

**REHABILITATION HOSPITAL OF
INDIANA, INC.**

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

REHABILITATION HOSPITAL OF INDIANA, INC.
Indianapolis, Indiana

CONSOLIDATED FINANCIAL STATEMENTS
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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, 2018 and 2017, and the related consolidated statements of operations and changes in net assets, consolidated statement of functional expenses and consolidated statements of 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.

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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 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, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, Rehabilitation Hospital of Indiana, Inc. adopted Accounting Standards Update (ASU) 2016-14 - *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matter

Our 2018 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 LLP

Indianapolis, Indiana
April 25, 2019

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,603,088	\$ 11,973,308
Patient accounts receivable, less allowance for doubtful accounts of \$1,812,234 and \$2,377,620 for 2018 and 2017, respectively	7,768,884	6,163,929
Inventories	139,552	150,492
Prepaid expenses and other current assets	971,753	1,256,834
Investments	<u>83,780</u>	<u>80,298</u>
Total current assets	21,567,057	19,624,861
Property and equipment:		
Land	2,275,074	2,275,074
Buildings and improvements	16,052,835	15,641,894
Equipment	17,118,168	16,246,823
Construction-in-progress	<u>345,019</u>	<u>66,397</u>
	35,791,096	34,230,188
Less accumulated depreciation	<u>26,080,276</u>	<u>24,482,341</u>
Property and equipment, net	9,710,820	9,747,847
Other assets:		
Land held for expansion	<u>602,474</u>	<u>602,474</u>
Total assets	<u>\$ 31,880,351</u>	<u>\$ 29,975,182</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 3,230,372	\$ 2,128,198
Salaries, wages, and related liabilities	1,880,872	1,748,051
Accrued interest	132,348	142,989
Current portion of long-term debt	785,000	740,000
Third-party settlements	1,017,515	1,316,781
Current portion of interest rate swap	<u>75,633</u>	<u>130,703</u>
Total current liabilities	7,121,740	6,206,722
Long-term debt	11,393,034	12,163,899
Interest rate swap	<u>37,959</u>	<u>120,062</u>
	<u>11,430,993</u>	<u>12,283,961</u>
Total liabilities	18,552,733	18,490,683
Net assets:		
Without donor restrictions	12,653,329	10,898,141
With donor restrictions	<u>674,289</u>	<u>586,358</u>
Total net assets	<u>13,327,618</u>	<u>11,484,499</u>
Total liabilities and net assets	<u>\$ 31,880,351</u>	<u>\$ 29,975,182</u>

See accompanying notes to consolidated financial statements.

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Year ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues without donor restrictions:		
Net patient service revenue	\$ 42,531,703	\$ 40,433,492
Other revenue	1,690,816	1,925,312
Net assets released from restrictions	<u>33,963</u>	<u>416,954</u>
Total unrestricted revenues	44,256,482	42,775,758
Expenses:		
Program expenses	34,696,978	34,893,656
Management and general expenses	8,164,110	7,147,795
Fundraising expenses	<u>43,652</u>	<u>72,687</u>
Total expenses	<u>42,904,740</u>	<u>42,114,138</u>
Operating income	1,351,742	661,620
Nonoperating gain:		
Interest income	266,273	34,627
Gain in swap fair value	<u>137,173</u>	<u>188,074</u>
	<u>403,446</u>	<u>222,701</u>
Revenue in excess of expenses	1,755,188	884,321
Net assets with donor restrictions:		
Contributions	121,894	388,674
Net assets released from restrictions	<u>(33,963)</u>	<u>(416,954)</u>
Change in net assets with donor restrictions	<u>87,931</u>	<u>(28,280)</u>
Change in net assets	1,843,119	856,041
Net assets, beginning of year	<u>11,484,499</u>	<u>10,628,458</u>
Net assets, end of year	<u>\$ 13,327,618</u>	<u>\$ 11,484,499</u>

See accompanying notes to consolidated financial statements.

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2018 (with summary total for the year ended December 31, 2017)

	<u>Program Service Expenses</u>	<u>Management and General Expenses</u>	<u>Fundraising Expenses</u>	<u>Total Expenses</u>	<u>2017 Total</u>
Salaries and wages	\$ 16,214,300	\$ 4,735,604	\$ 14,161	\$ 20,964,065	\$ 20,314,105
Employee benefits	6,599,245	972,107	1,133	7,572,485	7,318,226
Contract and purchased services	5,880,968	560,655	11,667	6,453,290	4,796,847
Supplies	2,551,942	293,746	1,774	2,847,462	2,798,538
Utilities and other	1,840,168	793,646	14,489	2,648,303	2,759,555
Depreciation and amortization	967,785	643,858	427	1,612,070	1,660,716
Interest	246,910	164,493	-	411,403	511,485
Provision for bad debts	<u>395,662</u>	<u>-</u>	<u>-</u>	<u>395,662</u>	<u>1,954,666</u>
	<u>\$ 34,696,980</u>	<u>\$ 8,164,109</u>	<u>\$ 43,651</u>	<u>\$ 42,904,740</u>	<u>\$ 42,114,138</u>

See accompanying notes to consolidated financial statements.

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Year ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating activities:		
Change in net assets	\$ 1,843,119	\$ 856,041
Adjustments to reconcile change in net assets to net cash from operating activities,		
Depreciation and amortization	1,612,070	1,660,716
Unrealized gain on investments	(1,414)	(1,326)
Change in interest rate swap agreement	(137,173)	(188,074)
Provision for bad debts	396,230	1,954,666
Change in operating assets and liabilities:		
Patient accounts receivable	(2,001,185)	(1,756,274)
Inventories, prepaid expenses and other assets	296,021	10
Accounts payable and other accrued liabilities	1,102,174	209,077
Salaries, wages, and related liabilities	132,821	36,555
Accrued interest	(10,641)	48,681
Estimated third-party settlements	<u>(299,266)</u>	<u>967,633</u>
Net cash from operating activities	<u>2,932,756</u>	<u>3,787,705</u>
Investing activities:		
Purchases of property and equipment	(1,560,908)	(1,238,875)
Purchase of investments	(2,068)	(23,607)
Proceeds from sale of investments	<u>-</u>	<u>3,053,948</u>
Net cash used in investing activities	<u>(1,562,976)</u>	<u>1,791,466</u>
Financing activities:		
Payments on long-term debt	(740,000)	(3,695,000)
Principal payments on capital lease obligations	<u>-</u>	<u>(3,654)</u>
Net cash used in financing activities	<u>(740,000)</u>	<u>(3,698,654)</u>
Change in cash and cash equivalents	629,780	1,880,517
Cash and cash equivalents, beginning of year	<u>11,973,308</u>	<u>10,092,791</u>
Cash and cash equivalents, end of year	<u>\$ 12,603,088</u>	<u>\$ 11,973,308</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 422,044	\$ 462,804

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. 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) are based on the most recent community health needs assessment and include programs to improve the following four community needs identified: Access to Healthcare, Nutrition and Healthy Weight, Community Revitalization and Behavioral Health and Substance Abuse. Building a home with Habitat for Humanity, participating in an educational job fair with JA JobSparks and providing free sports physicals for Indianapolis public school students to encourage physical activity through local school sports are examples of ways which the Hospital benefited the local community. The costs of these services are included in operating expenses.

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.

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REHABILITATION HOSPITAL OF INDIANA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$341,054 and \$248,827 for 2018 and 2017, 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 2018 and 2017, the Hospital did not receive any funds to help defray the costs of indigent charity care.

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 \$1,414 and \$1,326 at December 31, 2018 and 2017, respectively, within other revenue 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, Supplemental Medical Review/Specialty Contractor ("SMRC") and cost report settlement audits during 2018 and 2017. The Hospital recorded reserves of \$1,017,515 and \$1,316,781 as of December 31, 2018 and 2017, respectively.

(Continued)

REHABILITATION HOSPITAL OF INDIANA, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2018 and 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	<u>December 31, 2018</u>				
	<u>Medicare</u>	<u>Medicaid</u>	<u>Blue Cross</u>	<u>Other Payers</u>	<u>Total</u>
Gross patient charges	\$ 55,057,864	\$ 22,227,219	\$ 18,680,787	\$ 9,432,482	\$ 105,398,352
Contractual allowances and discounts	<u>(37,144,181)</u>	<u>(8,997,105)</u>	<u>(7,903,982)</u>	<u>(8,821,381)</u>	<u>(62,866,649)</u>
	<u>\$ 17,913,683</u>	<u>\$ 13,230,114</u>	<u>\$ 10,776,805</u>	<u>\$ 611,101</u>	<u>\$ 42,531,703</u>
	<u>December 31, 2017</u>				
	<u>Medicare</u>	<u>Medicaid</u>	<u>Blue Cross</u>	<u>Other Payers</u>	<u>Total</u>
Gross patient charges	\$ 51,604,116	\$ 19,297,362	\$ 16,485,257	\$ 10,975,099	\$ 98,361,834
Contractual allowances and discounts	<u>(32,042,435)</u>	<u>(9,031,594)</u>	<u>(6,778,812)</u>	<u>(10,075,501)</u>	<u>(57,928,342)</u>
	<u>\$ 19,561,681</u>	<u>\$ 10,265,768</u>	<u>\$ 9,706,445</u>	<u>\$ 899,598</u>	<u>\$ 40,433,492</u>

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, 2018 and 2017, approximately 42% and 48%, respectively, of the Hospital's net revenues related to patients participating in the Medicare program, 31% and 25%, respectively, from the Medicaid program, and 25% and 24%, 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, 2018 and 2017, the Hospital has 38% and 24%, respectively, of net accounts receivable due from Medicare, and 27% and 26%, 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.

(Continued)

REHABILITATION HOSPITAL OF INDIANA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 three 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.

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 \$129,000 were incurred during 2016 related to the amended Series 2011 term bonds. Accumulated amortization of deferred financing costs at December 31, 2018 and 2017 is \$33,612 and \$19,477, respectively. Amortization expense for the years ending December 31, 2018 and 2017 is \$14,135 and \$14,891.

(Continued)

REHABILITATION HOSPITAL OF INDIANA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 5. The Hospital accounts for this arrangement under Accounting Standards Codification ("ASC") 815-10 as a cash flow hedge, which is not deemed effective. Accordingly, the value of the derivative at December 31, 2018 and 2017 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, 2018, 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 at December 31, 2018 and 2017, 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).

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 with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are transferred to revenues without donor restrictions 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 revenue without donor restrictions in the statement of operations.

Description of Net Assets: Net assets are classified into categories based upon the presence or absence of donor restrictions. Net assets with donor restrictions 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 without donor restrictions.

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.

(Continued)

REHABILITATION HOSPITAL OF INDIANA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Hospital is no longer subject to examination by U.S. federal taxing authorities for years before 2012 and for all state income taxes through 2013. 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, 2018 and 2017.

Advertising Costs: The Hospital expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2018 and 2017 were \$221,922 and \$153,969, respectively.

Fair Value of Financial Instruments: The Hospital's carrying amount for its financial instruments, which include cash, accounts receivable, investments and accounts payable and liabilities associated with the interest rate swap, and long-term debt at December 31, 2018 and 2017 are carried at their estimated fair values. The estimated fair value amounts have been determined by the Hospital using available market information and appropriate valuation techniques. Considerable judgment is required in interpreting market data and developing these estimates.

Adoption of New Accounting Standards: In August 2016, the FASB issued ASU 2016-14 (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Hospital adopted the standard during 2018 and has adjusted the presentation of these financial statements accordingly.

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.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2018 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended December 31, 2018. Management has performed their analysis through April 25, 2019, the date the financial statements were issued.

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 open cost reports through December 31, 2018.

(Continued)

REHABILITATION HOSPITAL OF INDIANA, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2018 and 2017

NOTE 2 - NET PATIENT SERVICE REVENUE (Continued)

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 - INVESTMENTS

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

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 76,891	\$ 77,913	\$ 74,607	\$ 75,024
Treasury bills	-	270	270	270
Equity funds	<u>5,206</u>	<u>5,597</u>	<u>4,297</u>	<u>5,004</u>
	<u>\$ 82,097</u>	<u>\$ 83,780</u>	<u>\$ 79,174</u>	<u>\$ 80,298</u>

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

	<u>2018</u>	<u>2017</u>
Interest and investment income	\$ 266,273	\$ 34,627
Change in unrealized gain	<u>1,414</u>	<u>1,326</u>
	<u>\$ 267,687</u>	<u>\$ 35,953</u>

NOTE 4 - LINE OF CREDIT

At December 31, 2018 and 2017 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, 2018 and 2017. Interest is payable at LIBOR rate plus 0.85% (3.31% and 2.34% at December 31, 2018 and 2017, 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, 2018 and 2017, the Hospital was in compliance with all covenants.

(Continued)

REHABILITATION HOSPITAL OF INDIANA, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2018 and 2017

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2018</u>	<u>2017</u>
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.	\$ 12,260,000	\$ 13,000,000
Less unamortized bond issuance costs - Series 2011	81,966	96,101
Less current portion of long-term debt	<u>785,000</u>	<u>740,000</u>
	<u>\$ 11,393,034</u>	<u>\$ 12,163,899</u>

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

2019	\$ 785,000
2020	840,000
2021	890,000
2022	905,000
2023	<u>8,758,034</u>
	<u>\$ 12,178,034</u>

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, 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, 2018 and 2017.

(Continued)

NOTE 5 - LONG-TERM DEBT (Continued)

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% at December 31, 2017). Both notes were paid in full in July 2017.

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 \$113,592 and \$250,765 at December 31, 2018 and 2017, respectively. The gain of \$137,923 and \$188,074 for 2018 and 2017, respectively, related to this arrangement is included in revenue in excess of expenses.

NOTE 6 - 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 use in pricing an asset or liability.

(Continued)

REHABILITATION HOSPITAL OF INDIANA, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2018 and 2017

NOTE 6 - 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 2018 and 2017			
	Level 1	Level 2	Level 3	Total
<u>2018</u>				
Assets:				
Money market funds	\$ 77,913	\$ -	\$ -	\$ 77,913
Treasury bills	-	270	-	270
Equity funds	<u>5,597</u>	<u>-</u>	<u>-</u>	<u>5,597</u>
Total investments	<u>83,510</u>	<u>270</u>	<u>-</u>	<u>83,780</u>
Total assets	<u>\$ 83,510</u>	<u>\$ 270</u>	<u>\$ -</u>	<u>\$ 83,780</u>
Liabilities:				
Interest rate swap	\$ -	\$ 113,592	\$ -	\$ 113,592
<u>2017</u>				
Assets:				
Money market funds	\$ 75,024	\$ -	\$ -	\$ 75,024
Treasury bills	-	270	-	270
Equity funds	5,004	-	-	5,004
Total investments	<u>80,028</u>	<u>270</u>	<u>-</u>	<u>80,298</u>
Total assets	<u>\$ 80,028</u>	<u>\$ 270</u>	<u>\$ -</u>	<u>\$ 80,298</u>
Liabilities:				
Interest rate swap	\$ -	\$ 250,765	\$ -	\$ 250,765

(Continued)

NOTE 7 - 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 \$566,848 and \$546,920 were expensed in 2018 and 2017, respectively.

NOTE 8 - 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 \$1,390,531 and \$1,438,480 in 2018 and 2017, respectively. Included in the 2018 and 2017 accrued expenses are fees of \$730,975 and \$848,899, respectively.

As discussed more fully in Note 5, 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 9 - 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 \$351,228 and \$401,734 at December 31, 2018 and 2017 respectively, and is included in employee benefits. Expenses of the plan for 2018 and 2017 were \$2,993,760 and \$3,158,385, respectively. The plan includes two claimants who exceeded the stop-loss during 2018 and five claimants who exceeded the stop loss during 2017. The Hospital recorded a re-insurance receivable, related to these claims, of \$154,722 and \$175,057 as of December 31, 2018 and 2017, respectively.

(Continued)

REHABILITATION HOSPITAL OF INDIANA, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2018 and 2017

NOTE 10 - OPERATING LEASES

The Hospital leases facilities and equipment under operating leases expiring at various dates through June 2021. Total rental expense in 2018 and 2017 for all operating leases was \$644,310 and \$610,279, respectively. The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2018, that have initial or remaining lease terms in excess of one year.

2019	\$ 361,981
2020	355,460
2021	108,401
2022	<u>10,200</u>
	<u>\$ 836,042</u>

NOTE 11 - 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 12 - 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.

NOTE 13 - LIQUIDITY AND AVAILABILITY

The Council's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date comprise the following:

	<u>2018</u>	<u>2017</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 12,603,088	\$ 11,973,308
Accounts receivable	7,768,884	6,163,929
Investments	<u>83,780</u>	<u>80,298</u>
Financial assets available to meet general expenditures within one year	<u>\$ 20,455,752</u>	<u>\$ 18,217,535</u>

The Hospital has certain donor-restricted assets limited to use which are available for general expenditures within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above for financial assets to meet general expenditures within one year.

(Continued)

REHABILITATION HOSPITAL OF INDIANA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 13 - LIQUIDITY AND AVAILABILITY (Continued)

As part of the Hospital's liquidity management plan, the Hospital invests its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

As part of the Hospital's liquidity management plan, cash in excess of monthly requirements is invested in money market funds based on the Hospital's investment policy.

NOTE 14 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purposes:		
Sports and Opportunity	\$ 380,656	\$ 301,523
Research	282,495	273,948
Assistance	<u>11,138</u>	<u>10,887</u>
Total net assets with donor restrictions	<u>\$ 674,289</u>	<u>\$ 586,358</u>

Net assets released from donor restrictions are as follows:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purposes:		
Sports and Opportunity	\$ 13,461	\$ 131,918
Research	20,502	284,779
Assistance	<u>-</u>	<u>257</u>
Total net assets released from donor restrictions	<u>\$ 33,963</u>	<u>\$ 416,954</u>

SUPPLEMENTARY INFORMATION

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING BALANCE SHEETS
December 31, 2018

	<u>RHI</u>	<u>Foundation</u>	<u>Total Before Eliminations</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 12,487,092	\$ 115,996	\$ 12,603,088	\$ -	\$ 12,603,088
Patient accounts receivables, less allowance for doubtful accounts of \$1,812,234	7,768,884	-	7,768,884	-	7,768,884
Inventories	139,552	-	139,552	-	139,552
Prepaid expenses and other current assets	964,336	7,417	971,753	-	971,753
Investments	<u>274</u>	<u>83,506</u>	<u>83,780</u>	-	<u>83,780</u>
Total current assets	21,360,138	206,919	21,567,057	-	21,567,057
Property and equipment:					
Land	2,275,074	-	2,275,074	-	2,275,074
Buildings and improvements	16,052,835	-	16,052,835	-	16,052,835
Equipment	17,021,056	97,112	17,118,168	-	17,118,168
Construction-in-progress	<u>345,019</u>	-	<u>345,019</u>	-	<u>345,019</u>
	35,693,984	97,112	35,791,096	-	35,791,096
Less accumulated depreciation	<u>26,002,324</u>	<u>77,952</u>	<u>26,080,276</u>	-	<u>26,080,276</u>
Property and equipment, net	9,691,660	19,160	9,710,820	-	9,710,820
Other assets:					
Land held for expansion	602,474	-	602,474	-	602,474
Due from foundation	<u>730,975</u>	-	<u>730,975</u>	<u>(730,975)</u>	-
Total other assets	<u>1,333,449</u>	-	<u>1,333,449</u>	<u>(730,975)</u>	<u>602,474</u>
Total assets	<u>\$ 32,385,247</u>	<u>\$ 226,079</u>	<u>\$ 32,611,326</u>	<u>\$ (730,975)</u>	<u>\$ 31,880,351</u>

(Continued)

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING BALANCE SHEETS
December 31, 2018

	<u>RHI</u>	<u>Foundation</u>	<u>Total Before Eliminations</u>	<u>Eliminations</u>	<u>Consolidated</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable and other accrued liabilities	\$ 3,227,031	\$ 3,341	\$ 3,230,372	\$ -	\$ 3,230,372
Salaries, wages, and related liabilities	1,880,872	-	1,880,872	-	1,880,872
Accrued interest	132,348	-	132,348	-	132,348
Current portion of long-term debt	785,000	-	785,000	-	785,000
Third-party settlements	1,017,515	-	1,017,515	-	1,017,515
Current portion of interest rate swap	<u>75,633</u>	<u>-</u>	<u>75,633</u>	<u>-</u>	<u>75,633</u>
Total current liabilities	7,118,399	3,341	7,121,740	-	7,121,740
Due to Hospital	-	730,975	730,975	(730,975)	-
Long-term debt	11,393,034	-	11,393,034	-	11,393,034
Interest rate swap	<u>37,959</u>	<u>-</u>	<u>37,959</u>	<u>-</u>	<u>37,959</u>
	<u>11,430,993</u>	<u>730,975</u>	<u>12,161,968</u>	<u>(730,975)</u>	<u>11,430,993</u>
Total liabilities	18,549,392	734,316	19,283,708	(730,975)	18,552,733
Net assets:					
Without donor restrictions	13,835,855	(1,182,526)	12,653,329	-	12,653,329
With donor restrictions	<u>-</u>	<u>674,289</u>	<u>674,289</u>	<u>-</u>	<u>674,289</u>
Total net assets	<u>13,835,855</u>	<u>(508,237)</u>	<u>13,327,618</u>	<u>-</u>	<u>13,327,618</u>
Total liabilities and net assets	<u>\$ 32,385,247</u>	<u>\$ 226,079</u>	<u>\$ 32,611,326</u>	<u>\$ (730,975)</u>	<u>\$ 31,880,351</u>

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

	<u>RHI</u>	<u>Foundation</u>	<u>Total Before Eliminations</u>	<u>Eliminations</u>	<u>Consolidated</u>
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	<u>270</u>	<u>80,028</u>	<u>80,298</u>	-	<u>80,298</u>
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	<u>66,397</u>	-	<u>66,397</u>	-	<u>66,397</u>
	34,143,715	86,473	34,230,188	-	34,230,188
Less accumulated depreciation	<u>24,408,267</u>	<u>74,074</u>	<u>24,482,341</u>	-	<u>24,482,341</u>
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	<u>848,899</u>	-	<u>848,899</u>	<u>(848,899)</u>	<u>-</u>
Total other assets	<u>1,451,373</u>	-	<u>1,451,373</u>	<u>(848,899)</u>	<u>602,474</u>
Total assets	<u>\$ 30,313,023</u>	<u>\$ 511,058</u>	<u>\$ 30,824,081</u>	<u>\$ (848,899)</u>	<u>\$ 29,975,182</u>

(Continued)

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

	<u>RHI</u>	<u>Foundation</u>	<u>Total Before Eliminations</u>	<u>Eliminations</u>	<u>Consolidated</u>
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	<u>130,703</u>	<u>-</u>	<u>130,703</u>	<u>-</u>	<u>130,703</u>
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	<u>120,062</u>	<u>-</u>	<u>120,062</u>	<u>-</u>	<u>120,062</u>
	<u>12,283,961</u>	<u>848,899</u>	<u>13,132,860</u>	<u>(848,899)</u>	<u>12,283,961</u>
 Total liabilities	 18,470,058	 869,524	 19,339,582	 (848,899)	 18,490,683
Net assets:					
Without donor restrictions	11,842,965	(944,824)	10,898,141	-	10,898,141
With donor restrictions	<u>-</u>	<u>586,358</u>	<u>586,358</u>	<u>-</u>	<u>586,358</u>
Total net assets	<u>11,842,965</u>	<u>(358,466)</u>	<u>11,484,499</u>	<u>-</u>	<u>11,484,499</u>
 Total liabilities and net assets	 <u>\$ 30,313,023</u>	 <u>\$ 511,058</u>	 <u>\$ 30,824,081</u>	 <u>\$ (848,899)</u>	 <u>\$ 29,975,182</u>

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Year ended December 31, 2018

	<u>RHI</u>	<u>Foundation</u>	<u>Total Before Eliminations</u>	<u>Eliminations</u>	<u>Consolidated</u>
Revenues without donor restrictions:					
Net patient service revenue	\$ 42,531,703	\$ -	\$ 42,531,703	\$ -	\$ 42,531,703
Other revenue	1,768,427	122,359	1,890,786	(199,970)	1,690,816
Donated services	-	281,011	281,011	(281,011)	-
Net assets released from restrictions	-	<u>33,963</u>	<u>33,963</u>	-	<u>33,963</u>
Total unrestricted revenues	<u>44,300,130</u>	<u>437,333</u>	<u>44,737,463</u>	<u>(480,981)</u>	<u>44,256,482</u>
Expenses:					
Program expenses	34,634,404	543,555	35,177,959	(480,981)	34,696,978
Management and general expenses	8,073,468	90,642	8,164,110	-	8,164,110
Fundraising expenses	-	<u>43,652</u>	<u>43,652</u>	-	<u>43,652</u>
Total expenses	<u>42,707,872</u>	<u>677,849</u>	<u>43,385,721</u>	<u>(480,981)</u>	<u>42,904,740</u>
Operating income/(loss)	1,592,258	(240,516)	1,351,742	-	1,351,742
Nonoperating gain:					
Interest income	263,459	2,814	266,273	-	266,273
Gain in swap fair value	137,173	-	137,173	-	137,173
	<u>400,632</u>	<u>2,814</u>	<u>403,446</u>	-	<u>403,446</u>
Excess/(deficiency) of revenues over expenses	1,992,890	(237,702)	1,755,188	-	1,755,188
Net assets with donor restrictions:					
Contributions	-	121,894	121,894	-	121,894
Net assets released from restrictions	-	<u>(33,963)</u>	<u>(33,963)</u>	-	<u>(33,963)</u>
Change in net assets with donor restrictions	-	<u>87,931</u>	<u>87,931</u>	-	<u>87,931</u>
Change in net assets	1,992,890	(149,771)	1,843,119	-	1,843,119
Net assets, beginning of year	<u>11,842,965</u>	<u>(358,466)</u>	<u>11,484,499</u>	-	<u>11,484,499</u>
Net assets at end of year	<u>\$ 13,835,855</u>	<u>\$ (508,237)</u>	<u>\$ 13,327,618</u>	<u>\$ -</u>	<u>\$ 13,327,618</u>

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

	<u>RHI</u>	<u>Foundation</u>	<u>Total Before Eliminations</u>	<u>Eliminations</u>	<u>Consolidated</u>
Revenues without donor restrictions:					
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	<u>42,417,200</u>	<u>866,066</u>	<u>43,283,266</u>	<u>(507,508)</u>	<u>42,775,758</u>
Expenses:					
Program expenses	34,635,408	765,756	35,401,164	(507,508)	34,893,656
Management and general expenses	7,017,907	129,888	7,147,795	-	7,147,795
Fundraising expenses	-	72,687	72,687	-	72,687
Total expenses	<u>41,653,315</u>	<u>968,331</u>	<u>42,621,646</u>	<u>(507,508)</u>	<u>42,114,138</u>
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
	<u>221,967</u>	<u>734</u>	<u>222,701</u>	<u>-</u>	<u>222,701</u>
Excess/(deficiency) of revenues over expenses	985,852	(101,531)	884,321	-	884,321
Net assets with donor restrictions:					
Contributions	-	388,674	388,674	-	388,674
Net assets released from restrictions	-	(416,954)	(416,954)	-	(416,954)
Change in net assets with donor restrictions	<u>-</u>	<u>(28,280)</u>	<u>(28,280)</u>	<u>-</u>	<u>(28,280)</u>
Change in net assets	985,852	(129,811)	856,041	-	856,041
Net assets, beginning of year	<u>10,857,113</u>	<u>(228,655)</u>	<u>10,628,458</u>	<u>-</u>	<u>10,628,458</u>
Net assets at end of year	<u>\$ 11,842,965</u>	<u>\$ (358,466)</u>	<u>\$ 11,484,499</u>	<u>\$ -</u>	<u>\$ 11,484,499</u>