

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

April 30, 2019

Pursuant to:

Monitoring, Compliance and Enforcement Agreement



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

April 30, 2019

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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 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"). Through its review of supporting documentation and analytical testing procedures, the Monitor has assessed 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 the Monitor's Review 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 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 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 2019, the Monitor requested information and documents relevant to the Joint Venture's compliance with the Contribution Agreement Commitments subject to monitoring. The Monitor reviewed the information the Joint Venture submitted, requested clarification and additional support for certain aspects of the information, and reviewed the Joint Venture's responses to those subsequent requests. The Monitor's review of this information ultimately determines whether the Joint Venture is currently in compliance with the Contribution Agreement Commitments, which contain ongoing covenants.

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.

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

Indigent Care

6. 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. Based on its review of the supporting documentation and related discussions with Joint Venture personnel, the Monitor's review of the policy for indigent care assistance, active at the Joint Venture for the 2018 Reporting Period, shows that it is consistent with the pre-acquisition policy.

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 2016 financial assistance policy and discussions with the Joint Venture, the Monitor 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, the Monitor 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 and discussions with Joint Venture personnel, we have determined that the Joint Venture was in compliance with its indigent care policy during the 2018 Reporting Period.
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, the Monitor has determined that the Joint Venture's financial assistance expenditures for 2018 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 \$1,372,479 in 2018 toward its capital commitment for a total spend of \$17,852,158 since the Transaction. In addition, the Joint Venture has revised its total represented capital commitment expenditures since the Contribution Agreement Closing to reflect spending on Physician Recruitment and Retention per the capital commitment language in the Contribution Agreement. The Joint Venture has represented in its February 15, 2019 Certificate of Compliance that it has spent an additional \$5,547,343 in 2018 and \$26,757,130 since December 2013 toward Physician Recruitment and Retention, resulting in total overall capital expenditures of \$44,609,288.
12. Through its review of the documents provided in support of these expenditures the Monitor determined that the Joint Venture needed to refine its methodology for calculating and applying Physician Recruitment and Retention expenditures. After clarification discussions between the Joint Venture and the Monitor, the Joint Venture revised its reported Physician Recruitment and Retention expenditures reflecting a total of \$10,588,254 spent between December 2013 and the year-ended 2018. The Monitor, has confirmed and verified this revised level of Physician Recruitment and Retention expenditure, bringing the Joint Venture's total capital commitment expenditures to \$28,440,412. Based upon its review of the documents provided in support of these expenditures and discussions with Joint Venture



personnel, the Monitor has confirmed the capital expenditures reported by the LP Joint Venture through the year-ended 2018.

13. Based on reported expenditures, the Joint Venture is behind schedule to comply with its ten-year capital expenditure commitment, when analyzed on an average yearly basis. However, as the deadline has not been reached, the Monitor cannot draw a conclusory opinion until the final testing year. Therefore, this Report highlights expenditures and demonstrates significant investment by the Joint Venture during 2018, but does not assess whether the spending commitment has been fully satisfied.

Continuation of Service

14. The Contribution Agreement included a commitment that the Joint Venture would continue to provide the Core Services offered by UP Health System Portage to the community prior to the Transaction throughout the Commitment Period.
15. Based on its review of the Joint Venture's reported procedures performed and related charges and costs for 2018, as well as other available information regarding its services offered to the community, the Monitor has determined that the Joint Venture has continued to provide the Core Services, delineated on Schedule 9.12 to the Contribution Agreement, to the community throughout the 2018 Reporting Period and is therefore in compliance with this Contribution Agreement Commitment.

Restrictions on Sale of Hospital

16. Based on the Monitor's review of the Governing Board Meeting Minutes, among other financial reporting, 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 Contribution Agreement Commitment for the 2018 Reporting Period.

Cardiology Services

17. 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.
18. 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 coverage at UPHS-Portage have increased slightly in 2018 from 2017 levels, corresponding to an increased demand in patient visits, and remain in-line with pre-Transaction levels. The hospital continues to monitor volume and demand for services to explore the addition of new services.
19. Based on the Monitor's continuation of services review procedures, it is evident that cardiology services were provided by the Joint Venture to the community in 2018 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

20. 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.
21. 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 on-going. The Joint Venture continues to work, through its collaborative relationship with Upper Great Lakes Family Health Center of Upper Michigan (UGLFHC), to provide its patients with certain psychiatric services, including medication management.
22. 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 UGLFHC, the Monitor has determined that the Joint Venture is in compliance with this Contribution Agreement Commitment, as efforts continue to be made to establish such a practice internally.



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Assumptions and Limiting Conditions

23. 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 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. Stout's conclusions are based on the information received from Joint Venture personnel through the date of this report.
24. 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, LLC's compensation is neither based nor contingent on the results of the analysis.
25. Stout'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