

October 4, 2016

VIA COURIER

Ruth Brinkley
Chief Executive Officer
KentuckyOne Health, Inc.
200 Abraham Flexner Way
Louisville, KY 40202

Dear Ruth:

We are writing for several purposes. First, we would like to follow-up on the conversation your counsel, Doug Anning, had with Stacey Murphy and Jim Wiehl, regarding a request for a meeting among Neville Pinto, Greg Postel, Kevin Lofton and you to discuss the status of the Phase II discussions in lieu of a continuation of the Phase II meeting process we agreed upon in early August. We are very disappointed that KentuckyOne Health has refused to engage further in Phase II discussions and has delayed and then most recently refused to share financial information to allow University of Louisville ("UofL") and University Medical Center, Inc. ("UMC") to fully evaluate the feasibility of the Option A structure put forward by Kentucky One Health, Inc. ("KOH") and Chartis. Furthermore, we cannot believe that KOH continues to refuse to release programmatic investment funds currently held in UofL accounts despite your verbal agreement to redirect a portion of those funds for support of the James Graham Brown Cancer Center (the "Cancer Center"). Your failure to release those funds as agreed is seriously hampering operations of the Cancer Center, including the ability to hire a new director.

We have been patient with KOH and have resisted taking this step. However, we believe that in order to hold KOH accountable for the commitments made, we must commence the conflict resolution process. Accordingly, please let this letter serve as a formal notice to KOH of claims by UofL and UMC arising under both the Academic Affiliation Agreement, dated November 13, 2012, among the Commonwealth of Kentucky (the "Commonwealth"), UofL, UMC and KOH ("AAA"), and the Joint Operating Agreement, dated November 13, 2012, between UMC and KOH (the "JOA," together with the AAA, the "Agreements"). By this notice, UofL desires to commence the 20 calendar day Initial Negotiation Period under the conflict resolution provisions of Section 18.1 of the AAA and Section 8.24(a) of the JOA and we will agree to the in-person meeting your legal counsel proposed as the first step in the conflict resolution process under the Agreements. Consistent with the requirements under the Agreements, this in-person meeting should occur within the next seven (7) to ten (10) calendar days.

Although we have discussed these issues on a number of different occasions and have tried to resolve these issues informally, the following claims are those for which we seek remedy under the conflict resolution processes provided in the Agreements:

1. **Failure to Satisfy Financial Commitments:** KOH has failed to honor financial commitments to UofL under the AAA and UMC under the JOA as follows:

- KOH has not yet paid to UofL its July 2016 programmatic investment payment of \$17,433,257 as required under the terms of agreement between KOH and UofL on July 9, 2014 and based on the payment schedule prepared by KOH. The failure of KOH to make its July 2016 programmatic investment payment is particularly egregious in light

of the fact that its own external auditing firm, E&Y, conducted a thorough review of UofL's financial accounts and records and issued a draft report on July 7, 2016 which substantiated that the university had complied with its contractual obligations with respect to the programmatic investment funds it had received to date.

The July 2016 E&Y report also substantiated that in August 2015 UofL and KOH had implemented E&Y's recommendations from 2015 (i) to develop a process to re-evaluate investment plans if circumstances and needs or goals and objectives change over time; and (ii) to implement a formal change order process. Despite a number of verbal agreements to redirect a portion of the investment funds previously disbursed to UofL as a result of the investment plan review process, KOH has refused to finalize the change order needed for UofL to redeploy the investment funds.

- KOH has not paid any portion of the FY16 Partners in Excellence payment even though it has acknowledged that UofL has earned a minimum of \$3.3M.
- As of March 31, 2016, KOH was approximately \$8M behind in its commitment to make capital investments for innovative and transformational technology at the Hospital and Cancer Center facilities.
- Nearly \$29M is overdue toward KOH's capital commitment to UMC under the JOA. We request a detailed accounting of capital spent to date in satisfaction of KOH's capital expenditure commitment under Section 2.4 of the JOA.
- We request an accounting of (i) the line item operating account for the \$95M programmatic investment funds under the AAA, (ii) discretionary payments made to UofL to date under Section 2.2 of the JOA as well as a description of the methodology used to calculate discretionary payments due to UofL, and (iii) the UMC Reserve Fund and the Capital Fund required to be maintained by KOH under Section 2.5 of the JOA.

2. Failure to Provide Information as Required: Pursuant to Section 20.5(b) of the AAA and Section 7.2 of the JOA, UofL, as an instrumentality of the Commonwealth, is entitled to this information for purposes of audit, investigation and program review. UofL has requested that KOH provide ECG, UofL's agent, with financial information regarding the University of Louisville Hospital (the "Hospital"), the Cancer Center, and other components of the Integrated Operation of KOH. Consistent with the parties' previous discussions, on September 12, 2016, UofL submitted to KentuckyOne a request for information necessary to perform financial and operational due diligence. Following a series of phone calls among legal counsel, we followed up on our request for information by letter dated September 27, 2016 and asked that KOH begin sharing data with our consultants on a rolling basis no later than September 30, 2016. To date KentuckyOne has refused to provide any information requested. By refusing to provide this information, KOH, in effect, has decided to move our Phase II discussions from "Option A" to "Option B".

3. Failure to Appoint UofL Representatives to the KOH Board: Under Section 2.6 of the JOA, UofL is entitled to appoint three individuals to the KOH Board of Directors (the "KOH Board"). UofL's right to representation on the KOH Board was an important element of the consideration provided to UofL under the JOA. Currently UofL has no representation on the KOH Board. KOH has continually failed to act on UofL's nominations (UofL submitted nominations for two vacant seats to KOH by letters dated April 20, 2015 and December 10, 2015).

4. **Failure to Satisfy Revenue Cycle Management Obligations:** Under Section 2.1 of the JOA, KOH is responsible for acting as the billing and collection agent of UMC for all items and services furnished by the Integrated Operation, including maintaining a credit and collection system designated to effectuate timely billing and collection of amounts and monies owed. KOH has breached its obligations under this provision by continued revenue cycle management failures by CHI's national revenue cycle affiliate, Conifer, which have cost UMC millions in lost revenues. We understand that KOH and CHI have developed a plan with specific strategies and responsibilities to work toward remedying this situation. We would like assurances that this plan will be implemented immediately; UMC and UofL will receive progress reports on a regular basis; and UMC will be made whole for damages sustained as a result of Conifer's substandard revenue cycle management.

5. **Failure to Provide Nursing and Maintain Patient Care Standards as Obligated:** KOH agreed under Section 8.3 of the JOA that attainment of magnet status designation for the Hospital from the American Nurses' Credentialing Center was a strategic priority. However, since KOH took over operation of the Hospital under the JOA, the number and quality of nursing staff has severely declined. In fact, as you know, KOH's operational performance deficiencies in the area of nursing staff culminated in both a recent OIG survey and a CMS letter, causing embarrassment and serious reputational harm to UofL and UMC. In addition, there have been a number of recent executive management level firings that could affect the operations of the Hospital and the Cancer Center and the UofL academic programs, without prior discussion or consultation with UofL or UMC leadership. We request that KOH not make any additional layoff decisions or announcements without first consulting UofL and UMC leadership about the impact of such decisions on our programs.

6. **Failure to Maintain, Support and Develop Programmatic Commitments including Women's Services.** Under the AAA, KOH agreed to maintain the gynecology and women's health service line as necessary for UofL to maintain all accreditations with the LCME and ACGME. We have continually raised concerns with KOH regarding its lack of appropriate support for this service line. KOH's failure to maintain and provide resources to support this service line has caused UofL to receive a citation letter from the ACGME Residency Review Committee citing inadequate number and type of clinical experiences (procedures and vaginal deliveries) for UofL residents.

We look forward to an in-person meeting within the next 7-10 days to discuss the above-referenced claims.

Sincerely,



Gregory C. Postel, M.D.
Interim Executive Vice President for Health Affairs
University of Louisville



Joan Coleman
Interim CEO, University Medical Center, Inc.

Cc: Mitch H. Melfi, Catholic Health Initiatives