

RESPONSES TO QUESTIONS PRESENTED BY MR. TOM MONAHAN REGARDING SALE OF SKILLED NURSING BEDS BY LHA

1. **Question 1** – At a recent meeting of the Committee of the Whole, it was mentioned that 21 of Lakewood Hospital's 26 skilled nursing licenses (“SNF”) were sold.

Answer: The statement from hospital representatives was that they didn’t remember the exact details but they estimated that about 21 bed licenses were sold for approximately \$15,000 per bed license. (Upon later review, it appears that the price per bed license was \$16,500 as stated below.)

2. **Question 2** – Were they sold for \$15,000 each?

Answer: The sale has not yet been finalized. The sale is contingent on the buyer being granted a Certificate of Need. The final negotiated amount was \$16,500 per bed for 21 licenses (or \$346,500 total).

3. **Question 3** – By what authority did the Cleveland Clinic have to sell those beds?

Answer: A recommendation to sell the bed licenses was made by the Finance and Audit Committee of the LHA Board of Trustees on February 6, 2014. The LHA Board of Trustees approved that recommendation on February 19, 2014, and the LHA Board’s approval was the authority to sell the beds. The bed licenses belonged to LHA, not the Cleveland Clinic. The beds were not sold by Cleveland Clinic.

4. **Question 4** – Where did the money go? Foundation, Association, or city coffers?

Answer: These bed licenses are owned by LHA. When the sale is finalized, the money will go to LHA.

5. **Question 5** – Where are the beds going?

Answer: The buyer of the bed licenses is Livingston Real Estate Company LLC. To clarify, LHA did not sell the physical beds; the physical beds continue to be LHA property.



April 6, 2010

City of Lakewood
c/o The Honorable Edward FitzGerald, Esq.
12650 Detroit Avenue
Lakewood, Ohio 44107

Dear Mayor FitzGerald:

Lakewood Hospital (the "Hospital") is committed to the Lakewood community and will continue to maintain its status as the city's major employer. We're proud of the fact that nearly 1,300 Cleveland Clinic health system employees reside in the City of Lakewood and contribute nearly \$900,000 in the aggregate annually in payroll taxes to the City of Lakewood. We plan to maintain this civic leadership role through the implementation of a plan outlined in this letter that will strengthen and improve Lakewood Hospital and elevate the level of care for the Lakewood community and all communities we serve.

On February 11, 2010, the Board of Trustees of Lakewood Hospital Association ("LHA") held a Special Meeting to discuss an exciting strategic direction for Lakewood Hospital and to receive the recommendation of a Special Committee of the Board that had been established to review an independent third party's report on the same subject. After considerable discussion, the Board of Trustees unanimously voted to approve and implement a bold comprehensive plan (the "Plan") to advance Lakewood Hospital's *Vision for Tomorrow*. The Plan will address the sustainability of Lakewood Hospital, while simultaneously making available the finest services typically provided by hospitals in communities similar to Lakewood. The Plan further aligns Lakewood Hospital with Cleveland Clinic services to create a health delivery system for today's and tomorrow's community health needs.

The agreements between the City of Lakewood and LHA unite the City, the Hospital, and the Cleveland Clinic in a relationship of mutual commitment to serve the community. These agreements, including the Lease (the "Lease"), not only bind us together but recognize that hospital services evolve and change over time. In the spirit of our partnership, we write this letter to describe our Plan, which involves many components. One of the Plan's components involves transitioning the Hospital's trauma service and inpatient pediatrics service to a sister hospital, Fairview Hospital, and affects the Lease as described below. The transition will enable us to expand existing services and transfer new clinical services to Lakewood Hospital. This letter is intended to tell you, members of City Council, others in City administration, and our community about the Board's Plan and why we believe the Plan constitutes a comprehensive framework that will improve Lakewood Hospital's ability to serve the Lakewood population.

Process Behind the Plan

Before reviewing the Plan, we would like to describe the dedication and involvement that was given by the Lakewood community members of our Board, the members of Lakewood Hospital's Medical Staff, and others in formulating the Plan. The Board's Executive Committee, at a meeting on November 5, 2009, established a Special Committee (the "Committee") to review and assess this Plan. Utilizing all available resources, an operational and strategic assessment was conducted which included interviews of more than 40 key Hospital leaders. The Committee had 11 members and included representation from the Board's Executive Committee, Finance Committee, and Medical Staff. The Committee met several times and, with the assistance of management, thoroughly discussed and reviewed the Plan. At its last meeting, the Committee recommended approval of the Plan to the full Board, which adopted it on February 11, 2010. The Plan in part affirmed Lakewood Hospital's *Vision for Tomorrow* plan, which is a multi-year strategic plan shaped to better meet the changing needs of the Lakewood community that was adopted by the Board in 2008.

Positioning Lakewood Hospital for the Future

Lakewood Hospital's *Vision for Tomorrow* and the Plan positions and strengthens our services around four centers of clinical excellence – **Neurosciences, Orthopedics, Diabetes and Geriatrics**; ensures the highest level of care for our patients; creates improved coordination of care on the West Side; and positions the Hospital for long-term stability.

Lakewood Hospital and Fairview Hospital have long served overlapping areas, and as you know we recently announced a unified leadership structure involving the two hospitals. This structure better positions us to provide the highest level of care in Lakewood and the communities we serve; ensures care is provided in the right setting; creates better coordination of services throughout our health system; and strengthens both hospitals' financial outlooks.

Inpatient Pediatrics

We believe focusing our care for children at Lakewood Hospital on outpatient services and emergency care meets the changing needs of patients using our services. In developing the Plan, we found that inpatient pediatrics was under-utilized at Lakewood Hospital. Last year, for example, we averaged one to two patients daily on a 12-bed unit.

This trend is not unique to Lakewood Hospital; nationally pediatric subspecialty care is becoming increasingly concentrated in large regional children's hospitals. In fact, finding one major pediatric center serving an entire metro market, or in some cases an entire state, is not unusual. (A 2004 Survey of Pediatricians, backed by American Hospital Association annual survey, 1992-2004, found a 50% decline in pediatric bed space.)

We believe our pediatric patients will be best served just 3.5 miles away at Fairview Hospital for inpatient care. Fairview Hospital provides full pediatric resources and services, as well as pediatric subspecialty care not currently offered at Lakewood Hospital, to meet the needs of children. The relocation of inpatient pediatric services, moreover, provides needed facility space for acute rehabilitation and geriatric services as contemplated by other components of the Plan.

Trauma

We will continue to provide full-service 24-hour emergency care at Lakewood Hospital for patients of all ages with all types of illnesses and injuries. However, Lakewood Hospital has experienced a decline in the number of trauma cases. To clarify, a trauma is a very serious injury or shock to the body, from violence or an accident that requires immediate and highly specialized care. In fact, out of the 34,801 total emergency patients seen at the Hospital last year, more than 99% were *not* trauma-related. In 2009, we treated 25 trauma patients at Lakewood Hospital. We believe the right approach for patients in this region is to take them to the best trauma center for their care. We are privileged to have two trauma centers (Level I – Metro Health and Level II – Fairview Hospital just 3.5 miles away) in close proximity to the City of Lakewood.

Nationally, research has shown that combining trauma centers increases patient volumes resulting in better outcomes for patients. In addition, consolidation of trauma centers saves money by eliminating duplication of expensive resources. [*Journal of the American Medical Association (JAMA)*, 2001; 285:1164-1171 – results indicated that a strong association exists between trauma center volume and outcomes, with significant improvements in mortality and length of stay; *Journal of the American Medical Association (JAMA)*, Vol. 289, No. 12, Mar. 26, 2003 – the concentration of the most severely injured patients in a limited number of specialty care facilities (i.e., Level I or II trauma centers) will increase patient volumes and experience at these centers and thus improve patient outcomes.]

We take pride in the accreditations we've earned that support our emergency services in chest pain certification and stroke accreditation, and we plan to continue to maintain these exceptional services at Lakewood Hospital.

Expansion of Services

In 2008, Cleveland Clinic expanded and extended the care and services of its Neurological Institute (CCNI) to Lakewood Hospital. This represented a significant investment in Lakewood Hospital by Cleveland Clinic. The Neurological Institute provides patients on the West Side with access to a multi-disciplinary team of specialists who provide a broad spectrum of neurological care, including medical and surgical treatment for stroke and neurosurgery. Our outpatient services facilities and inpatient neurological intensive care unit were improved with capital investments totaling \$3.3 million over the last two years.

Cleveland Clinic continues to extend Neurological Institute offerings at Lakewood Hospital. In 2009, we brought 10 Cleveland Clinic Neurological Institute specialists to Lakewood in a variety of specialties, including Headache/Pain; Neurorehabilitation/ Spasticity Management; Vascular Neurology/ Stroke; Movement Disorders; Multiple Sclerosis; Adult and Pediatric Epilepsy; and Neuromuscular Medicine to complement our community physician staff members. Additional physician recruitment is planned in 2010.

According to the World Health Organization, neurological diseases, ranging from epilepsy to stroke to headache, represent the largest and fastest growing unmet medical need: affecting more than 1 billion people worldwide. It is anticipated that as the population continues to age, this number will continue to rise.

We recently began alignment of inpatient acute rehabilitation from Cleveland Clinic's other West Side hospitals to Lakewood Hospital, enabling the Hospital to serve as the hub for this needed service in this market, complementing Lakewood's centers of excellence in neuroscience and orthopedics. Inpatient rehabilitation will bring a significant financial benefit to the Hospital and will provide intensive physical and occupational therapy so patients can return home to activities of daily living as quickly as possible.

As part of our Plan, we are excited about patient referrals from Cleveland Clinic facilities coming to Lakewood Hospital. We continue to make great strides in orthopedics, including opening a new, \$3.2 million 16-bed orthopedic unit with private rooms. We have developed strong relationships in Lorain County with the Cleveland Clinic facilities and physicians which have resulted in bringing orthopedic surgeries that were previously performed in non-Cleveland Clinic hospitals to Lakewood Hospital.

We also continue to implement strategies to strengthen our geriatric services by broadening our geographic reach through our relationship with medical directors and affiliated physicians caring for patients in assisted living and/or long-term care facilities. This aging patient population benefits from our expanded SeniorCare program offerings, which has long been a strong foothold for Lakewood Hospital. We are expanding our reach beyond Cuyahoga County to care for these patients.

Finally, we have engaged in discussions to align West Side diabetes programs with the goal to develop a regional center at the Hospital in conjunction with the Cleveland Clinic Endocrine Institute.

Reviewing the Lease Provisions

As you can see, the vast majority of the Plan builds upon or adds to the services provided and services we are expanding, but as we indicated above one component of the Plan involves transitioning Lakewood Hospital's trauma service and inpatient pediatric service to Fairview Hospital, which we plan to do on or after June 15, 2010. Below are details regarding the provisions of the Lease, which we believe are important to acknowledge.

The Lease was developed over 25 years ago – in a spirit of collaboration, energy, and trust among the participants. The Lease provides that LHA is required to provide certain services within the City of Lakewood during the entire 30-year term of the Lease. The definition of those services requires that LHA provide hospital services “of the nature then generally provided by a community hospital in communities comparable to the City [of Lakewood].” The Lease further provides that LHA must continue to provide such services within the City, that it will not terminate them unless it first gives notice to the City (which LHA is doing with this letter), and the City does not object to the service changes.

The Lease was intended to be a living document that would contemplate emerging scientific technologies, medical breakthroughs, and evolving service levels. What may have been a service generally provided by a community hospital in the past may not hold for the future. While trauma and inpatient pediatrics may have been standard services for community hospitals when the Lease commenced, they are no longer, and the language of the Lease supports viewing such services in real time, not locked in the past. Further, the LHA Board of Trustees recognized a responsibility, in this changing healthcare environment, to maintain its governance oversight over the services transitioned to assure that access, value and quality are continued.

Continued Commitment to Lakewood

Over the past three years, we have invested \$24.4 million into Lakewood Hospital for a variety of projects that support the *Vision for Tomorrow* plan, including major renovations in Orthopedics, intensive care units, the Neurological Institute, as well as significant infrastructure improvements. We remain committed to investing in facilities and programs at Lakewood Hospital.

Meeting the Community's Changing Health Needs

This community is fortunate to have both Lakewood Hospital and Fairview Hospital so close together, and it's our responsibility to determine how we can optimize the care, value and services we provide on the West Side to meet the evolving needs of those who entrust us with their care – both today and in the future.

We believe you will agree that our Plan will ensure that the services Lakewood Hospital provides will continue to meet community health needs, reflect the changing needs of the Lakewood residents, and more deeply align Lakewood Hospital with Cleveland Clinic services to create a health delivery system for today's and tomorrow's community health needs.

Sincerely,



Mousab Tabbaa, M.D.
Chairman of the Board of Trustees
Lakewood Hospital Association



Fred DeGrandis
President and CEO
Cleveland Clinic Regional Hospitals



Janice Murphy
President
Lakewood Hospital and Fairview Hospital

cc: Members of City Council of Lakewood, Ohio
City of Lakewood, Ohio, Attention: Director of Finance (via certified mail, return receipt requested)
City of Lakewood, Ohio, Attention: Mayor (via certified mail, return receipt requested)
City of Lakewood, Ohio, Attention: Director of Law (via certified mail, return receipt requested)
City of Lakewood, Ohio, Attention: Clerk of Council (via certified mail, return receipt requested)
Lakewood Hospital Association, Attention: Michael J. Meehan, Esq. (via certified mail, return receipt requested)
National City Bank, Attention: Corporate Trust Administration (via certified mail, return receipt requested)
KeyBank National Association, Attention: Corporate Trust Dept. (via certified mail, return receipt requested)
The Cleveland Clinic Foundation, Attention: Delos M. Cosgrove, M.D. (via certified mail, return receipt requested)
The Cleveland Clinic Foundation, Attention: David W. Rowan, Esq. (via certified mail, return receipt requested)

June 9, 2010

City of Lakewood
c/o The Honorable Edward FitzGerald, Esq.
12650 Detroit Avenue
Lakewood, Ohio 44107

Dear Mayor FitzGerald:

As you know, recently the City of Lakewood ("City"), through its elected Council, and The Cleveland Clinic Foundation ("Clinic"), as the sole member of the Lakewood Hospital Association ("LHA"), have undertaken an extensive discussion about services to be provided at Lakewood Hospital ("Hospital") under the Vision for Tomorrow ("VFT") plan, and how the lease between the City and LHA may be affected thereby.

The City has been seeking assurances that services to be provided under the VFT plan will make the Hospital a successful, sustainable community hospital that produces the highest quality of care possible and contributes to a healthier Lakewood. The Clinic seeks the same goals, but also the business flexibility to respond to changes rapidly, without unnecessary barriers to reformatting the services provided.

We believe we can achieve these goals by providing the following assurances to the City:

(1) At least 60 days prior to the LHA board of trustees taking any vote that would permit the elimination or transfer of any of the VFT "Centers of Excellence" services — neurosciences, geriatrics, endocrinology/diabetes, and orthopaedics — for the duration of the lease term, or otherwise at least 60 days before those services would be eliminated or transferred without board action, LHA will notify the City of such proposed change in services and permit the City to make inquiry of the LHA board members and appropriate Clinic officials regarding the proposed change. (A service would be considered eliminated or transferred if it were to result in the significant reduction in such service so as to be an effective elimination of such service at the Hospital.) This will give the City an opportunity to be heard with respect to any such change before it may occur, while respecting the role of the LHA board.

City of Lakewood
c/o The Honorable Edward FitzGerald, Esq.
June 9, 2010
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(2) Consistent with its obligation to produce an annual report to the City reflecting its compliance with the lease, the LHA would be happy to convene meetings with its trustees and the City, upon request by the City, in an effort to address any questions the City may have and provide requested data (as permitted by the lease) about operations at the Hospital for the duration of the lease term.

We hope these two assurances will address the City's concerns about its oversight function, while still yielding a fiscally sound and successful community hospital that produces the highest quality of care possible.

Very truly yours,

A handwritten signature in black ink, appearing to read "David Bronson". The signature is fluid and cursive, with a large initial "D" and "B".

David Bronson, MD, FACP
President, Cleveland Clinic Regional Hospitals

DLB/

cc: Mr. Kevin Butler, President of City Council of Lakewood, Ohio
Members of City Council of Lakewood, Ohio c/o Clerk of City Council



May 29, 2012

City of Lakewood
c/o Mayor Michael P. Summers
12650 Detroit Avenue
Lakewood, Ohio 44107

Dear Mayor Summers:

As you know, under the terms of the Lease between the City of Lakewood ("City") and Lakewood Hospital Association ("LHA"), LHA shall provide the City and its residents a full disclosure of its finances through an annual audit of its financial statements, which will be available to the public. The Lease states that within 150 days of the end of each fiscal year, LHA will file or cause to be filed with the Trustee, the City and any corporation controlling LHA and shall mail to Standard & Poor's Rating Group and Moody's Investors Service:

1. A copy of its audited financial statements for the Fiscal Year, accompanied by the accountant's report prepared in accordance with generally accepted accounting principles, and the accountant's opinion on the material presented, and
2. A certificate of Authorized Lessee Representative stating that to the best of his/her knowledge, the Lessee (LHA) and the Member (The Cleveland Clinic Foundation) are in compliance with all material terms and conditions of the Lease and the Definitive Agreement. The audit shall be conducted and the report rendered in accordance with generally accepted auditing standards.

This letter serves as notification that, with respect to No. 1 above, a copy of the 2011 audited financials statements were posted on DAC/EMMA on May 18, 2012. In addition, copies are attached. With respect to No. 2 above, please be advised that I am an Authorized Lessee Representative and that to the best of my knowledge, LHA as the Lessee and The Cleveland Clinic Foundation as the Member are in compliance with all material terms and conditions of the Lease and the Definitive Agreement, executed by and between Lessee and Member, and that, to the best of my knowledge, there is no default existing under any of the provisions of the Lease and the applicable Trust Indentures.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Jeffrey Jones', with a long horizontal flourish extending to the right.

Jeffrey Jones
Senior Vice President of Finance, Regional Hospitals

cc: Mr. Kevin Butler, Law Director, City of Lakewood
Standard & Poor's Rating Group
Moody's Investors Service
Huntington Bank



Michael P. Harrington
Controller/Chief Accounting Officer

May 30, 2013

City of Lakewood
c/o Mayor Michael P. Summers
12650 Detroit Avenue
Lakewood, Ohio 44107

Dear Mayor Summers:

As you know, under the terms of the Lease between the City of Lakewood ("City") and Lakewood Hospital Association ("LHA"), LHA shall provide the City and its residents a full disclosure of its finances through an annual audit of its financial statements, which will be available to the public. The Lease states that within 150 days of the end of each fiscal year, LHA will file or cause to be filed with the Trustee, the City and any corporation controlling LHA and shall mail to Standard & Poor's Rating Group and Moody's Investors Service:

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This letter serves as notification that, with respect to No.1 above, a copy of the 2012 audited financial statements were posted on DAC/EMMA on May 29, 2013. In addition, copies are attached. With respect to No. 2 above, please be advised that I am an authorized Lessee Representative and that to the best of my knowledge, LHA as the Lessee and the Cleveland Clinic Foundation as the Member are in compliance with all the material terms and conditions of the Lease and the Definitive Agreement, executed by and between Lessee and Member, and that, to the best of my knowledge, there is no default existing under any of the provisions of the Lease and the applicable Trust Indentures.

Sincerely,

Michael P. Harrington
Chief Accounting Officer and Controller
Cleveland Clinic Health System

cc: Mr. Kevin Butler, Law Director, City of Lakewood
Standard & Poor's Rating Group
Moody's Investor Service
Huntington Bank



Michael P. Harrington
Controller/Chief Accounting Officer

May 15, 2014

City of Lakewood
c/o Mayor Michael P. Summers
12650 Detroit Avenue
Lakewood, Ohio 44107

Dear Mayor Summers:

As you know, under the terms of the Lease between the City of Lakewood ("City") and Lakewood Hospital Association ("LHA"), LHA shall provide the City a full disclosure of its finances through an annual audit of its financial statements. The Lease states that within 150 days of the end of each fiscal year, LHA will file or cause to be filed with the Trustee, the City and any corporation controlling LHA and shall mail to Standard & Poor's Rating Group and Moody's Investors Service:

1. A copy of its audited financial statements for the Fiscal Year, accompanied by the accountant's report prepared in accordance with generally accepted accounting principles, and the accountant's opinion on the material presented, and
2. A certificate of Authorized Lessee Representative stating that to the best of his/her knowledge, the Lessee (LHA) and the Member (The Cleveland Clinic Foundation) are in compliance with all the material terms and conditions of the Lease and the Definitive Agreement. The audit shall be conducted and the report rendered in accordance with generally accepted auditing standards.

In satisfaction of No. 1 above, enclosed please find a copy of the 2013 audited financial statements. With respect to No. 2 above, please be advised that I am an authorized Lessee Representative and that to the best of my knowledge, LHA as the Lessee and the Cleveland Clinic Foundation as the Member are in compliance with all the material terms and conditions of the Lease and the Definitive Agreement, executed by and between Lessee and Member, and that, to the best of my knowledge, there is no default existing under any of the provisions of the Lease and the applicable Trust Indentures.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael P. Harrington".

Michael P. Harrington

cc: Mr. Kevin Butler, Law Director, City of Lakewood
Standard & Poor's Rating Group
Moody's Investor Service
Huntington Bank