2014. There are several instances where information is provided for some hospitals in the Daughters of Charity Health System (“DCHS”), but not others.

If the request below does not specify a particular hospital, then the request is made for all hospitals operated by DCHS. Below is a list of additional information that would be requested.

1. **Organizational Documents of Certain Entities**

1.1 **Organizational Documents** – Copies of corporate/entity documents (e.g, articles, bylaws, LLC operating agreement, partnership agreement, board minutes) for the following entities: (i) DePaul Ventures, (ii) Marillac Insurance Company, (iii) St. Vincent Dialysis Center, (iv) De Paul Ventures San Jose ASC, LLC, (vi) De Paul Ventures San Jose Dialysis, LLC.

2. **Financial Review**

2.1 **Tax Returns** – Tax returns for the last three years. Note that in some instances tax returns are not provided for all three years. As diligence progresses, federal and state tax returns for additional years may be requested.

2.2 **Annual Legal Audit Letters** – Copies of attorney letters received in connection with the three most recent audits of the hospitals.

3. **Reimbursement and Payments**

3.1 **Medicare** – Copies of the hospital’s Medicare provider agreements.

3.2 **Medi-Cal** – Copies of the hospital’s Medi-Cal contracts.

3.3 **Third Party Payors** – Copies of all managed care contracting arrangements. An Excel spreadsheet is provided listing the contracts with third party payors, but copies of the contracts are not provided.

4. **Agreements**

4.1 **Lease Agreements** – Copies of lease agreements where the hospital, DCHS or the MOB are a party to the agreement.

4.2 **Agreements with officers and directors** – Copies of contracts between any of the hospitals or DCHS and its officers or directors.

4.3 Physician Contracts – Copies of employment or independent contractor agreements with physicians.

4.4 Physician Recruiting Agreements – Copies of all physician recruiting agreements.

5. **General Health Regulatory Issues**

5.1 Licenses, Permits, Certifications – A high level review indicated that some of the licenses, permits, and certifications provided have expired. We would request current copies of these. Additionally, there may be additional licenses requested, but this can only be determined after a more in depth review of the licenses currently on the diligence site.

6. **Compliance Program**

6.1 Compliance Committee Meetings – Copies of minutes/records of compliance committee meetings for each hospital.

6.2 Compliance Training – Copies of materials handed out during training sessions, attendance sheets at the training sessions, and quizzes/tests administered in conjunction with the training sessions.

6.3 Incidents – Summaries of all incidents reported through any hotlines and documentation regarding follow-up actions taken on reports received from employees.

7. **Medical Staff**

7.1 Corrective Action Proceedings – For each hospital, list of all formal medical staff corrective action proceedings in the last three years.

7.2 Minutes – For each hospital, copies of minutes for the last three years for the Credentials Committee, Quality Committee and Peer Review Committee.

7.3 Issues/Disputes – Descriptions of and documents concerning all recent or anticipated issues or disputes involving nurses or physicians at each hospital, including closed-panel negotiations/discussions, exclusive provider contracting matters, etc.

7.4 Medical Staff Actions – List of any medical staff actions (excluding medical malpractice litigation) regarding membership privileges on each hospital's medical staff pending before the medical staff, the hospital board or any court.

8. **Employment Issues**

8.1 External Audits/Investigations – Documents, including status reports relating to any federal, state and other governmental review, inquiries, audits or investigations conducted by any federal, state or local governmental agency during the past three years (e.g., IRS,

Immigration and Naturalization Services, EEOC, Department of Fair Employment and Housing, Department of Labor, Office of Civil Rights, OSHA).

8.2 Settlement Agreements – Copies of all written settlements and releases of employment related claims resolved within the last 24 months.

8.3 Executive Compensation – Description of any and all executive compensation programs and an outline of compensation levels for executives including a description of fringe benefits.

9. Employment Benefit Matters

9.1 Employee Benefits – All documents establishing the terms of any other employee benefit arrangement, including, but not limited to, deferred compensation, supplemental pension benefits, golden parachutes and any other benefits conditioned upon a change in control, bonus and incentive compensation arrangements, and any other special arrangements for key employees. Also, all benefit or deferred compensation programs established for independent contractors.

9.2 Complaints/Lawsuits – Listing of any filed, pending, threatened or expected complaints, investigations, audits, lawsuits or claims (other than routine claims for benefits) under any employee benefit plan that could result in a liability in excess of \$50,000.

10. Real Estate – The requests in this area apply to all hospitals in the DCHS system, MOBs, business office located in Los Altos, ASCs, clinics, etc.

10.1 Physician Property Leases – Copies of leases for any space or land to or from any physicians or physician groups, directly or indirectly.

10.2 Deed/Lease – Deed, lease or other document establishing interest in property.

10.3 Title Policy – Title policy, including all documents, instruments, subdivision and other plats and similar items referred to in the title policy.

10.4 Grants/Conveyances/Encumbrances – All documents related to:

(a) Any grants or conveyances (or agreements to make grants or conveyances) of any interest in property (including easements, rights of way, leases and licenses);

(b) Any reversionary interest in property;

(c) Any material encumbrances on property; and

(d) Any encroachments from or onto property.

10.5 Contracts – Any recorded or unrecorded contracts, options or other arrangements through which any hospital or MOB has any right or interest in any other property or through which any person has any right or interest in or claim to any hospital property or MOB.

10.6 Condemnation – All documents pertaining to any pending or threatened condemnation, requisition or other proceeding by any governmental authority against hospital or MOB property.

10.7 ADA – All documents related to any violations, potential violations or corrective measures with respect to requirements under the Americans with Disabilities Act (“ADA”) or similar legal requirements.

10.8 Approvals – Schedule of all consents and approvals required from, and all notices and filings required to be made to or with, any third party (including any federal, state, local or foreign governmental body or any third party) in connection with the proposed transaction with respect to leases of real property.

11. Environmental Issues

11.1 Inspection Reports – All documents related to the inspection of the hospitals for asbestos, urea formaldehyde, PCB’s and other environmental, health or other hazards and the abatement of any such hazards.

11.2 Medical Disposal Waste Requirements – Any and all documents evidencing compliance or non-compliance with any medical waste disposal requirements.

11.3 Capital Expenditures – A list of and all documentation concerning all capital expenditures (e.g., pollution control equipment, waste treatment and storage, other facility improvements) and associated costs (e.g., construction, installation, design, additional staffing) for the past five years and for which it is anticipated expenses will be incurred within the next five years as a result of compliance with new environmental regulatory obligations and/or agency directives (e.g., notices of violation).

11.4 Audits/Reports – Copies of all environmental audits, questionnaires, inspections, investigations, reports and other assessments (e.g., Phase I reports) performed by internal personnel, contractors, consultants, attorneys, government agencies and other third parties with in the past five years.

11.5 Incidents – List of all incidents or spills/releases and copies of related documentation, including agency notification, cost estimates, plans and reports concerning response, reporting, fines/penalties, investigation and/or remediation.

11.6 Environmental Contamination – List of and documentation concerning all known potential environmental contamination investigation and cleanup obligations, including cost estimates, plans and reports for investigation and remediation.

11.7 Superfund Site Liability – List of and documentation concerning all potential Superfund site liability (and state equivalent), including estimated liabilities and obligations for which any hospital has received 104(e) requests, PRP Group demand letters, administrative or judicial orders, and/or other notice.

11.8 Waste Treatment, Storage, Disposal – All documentation concerning current and former on-site and off-site waste treatment, storage and disposal facilities, activities, methods and areas.

11.9 Environmental Litigation – List of and all documentation concerning unresolved environmental related litigation and threatened litigation, including the case name, jurisdiction, parties, causes of action, relief sought/damages, status of the action, judgment/settlement, and estimated legal costs. Provide all relevant information and documentation concerning insurance, including carrier/policy, claim number, date tendered, deductible, coverage and reservation of rights.

11.10 Transporters of Waste – All documentation concerning all transporters of hazardous and medical waste shipped off-site.

11.11 Storage Tanks – All documentation concerning all underground and aboveground waste storage tanks.

11.12 Environmental Reserves – Provide information on any environmental reserves for the hospitals, including any assumptions used in the reserve calculation.

11.13 OSHA Logs – Provide the most recent year Occupational Safety and Health Administration (“OSHA”) logs and hazardous waste manifests for the last 3 years.

12. HIPAA

12.1 HIPAA complaints - For all hospitals, a list of all HIPAA or privacy-related complaints filed by hospital patients for the last three years.

12.2 Training Materials – Copies of HIPAA training materials for new employees.

13. Referral Issues

13.1 Equipment/Other Property Leases – All leases for space, equipment or other property involving any of the hospitals or MOBs and any physician or healthcare provider or entity.

14. MOBs

14.1 Data site files – the data site contains folders, but information has not been uploaded to the folders. Note that the information requested under real estate also applies to the Medical Office Buildings.

15. **DCHS Medical Foundation**

15.1 Joint Ventures – Copies of all documents with respect to any joint ventures or shared business enterprises that the DCHS Medical Foundation has entered into within the last 3 years.

15.2 Medical Services Agreements/Professional Services Agreements – Copies of any medical services agreements or professional services agreements that the DCHS Medical Foundation has entered into with physicians or physician groups to provide medical services on its behalf.

15.3 Physician Practice Assistance – Indicate whether the DCHS Medical Foundation provides physician practice assistance to any physicians or groups.

15.4 Economic Arrangements – For the last 3 years, please provide documents for any economic arrangements that the DCHS Medical Foundation entered into or amended with any physician, physician group, independent physician association or physician hospital organization where the physician, physician group, independent physician association or physician hospital organization receives incentives from the DCHS Medical Foundation (as opposed to risk management incentives from a payor or health plan) or has the right to a proportion of a risk pool that the Medical Foundation would otherwise normally retain, or which was funded by the DCHS Medical Foundation.

15.5 Billing Arrangements – Provide documents for any agreements that the DCHS Medical Foundation has entered into or amended with a third party to provide (or advise about) billing to the Medicare or Medi-Cal programs, where the third party is paid (in full or in part) based on a formula related to increased billings or collections.

15.6 Real Property Leases – If the DCHS Medical Foundation leases real property to physicians or physician groups, provide a copy of the lease agreements and indicate whether the DCHS Medical Foundation obtained an independent opinion with respect to fair market value.

15.7 Compliance with Governmental Programs – Provide documentation of written notices or informal indications from any federal, state or local authority, including contractors thereof, regarding DCHS Medical Foundation's compliance with any governmental program, law, regulation or ordinance, or an investigation or inquiry with respect to:

- a. Medicare Program (CMS, Office of Inspector General, Department of Justice);
- b. Medicaid Program;
- c. Internal Revenue Service;

- d. Any Grants; and
- e. Other (state attorney general, US Attorney, California Secretary of State, Department of Justice, Franchise Tax Board).

312257122.4