

**Report on DLP Marquette Holding Company, LLC
Compliance with Asset Purchase Agreement**

July 2, 2020

Pursuant to:

Monitoring, Compliance and Enforcement Agreement



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I. Overview and Background

Compliance Monitoring Overview

1. This Compliance Monitoring Report represents Stout Risius Ross, LLC's (the "Monitor") assessment of whether DLP Marquette Holding Company, LLC ("DLP Marquette") is in compliance with specific provisions of the Asset Purchase Agreement ("APA") that DLP Marquette executed in acquiring substantially all of the assets of Marquette General Hospital, Inc. d/b/a Marquette General Health System ("MGH"). Through its review of supporting documentation and analytical testing procedures, the Monitor has assessed DLP Marquette's compliance with each of its APA Commitments as detailed in the Monitoring, Compliance and Enforcement Agreement (the "Monitoring Agreement").

Background of the Monitor's Review of DLP Marquette

2. In early 2012, DLP Marquette submitted a bid to acquire substantially all of the assets of the non-profit Marquette General Hospital Inc. (the "Transaction"). In connection with its review of the Transaction, the Michigan Department of Attorney General (the "AG") entered into the Monitoring Agreement with DLP Marquette and the Monitor. The Monitoring Agreement is intended to increase the transparency of the Transaction by authorizing the AG and the Monitor to collect information and report on DLP Marquette's compliance with specific provisions of the APA. This includes monitoring DLP Marquette's compliance with APA commitments regarding indigent care, capital expenditures, physician recruitment expenditures, services offered to the community, and restrictions on sale or closure of the hospital ("APA Commitments").



II. Compliance with Specific APA Commitments

3. In early 2020, the Monitor requested information and documents relevant to DLP Marquette's compliance with the APA Commitments subject to monitoring for the calendar year ended December 31, 2019 (the "2019 Reporting Period"). The Monitor reviewed the information DLP Marquette submitted, requested clarification and additional support for certain aspects of the information, and reviewed DLP Marquette's responses to those subsequent requests. The Monitor's review of this information ultimately determines whether DLP Marquette is currently in compliance with the APA Commitments, which contain ongoing provisions.
4. In connection with our analysis, we have made such reviews, analyses, and inquiries as we have deemed necessary and appropriate under the circumstances. The principal sources of information used in performing our analysis included, but were not limited to:
 - The APA dated June 28, 2012;
 - The revised Monitoring, Compliance and Enforcement Agreement – September 2014;
 - DLP Marquette's Financial Assistance Policy (100-087);
 - Financial Assistance Application files;
 - The Foundation Proceeds Certificate dated August 31, 2012;
 - Capital expenditure listings and related invoices;
 - Summary of expenditures resulting from physician recruitment activities and related payroll records, invoices, and general ledger reports;
 - DLP Marquette charge reports and performed procedures listings;
 - A review of available information regarding the services offered to the community.
5. We address DLP Marquette's compliance with each of the specific APA Commitments below:

Indigent Care

6. Section 9.9 of the APA includes a commitment by DLP Marquette to institute and maintain the indigent care policy in effect at Marquette General Hospital immediately prior to the acquisition. This commitment includes a provision allowing for changes to the Policy necessary to comply with applicable Legal Requirements and the implications of healthcare reform legislation. Based on its review of the supporting documentation and related discussions with DLP Marquette personnel, the Monitor's review of the policy for indigent care assistance, active at DLP Marquette for the 2019 Reporting Period, shows that it is consistent with the pre-acquisition policy.
7. In 2016, DLP Marquette updated its Financial Assistance Policy in order to comply with new regulations outlined in Internal Revenue Code section 501(r) established by the Affordable Care Act. Based on our review of this updated financial assistance policy and discussions with DLP Marquette personnel, the Monitor has determined that the changes to the policy were made in order to comply with the



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new healthcare reform legislation, and access to financial assistance is consistent with the pre-acquisition policy.

8. As part of the indigent care assessment, the Monitor has also reviewed DLP Marquette's adherence to the policy guidelines in its handling of financial assistance applicants. Based on our testing of a random representative sample of financial assistance applicants and discussions with DLP Marquette personnel, we have determined that DLP Marquette is following its financial assistance policy for the 2019 Reporting Period.
9. Additionally, DLP Marquette has historically reported on its annual charity care under the aforementioned policies and guidelines. Through our review of this information, the Monitor has determined that DLP Marquette's financial assistance expenditures for 2019 were reduced from its pre-acquisition levels. Based on discussions with DLP Marquette personnel and our review of supporting documentation, the reduced expenditure is the result of changes enacted through the Affordable Care Act which expanded Medicaid access in Michigan, increasing coverage for members of the community. This led to a reduced need for the hospital to provide direct financial assistance to individuals, although access to financial assistance remained consistent with pre-acquisition practices.

Capital Commitment

10. The APA includes a commitment that DLP Marquette would spend or commit to spend the specified minimum amount of \$300 million in capital improvements or related expenditures, with \$180 million of that to be spent within the first five years following the APA Closing. As of August 31, 2017, which constituted the end of Marquette's 5-year expenditure commitment period, the hospital spent approximately \$169.8 million, \$10.2 million short of the \$180 million commitment. However, over the next four months, Marquette spent another \$67.7 million, thereby exceeding the 5-year commitment amount of \$180 million.
11. In its 2019 Reporting Period Compliance Certificate filed with the AG, DLP Marquette represented that it spent \$35,158,770 in 2019 toward its capital commitment, for a running total of \$398,244,969. This includes capital expenditures relating to the construction of the new 275 bed, 525,000 square foot hospital which was completed on June 2, 2019. Through its testing of a selection of capital expenditures and discussions with DLP Marquette personnel, the Monitor has confirmed DLP Marquette's reported level of capital expenditure through the year-ended 2019.
12. Based on the Monitor's previous review of the reported expenditures and related supporting information, DLP Marquette satisfied its full-term capital commitment in 2018.

Physician Recruitment Commitment

13. The APA includes a commitment that DLP Marquette would spend or commit to spend the specified minimum amount of \$50 million in physician recruitment or related expenditures in accordance with Schedule 9.11, in order to address community needs and increase the level of services offered at the hospital. \$30



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million of which is to be spent within the first five years following the APA Closing.

14. In accordance with Section 9.18 of APA, DLP Marquette has elected to offset the required physician recruitment expenditure commitment by \$28,282,000, bringing the total physician recruitment commitment to \$21,718,000. Therefore, DLP Marquette has previously satisfied both the 5-year and full-term Physician Recruitment APA Commitment.
15. The Monitor notes that, per *Exhibit B - Physician Recruiting Expenditures* to DLP Marquette's 2019 MCE Compliance Certificate, DLP Marquette reported additional physician recruitment and retention expenditures in 2018 of \$5,838,385 bringing cumulative total expenditure on Physician Recruitment to \$42,406,431. Based on its review of the documents provided in support of these expenditures, the Monitor has confirmed DLP Marquette's reported level of physician recruitment expenditure through the year-ended 2019.

Continuation of Service

16. The APA includes a commitment that DLP Marquette will continue to provide and enhance the Core Services offered by Marquette General Hospital to the community prior to the Transaction throughout the Commitment Period, as outlined on Schedule 9.15 to the APA.
17. Based on its review of DLP Marquette's reported procedures performed and related charges for the eight-year period from 2012 through 2019, new physician recruitment and continued recruitment efforts, as well as other available information regarding its services offered to the community, and discussions with DLP Marquette personnel, the Monitor has determined that DLP Marquette continues to offer and provide the Core Services delineated on Schedule 9.15 in accordance with the terms of the APA.
18. As noted last year, in 2018 DLP Marquette experienced challenges related to its Behavioral Medicine Core Services. Specifically, physician and staffing shortages led to difficulty in providing inpatient substance use disorder services and adolescent inpatient psychiatric services. Those challenges continued into 2019, resulting in DLP Marquette discontinuing its CIAS inpatient unit during 2019. While DLP Marquette is continuing to provide detox services for patients that require an acute admission, in order to address the shortfall posed by the closure of its CIAS inpatient unit closure, DLP Marquette will continue to offer addiction treatment resources, including outpatient addiction treatment through DLP Marquette and residential addiction treatment through its relationship with Great Lakes Recovery Center.
19. The Monitor has determined that DLP Marquette has implemented several Core Service enhancements during the 2019 Reporting Period including those related to the opening of the new hospital facility and associated technology and equipment updates. As a result of these efforts in conjunction with a review of DLP Marquette's charge reports and performed procedures listings, the Monitor has concluded that DLP Marquette remains in compliance with this APA Commitment for the 2019 Reporting Period.



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Restrictions on Sale of Hospital

20. Based on the Monitor's review of the Advisory Board Meeting Minutes, among other financial reporting, LifePoint continued to retain ownership and operation of the Marquette General Hospital assets through its wholly-owned Duke LifePoint Healthcare affiliate, and therefore is compliant regarding the restriction on the sale of assets of the hospital for the 2019 Reporting Period.



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Assumptions and Limiting Conditions

21. We have not been requested to assess, and our Report does not in any manner address DLP Marquette's compliance with any portion or covenant of the APA, except as specifically set forth herein. Furthermore, no opinion, counsel or interpretation is intended in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. The Monitor's conclusions are based on the information received from DLP Marquette personnel through the date of this report.
22. No one that worked on this engagement has any known financial interest in DLP Marquette or the outcome of the monitoring. Further, Stout Risius Ross, LLC's compensation is neither based nor contingent on the results of the analysis.
23. The Monitor's conclusions are applicable for the stated date and purpose only, and may not be appropriate for any other date or purpose. This report is solely for use in the cited monitoring, for the purpose stated herein, and is not to be referred to or distributed, in whole or in part, without prior written consent.

A handwritten signature in black ink, reading "Joshua E. Swedlow", written over a horizontal line.

Joshua E. Swedlow
Senior Manager
Stout Risius Ross, LLC