

**Report on Portage Holding Company, LLC Compliance with
Contribution Agreement**

April 30, 2016

Pursuant to:

Monitoring, Compliance and Enforcement Agreement



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**Report on Joint
Venture Compliance
with Contribution
Agreement**

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I. Overview and Background

Compliance Monitoring Overview

1. This Compliance Monitoring Report represents Stout Risius Ross, Inc.'s ("SRR") assessment of whether Portage Holding Company, LLC (the "Joint Venture") is in compliance with certain provisions of the Contribution Agreement dated August 2, 2013 (the "Contribution Agreement"), pursuant to which, the Joint Venture received the assets of Portage Health Hospital in Hancock, Michigan and related ancillary facilities (the "Transaction"). SRR has assessed the Joint Venture's compliance with each of these Contribution Agreement commitments as detailed in the Monitoring, Compliance and Enforcement Agreement (the "Monitoring Agreement").

Background of SRR's Monitoring of the Joint Venture

2. In connection with its review of the Transaction, the Michigan Department of Attorney General (the "AG") entered into the Monitoring Agreement with the Joint Venture, LifePoint Holdings 2, LLC, and SRR. The Monitoring Agreement is intended to increase the transparency of the Transaction by authorizing the AG and SRR to collect information and report on the Joint Venture's compliance with certain provisions of the Contribution Agreement. This includes monitoring the Joint Venture's compliance with Contribution Agreement commitments regarding indigent care, capital expenditures, continuation of services, restrictions on sale or closure of the hospital, and the establishment of cardiology and psychiatric services at the hospital ("Contribution Agreement Commitments").



II. Compliance with Certain Contribution Agreement Commitments

3. In 2016, SRR requested information and documents relevant to the Joint Venture's Contribution Agreement Commitments subject to monitoring. SRR reviewed and analyzed the information the Joint Venture submitted, requested clarification of certain aspects of the information as necessary, and considered the Joint Venture's responses to any subsequent requests, among other things. Based on our procedures performed related to the monitoring period of calendar year 2015, SRR concludes that the Joint Venture is currently in compliance with the Contribution Agreement 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 Monitoring Agreement. The principal sources of information used in performing our analysis included, but were not limited to:
 - The Contribution Agreement dated August 2, 2013;
 - The First Amendment to Contribution Agreement;
 - The Monitoring, Compliance and Enforcement Agreement;
 - The Portage Health Business Services Policy re: Financial Assistance Services;
 - UP Health System Portage: Financial Assistance Services;
 - Charity Care Application files;
 - Financial information regarding patient care costs and charity care;
 - Capital expenditure listings and related invoices;
 - Portage Health general ledger reports;
 - Revenue and usage reports and performed procedures listings;
 - A review of available information regarding the services offered to the community; and
 - LifePoint Health, Inc.'s Annual Report.

5. We address the Joint Venture's compliance with each of the specific Contribution Agreement Commitments below.

Indigent Care

6. The Contribution Agreement included a commitment by the Joint Venture to institute and maintain the indigent care policy in effect at the hospital immediately prior to the Transaction. SRR's review of the policies for indigent care assistance, active at the Joint Venture during the 2015 testing period, shows that they are consistent in all material respects with the pre-Transaction policy, and have, in 2015, been modified to adhere to the new Section 501(r) requirements implemented under the Affordable Care Act tax provisions.

7. As part of the indigent care testing, SRR has also reviewed the Joint Venture'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, we have determined that the Joint Venture is in compliance with its indigent care policy.



8. Additionally, the Joint Venture has historically reported on its annual charity care under the aforementioned policies and guidelines. Through our review of this information, SRR has determined that the Joint Venture's charity care expenditures for 2015 are in line, in all material respects, with its pre-Transaction levels.

Capital Commitment

9. The Contribution Agreement included a commitment that the Joint Venture would spend or commit to spend the specified minimum amount of \$60 million in capital improvements or related expenditures within the ten years following the Contribution Agreement Closing. The Joint Venture has reported investments in its delivery system infrastructure through projects undertaken or planned, and thus appears to be on track with its Capital Plan to meet its Contribution Agreement Commitment regarding capital expenditures.
10. In its 2014 and 2015 Compliance Certificates filed with the AG, the Joint Venture represented that it has spent a combined \$6,291,276 toward its capital commitment, of which \$3,092,016 was spent in 2015. Upon review of the documents provided in support of these expenditures, SRR has confirmed the capital expenditures reported by the Joint Venture for the year-ended 2015.
11. Based on SRR's review of the Joint Venture's Capital Plan, the hospital appears to be behind schedule to comply with its capital expenditure commitment. This appears to be primarily due to the delayed groundbreaking on the planned Calumet Clinic project which will occur in 2016, therefore the costs associated with the project have been pushed from 2015 into 2016. We will continue to monitor the Calumet project's progress closely in the upcoming years. As the capital commitment deadline has not been reached, SRR cannot draw a conclusory opinion until the final testing year. Therefore, this year's Report simply highlights expenditures and demonstrates significant investment by the Joint Venture during 2015, but does not assess whether the spending commitment has been fully satisfied.

Continuation of Services

12. The Contribution Agreement included a commitment that the Joint Venture would continue to provide the Core Services offered by Portage Health to the community prior to the Transaction, identified on Contribution Agreement Schedule 9.12, throughout the Commitment Period. This Contribution Agreement Commitment was amended, via the First Amendment to Contribution Agreement, to remove Portage Health Resources and Portage Health Home Services from the Contribution Agreement and therefore, Schedule 9.12 items 15 and 16 are no longer subject to monitoring.
13. Based on our review of the Joint Venture's reported procedures performed and related charges and costs for 2015, as well as the publicly available information regarding its services offered to the community among other documentation, SRR has determined that the Core Services delineated on Schedule 9.12 were continuing to be provided to the community. Therefore, the Joint Venture is in compliance with this Contribution Agreement Commitment for the 2015 monitoring period.





14. SRR did identify a decline in the Joint Venture's reported volume of urology services in 2015. Based on our discussions with Joint Venture personnel and our review of related documents, this decline was caused by the departure of a physician who, historically, had performed a substantive portion of these services. The Joint Venture has been actively recruiting for this open position and has hired an Urologist who started providing services in March of 2016. SRR will continue to closely monitor these services throughout the remainder of the Monitoring Agreement.

Restrictions on Sale of Hospital

15. Upon review of LifePoint Health, Inc.'s Form 10-K, it is apparent that LifePoint continues to retain ownership and operation of the hospital's assets through the Joint Venture, under which, the LifePoint Health affiliate, LifePoint Holdings 2, LLC, holds a controlling interest. Therefore it is compliant regarding the restriction on the sale of assets of the hospital.

Cardiology Services

16. The Contribution Agreement included a commitment that the Joint Venture would establish cardiology services at the hospital through the recruitment and training of hospital personnel and equipping the hospital to provide the related services.
17. Based on our discussions with the hospital's Director of Fiscal Services, and review of facility rental invoice records for cardiology practitioners, the hospital utilizes physicians from Marquette Heart and Vascular Group (Cardiology Associates, PC) for its cardiology services. Cardiology services offerings at Portage Health have continued at levels similar to last year, on average, six times per month, an increase from pre-Transaction levels.
18. Based on SRR's continuation of services review procedures, it is evident that cardiology services were provided by the Joint Venture to the community in 2015 and, as the Contribution Agreement does not specify a deadline for the establishment of the Cardiology service offering, the Joint Venture is in compliance with this Contribution Agreement Commitment.

Psychiatric Services

19. The Contribution Agreement included a commitment that the Joint Venture would establish psychiatric services at the hospital through the recruitment and training of hospital personnel and equipment of the hospital to provide the related services.
20. Based on our discussions with the hospital's Director of Fiscal Services and review of the Joint Venture's psychology services recruitment plan, the hospital has been actively recruiting for psychiatric practitioners since the fall of 2013 with the search still ongoing. The Joint Venture continues to work, through its collaborative relationship with Upper Great Lakes Family Health Center of Upper Michigan, to provide its patients with certain psychiatric services, including mediation management and planned tele-psychiatric services.
21. As the Contribution Agreement does not specify a deadline for the establishment of the Psychiatric service offering, and the Joint Venture is actively pursuing



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psychiatric practitioners in conjunction with offering its patients psychiatric services through its collaboration with Upper Great Lakes Family Health Center of Upper Michigan, SRR has determined that the Joint Venture is in compliance with this Contribution Agreement Commitment, as efforts are being made to establish such a practice.





III. Assumptions and Limiting Conditions

22. We have not been requested to assess, and our Report does not in any manner address, the Joint Venture's compliance with any portion or covenant of the Contribution Agreement except as specifically set forth herein and described in greater detail in the Monitoring Agreement. Furthermore, no opinion, counsel or interpretation provided herein is intended for use in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. SRR's conclusions are based on the information received from the Joint Venture personnel through the date of this report.
23. No one that worked on this engagement has any known financial interest in the Joint Venture or the outcome of the monitoring. Further, SRR's compensation is neither based nor contingent on the results of the analysis.
24. SRR'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.

Jeffrey J. Mordaunt
Managing Director
Stout Risius Ross, Inc.