REHABILITATION HOSPITAL OF INDIANA, INC.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

REHABILITATION HOSPITAL OF INDIANA, INC.
Indianapolis, Indiana

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rehabilitation Hospital of Indiana, Inc.
Indianapolis, Indiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Rehabilitation Hospital of Indiana, Inc., which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rehabilitation Hospital of Indiana, Inc. as of December 31, 2017 and 2016, and the results of its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our 2017 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and consolidating statements of operations and changes in net assets are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
April 23, 2018

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,973,308	$ 10,092,791
Patient accounts receivable, less allowance for doubtful accounts of $2,377,620 and $1,674,719 for 2017 and 2016, respectively	6,163,929	6,362,321
Inventories	150,492	254,855
Prepaid expenses and other current assets	1,256,834	1,152,481
Investments	80,298	3,109,312
Total current assets	19,624,861	20,971,760
Property and equipment:		
Land	2,275,074	2,226,943
Buildings and improvements	15,641,894	15,257,039
Equipment	16,246,823	15,141,323
Construction-in-progress	66,397	381,041
	34,230,188	33,006,346
Less accumulated depreciation	24,482,341	22,851,549
Property and equipment, net	9,747,847	10,154,797
Other assets:		
Land held for expansion	602,474	602,474
Total assets	$ 29,975,182	$ 31,729,031
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 2,128,198	$ 1,919,120
Salaries, wages, and related liabilities	1,748,051	1,711,496
Accrued interest	142,989	94,308
Current portion of capital lease obligation	-	3,654
Current portion of long-term debt	740,000	3,695,000
Third-party settlements	1,316,781	349,148
Current portion of interest rate swap	130,703	198,426
Total current liabilities	6,206,722	7,971,152
Long-term debt	12,163,899	12,889,008
Interest rate swap liability	120,062	240,413
	12,283,961	13,129,421
Total liabilities	18,490,683	21,100,573
Net assets:		
Unrestricted	10,898,141	10,013,820
Temporarily restricted	586,358	614,638
Total net assets	11,484,499	10,628,458
Total liabilities and net assets	$ 29,975,182	$ 31,729,031

See accompanying notes to consolidated financial statements.

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years ended December 31, 2017 and 2016

	2017	2016
Unrestricted revenues:		
Net patient service revenue	$ 40,433,492	$ 39,589,232
Other revenue	1,925,312	1,802,328
Net assets released from restrictions	416,954	487,486
Total unrestricted revenues	42,775,758	41,879,046
Expenses:		
Salaries and wages	20,314,105	20,130,947
Employee benefits	7,318,226	7,055,176
Contract and purchased services	4,796,846	5,527,401
Supplies	2,798,538	2,597,563
Utilities and other	2,759,556	2,833,011
Depreciation and amortization	1,660,716	1,566,950
Interest	511,485	342,600
Provision for bad debts	1,954,666	542,139
Loss on extinguishment of debt	-	213,905
Total expenses	42,114,138	40,809,692
Operating income	661,620	1,069,354
Nonoperating gain:		
Interest income	34,627	32,958
Gain in swap fair value	188,074	285,905
	222,701	318,863
Revenue in excess of expenses	884,321	1,388,217
Temporarily restricted net assets:		
Contributions	388,674	570,442
Net assets released from restrictions	(416,954)	(487,486)
Change in temporarily restricted net assets	(28,280)	82,956
Change in net assets	856,041	1,471,173
Net assets, beginning of year	10,628,458	9,157,285
Net assets, end of year	$ 11,484,499	$ 10,628,458

See accompanying notes to consolidated financial statements.

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2017 and 2016

	2017	2016
Operating activities:		
Change in net assets	$ 856,041	$ 1,471,173
Adjustments to reconcile change in net assets to net cash from operating activities,		
Depreciation and amortization	1,660,716	1,566,950
Unrealized gain on investments	(1,326)	(9,626)
Loss on extinguishment of debt	-	213,905
Change in interest rate swap agreement	(188,074)	(285,906)
Provision for bad debts	1,954,666	542,139
Change in operating assets and liabilities:		
Patient accounts receivable	(1,756,274)	(433,599)
Inventories, prepaid expenses and other assets	10	(95,285)
Accounts payable and other accrued liabilities	209,077	(125,945)
Salaries, wages, and related liabilities	36,555	170,373
Accrued interest	48,681	-
Estimated third-party settlements	967,633	323,960
Net cash from operating activities	3,787,705	3,338,139
Investing activities:		
Purchases of property and equipment	(1,238,875)	(804,922)
Purchase of investments	(23,607)	-
Proceeds from sale of investments	3,053,948	-
Net cash used in investing activities	1,791,466	(804,922)
Financing activities:		
Borrowings on long-term debt	-	14,235,000
Payments on long-term debt	(3,695,000)	(14,905,000)
Principal payments on capital lease obligations	(3,654)	(27,823)
Payments for debt issuance costs	-	(128,617)
Net cash used in financing activities	(3,698,654)	(826,440)
Change in cash and cash equivalents	1,880,517	1,706,777
Cash and cash equivalents, beginning of year	10,092,791	8,386,014
Cash and cash equivalents, end of year	$ 11,973,308	$ 10,092,791
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 270,051	$ 342,600

See accompanying notes to consolidated financial statements.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: Rehabilitation Hospital of Indiana, Inc. (the "Hospital" or "RHI") operates a 91 bed, freestanding specialty medical rehabilitation hospital located in Indianapolis, Indiana. The Hospital provides short-term, comprehensive rehabilitation services to patients, and its programs are designed to restore physical, cognitive and psychosocial functions following an incident of acute illness or trauma. Inpatient and outpatient therapy and support services provided by the Hospital include physical and occupational therapy, speech therapy, recreational therapy, activities of daily living, rehabilitation nursing, psychology, and social services and cognitive retraining.

Not-for-profit corporations St. Vincent Health, Inc. and IU Health are the corporate members of the Hospital. In accordance with the terms of the joint venture agreement, cash distributions from the Hospital are shared by the joint venture partners, subject to certain cash flow restrictions. Additionally, the agreement contains provisions for working capital loans and support of the Hospital upon mutual agreement by the corporate members. The joint venture agreement was amended effective January 1, 2012 to modify RHI's membership interest to be held 51% by IU Health and 49% St. Vincent Healthcare, Inc.

Included within the operations of the Hospital is Rehabilitation Hospital Foundation, Inc. (the "Foundation") which was established to promote and support the mission of the Hospital. The Hospital is the sole corporate member of the Foundation. All significant intercompany accounts have been eliminated in consolidation.

Basis of Consolidation: The accompanying consolidated financial statements include the accounts of Rehabilitation Hospital of Indiana, Inc. and Rehabilitation Hospital Foundation, Inc. (collectively referred to as the "Hospital"). All transactions between affiliated organizations have been eliminated in consolidation.

Charity Care and Community Benefit: The Hospital provides medical care to all patients regardless of their ability to pay. A patient is classified as charity care in accordance with certain established policies and is provided care without charges or at amounts less than established rates. Because collection of amounts determined to qualify as charity care is not pursued, such amounts are not reported as revenue. Records are maintained to identify and monitor the level of charity care provided including the amount of charges foregone for services and supplies furnished.

The Hospital provides certain services to benefit the community. These services (for which a nominal or no amount is charged) include education programs, access to rehabilitative related support group classes, and assistance to patients and their families for the submission of forms for insurance and financial counseling. The costs of these services are included in operating expenses.

During 2009, the Hospital began obtaining more complete household income information prior to admission from patients who came as self-pay or Medicaid pending. This new process allowed the Hospital to identify in advance patients that qualified for financial assistance and improved the identification of charity cases rather than bad debt.

The Hospital is required to use its direct and indirect costs of providing charity care as the measurement basis for charity care disclosures. The estimated cost incurred by the Hospital to provide these services to patients who are unable to pay was approximately $248,827 and $356,895 for 2017 and 2016, respectively. The estimated cost of these charity care services was determined using a ratio of cost to gross charges and applying that ratio to the gross charges associated with providing care to charity patients for the period. Gross charges associated with providing care to charity patients includes only the related charges for those patients who are financially unable to pay and qualify under the Hospital's charity care policy and that do not otherwise qualify for reimbursement from a governmental program. During 2017 and 2016, the Hospital did not receive any funds to help defray the costs of indigent charity care.

(Continued)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Investment Securities: Investments in securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in revenue in excess of expenses unless the income or loss is restricted by donor or law. The Hospital has included the change in unrealized gain on available-for-sale investments of $1,326 and $9,626 at December 31, 2017 and 2016, respectively, within interest income on the consolidated statements of operations and changes in net assets.

Cash and cash equivalents held by brokerage firms are included in investments.

Cash and Cash Equivalents: For the purpose of the consolidated statements of cash flows, cash includes cash and cash equivalents with original maturities of 90 days or less. The Hospital places its cash and cash equivalents with institutions with high credit quality. However, at certain times, such cash and cash equivalents may be in excess of government-provided insurance limits.

Patient Accounts Receivable, Estimated Third-Party Settlements, and Net Patient Service Revenue: Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered.

Estimated retroactive adjustments as provided by reimbursement agreements with certain third-party payors are included with net patient service revenue and estimated third-party payor receivables or payables. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. The Hospital incurred audits related to target probe and educate ("TPE") audits and Supplemental Medical Review/Specialty Contractor ("SMRC") audits during 2017. The Hospital recorded reserves of $1,650,664 and $349,148 as of December 31, 2017 and 2016, respectively.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), by major payor sources, is as follows:

	December 31, 2017				
	Medicare	Medicaid	Blue Cross	Other Payers	Total
Gross patient charges	$ 42,062,441	$ 18,778,064	$ 16,989,285	$ 20,532,045	$ 98,361,834
Contractual allowances and discounts	(32,700,016)	(9,031,594)	(6,778,812)	(9,417,921)	(57,928,342)
	$ 9,362,425	$ 9,746,470	$ 10,210,473	$ 11,114,124	$ 40,433,492

	December 31, 2016				
	Medicare	Medicaid	Blue Cross	Other Payers	Total
Gross patient charges	$ 38,261,686	$ 15,404,843	$ 14,848,681	$ 23,550,881	$ 92,066,091
Contractual allowances and discounts	(27,076,899)	(8,771,900)	(6,141,572)	(10,486,488)	(52,476,859)
	$ 11,184,787	$ 6,632,943	$ 8,707,109	$ 13,064,393	$ 39,589,232

(Continued)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Hospital receives payment for services rendered from federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies, employers, and patients. During the years ended December 31, 2017 and 2016, approximately 23% and 28%, respectively, of the Hospital's net revenues related to patients participating in the Medicare program, 24% and 17%, respectively, from the Medicaid program, and 25% and 22%, respectively, from a specific managed care payor.

The Hospital recognizes that revenue and receivables from government agencies are significant to the Hospital's operations, but does not believe that there are significant credit risks associated with these governmental agencies. At December 31, 2017 and 2016, the Hospital has 24% and 36%, respectively, of net accounts receivable due from Medicare, and 26% and 22%, respectively, of net accounts receivable due from a specific managed care payor. The Hospital 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.

Allowance for Doubtful Accounts: The provision for bad debts is based upon management's assessment of historical and expected collections of accounts receivable considering business and economic conditions, trends in healthcare coverage, and other collection indicators. Accounts receivable are written off and charged to the provision for bad debts after collection efforts have been made in accordance with the Hospital's policies. Recoveries are treated as a reduction to the provision for bad debts.

Accounts receivable are reduced by an allowance for doubtful accounts. Periodically, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by major payor category.

Data about the major payor sources of revenue is analyzed to establish an appropriate allowance for doubtful accounts and provision for bad debts. For receivables associated with services provided to patients who have third-party coverage, contractually due amounts are analyzed and compared to actual cash collected over time to enhance the quality of the estimate of the allowance for doubtful accounts and the provision for bad debts (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), a significant allowance for doubtful accounts is recorded on the basis of historical experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. An estimate of the difference between contracted rates and amounts actually collected, after all reasonable collection efforts have been exhausted, is charged to the provision for bad debts and credited to the allowance for doubtful accounts.

Inventories: Inventories, are stated at the lower of cost or market, with cost determined by the first-in, first-out (FIFO) method.

Property and Equipment and Depreciation: Property and equipment additions greater than $500 and with a life of two or more years, including betterments of existing facilities, are recorded at cost. Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided by use of the straight-line method over the estimated useful lives of the assets. When properties are retired or otherwise disposed of, the appropriate accounts are relieved of cost and accumulated depreciation, and any resulting gain or loss is recognized.

(Continued)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-lived assets, such as buildings and improvements, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets as well.

The assets' estimated lives used in computing depreciation are as follows:

Buildings and improvements	5 - 30 years
Equipment	3 - 15 years

Debt Issuance Costs: Costs incurred in connection with the issuance of debt are capitalized and amortized by the effective-yield method, over the term of the related debt. Debt issuance costs of $320,000 were incurred during 2011 related to the Series 2011 term bonds. Accumulated amortization of deferred financing costs at December 31, 2017 and 2016 is $19,477 and $4,586, respectively. During 2016, the Series 2011 bonds were extinguished, when the debt was amended. As a result of early extinguishment, the unamortized debt issuance costs of $213,905, relating to bond issue, were written off in 2016. Amortization expense for the years ending December 31, 2017 and 2016 is $14,891 and $4,586.

Derivative and Hedging: The Hospital entered into an interest swap agreement with a financial institution to fix the rate on the bonds that are discussed more fully in Note 6. The Hospital accounts for this arrangement under ASC 815-10 as a cash flow hedge, which is not deemed effective. Accordingly, the value of the derivative at December 31, 2017 and 2016 has been reflected at fair value on the consolidated balance sheets with the offset being reflected in operating expenses.

Medical Malpractice: The Hospital maintains medical malpractice insurance coverage on a claims-made basis. The Indiana Medical Malpractice Act provides for a maximum recovery of $750,000 per occurrence for professional liability, $400,000 of which would be paid through malpractice insurance coverage which the Hospital obtains through IU Health Risk Retention Group and the balance would be paid by the State of Indiana Patient Compensation Fund. At December 31, 2017, the Hospital is not aware of any specific material claims that would not be covered by its insurance carriers. The Hospital has estimated an incurred but not reported liability for $94,845 and $78,800 at December 31, 2017 and 2016, respectively, which is included in accounts payable and other accrued liabilities.

Revenue in Excess of Expenses: The consolidated statements of operations includes the revenue in excess of expenses as the performance indicator. Changes in net assets that are excluded from revenue in excess of expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets).

(Continued)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions: Unconditional donor pledges to give cash, marketable securities, and other assets are reported at fair value at the date the pledge is made to the extent estimated to be collectible by the Hospital. Conditional donor promises to give and indications of intentions to give are not recognized until the condition is satisfied. Pledges received with donor restrictions that limit the use of the donated assets are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported as unrestricted revenue in the statement of operations. Pledges and gifts received with a donor restriction that is satisfied in the same year that the pledge or gift is made are recorded as unrestricted revenue in the statement of operations.

Description of Net Assets: Net assets are classified into categories based upon the presence or absence of donor restrictions. Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. These funds are primarily restricted to employee loans, research and sports programs. All other assets are considered unrestricted.

Income Taxes and Uncertain Tax Positions: The Hospital is a not-for-profit corporation pursuant to Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related income pursuant to Section 501(a). Accordingly, no provision for income taxes is required for the Hospital in the consolidated financial statements.

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 is no longer subject to examination by U.S. federal taxing authorities for years before 2011 and for all state income taxes through 2012. The Hospital does not expect the total amount of unrecognized tax positions to significantly change in the next 12 months. The Hospital would recognize interest and/or penalties related to income tax matters in income tax expense. The Hospital has no amounts accrued for interest or penalties as of December 31, 2017 and 2016.

Advertising Costs: The Hospital expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2017 and 2016 were $153,969 and $242,294, respectively.

Fair Value of Financial Instruments: The Hospital's carrying amount for its financial instruments, which include cash, accounts receivable and accounts payable at December 31, 2017 and 2016 approximate fair value at December 31, 2017 and 2016.

The carrying amount of the outstanding indebtedness of the Hospital was $13,000,000 and the fair value was $13,620,951 at December 31, 2017. The carrying amount of the outstanding indebtedness of the Hospital was $13,095,000 and the fair value was $14,395,412 at December 31, 2016. Fair value is determined based on the borrowing rates currently available to the Hospital for debt with similar terms and maturities.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards: In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g. insurance contracts or lease contracts). This ASU will supercede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective retrospectively for fiscal years beginning after December 15, 2018. The amendment is effective for fiscal years beginning after December 15, 2017 for public entities and not-for-profit entities that has issued conduit debt. The Hospital has implemented this ASU during 2018.

In February 2016, the FASB issued Accounting Standards (ASU) 2016-02 *Leases*. This amendment requires any entity that enters into a lease agreement to recognize a lease right-of-use asset along with a lease liability for the lease payments in the statement of financial position. When measuring assets and liabilities arising from a lease, a lease should include payments to be made in the optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election to not recognize lease assets and lease liabilities. The amendment is effective for fiscal years beginning after December 15, 2018 for public entities and not-for-profit entities that has issued conduit debt. All other entities should apply the guidance to annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Hospital has not yet implemented this ASU or determined the impact of adoption.

In August 2016, the FASB issued ASU 2016-14 (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities. The amendment requires entities to present two classes of net assets, rather than the current three classes on the statement of financial position and on the face of the statement of activities the amount of the change in each of the two classes, provide enhanced disclosures about the amounts and purposes of governing board designations, appropriations, and similar actions that results in self-imposed limits on the use of resources without donor-imposed restrictions and composition of net assets with donor restrictions and how the restrictions affect the use of the resources, qualitative information that communicates how a not-for-profit manages its liquid resources, quantitative information that communicates the availability of financial assets at the balance sheet date to meet cash needs, amounts of expenses by both their natural classification and their functional classification, and the method(s) used to allocate costs amount program and support functions. This amendment is effective for annual financial statements issued for fiscal years beginning after December 15, 2017 with early adoption permitted. The Hospital has implemented this ASU during 2018.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2017 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended December 31, 2017. Management has performed their analysis through April 23, 2018, the date the financial statements were issued.

(Continued)

NOTE 2 - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from established rates. Contractual arrangements with the Medicare program provide for inpatient and certain outpatient services to be paid based on the Rehabilitation Inpatient Prospective Payment System. Reimbursement for Medicaid services is paid on a per diem basis and per occasion of service for inpatient and outpatient services, respectively. For cost reimbursed programs, the Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. Estimates have been made for retroactive adjustments for open cost reports through December 31, 2017.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations.

Certain payments from third-party payors, particularly the state Medicaid program, are subject to pre-certification for medical necessity and use varying and complex methodologies in determining payment and other factors. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines and penalties from the Medicare and Medicaid programs.

NOTE 3 - FUNCTIONAL EXPENSES

The Hospital provides rehabilitative health care services to patients in central Indiana. Functional expenses categorized by their natural classification for the years ended December 31 are as follows:

	2017	2016
Rehabilitative services	$ 39,201,960	$ 38,072,044
General and administrative	2,709,780	2,609,930
Fundraising	202,398	127,718
	$ 42,114,138	$ 40,809,692

NOTE 4 - INVESTMENTS

The following are the major types of investments held by the Hospital at December 31:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Money market funds	$ 74,607	$ 75,024	$ 74,538	$ 74,607
Treasury bills	270	270	3,001,030	3,009,179
Equity funds	4,296	5,003	4,417	4,673
Equities	1	1	21,130	20,853
	$ 79,174	$ 80,298	$ 3,101,115	$ 3,109,312

(Continued)

NOTE 4 - INVESTMENTS (Continued)

Investment earnings are composed of the following for the years ended December 31:

	2017	2016
Interest and investment income	$ 34,627	$ 32,958
Change in unrealized gain	1,326	9,626
	$ 35,953	$ 42,584

NOTE 5 - LINE OF CREDIT

At December 31, 2017 and 2016 the Hospital had an available line of credit of $1,000,000. There were no amounts borrowed on the line of credit as of December 31, 2017 and 2016, respectively. Interest is payable at LIBOR rate plus 0.85% (2.34% and 1.43% at December 31, 2017 and 2016, respectively). This line is secured by guarantees of corporate member Hospitals and upon the sixth amendment, dated June 29, 2016, an annual fee is payable quarterly at .10% of the maximum principal amount available. The line expires in June 2019. The agreement also contains various loan covenants. At December 31, 2017 and 2016, the Hospital was in compliance with all covenants.

NOTE 6 - LONG-TERM DEBT

Long-term debt consists of the following:

	2017	2016
Indiana Health Facility Financing Authority Adjustable Convertible Extendible Securities Hospital Revenue Bonds, Series 2011 Term Bonds, payable through November 2031, subject to mandatory redemption. Interest payable monthly at fixed rate of 2.22% as of December 31, 2017.	$ 13,000,000	$ 13,695,000
IU Health:		
Subordinated promissory note. Interest is payable quarterly at variable rates (1.25% and 0.44% at December 31, 2017 and 2016, respectively). This note was paid in full in July 2017.	-	1,500,000
St. Vincent's Hospital:		
Subordinated promissory note. Interest is payable quarterly at variable rates (1.25% and 0.44% at December 31, 2017 and 2016, respectively). This note was paid in full in July 2017.	-	1,500,000
Less unamortized bond issuance costs - Series 2011	96,101	110,992
Less current portion of long-term debt	740,000	695,000
	$ 12,163,899	$ 12,889,008

(Continued)

NOTE 6 - LONG-TERM DEBT (Continued)

Scheduled annual maturities of long-term debt are as follows:

2018	$ 740,000
2019	785,000
2020	840,000
2021	890,000
2022	905,000
Thereafter	8,743,899
	$ 12,903,899

During November 2011, the Hospital, through the Indiana Health Facility Financing Authority, issued $16,420,000 of Series 2011 Bonds. The proceeds from the bond issuance were used to pay the remaining balance outstanding on the Series 1990 Bonds, with the remainder of the proceeds established for future capital improvement projects of the Hospital.

The interest rate on the Series 2011 Bonds is determined on a weekly basis, payable on the first business day of each calendar month. As provided in the various bond agreements, the interest rate determination is subject to conversion to other interest modes, which determine the frequency dates, and calculation of interest payables. The Hospital and Rate-Setting Agent can change to another interest mode by giving notice. In addition, bondholders of the Series 2011 Bonds have the option to present the bonds for purchase to the Remarketing Agent at various times during the year. An agreement with a commercial bank has been entered into to provide liquidity support up to the aggregate principal amount plus accrued interest should any bonds, presented by bondholders for purchase, not be remarketed.

In addition, the agreement provides an irrevocable letter of credit as security for the payment of principal and interest when due on the Series 2011 Bonds. The letter of credit's expiration date was November 9, 2016. A reimbursement agreement was entered into on November 1, 2011 between the Hospital and a commercial bank which sets forth a term out provision available to the hospital upon expiration of the letter of credit. If no event of default occurs then the commercial bank has agreed to make a stated expiration liquidity advance on the expiration date of the letter of credit in order to pay the purchase price of the Series 2011 Bonds tendered. Per the terms of the Reimbursement Agreement, the Hospital will repay this advance within 3 years in equal quarterly principal payments commencing 367 days after the advance has occurred. A liquidity advance has not been made through the audit report date. The Hospital's obligation to repay amounts drawn using the letter of credit has been guaranteed severally, but not jointly, by related parties of the corporate members. Except as permitted by the Master Trust Indenture, the Hospital may not grant a mortgage or make a specific pledge of its revenue. In addition, the various agreements contain certain restrictive covenants including minimum debt service coverage ratios and limitations on additional borrowings. The Hospital was in compliance with their debt covenants as of December 31, 2017 and 2016.

In October 2016, the Hospital entered into an amendment with the existing Series 2011 Bonds. The amendment converted the interest rate to a 2.22% fixed rate effective October 31, 2016. No letter of credit requirement is included within the amendment.

In June, 2010, the Hospital received $3,000,000 ($1,500,000 from each corporate member) and signed subordinated promissory notes to pay back these borrowed amounts on the maturity date of July 1, 2017. The notes bear interest at the 28 day Treasury bill rate (1.25% and 0.44% at December 31, 2017 and 2016, respectively). Both notes were paid in full in July 2017.

(Continued)

NOTE 6 - LONG-TERM DEBT (Continued)

Interest Rate Swap: In January 2006, the Hospital entered into an interest rate swap arrangement to fix the interest rate to better estimate future cash flows and reduce interest rate risk with a notional amount of $11,900,000. The arrangement requires the Hospital to pay interest at a fixed rate of 3.98% and receive payments from the financial institution based on the Securities Industry and Financial Markets Association Municipal bond market index until the arrangement expires in November 2020. The spread paid by the Hospital is based upon the achievement of certain financial ratios. The fair value of this agreement amounted to a liability of $250,765 and $438,839 at December 31, 2017 and 2016, respectively. The gain of $188,074 and $285,905 for 2017 and 2016, respectively, related to this arrangement is included in operating expenses.

Capital Lease Obligations: The Hospital has entered into various capital lease agreements for equipment. Monthly lease payments range from $617 to $2,113, including interest. The lease obligations end at various times through July 2017.

The following is a summary of property held under capital lease:

	2017	2016
Equipment	$ 119,275	$ 119,275
Accumulated depreciation	(119,275)	(115,621)
	$ -	$ 3,654

NOTE 7 - FAIR VALUE

ASC 820-10 defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Hospital's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Hospital determines the fair values of its investments and derivative contracts based on the fair value hierarchy established in ASC 820-10, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the Hospital's own assumptions based on market data and on assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The Standard describes three levels within its hierarchy that may be used to measure fair value:

Level 1 Inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 Inputs: Significant other observable inputs other than Level 1 quoted prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Inputs: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would rise in pricing an asset or liability.

(Continued)

NOTE 7 - FAIR VALUE (Continued)

The fair value of the equity securities and money market funds, are determined based upon quoted and readily available market prices and are subject to fluctuation in market conditions. As such, fair values can be verified utilizing quoted market prices and do not involve significant management judgments (Level 1 inputs). The values of treasury bills were determined by obtaining quoted prices, however, due to less active markets these items were classified as Level 2 inputs, according to generally accepted accounting standards in the United States of America.

The derivative instruments consist of the interest rate swap. The fair value of the derivative is determined based on the relative values of the fixed and floating rate portions of the interest rate contract. The valuation model utilized involves current interest rates, projected yield curves and volatility factors to determine the fair value of the instruments as of the date of measurement. As such, significant fair value inputs can generally be verified and do not involve significant management judgments (Level 2 inputs).

The following tables present the Hospital's assets and liabilities measured at fair value on a recurring basis under ASC 820-10 at December 31:

	Fair Value Measurements for 2017 and 2016			
	(Level 1)	(Level 2)	(Level 3)	Total
2017				
Assets:				
Money market funds	$ 75,024	$ -	$ -	$ 75,024
Treasury bills	-	270	-	270
Equity funds	5,003	-	-	5,003
Equities	1	-	-	1
Total investments	80,028	270	-	80,298
Total assets	$ 80,028	$ 270	$ -	$ 80,298
Liabilities:				
Interest rate swap	$ -	$ 250,765	$ -	$ 250,765
2016				
Assets:				
Money market funds	$ 74,607	$ -	$ -	$ 74,607
Treasury bills	-	3,009,179	-	3,009,179
Equity funds	4,673	-	-	4,673
Equities	20,853	-	-	20,853
Total investments	100,133	3,009,179	-	3,109,312
Total assets	$ 100,133	$ 3,009,179	$ -	$ 3,109,312
Liabilities:				
Interest rate swap	$ -	$ 438,839	$ -	$ 438,839

(Continued)

NOTE 8 - RETIREMENT PLAN

The Hospital has established a defined contribution retirement plan (the Plan) which covers substantially all employees; however, there are different provisions for the discretionary contribution and the matching contribution, as defined separately below.

For an employee to be eligible for the discretionary contribution component of the Plan, the employee must have worked at least 1,000 hours in the last 12 months and have been employed a minimum of one year as of December 31. This plan exercises a "cliff" vesting schedule, where employees are not vested until they have reached three years of service (effective January 1, 2007), at which time they are fully vested.

For the 401(k) matching component of the Plan, the employee is not eligible for the match until one year of service is achieved. The employee is immediately 100% vested in the employer matching component of the Plan.

Contributions by the Hospital for the 401(k) matching contribution are based on the employees' annual earnings. Contributions of $546,920 and $523,757 were expensed in 2017 and 2016, respectively.

NOTE 9 - RELATED PARTY TRANSACTIONS

The Hospital contracts with affiliates of IU Health, St. Vincent Health, and United Hospital Services for various services. Fees for laundry, linen, laboratory, insurance, physician services and overlap payments amounted to $1,438,480 and $1,014,915 in 2017 and 2016, respectively. Included in the 2017 and 2016 accrued expenses are fees of $848,899 and $696,827.

As discussed more fully in Note 6, the Hospital's two corporate members loaned $3,000,000 to the Hospital in June of 2010. The notes were paid in full in July of 2017.

NOTE 10 - EMPLOYEE HEALTH BENEFIT PLAN

The Hospital participates in a self-funded health insurance plan covering substantially all employees. Covered services include medical benefits and prescription drugs. The plan has annual reinsurance coverage for a maximum eligible claim expense per incident per covered person in excess of $165,000 for the first incident, and $125,000 for each subsequent incident per covered person, and a maximum aggregate per covered person in excess of an attachment point of approximately $1,900,000. The Hospital recorded a provision for claims incurred but not reported, which amounted to $401,734 and $443,773 at December 31, 2017 and 2016 respectively, and is included in employee benefits. Expenses of the plan for 2017 and 2016 were $3,158,385 and $3,112,211, respectively. The plan includes five claimants who exceeded the stop-loss during 2017 and four claimants who exceeded the stop loss during 2016. The Hospital recorded a re-insurance receivable, related to these claims, of $175,057 and $32,326 as of December 31, 2017 and 2016, respectively.

(Continued)

NOTE 11 - OPERATING LEASES

The Hospital leases facilities and equipment under operating leases expiring at various dates through June 2021. Total rental expense in 2017 and 2016 for all operating leases was $610,279 and $580,696, respectively. The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2017, that have initial or remaining lease terms in excess of one year.

2018	$ 350,192
2019	350,192
2020	350,192
2021	170,031
	$ 1,220,607

NOTE 12 - CONTINGENCIES

The Hospital is the defendant in certain litigation arising in the ordinary course of business. In the opinion of management, such items are adequately covered by insurance or their ultimate outcome will not have a material impact on the financial position of the Hospital.

NOTE 13 - NON-COMPETE AGREEMENT

As part of the joint venture agreement to form the Hospital, the corporate members entered into a non-compete agreement in effect for the term of the joint venture and for a period of thirty-six months after its termination. The non-compete agreement prohibits the members, directly or indirectly, from providing adult inpatient rehabilitation medicine services or outpatient rehabilitation services that compete with services provided by the Hospital within Marion and contiguous counties. The joint venture was amended effective January 1, 2012 to authorize St. Vincent Healthcare, Inc., to operate an inpatient rehabilitation unit with the specification that RHI will manage the unit.

SUPPLEMENTARY INFORMATION

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING BALANCE SHEETS
December 31, 2017

	RHI	Foundation	Total Before Eliminations	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 11,839,495	$ 133,813	$ 11,973,308	$ -	$ 11,973,308
Patient accounts receivables, less allowance for doubtful accounts of $2,377,620	6,163,929	-	6,163,929	-	6,163,929
Inventories	150,492	-	150,492	-	150,492
Prepaid expenses and other current assets	972,016	284,818	1,256,834	-	1,256,834
Investments	270	80,028	80,298	-	80,298
Total current assets	19,126,202	498,659	19,624,861	-	19,624,861
Property and equipment:					
Land	2,275,074	-	2,275,074	-	2,275,074
Buildings and improvements	15,641,894	-	15,641,894	-	15,641,894
Equipment	16,160,350	86,473	16,246,823	-	16,246,823
Construction-in-progress	66,397	-	66,397	-	66,397
	34,143,715	86,473	34,230,188	-	34,230,188
Less accumulated depreciation	24,408,267	74,074	24,482,341	-	24,482,341
Property and equipment, net	9,735,448	12,399	9,747,847	-	9,747,847
Other assets:					
Land held for expansion	602,474	-	602,474	-	602,474
Due from foundation	848,899	-	848,899	(848,899)	-
Total other assets	1,451,373	-	1,451,373	(848,899)	602,474
Total assets	$ 30,313,023	$ 511,058	$ 30,824,081	$ (848,899)	$ 29,975,182

(Continued)

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING BALANCE SHEETS
December 31, 2017

	RHI	Foundation	Total Before Eliminations	Eliminations	Consolidated
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable and other accrued liabilities	$ 2,107,573	$ 20,625	$ 2,128,198	$ -	$ 2,128,198
Salaries, wages, and related liabilities	1,748,051	-	1,748,051	-	1,748,051
Accrued interest	142,989	-	142,989	-	142,989
Current portion of long-term debt	740,000	-	740,000	-	740,000
Third-party settlements	1,316,781	-	1,316,781	-	1,316,781
Current portion of interest rate swap	130,703	-	130,703	-	130,703
Total current liabilities	6,186,097	20,625	6,206,722	-	6,206,722
Due to Hospital	-	848,899	848,899	(848,899)	-
Long-term debt	12,163,899	-	12,163,899	-	12,163,899
Interest rate swap liability	120,062	-	120,062	-	120,062
	12,283,961	848,899	13,132,860	(848,899)	12,283,961
Total liabilities	18,470,058	869,524	19,339,582	(848,899)	18,490,683
Net assets:					
Unrestricted	11,842,965	(944,824)	10,898,141	-	10,898,141
Temporarily restricted	-	586,358	586,358	-	586,358
Total net assets	11,842,965	(358,466)	11,484,499	-	11,484,499
Total liabilities and net assets	$ 30,313,023	$ 511,058	$ 30,824,081	$ (848,899)	$ 29,975,182

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING BALANCE SHEETS
December 31, 2016

	RHI	Foundation	Total Before Eliminations	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 9,901,106	$ 191,685	$ 10,092,791	$ -	$ 10,092,791
Patient accounts receivables, less allowance for doubtful accounts of $1,674,179	6,362,321	-	6,362,321	-	6,362,321
Inventories	254,855	-	254,855	-	254,855
Prepaid expenses and other current assets	911,857	240,624	1,152,481	-	1,152,481
Investments	3,009,179	100,133	3,109,312	-	3,109,312
Total current assets	20,439,318	532,442	20,971,760	-	20,971,760
Property and equipment:					
Land	2,226,943	-	2,226,943	-	2,226,943
Buildings and improvements	15,257,039	-	15,257,039	-	15,257,039
Equipment	15,054,850	86,473	15,141,323	-	15,141,323
Construction-in-progress	381,041	-	381,041	-	381,041
	32,919,873	86,473	33,006,346	-	33,006,346
Less accumulated depreciation	22,779,954	71,595	22,851,549	-	22,851,549
Property and equipment, net	10,139,919	14,878	10,154,797	-	10,154,797
Other assets:					
Land held for expansion	602,474	-	602,474	-	602,474
Due from foundation	740,507	-	740,507	(740,507)	-
Total other assets	1,342,981	-	1,342,981	(740,507)	602,474
Total assets	$ 31,922,218	$ 547,320	$ 32,469,538	$ (740,507)	$ 31,729,031

(Continued)

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING BALANCE SHEETS
December 31, 2016

	RHI	Foundation	Total Before Eliminations	Eliminations	Consolidated
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable and other accrued liabilities	$ 1,883,652	$ 35,468	$ 1,919,120	$ -	$ 1,919,120
Salaries, wages, and related liabilities	1,711,496	-	1,711,496	-	1,711,496
Accrued interest	94,308	-	94,308	-	94,308
Current portion of capital lease obligation	3,654	-	3,654	-	3,654
Current portion of long-term debt	3,695,000	-	3,695,000	-	3,695,000
Third-party settlements	349,148	-	349,148	-	349,148
Current portion of interest rate swap	198,426	-	198,426	-	198,426
Total current liabilities	7,935,684	35,468	7,971,152	-	7,971,152
Due to Hospital	-	740,507	740,507	(740,507)	-
Long-term debt	12,889,008	-	12,889,008	-	12,889,008
Interest rate swap liability	240,413	-	240,413	-	240,413
	13,129,421	740,507	13,869,928	(740,507)	13,129,421
Total liabilities	21,065,105	775,975	21,841,080	(740,507)	21,100,573
Net assets:					
Unrestricted	10,857,113	(843,293)	10,013,820	-	10,013,820
Temporarily restricted	-	614,638	614,638	-	614,638
Total net assets	10,857,113	(228,655)	10,628,458	-	10,628,458
Total liabilities and net assets	$ 31,922,218	$ 547,320	$ 32,469,538	$ (740,507)	$ 31,729,031

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Year ended December 31, 2017

	RHI	Foundation	Total Before Eliminations	Eliminations	Consolidated
Unrestricted revenues:					
Net patient service revenue	$ 40,433,492	$ -	$ 40,433,492	$ -	$ 40,433,492
Other revenue	1,983,708	141,574	2,125,282	(199,970)	1,925,312
Donated services	-	307,538	307,538	(307,538)	-
Net assets released from restrictions	-	416,954	416,954	-	416,954
Total unrestricted revenues	42,417,200	866,066	43,283,266	(507,508)	42,775,758
Expenses:					
Salaries and wages	20,133,606	279,589	20,413,195	(99,090)	20,314,105
Employee benefits	7,278,676	39,550	7,318,226	-	7,318,226
Contract and purchased services	4,597,924	407,370	5,005,294	(208,448)	4,796,846
Supplies	2,791,528	7,010	2,798,538	-	2,798,538
Utilities and other	2,727,192	232,334	2,959,526	(199,970)	2,759,556
Depreciation and amortization	1,658,238	2,478	1,660,716	-	1,660,716
Interest	511,485	-	511,485	-	511,485
Provision for bad debts	1,954,666	-	1,954,666	-	1,954,666
Total expenses	41,653,315	968,331	42,621,646	(507,508)	42,114,138
Operating income/(loss)	763,885	(102,265)	661,620	-	661,620
Nonoperating gain:					
Interest income	33,893	734	34,627	-	34,627
Gain in swap fair value	188,074	-	188,074	-	188,074
	221,967	734	222,701	-	222,701
Excess/(deficiency) of revenues over expenses	985,852	(101,531)	884,321	-	884,321
Temporarily restricted net assets:					
Contributions	-	388,674	388,674	-	388,674
Net assets released from restrictions	-	(416,954)	(416,954)	-	(416,954)
Change in temporarily restricted net assets	-	(28,280)	(28,280)	-	(28,280)
Change in net assets	985,852	(129,811)	856,041	-	856,041
Net assets, beginning of year	10,857,113	(228,655)	10,628,458	-	10,628,458
Net assets at end of year	$ 11,842,965	$ (358,466)	$ 11,484,499	$ -	$ 11,484,499

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Year ended December 31, 2016

	RHI	Foundation	Total Before Eliminations	Eliminations	Consolidated
Unrestricted revenues:					
Net patient service revenue	$ 39,589,232	$ -	$ 39,589,232	$ -	$ 39,589,232
Other revenue	1,738,522	63,806	1,802,328	-	1,802,328
Donated services	-	347,789	347,789	(347,789)	-
Net assets released from restrictions	-	487,486	487,486	-	487,486
Total unrestricted revenues	41,327,754	899,081	42,226,835	(347,789)	41,879,046
Expenses:					
Salaries and wages	19,873,736	374,660	20,248,396	(117,449)	20,130,947
Employee benefits	7,024,378	30,798	7,055,176	-	7,055,176
Contract and purchased services	5,236,325	521,416	5,757,741	(230,340)	5,527,401
Supplies	2,572,969	24,594	2,597,563	-	2,597,563
Utilities and other	2,743,104	89,907	2,833,011	-	2,833,011
Depreciation and amortization	1,564,215	2,735	1,566,950	-	1,566,950
Interest	342,600	-	342,600	-	342,600
Loss on extinguishment of debt	213,905	-	213,905	-	213,905
Provision for bad debts	542,139	-	542,139	-	542,139
Total expenses	40,113,371	1,044,110	41,157,481	(347,789)	40,809,692
Operating income/(loss)	1,214,383	(145,029)	1,069,354	-	1,069,354
Nonoperating gain:					
Interest income	32,573	385	32,958	-	32,958
Gain in swap fair value	285,905	-	285,905	-	285,905
	318,478	385	318,863	-	318,863
Excess/(deficiency) of revenues over expenses	1,532,861	(144,644)	1,388,217	-	1,388,217
Temporarily restricted net assets:					
Contributions	-	570,442	570,442	-	570,442
Net assets released from restrictions	-	(487,486)	(487,486)	-	(487,486)
Change in temporarily restricted net assets	-	82,956	82,956	-	82,956
Change in net assets	1,532,861	(61,688)	1,471,173	-	1,471,173
Net assets, beginning of year	9,324,252	(166,967)	9,157,285	-	9,157,285
Net assets at end of year	$ 10,857,113	$ (228,655)	$ 10,628,458	$ -	$ 10,628,458