

**Report on LifePoint Holdings 2, LLC and Portage Holding
Company, LLC Compliance with Contribution Agreement**

April 30, 2017

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



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Compliance Monitoring Overview

1. This Compliance Monitoring Report represents Stout Risius Ross, Inc.'s ("SRR") assessment of whether LifePoint Holdings 2, LLC and Portage Holding Company, LLC (the "Joint Venture") is in compliance with specific 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 will assess the Joint Venture's compliance with each of its 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 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 specific provisions of the Contribution Agreement. This includes monitoring the Joint Venture's compliance with Contribution Agreement commitments regarding indigent care, capital expenditures, services offered to the community, 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 Specific Contribution Agreement Commitments

3. In 2017, SRR requested information and documents relevant to the Joint Venture's compliance with the Contribution Agreement Commitments subject to monitoring. SRR reviewed the information the Joint Venture submitted, requested clarification of certain aspects of the information, and reviewed the Joint Venture's responses to those subsequent requests. SRR's review of this information will indicate whether 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 circumstances. 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;
 - The UP Health System Portage Financial Assistance Policy;
 - Financial assistance application files;
 - Financial information regarding patient care costs and charity care;
 - Capital expenditure listings and related invoices;
 - Revenue and usage reports and performed procedures listings;
 - A review of available information regarding the services offered to the community;
 - Governing Board meeting minutes;
 - 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. Section 9.9 of the Contribution Agreement includes a commitment by the Joint Venture to institute and maintain the indigent care policy in effect at the hospital immediately prior to the Transaction. 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.
7. In 2016, the Joint Venture 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 the updated 2016 financial assistance policy and discussions with the Joint Venture, SRR has determined that the changes to the policy were made in order to comply with the new healthcare reform legislation, and access to financial assistance is consistent with the pre-Transaction policy.



8. 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's is in compliance with its indigent care policy.
9. 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 financial assistance expenditures for 2016 are reduced from its pre-Transaction levels. Based on discussions with Joint Venture 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-Transaction practices.

Capital Commitment

10. 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.
11. The Joint Venture represented that it has spent \$6,124,763 in 2016 toward its capital commitment for a total spend of \$12,416,039 since the Transaction. Upon review of the documents provided in support of these expenditures and discussions with Joint Venture personnel, SRR has confirmed the capital expenditures reported by the Joint Venture through the year-ended 2016.
12. Based on reported expenditures, and discussions the Joint Venture appears to be on track to comply with their capital expenditure commitment, however, as the deadline has not been reached, SRR cannot draw a conclusory opinion until the final testing year. Therefore, this Report highlights expenditures and demonstrates significant investment by the Joint Venture during 2016, but does not assess whether the spending commitment has been fully satisfied.

Continuation of Services

13. 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 throughout the Commitment Period.
14. Based on our review of the Joint Venture's reported procedures performed and related charges and costs for 2016, 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 2016 monitoring period.

15. SRR did identify a decline in the Joint Venture's reported volume of certain services in 2016. 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 both a part-time and full-time physician who started providing services in late 2016. SRR will continue to closely monitor these services throughout the remainder of the Monitoring Agreement.

Restriction on Transfer of Hospital

16. Based on SRR's review of LifePoint Health, Inc.'s Form 10-K, and the Governing Board Meeting Minutes, SRR determined that LifePoint continues to retain ownership and operation of the Portage Health assets through its Joint Venture, under which, the LifePoint Hospitals affiliate, LifePoint Holdings 2, LLC, holds a controlling interest, and therefore is compliant regarding the restriction on the sale of assets of the hospital.
17. Subsequent to the current review period, effective April 1, 2017, LifePoint and LHC Group, Inc. entered into a Joint Venture to enhance home health and hospice services in the community and across the country. LifePoint contributed the home health and hospice services to the Joint Venture. All home health and hospice agencies will continue to operate under their existing names, and there will be no changes in staff, location, contact information or referral processes. Operationally, LHC Group will oversee day-to-day management of the joint venture's assets. The organizations have signed an agreement to share ownership and governance of the new joint venture. LifePoint has retained a material ownership position in the agencies and 50% of the governance over the joint venture.

Cardiology Services

18. 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 equipment of the hospital to provide the related services.
19. Based on our discussions with Joint Venture personnel, and review of related documents, the hospital utilizes physicians from Marquette Heart and Vascular Group (Cardiology Associates, PC) for its on-site cardiology services. Cardiology services offerings at Portage Health have continued at levels similar to last year and are slightly increased from pre-Transaction levels. The hospital continues to monitor volume and demand for services to explore the addition of new services.
20. 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 2016 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

21. 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.
22. Based on our discussions with Joint Venture personnel and our review of the psychology services sourcing 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 (UGLFHC) of Upper Michigan, to provide its patients with certain psychiatric services, including medication management.
23. As the Contribution Agreement does not specify a deadline for the establishment of the Psychiatric service offering, and the Joint Venture is actively pursuing 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 internally.



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III. Assumptions and Limiting Conditions

24. 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. Furthermore, no opinion, counsel or interpretation is intended 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.
25. No one that worked on this engagement has any known financial interest in the Joint Venture or the outcome of the monitoring. Further, Stout Risius Ross, Inc.'s compensation is neither based nor contingent on the results of the analysis.
26. 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.

