

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

May 14, 2018

Pursuant to:

**Monitoring, Compliance and Enforcement Agreement**



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

**May 14, 2018**

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## I. Overview and Background

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### 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 "LP Joint Venture") are in compliance with specific provisions of the Contribution Agreement, dated August 2, 2013 (the "Contribution Agreement"), pursuant to which, the LP Joint Venture received the assets of Portage Health Hospital in Hancock, Michigan and related Ancillary Facilities (the "Transaction"). The Monitor will assess LP 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 Stout's Monitoring of the LP 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 LP 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 LP Joint Venture's compliance with specific provisions of the Contribution Agreement. This includes monitoring LP 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").



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## II. Compliance with Specific Contribution Agreement Commitments

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3. In 2018, the Monitor requested information and documents relevant to LP Joint Venture's compliance with the Contribution Agreement Commitments subject to monitoring. The Monitor reviewed the information that the LP Joint Venture submitted, requested clarification of certain aspects of the information, and reviewed LP Joint Venture's responses to those subsequent requests. The Monitor's examination of this information will indicate 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;
  - LifePoint Health, Inc.'s Annual Report.
5. We address LP 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 LP 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 LP 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 LP Joint Venture personnel, 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 LP Joint Venture's adherence to the policy guidelines in its handling of financial assistance applicants. Based on the testing of a random representative sample of financial assistance applicants, the Monitor has determined that the LP Joint Venture is following its indigent care policy.
9. Additionally, the LP 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 LP Joint Venture's financial assistance expenditures for 2017 are reduced from its pre-Transaction levels. Based on discussions with LP 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 LP 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 LP 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 LP Joint Venture represented that it has spent \$4,063,640 in 2017 toward its capital commitment for a total spend of \$16,479,679 since the Transaction. Based upon our review of the documents provided in support of these expenditures and discussions with LP Joint Venture personnel, the Monitor has confirmed the capital expenditures reported by the LP Joint Venture through the year-ended 2017.
12. Based on reported expenditures, the LP 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 LP Joint Venture during 2017, but does not assess whether the spending commitment has been fully satisfied.

#### Continuation of Services

13. The Contribution Agreement included a commitment that the LP 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 LP Joint Venture's reported procedures performed and related charges and costs for 2017, as well as the publicly available information regarding its services offered to the community among other documentation, the Monitor has determined that the Core Services delineated on Schedule 9.12 were



continuing to be provided to the community. Therefore, the LP Joint Venture is in compliance with this Contribution Agreement Commitment for the 2017 monitoring period.

15. The Monitor did identify a decline in LP Joint Venture’s reported volume of certain services in 2017. Based on our discussions with LP Joint Venture personnel and our review of related documents, this decline was caused by the departure of two full-time practitioners in different service areas in 2017, who had performed a substantive portion of their respective services. The LP Joint Venture has been actively recruiting for these open positions and continues to provide these services through two remaining practitioners, as well as their telemedicine platform. The Monitor will continue to closely track these services throughout the remainder of the Monitoring Agreement.

#### Restriction on Transfer of Hospital

16. Based on the Monitor’s review of LifePoint Health, Inc.’s Form 10-K, and the Governing Board Meeting Minutes, the Monitor determined that LifePoint continues to retain ownership and operation of the Portage Health assets through the LP 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 the Hospital.
17. On 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 (the “In-Home Healthcare Joint Venture”). LifePoint contributed the Portage home health and hospice Ancillary Facilities and operation of related services to the newly established In-Home Healthcare Joint Venture. All home health and hospice agencies continue to operate under their previous names, and there were no material changes in staff, location, contact information or referral processes. Operationally, LHC Group oversees day-to-day management of the new In-Home Healthcare Joint Venture, while the organizations have signed an Agreement to share ownership and governance of the In-Home Healthcare Joint Venture. LifePoint has retained a material ownership position and 50% governance over the In-Home Healthcare Joint Venture.<sup>1</sup>
18. Under the terms of the APA, LifePoint Holdings 2, LLC and Portage Holding Company, LLC are not restricted from transferring the home health and hospice Ancillary Facilities. As noted above, these services are still being provided to the community by LifePoint through the newly formed In-Home Healthcare Joint Venture affiliate. Based on the Monitors review of the Contribution Agreement, this transaction does not impact LP Joint Venture’s compliance with this Covenant.

#### Cardiology Services

19. The Contribution Agreement included a commitment that the LP Joint Venture would establish cardiology services at the hospital through the recruitment and

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<sup>1</sup> Additional information about the Home Health and Hospice Joint Venture can be found at <http://www.lifepointhealth.net/news/2017/01/04/lhc-group-and-lifepoint-health-collaborate-to-enhance-home-health-and-hospice-services-nationwide>.



training of hospital personnel and equipment of the hospital to provide the related services.

20. Based on our discussions with LP 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.
21. Based on the Monitor's continuation of services review procedures, it is evident that cardiology services were provided by the LP Joint Venture to the community in 2017 and, as the Contribution Agreement does not specify a deadline for the establishment of the Cardiology service offering, the LP Joint Venture is in compliance with this Contribution Agreement Commitment.

### *Psychiatric Services*

22. The Contribution Agreement included a commitment that the LP 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.
23. Based on our discussions with LP 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 LP 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.
24. As the Contribution Agreement does not specify a deadline for the establishment of the psychiatric service offering, and the LP 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 LP 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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### III. Assumptions and Limiting Conditions

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25. We have not been requested to assess, and our Report does not in any manner address LP 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. The Monitor's conclusions are based on the information received from LP Joint Venture personnel through the date of this report.
26. No one that worked on this engagement has any known financial interest in the LP 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.
27. 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  
Manager  
Stout Risius Ross, LLC