COMMUNITY HEALTH NETWORK
REHABILITATION HOSPITAL, LLC

Financial Statements

Years Ended December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

LBMC MAKE A GOOD BUSINESS BETTER

COMMUNITY HEALTH NETWORK REHABILITATION HOSPITAL, LLC

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LBMC MAKE A GOOD BUSINESS BETTER

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Community Health Network Rehabilitation Hospital, LLC, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

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, 2018 and 2017, 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.

LBMC, PC

Brentwood, Tennessee
March 22, 2019

COMMUNITY HEALTH NETWORK REHABILITATION HOSPITAL, LLC

Balance Sheets

December 31, 2018 and 2017

Assets

	2018	2017
Current assets:		
Cash and cash equivalents	$ 7,303,932	$ 4,692,976
Accounts receivable, less allowance for doubtful accounts of $3,243,475 and $1,515,621 in 2018 and 2017, respectively	5,487,559	7,898,096
Inventories	158,639	147,463
Prepaid expenses	231,487	231,492
Total current assets	13,181,617	12,970,027
Property and equipment, net	455,366	679,008
Deposits	924	924
Intangible assets	8,500,000	8,500,000
	$ 22,137,907	$ 22,149,959

Liabilities and Members' Equity

	2018	2017
Current liabilities:		
Accounts payable	$ 439,879	$ 187,621
Accounts payable, related parties	2,563,879	4,311,836
Current portion of long-term debt	-	28,567
Accrued expenses and other current liabilities	371,369	504,956
Cost report settlement payable	478,911	295,074
Total current liabilities	3,854,038	5,328,054
Deferred rent	976,266	870,447
Total liabilities	4,830,304	6,198,501
Members' equity	17,307,603	15,951,458
	$ 22,137,907	$ 22,149,959

See accompanying notes to the financial statements.

COMMUNITY HEALTH NETWORK REHABILITATION HOSPITAL, LLC

Statements of Operations

Years Ended December 31, 2018 and 2017

	2018	2017
Revenue:		
Patient service revenue, net of contractual adjustments	$ 32,616,175	$ 31,738,594
Less provision for doubtful accounts	(1,753,853)	(1,043,208)
	30,862,322	30,695,386
Other revenue	72,181	28,256
Total revenue	30,934,503	30,723,642
Operating expenses (income):		
Salaries, wages and employee benefits	12,580,331	13,159,535
Outside services	4,022,267	3,963,634
Rent	1,957,503	1,879,401
Supplies and drugs	1,203,779	1,266,031
Other operating expenses	1,288,575	1,319,451
Depreciation and amortization	272,975	316,268
Interest, net	2,458	(7,844)
Total expenses	21,327,888	21,896,476
Net income	$ 9,606,615	$ 8,827,166

See accompanying notes to the financial statements.

COMMUNITY HEALTH NETWORK REHABILITATION HOSPITAL, LLC

Statements of Members' Equity

Years Ended December 31, 2018 and 2017

	CRH of Indianapolis, LLC	Community Health Network, Inc.	Total
Balance at December 31, 2016	$ 7,278,982	$ 7,576,082	$ 14,855,064
Capital distributions	(3,788,078)	(3,942,694)	(7,730,772)
Net income	4,325,311	4,501,855	8,827,166
Balance at December 31, 2017	7,816,215	8,135,243	15,951,458
Capital distributions	(4,042,731)	(4,207,739)	(8,250,470)
Net income	4,707,241	4,899,374	9,606,615
Balance at December 31, 2018	$ 8,480,725	$ 8,826,878	$ 17,307,603

See accompanying notes to the financial statements.

COMMUNITY HEALTH NETWORK REHABILITATION HOSPITAL, LLC

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Net income	$ 9,606,615	$ 8,827,166
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	272,975	316,268
Provision for doubtful accounts	1,753,853	1,043,208
Deferred rent	105,819	138,915
(Increase) decrease in operating assets:		
Accounts receivable	656,684	(4,745,578)
Inventories	(11,176)	30,914
Prepaid expenses	5	(2,150)
Deposits	-	8,600
Increase (decrease) in operating liabilities:		
Accounts payable	252,258	24,017
Accounts payable, related parties	(493,957)	1,974,268
Accrued expenses and other current liabilities	(133,587)	(42,649)
Cost report settlement payable	183,837	(104,376)
Net cash provided by operating activities	12,193,326	7,468,603
Cash flows used by investing activities -		
Purchases of property and equipment	(49,333)	(80,202)
Cash flows from financing activities:		
Payments on long-term debt	(28,567)	(63,913)
Capital distributions	(9,504,470)	(6,476,772)
Net cash used by financing activities	(9,533,037)	(6,540,685)
Increase in cash and cash equivalents	2,610,956	847,716
Cash and cash equivalents at beginning of year	4,692,976	3,845,260
Cash and cash equivalents at end of year	$ 7,303,932	$ 4,692,976
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 858	$ 5,979
Supplemental disclosure of non-cash activity		
Accrued distributions declared but not paid at year-end	$ -	$ 1,254,000

See accompanying notes to the financial statements.

(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.

(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) 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, 2018 and 2017.

(b) 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.

(c) 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.

(d) Allowance for doubtful accounts

Accounts receivable primarily consists of amounts due from third-party payors and patients. The Hospital's ability to collect outstanding receivables is critical to its results of operations and cash flows. To provide for accounts receivable that could become uncollectible in the future, the Hospital establishes an allowance for doubtful accounts to reduce the carrying value of such receivables to their estimated net realizable value. The primary uncertainty of such allowances lies with uninsured patient receivables and deductibles, co-payments or other amounts due from individual patients.

The Hospital's policy to record an allowance for doubtful accounts is based upon a percentage of net receivables by age of balance after discharge date. However, as of December 31, 2018 and 2017, a 20% and 15% allowance for doubtful accounts, respectively, will be recorded in certain circumstances where patient receivables are selected as part of the Centers for Medicare and Medicaid Services ("CMS") integrity audits, regardless of age (see Note 8). The allowance for doubtful accounts for the majority of the Hospital's balances are recorded based upon the following table:

Age (Days)	% Reserved
0-60	2%
61-120	3%
121-180	10%
181-240	25%
241-300	50%
301-360	75%
361+	100%

The Hospital has an established process to determine the adequacy of the allowance for doubtful accounts that relies on a number of analytical tools and benchmarks to arrive at a reasonable allowance. No single statistic or measurement determines the adequacy of the allowance for doubtful accounts. Some of the analytical tools that the Hospital utilizes include, but are not limited to, historical cash collection experience, revenue trends by payor classification and revenue days in accounts receivable. Individual patient accounts receivable are written off after collection efforts have been followed in accordance with the Hospital's policies.

(e) Cost report settlements

Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement. Adjustments relating to tentative or final settlements to estimated reimbursement amounts pertaining to prior periods resulted in an increase of net patient revenue of $212,575 and $530,170 for the years ended December 31, 2018 and 2017, respectively.

(f) Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out basis (FIFO), or market (net realizable value) and primarily consist of operating supplies used in the direct or indirect treatment of patients.

(g) Property and equipment

Property and equipment are recorded at cost. Depreciation is recognized using the straight-line method over the estimated useful lives of the assets which range from 3 to 15 years. Leasehold improvements are amortized over the shorter of the estimated useful economic life or the respective lease term.

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 for recoverability by management 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, 2018 and 2017.

(h) 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, 2018 and 2017.

(i) Deferred rent

The Hospital facility lease provides for escalating rent payments over the life of the lease. GAAP requires that rent expense be recognized on a straight-line basis over the life of the lease. This accounting results in a non-interest bearing liability that increases during the early portion of the lease term, as the cash paid is less than the expense recognized, and reverses by the end of the lease term.

(j) 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, Medicaid and other third-party payers 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.

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. The 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 the allowance for contractual discounts 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 the allowance for contractual discounts 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 healthcare 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.

(k) Charity care

The Hospital provides care without charge to certain patients that qualify under the charity care policy. For the years ended December 31, 2018 and 2017, the Hospital provided charity care services with direct and indirect costs amounting to $53,157 and $16,935, respectively. The Hospital does not report a charity care patient's charges in revenues or in the provision for doubtful accounts as it is the Hospital's policy not to pursue collection of amounts related to these patients.

(l) 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, 2018 and 2017, 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.

(m) New accounting pronouncement

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 *Revenue from Contracts with Customers* (Topic 606), ("ASU 2014-09") which will eliminate the transaction and industry-specific revenue recognition guidance under current GAAP and replace it with a principles-based approach. ASU 2014-09 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. The core principle of the guidance in ASU 2014-09 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 five step model defined by ASU 2014-09 requires the entity to: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The FASB has also issued several ASUs to provide entities further clarity on the application of ASU 2014-09. ASU 2014-09 additionally enhances the required disclosures surrounding the nature, amount, timing and uncertainty of revenues and the associated cash flows. ASU 2014-09 may be applied retrospectively to each period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). ASU 2014-09, as amended, is effective beginning January 1, 2019 and management of the Hospital is currently evaluating the impact adoption will have on its financial statements and disclosures.

(n) Reclassifications

Certain reclassifications have been made to the 2017 financial statements in order for them to conform to the 2018 presentation. These reclassifications have no effect on net income or members' equity as previously reported.

(o) Events occurring after reporting date

The Hospital has evaluated events and transactions that occurred between December 31, 2018 and March 22, 2019, 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, 2018.

(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.

During the years ended December 31, 2018 and 2017, approximately 76% and 72%, 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 70% of total accounts receivable as of December 31, 2018 and 2017, 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, 2018 and 2017, approximately 11% and 17% of the Hospital's net revenues related to a single non-governmental payor. There were no non-governmental payors with accounts receivable in excess of 10% as of December 31, 2018. As of December 31, 2017, approximately 15% of the Hospital's accounts receivable related to patients covered by a non-governmental payor. 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) Property and equipment

Property and equipment consists of the following at December 31, 2018 and 2017:

	2018	2017
Leasehold improvements	$ 16,774	$ 16,774
Major moveable equipment	2,118,849	2,113,921
Computer equipment	441,290	396,885
	2,576,913	2,527,580
Less accumulated depreciation and amortization	(2,121,547)	(1,848,572)
	$ 455,366	$ 679,008

(5) 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 indeterminate 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, based on an independent appraisal, was $8,500,000.

(6) Long-term debt

As of December 31, 2017, the Hospital had a capital lease obligation of $28,567 to CareFusion. Monthly payments for this capital lease obligation amounted to $5,857, which included principal and interest at a fixed rate of 10.0%. The obligation was repaid in May 2018.

(7) Related party balances and transactions

The Hospital conducts transactions with both members.

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, 2018 and 2017 were $1,773,313 and $1,531,386, respectively. The amounts payable to CHC Management for these services and other expenses paid on behalf of the Hospital were $2,420,209 and $3,550,486 as of December 31, 2018 and 2017, respectively. At December 31, 2017 these amounts payable to CHC Management included accrued distributions declared but not yet paid at year end totaling $614,460.

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. Also, the Hospital leased 56 and 24 employees from Community as of December 31, 2018 and 2017, respectively. The Hospital incurred $872,375 and $1,034,320 for these services for the years ended December 31, 2018 and 2017, respectively. The amounts payable to Community for these services and other expenses paid on behalf of the Hospital were $143,670 and $761,350 as of December 31, 2018 and 2017, respectively. At December 31, 2017, these amounts payable to Community included accrued distributions declared but not yet paid at year end totaling $639,540.

(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 the 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, 2018 and 2017, the Hospital had claim recoveries by CMS Contracted Auditors outstanding totaling approximately $1,415,000 and $1,093,000, respectively. Management has appealed these recoveries and anticipates an 80% favorable outcome on these recoveries, based upon historical data from the Administrative Law Judge ("ALJ"). The Hospital has recorded a reserve of approximately $283,000 and $164,000 for estimated unfavorable outcomes of these appeals within the allowance for doubtful accounts at December 31, 2018 and 2017, respectively. There were no pending claims by CMS Contracted Auditors to be recovered at December 31, 2018.

Health care reform – In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act (“collectively, the “Health Care Reform Legislation”). The Health Care Reform Legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Provisions of the Health Care Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements.

Due to the complexity of the Health Care Reform Legislation, reconciliation and implementation of the legislation continues to be under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding health care policies. Potential future efforts in the U.S. Congress to repeal, amend, modify, or retract funding for various aspects of the Health Care Reform Legislation create additional uncertainty about the ultimate impact of the Health Care Reform Legislation on the Hospital and the healthcare industry. The State of Indiana has adopted the Medicaid expansion provisions of the Health Care Reform Legislation. Management does not anticipate these changes to have a significant impact on the Hospital's operations. While the full impact of Health Care Reform Legislation is not yet fully known, changes to policies regarding reimbursement, universal health insurance and managed competition may materially impact the Hospital's operations.

Leases – The Hospital leases the building and grounds under a fifteen year operating lease ending in June 2028. The Hospital has the option to purchase the building from the landlord at fair value at the end of the seventh year of the lease and at the end of the lease term. Rent expense on the building and grounds leases, on a straight-line basis, for 2018 and 2017 was $1,765,000. The related deferred rent of $976,266 and $870,447 at December 31, 2018 and 2017, respectively, is included in long-term liabilities on the accompanying balance sheets.

The approximate future minimum lease payments under the Hospital's building and grounds operating leases are as follows:

Year	Amount
2019	$ 1,692,000
2020	1,727,000
2021	1,762,000
2022	1,815,000
2023	1,869,000
2024 and later years	8,887,000
	$ 17,752,000

(9) Subsequent event

In January 2019, the Board of Managers declared and paid cash distributions to the members totaling $2,115,828.