COMMUNITY HEALTH NETWORK
REHABILITATION HOSPITAL SOUTH, LLC

Financial Statements

Year Ended December 31, 2018

(With Independent Auditors' Report Thereon)
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Community Health Network Rehabilitation Hospital South, LLC, which comprise the balance sheet as of December 31, 2018, and the related statements of operations, members' equity, and cash flows for the year 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 audit. We conducted our audit 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 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 South, LLC as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

LBMC, PC

Brentwood, Tennessee
March 12, 2019
COMMUNITY HEALTH NETWORK REHABILITATION HOSPITAL SOUTH, LLC

Balance Sheet

December 31, 2018

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 222,451</td>
</tr>
<tr>
<td>Accounts receivable, less allowance for doubtful accounts of $48,689</td>
<td>2,152,451</td>
</tr>
<tr>
<td>Cost report settlement receivable</td>
<td>12,707</td>
</tr>
<tr>
<td>Inventories</td>
<td>93,950</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>49,194</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>2,530,753</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>2,215,918</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$ 4,746,671</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Members' Equity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$ 555,832</td>
</tr>
<tr>
<td>Accounts payable, related parties</td>
<td>951,826</td>
</tr>
<tr>
<td>Accrued expenses and other current liabilities</td>
<td>367,939</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>1,875,597</td>
</tr>
<tr>
<td>Line of credit, related party</td>
<td>1,150,000</td>
</tr>
<tr>
<td>Deferred rent</td>
<td>107,213</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>3,132,810</strong></td>
</tr>
<tr>
<td>Members' equity</td>
<td>1,613,861</td>
</tr>
<tr>
<td><strong>Total liabilities and members' equity</strong></td>
<td><strong>$ 4,746,671</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
Statement of Operations

Year Ended December 31, 2018

Revenue:
  Patient service revenue, net of contractual allowances $ 2,329,497
  Less provision for doubtful accounts (48,689)
  Other revenue 4,952

Total revenue 2,285,760

Operating expenses:
  Salaries, wages and employee benefits 2,430,919
  Outside services 495,419
  Rent 773,532
  Supplies and drugs 332,157
  Other operating expenses 435,779
  Depreciation and amortization 93,287
  Interest 10,209

Total expenses 4,571,302

Net loss $ (2,285,542)

See accompanying notes to the financial statements.
<table>
<thead>
<tr>
<th></th>
<th>KND Development 63, L.L.C.</th>
<th>Community Health Network, Inc.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at December 31, 2017</td>
<td>$ (1,253)</td>
<td>$ (1,305)</td>
<td>$ (2,558)</td>
</tr>
<tr>
<td>Cash contributions</td>
<td>1,911,961</td>
<td>1,990,000</td>
<td>3,901,961</td>
</tr>
<tr>
<td>Net loss</td>
<td>(1,119,916)</td>
<td>(1,165,626)</td>
<td>(2,285,542)</td>
</tr>
<tr>
<td>Balance at December 31, 2018</td>
<td>$ 790,792</td>
<td>$ 823,069</td>
<td>$ 1,613,861</td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
Statement of Cash Flows

Year Ended December 31, 2018

Cash flows from operating activities:
Net loss $ (2,285,542)
Adjustments to reconcile net loss to net cash used by operating activities:
  Depreciation and amortization 93,287
  Provision for doubtful accounts 48,689
  Deferred rent 107,213
(Increase) decrease in operating assets:
  Accounts receivable (2,201,140)
  Cost report settlement receivable (12,707)
  Inventories (93,950)
  Prepaid expenses (49,194)
Increase (decrease) in operating liabilities:
  Accounts payable 555,832
  Accounts payable, related parties 949,268
  Accrued expenses and other current liabilities 367,939
Net cash used by operating activities (2,520,305)

Cash flows used by investing activities -
Purchases of property and equipment (2,309,205)

Cash flows provided by financing activities:
  Proceeds from issuance of line of credit, related party 1,150,000
  Capital contributions 3,901,961
  Increase in cash and cash equivalents 222,451
Cash and cash equivalents at beginning of year -
Cash and cash equivalents at end of year $ 222,451

See accompanying notes to the financial statements.
(1) Ownership and nature of business

Community Health Network Rehabilitation Hospital South, LLC (the "Hospital"), is a 44-bed acute inpatient rehabilitation hospital located in Greenwood, Indiana. The Hospital is owned by its two members, KND Development 63, L.L.C. ("KND Development") (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 May 2, 2017 and started accepting patients in August 2018.

(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.

(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 consist 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, a 20% allowance for doubtful accounts 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 7). The allowance for doubtful accounts for the majority of the Hospital's balances are recorded based upon the following table:

<table>
<thead>
<tr>
<th>Age (Days)</th>
<th>% Reserved</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-60</td>
<td>2%</td>
</tr>
<tr>
<td>61-120</td>
<td>3%</td>
</tr>
<tr>
<td>121-180</td>
<td>10%</td>
</tr>
<tr>
<td>181-240</td>
<td>25%</td>
</tr>
<tr>
<td>241-300</td>
<td>50%</td>
</tr>
<tr>
<td>301-360</td>
<td>75%</td>
</tr>
<tr>
<td>361+</td>
<td>100%</td>
</tr>
</tbody>
</table>

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. There were no adjustments relating to tentative or final settlements to estimated reimbursement amounts pertaining to prior periods during the year ended December 31, 2018.
Notes to the Financial Statements

December 31, 2018

(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 pharmaceuticals and medical supplies used in the direct or indirect treatment of patients, and food for patient meals.

(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 4 to 20 years. Leasehold improvements are amortized over the shorter of economic useful 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 has been no impairment recorded during the year ended December 31, 2018.

(h) **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.

(i) **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 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.
Notes to the Financial Statements

December 31, 2018

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.

(j) Charity care

The Hospital provides care without charge to certain patients that qualify under the charity care policy. For the year ended December 31, 2018, the Hospital provided charity care services with direct and indirect costs amounting to $41,483. 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.

(k) 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, 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 income and State of Indiana tax returns.

(i) **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.

(m) **Events occurring after reporting date**

The Hospital has evaluated events and transactions that occurred between December 31, 2018 and March 12, 2019, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(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 year ended December 31, 2018, approximately 80% 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 85% of total accounts receivable as of December 31, 2018. 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 year ended December 31, 2018, approximately 17% of the Hospital's net revenues related to a single non-governmental payor. As of December 31, 2018, approximately 12% 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 consist of the following at December 31, 2018:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major movable equipment</td>
<td>$1,453,672</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>$350,766</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>$493,977</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>$10,790</td>
</tr>
<tr>
<td></td>
<td>$2,309,205</td>
</tr>
</tbody>
</table>

Less accumulated depreciation and amortization

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less accumulated depreciation and amortization</td>
<td>$(93,287)</td>
</tr>
<tr>
<td></td>
<td>$2,215,918</td>
</tr>
</tbody>
</table>

(5) **Line of credit**

On October 25, 2018 the Hospital entered into a variable rate revolving line of credit agreement with Kindred Healthcare Operating, LLC, which shares common ownership with one of the members, KND Development. The agreement provides a $1,500,000 revolving line of credit and matures on October 25, 2020. The revolving line of credit bears interest at a variable rate based on the LIBOR, plus 3.50% (5.85% at December 31, 2018), and has an outstanding balance of $1,150,000 as of December 31, 2018. The revolving line of credit is secured by substantially all of the Hospital's assets.

(6) **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 KND Development, 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. Total fees and expenses incurred related to CHC Management during the year ended December 31, 2018 were $187,976. The amounts payable to CHC Management for these services and other expenses paid on behalf of the Hospital was $910,684 as of December 31, 2018.

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 fees and expenses of $52,355 for these services for the year ended December 31, 2018. The amounts payable to Community for these services was $41,142 as of December 31, 2018.

(7) 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 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, there have been no recoveries made by CMS Contracted Auditors. As such, management has not recorded any reserves related to potential recoveries by CMS Contracted Auditors at this time.
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. 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 under a 15 year operating lease ending in 2033. The lease contains a fixed escalation provision requiring monthly lease payments to increase by 2.25% annually. Rent expense for the building lease, on a straight-line basis, for 2018 was $723,568. The related deferred rent of $107,213 at December 31, 2018 is included in long-term liabilities on the accompanying balance sheet.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$ 1,493,000</td>
</tr>
<tr>
<td>2020</td>
<td>1,527,000</td>
</tr>
<tr>
<td>2021</td>
<td>1,561,000</td>
</tr>
<tr>
<td>2022</td>
<td>1,596,000</td>
</tr>
<tr>
<td>2023</td>
<td>1,632,000</td>
</tr>
<tr>
<td>2024 and later years</td>
<td>17,623,000</td>
</tr>
<tr>
<td></td>
<td><strong>$ 25,432,000</strong></td>
</tr>
</tbody>
</table>