

**COMMUNITY HEALTH NETWORK
REHABILITATION HOSPITAL, LLC**

Financial Statements

Years Ended December 31, 2023 and 2022

(With Independent Auditors' Report Thereon)



COMMUNITY HEALTH NETWORK REHABILITATION HOSPITAL, LLC

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INDEPENDENT AUDITORS' REPORT

The Board of Managers
Community Health Network Rehabilitation Hospital, LLC:

Opinion

We have audited the accompanying financial statements of Community Health Network Rehabilitation Hospital, LLC, which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Health Network Rehabilitation Hospital, LLC as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Community Health Network Rehabilitation Hospital, LLC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Community Health Network Rehabilitation Hospital, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Community Health Network Rehabilitation Hospital, LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Community Health Network Rehabilitation Hospital, LLC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control matters that we identified during the audit.

LBMC, PC

Brentwood, Tennessee
April 8, 2024

COMMUNITY HEALTH NETWORK REHABILITATION HOSPITAL, LLC

Balance Sheets

December 31, 2023 and 2022

	<u>Assets</u>	
	<u>2023</u>	<u>2022</u>
Current assets:		
Cash and cash equivalents	\$ 2,221,853	\$ 3,562,961
Accounts receivable, net	5,273,959	4,622,869
Cost report settlement receivable	122,589	93,107
Inventories	141,389	128,903
Prepaid expenses	112,936	103,884
Related party receivable	<u>400,000</u>	<u>-</u>
Total current assets	8,272,726	8,511,724
Property and equipment, net	536,888	384,900
Operating lease right-of-use assets	6,791,310	7,971,388
Deposits	27,390	27,390
Intangible assets	<u>8,500,000</u>	<u>8,500,000</u>
	<u>\$ 24,128,314</u>	<u>\$ 25,395,402</u>
	<u>Liabilities and Members' Equity</u>	
Current liabilities:		
Accounts payable	\$ 903,679	\$ 1,677,029
Accounts payable, related parties	574,496	350,855
Accrued expenses and other current liabilities	2,434,100	1,918,320
Current portion of operating lease liabilities	<u>1,417,675</u>	<u>1,284,736</u>
Total current liabilities	5,329,950	5,230,940
Operating lease liabilities, less current portion	<u>6,071,645</u>	<u>7,489,320</u>
Total liabilities	11,401,595	12,720,260
Members' equity	<u>12,726,719</u>	<u>12,675,142</u>
	<u>\$ 24,128,314</u>	<u>\$ 25,395,402</u>

See accompanying notes to the financial statements.

COMMUNITY HEALTH NETWORK REHABILITATION HOSPITAL, LLC

Statements of Operations

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenue:		
Net patient service revenue	\$ 41,818,753	\$ 39,175,859
Other revenue	<u>61,748</u>	<u>26,479</u>
Total revenue	<u>41,880,501</u>	<u>39,202,338</u>
Operating expenses:		
Salaries, wages and employee benefits	14,116,414	12,380,613
Outside services	8,055,303	8,638,889
Rent	1,865,518	1,925,070
Supplies and drugs	1,378,747	1,247,793
Insurance	357,192	471,886
Repairs and maintenance	402,144	143,286
Other operating expenses	1,003,345	1,147,097
Depreciation and amortization	<u>81,157</u>	<u>74,833</u>
Total expenses	<u>27,259,820</u>	<u>26,029,467</u>
Net income	<u>\$ 14,620,681</u>	<u>\$ 13,172,871</u>

See accompanying notes to the financial statements.

COMMUNITY HEALTH NETWORK REHABILITATION HOSPITAL, LLC

Statements of Members' Equity

Years Ended December 31, 2023 and 2022

	<u>CRH of Indianapolis, LLC</u>	<u>Community Health Network, Inc.</u>	<u>Total</u>
Balance at December 31, 2021	\$ 6,146,639	\$ 6,397,526	\$ 12,544,165
Capital distributions	(6,390,529)	(6,651,365)	(13,041,894)
Net income	<u>6,454,707</u>	<u>6,718,164</u>	<u>13,172,871</u>
Balance at December 31, 2022	6,210,817	6,464,325	12,675,142
Capital distributions	(7,138,862)	(7,430,242)	(14,569,104)
Net income	<u>7,164,134</u>	<u>7,456,547</u>	<u>14,620,681</u>
Balance at December 31, 2023	\$ <u>6,236,089</u>	\$ <u>6,490,630</u>	\$ <u>12,726,719</u>

See accompanying notes to the financial statements.

COMMUNITY HEALTH NETWORK REHABILITATION HOSPITAL, LLC

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Net income	\$ <u>14,620,681</u>	\$ <u>13,172,871</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	81,157	74,833
Noncash lease expense	(104,658)	(138,199)
(Increase) decrease in operating assets:		
Accounts receivable	(651,090)	176,803
Cost report settlement receivable	(29,482)	48,522
Inventories	(12,486)	10,152
Prepaid expenses	(9,052)	15,197
Related party receivable	(400,000)	-
Deposits	-	(27,390)
Increase (decrease) in operating liabilities:		
Accounts payable	(773,350)	962,619
Accounts payable, related parties	223,641	(396,857)
Accrued expenses and other current liabilities	<u>515,780</u>	<u>(1,190)</u>
Net cash provided by operating activities	<u>13,461,141</u>	<u>13,897,361</u>
Cash flows used by investing activities -		
Purchases of property and equipment	<u>(233,145)</u>	<u>(33,142)</u>
Cash flows used by financing activities -		
Capital distributions to members	<u>(14,569,104)</u>	<u>(13,733,194)</u>
Increase (decrease) in cash and cash equivalents	(1,341,108)	131,025
Cash and cash equivalents at beginning of year	<u>3,562,961</u>	<u>3,431,936</u>
Cash and cash equivalents at end of year	\$ <u><u>2,221,853</u></u>	\$ <u><u>3,562,961</u></u>

See accompanying notes to the financial statements.

COMMUNITY HEALTH NETWORK REHABILITATION HOSPITAL, LLC

Notes to the Financial Statements

December 31, 2023 and 2022

(1) Ownership and nature of business

Community Health Network Rehabilitation Hospital, LLC (the "Hospital"), is a 60-bed acute inpatient rehabilitation hospital located in Indianapolis, Indiana. The Hospital is owned by its two members, CRH of Indianapolis, LLC ("CRH of Indy") (49% interest) and Community Health Network, Inc. ("Community") (51% interest), and is governed by a Board of Managers consisting of representatives from the members. The Hospital was formed on September 28, 2011, and started accepting patients on June 14, 2013. The parent company of CRH of Indy was acquired by Lifepoint Health effective December 23, 2021.

(2) Summary of significant accounting policies

The significant accounting policies followed by the Hospital are described below and are in conformity with accounting principles generally accepted in the United States of America ("GAAP").

(a) Recently adopted accounting pronouncement

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") Update No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 adds to GAAP an impairment model that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses. This ASU is effective for fiscal years beginning after December 15, 2022 and the Company adopted as of January 1, 2023. This standard did not have a material impact on the financial statements.

(b) Fair value measurements

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Hospital does not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2023 and 2022.

(c) Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

COMMUNITY HEALTH NETWORK REHABILITATION HOSPITAL, LLC

Notes to the Financial Statements

December 31, 2023 and 2022

(d) Cash and cash equivalents

The Hospital considers all highly-liquid investments with a maturity upon acquisition of three months or less to be cash equivalents.

(e) Accounts receivable

Accounts receivable consist primarily of amounts due from third-party payors and patients. In evaluating the collectibility of accounts receivable, the Hospital considers a number of factors, including the age of the accounts, changes in collection patterns, the composition of patient accounts by payor type, the status of ongoing disputes with third-party payors and general industry conditions. Accounts receivable are reported net of estimated denial reserves totaling approximately \$207,000 and \$12,000 at December 31, 2023 and 2022, respectively. Denials represent variable consideration and relate to outstanding claim recoveries currently under appeal (see Note 8). Denial reserves are estimated based upon historical data. Actual collections of accounts receivable in subsequent periods may require changes in previously recorded estimates of implicit price concessions and variable consideration. Changes in these estimates are charged or credited to the results of operations in the period of change.

(f) Cost report settlements

Revenues under third-party agreements are subject to examination and retroactive adjustment. Provisions for estimated third-party adjustments are provided in the period the related services are rendered to the extent it is probable that a significant reversal of cumulative revenue will not occur. Any remaining differences between the amounts accrued and subsequent settlements are recorded in the periods in which the interim or final settlements are determined. Adjustments relating to tentative or final settlements to estimated reimbursement amounts pertaining to prior periods resulted in a decrease of \$54,553 and an increase of \$110,442 in net patient service revenue for the years ended December 31, 2023 and 2022, respectively.

(g) Inventories

Inventories are stated at the lower of cost, based upon the first-in, first-out (FIFO) method, or net realizable value and primarily consist of operating supplies used in the direct or indirect treatment of patients.

(h) Property and equipment

Property and equipment are recorded at cost. Depreciation is recognized using the straight-line method using the following estimated useful lives:

Major movable equipment	5 - 14 years
Computer equipment	4 - 12 years
Leasehold improvements	Shorter of 10 years or the term of the related lease

Notes to the Financial Statements

December 31, 2023 and 2022

Expenditures for repairs, maintenance and minor renewals are charged to income as incurred. Expenditures, including the cost of parts and internal labor, which improve an asset or extend its estimated useful life, are capitalized. When equipment is retired or otherwise disposed of, the related cost and accumulated depreciation or amortization are then removed from the accounts and any gain or loss would be included in operations.

The carrying value of property and equipment is assessed by management for recoverability with respect to any events or circumstances that indicate an impairment based on analysis of future undiscounted cash flows expected to result from the use and expected disposition of the asset. An impairment loss is recognized in income if the carrying amount of the asset is not recoverable and exceeds its fair value. There have been no impairments recorded during the years ended December 31, 2023 and 2022.

(i) Intangible assets

Intangible assets with indefinite lives are not amortized but reviewed for impairment annually or more frequently if certain indicators arise. There have been no impairments recorded during the years ended December 31, 2023 and 2022.

(j) Leases

The Hospital determines if an arrangement is a lease at inception of the contract. Right-of-use assets and lease liabilities are recognized at the commencement date of the lease based on the present value of lease payments over the lease term. The Hospital uses an estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments. The Hospital has elected not to recognize a right-of-use asset and lease liability for leases with an initial term of 12 months or less but includes the expense associated with the short-term leases in rent expense in the statements of operations.

The building and grounds leases include options to renew. The exercise of the lease renewal options is at the Hospital's sole discretion. In general, the Hospital does not consider the renewal options to be reasonably certain to be exercised, therefore, the renewal options are not recognized as part of the determination of the lease terms. The lease agreements do not contain any material residual value guarantees, restrictions or covenants.

(k) Net patient service revenue

The Hospital recognizes revenues in the period in which services are performed. Accounts receivable primarily consist of amounts due from third-party payors and patients. Amounts the Hospital receives for treatment of patients covered by governmental programs such as Medicare and Medicaid and other third-party payors such as health maintenance organizations, preferred provider organizations and other private insurers are generally less than the Hospital's established billing rates. Accordingly, the revenues and accounts receivable reported in the Hospital's financial statements are recorded at the net amount expected to be received.

Notes to the Financial Statements

December 31, 2023 and 2022

The Hospital derives a significant portion of its revenues from Medicare, Medicaid and other payors that receive discounts from its established billing rates. The Hospital must estimate the total amount of these discounts to prepare its financial statements. Medicare and Medicaid regulations and various managed care contracts under which these discounts must be calculated are complex and are subject to interpretation and adjustment. The Hospital estimates explicit price concessions on a patient-specific basis given its interpretation of the applicable regulations or contract terms. These interpretations sometimes result in payments that differ from the Hospital's estimates. Additionally, updated regulations and contract renegotiations occur frequently, necessitating regular review and assessment of the estimation process by management. Changes in estimates related to explicit price concessions affect revenues reported in the Hospital's statements of operations.

Self-pay revenues are derived primarily from patients who do not have any form of health care coverage. The Hospital evaluates these patients, after the patient's medical condition is determined to be stable, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid or other governmental assistance programs, as well as the Hospital's policy for charity/indigent care and records revenue based on these evaluations.

(l) Charity care

The Hospital may provide care without charge to certain patients that qualify under the charity care policy. For the years ended December 31, 2023 and 2022, the Hospital provided charity care services with direct and indirect costs amounting to \$21,624 and \$18,256, respectively. The Hospital does not report a charity care patient's charges in revenues or as implicit price concessions as it is the Hospital's policy not to pursue collection of amounts related to these patients.

(m) COVID-19 pandemic

The Hospital believes the extent of COVID-19's impact on operating results and financial condition has been and could continue to be driven by many factors, most of which are beyond the Hospital's control and ability to forecast. Because of these uncertainties, the Hospital cannot estimate whether or to what extent COVID-19 will impact operations.

As part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), the U.S. government announced it would offer relief funding to eligible healthcare providers. The Hospital participated in certain relief programs offered through the CARES Act including distributions relating to the initial portions of the Public Health and Social Services Emergency Fund ("PHSSE Fund") and payments from the Centers for Medicare and Medicaid Services' ("CMS") Accelerated and Advance Payment Program ("MAAPP"). Amounts received from the PHSSE fund are recognized upon the provision of care for individuals with possible or actual cases of COVID-19, certification that payment will be used to prevent, prepare for and respond to COVID-19 and shall reimburse the recipient only for healthcare related expenses or lost revenues that are attributable to COVID-19. The hospital did not receive or recognize funds related to government programs during the years ended December 31, 2023 and 2022.

Notes to the Financial Statements

December 31, 2023 and 2022

The CARES Act also provided for the temporary suspension of the automatic 2% reduction of Medicare claim reimbursement for the period from May 1, 2020 through December 31, 2020. On December 27, 2020, the Consolidated Appropriations Act of 2021 further suspended the 2% payment reduction through March 31, 2021. An Act to Prevent Across-the-Board Direct Spending Cuts, and for Other Purposes, signed into law on April 14, 2021, extended the 2% suspension period to December 31, 2021. The Protecting Medicare and American Farmers from Sequester Cuts Act further suspended the 2% payment reduction through March 31, 2022. Beginning April 1, 2022, through June 2022, a 1% payment reduction was applied. Beginning July 1, 2022, the 2% payment reduction resumed.

(n) Income taxes

The Hospital has been organized as a limited liability company and has elected to be treated as a partnership for federal income tax purposes. As a general rule, the Hospital is also treated as a partnership for state income tax purposes. As such, federal and state taxable income and losses pass through to the individual members for inclusion in their respective income tax returns.

Under GAAP, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Hospital has no material uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

As of December 31, 2023 and 2022, the Hospital has accrued no interest and no penalties related to uncertain tax positions. It is the Hospital's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Hospital files U.S. Federal and State of Indiana income tax returns.

(o) Events occurring after reporting date

The Hospital has evaluated events and transactions that occurred between December 31, 2023 and April 8, 2024, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements. See Note 9 for disclosure of subsequent events occurring after December 31, 2023.

(3) Credit risk and other concentrations

The Hospital maintains cash and cash equivalents on deposit at banks in excess of federally insured amounts. The Hospital has not experienced any losses in such accounts and management believes the Hospital is not exposed to any significant credit risk related to cash and cash equivalents.

Notes to the Financial Statements

December 31, 2023 and 2022

During the years ended December 31, 2023 and 2022, approximately 81% and 79%, respectively, of the Hospital's net revenues related to patients participating in the Medicare and Medicaid programs. Accounts receivable from Medicare and Medicaid accounted for approximately 72% and 62% of total accounts receivable as of December 31, 2023 and 2022, respectively. The Hospital's management recognizes that revenues and receivables from government agencies are significant to the Hospital's operations, but it does not believe that there is significant credit risk associated with these government agencies. During the years ended December 31, 2023 and 2022, approximately 12% of the Hospital's net revenues related to a single non-governmental payor. As of December 31, 2023 and 2022, approximately 10% and 16% of the Hospital's accounts receivable related to patients covered by a single non-governmental payor, respectively. The Hospital's management does not believe that there are any other significant concentrations of revenues from any particular payor that would subject the Hospital to any significant credit risks in the collection of its accounts receivable.

(4) Revenue from contracts with customers

Revenues are recognized as performance obligations are satisfied, which is over time as patient services are rendered throughout the length of stay, in an amount that reflects the consideration the Hospital expects to receive in exchange for services. A performance obligation is defined as a promise in a contract to transfer a distinct good or service to the customer. Substantially all of the Hospital's contracts with patients and customers have a single performance obligation as the promise to transfer services is not distinct or separately identifiable from other promises in the contract.

The transaction price for the Hospital's contracts represents its best estimate of the consideration the Hospital expects to receive and includes assumptions regarding variable consideration as applicable. These variable considerations include estimated amounts due from patients and third-party payors for health care services provided, including anticipated settlements under reimbursement agreements with Medicare, Medicaid, Medicare Advantage, Medicaid Managed, and other third-party payors. The Hospital considers the patient's ability and intent to pay the amount of consideration upon admission. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (i.e. change in credit risk) are recorded as credit loss expense, which is included as a component of operating expenses in the statements of operations. Credit loss expense for the years ended December 31, 2023 and 2022 was not significant.

COMMUNITY HEALTH NETWORK REHABILITATION HOSPITAL, LLC

Notes to the Financial Statements

December 31, 2023 and 2022

(5) Property and equipment

Property and equipment consists of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Leasehold improvements	\$ 194,554	\$ 16,774
Major movable equipment	2,545,365	2,495,942
Computer equipment	<u>555,770</u>	<u>549,828</u>
	3,295,689	3,062,544
Less accumulated depreciation and amortization	<u>(2,758,801)</u>	<u>(2,677,644)</u>
	<u>\$ 536,888</u>	<u>\$ 384,900</u>

(6) Intangible assets

In conjunction with the initial capitalization of the Hospital, Community contributed the separately identifiable intangible asset for its previously existing rehabilitation line of business that was operated within Community. The value assigned to the line of business is estimated to have an indefinite useful economic life and is evaluated for impairment annually. This contribution did not include any significant tangible assets or liabilities. The estimated fair value of this contribution was \$8,500,000.

(7) Related party balances and transactions

The Hospital conducts transactions with both members. Related party balances are due on demand and paid periodically.

Management of the Hospital – The Hospital is party to a management agreement with CHC Management Services, LLC ("CHC Management"), which shares common ownership with CRH of Indy, under which CHC Management provides certain management services to the Hospital, including the following: long-range planning, management planning, quality assurance programs, materials management, staffing for key positions, budget control systems, financial reporting systems, business office support, accounts receivable management, and risk management programs. The Hospital has agreed to pay CHC Management a monthly management fee according to the terms of the management services agreement. Total fees and expenses incurred related to CHC Management during the years ended December 31, 2023 and 2022 were \$2,126,952 and \$1,985,850, respectively. The amounts payable to CHC Management for these services and other expenses paid on behalf of the Hospital were \$372,443 and \$253,664 as of December 31, 2023 and 2022, respectively.

As of December 31, 2023, The Hospital has a receivable amounting to \$400,000 due from Lifepoint Health, which is the ultimate parent company of the Hospital. This receivable represents cash held by Lifepoint Health on behalf of the Hospital. The receivable is without collateral and due on demand.

Notes to the Financial Statements

December 31, 2023 and 2022

Community – The Hospital is party to a services agreement with Community under which Community provides certain services to the Hospital, which may include, but not be limited to, some or all of the following: laboratory, radiology, medical credentialing, biomed, and diagnostic services. The Hospital incurred \$971,134 and \$1,011,138 for these services for the years ended December 31, 2023 and 2022, respectively. The amounts payable to Community for these services and other expenses paid on behalf of the Hospital were \$202,053 and \$97,191 as of December 31, 2023 and 2022, respectively.

(8) Commitments and contingencies

Legal – The Hospital is, from time to time, subject to various claims and legal actions arising in the normal course of business. In the opinion of management, any such claims and actions will be either adequately covered by insurance or will not have a material adverse effect on the Hospital's financial position, results of operations or liquidity.

Payors – Laws and regulations governing Medicare, Medicaid, and other payor health care programs are complex and subject to interpretation. The Hospital's management believes that the Hospital is in compliance with all applicable laws and regulations in all material respects. Compliance with such laws and regulations is subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from Medicare, Medicaid, and other payor health care programs.

CMS has implemented multiple program integrity audits including Comprehensive Error Rate Testing, Recovery Audit Contractors, Supplemental Medical Review Contractors, and Zone Program Integrity Contractors (together, "CMS Contracted Auditors"). The stated purpose of these audits is to reduce improper Medicare and Medicaid payments through the detection and recovery of overpayments. CMS has engaged subcontractors to perform these audits and they are being compensated on a contingency basis based on the amount of overpayments that are recovered. While management believes that all Medicare and Medicaid billings are proper and adequate support is maintained, certain aspects of Medicare and Medicaid billing, coding and support are subject to interpretation and may be viewed differently by the CMS Contracted Auditors than by Hospital management. As of December 31, 2023 and 2022, the Hospital had claims in various stages of appeal totaling approximately \$827,000 and \$49,000, respectively. Management anticipates a 75% favorable outcome on these claims based upon historical data from the Administrative Law Judge. The Hospital has recorded related balances at their estimated net realizable value based on this historical data.

Health care reform – The health care industry is subject to changing political, regulatory, and other influences, along with various scientific and technological initiatives. In recent years, the U.S. Congress and certain state legislatures have passed a large number of laws and regulations intended to effect major change within the U.S. health care system, including the Affordable Care Act. The Affordable Care Act affects how health care services are covered, delivered and reimbursed through expanded health insurance coverage, reduced growth in Medicare program spending, reductions in Medicare and Medicaid Disproportionate Share Hospital payments, and the establishment of programs that tie reimbursement to quality and integration. However, there is uncertainty regarding the future of the Affordable Care Act. The law has been subject to legislative and regulatory changes and court challenges.

Notes to the Financial Statements

December 31, 2023 and 2022

As currently structured, the Affordable Care Act expands coverage through a combination of private sector health insurance requirements, public program expansion and other reforms. Expansion of coverage through the private sector has been driven by requirements applicable to health insurers, employers, and individuals. Expansion in public program coverage has been driven primarily by expanding the categories of individuals eligible for Medicaid coverage and permitting individuals with relatively higher incomes to qualify. The state of Indiana elected to adopt the Medicaid expansion provisions; however, a number of states have opted out, which they may do without losing federal funding.

There is uncertainty regarding the ongoing effect of the Affordable Care Act due to efforts to change, repeal or replace the Affordable Care Act, and the development of agency guidance, among other factors. There is also uncertainty regarding the potential impact of other reform efforts at the federal and state levels. For example, some members of Congress have proposed measures that would expand government-sponsored coverage, including proposals to expand coverage of federally-funded insurance programs as an alternative to private insurance or establish a single-payor system (such reforms often referred to as “Medicare for All”), and some states are considering similar measures. Other initiatives and proposals, including those aimed at price transparency and out-of-network charges, may impact prices and the relationships between health care providers and insurers.

General economic and demographic factors – The health care industry is impacted by the overall United States economy. The COVID-19 pandemic has led, and may continue to lead, to a general worsening of economic conditions. Budget deficits at federal, state and local government entities have had a negative impact on spending for many health and human services programs, including Medicare, Medicaid and similar programs, which represent significant payor sources for the Hospital. It is anticipated that the federal deficit, the growing magnitude of Medicare and Medicaid expenditures and the aging of the United States population will continue to place pressure on government health care programs.

Leases – The Hospital leases the building and grounds under 15 and 50 year operating leases ending in 2028 and 2062, respectively. The Hospital has the option to purchase the building from the landlord at the end of the building lease term. The purchase price is equal to the greater of 98.5% of fair market value at the purchase date or the total initial cost of improvements plus the unamortized cost of any capital expenditures and the unamortized cost of improvements. The building lease contains a fixed escalation provision requiring monthly lease payments to increase by 2.25% annually, and the grounds lease contains a fixed escalation provision requiring monthly lease payments to increase by 22% every 10 years. Rent expense for the building and grounds leases, on a straight-line basis, for 2023 and 2022 was \$1,753,451 and \$1,757,647, respectively. The ground lease terminates automatically, without penalty, upon termination of the building lease. As such, the fixed escalation provision and future minimum payments for the ground lease are accounted for and disclosed over the same 15 year period as the building lease.

COMMUNITY HEALTH NETWORK REHABILITATION HOSPITAL, LLC

Notes to the Financial Statements

December 31, 2023 and 2022

For the years ended December 31, 2023 and 2022, approximately \$1,855,000 and \$1,905,000, respectively, in cash payments were included in the measurement of operating lease liabilities.

Additional supplemental information regarding assumptions for the operating leases as of December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Weighted-average remaining lease terms (in years)	4.50	5.50
Weighted-average discount rate	7.07%	7.07%

The operating lease right-of-use assets as of December 31, 2023 and 2022, includes prepaid rent totaling \$140,962 and \$137,860, respectively.

The maturities of the operating lease liabilities as of December 31, 2023 are as follows:

<u>Maturity</u>	<u>Amount</u>
2024	\$ 1,892,647
2025	1,931,134
2026	1,970,488
2027	2,010,728
2028	<u>924,500</u>
Total undiscounted cash flows	8,729,497
Less: present value discount	(1,240,177)
Less: operating lease liabilities, current portion	<u>(1,417,675)</u>
Operating lease liabilities, less current portion	\$ <u>6,071,645</u>

The following table presents a reconciliation of rent expense for the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Operating lease expense	\$ 1,753,451	\$ 1,757,647
Short-term, variable and other rent expense	<u>112,067</u>	<u>167,423</u>
Total rent expense	\$ <u>1,865,518</u>	\$ <u>1,925,070</u>

(9) Subsequent event

In January 2024, the Board of Managers approved and paid cash distributions to the members totaling \$701,369.