Received 06/30/20-KN

STATE OF WASHINGTON

DEPARTMENT OF HEALTH

Olympia, Washington 98504

APPLICATION FOR A CERTIFICATE OF NEED

Hospital Projects (excluding Sale, Purchase or Lease of a Hospital, Nursing Home Related Projects, and CCRC Related Projects)

Certificate of Need applications must be submitted with a fee in accordance with WAC 440-44-030 and the instructions on page 2 of this form.

Application is made for a Certificate of Need in accordance with provisions of Chapter 70.38 RCW and Rules and Regulations adopted the Department (WAC 248-19) State of Washington. I hereby certify that the statements made in this application are correct to the best of knowledge and belief.

Signature and Title of Responsible Officer Linn Billingsley, Vice President, Regional Operations	**Telephone Number:** (702) 640-5221 **Date:** June 25, 2020
Legal Name of Applicant: THC-Seattle, LLC d/b/a Kindred Hospital-Seattle	**Type of Ownership:** ( ) Non-Profit (X) Proprietary ( ) Public Hospital District ( ) State/County
Address of Applicant: 1334 Terry Ave Seattle, WA, 98101	**Type of Project: (check all that apply)** ( ) New Health Care Facility ( ) Capital expenditure over expenditure minimum ( ) Substantial change in service (X) Bed capacity change/Redistribution ( ) New Health Service(s) ( ) Pre-development Expenditure ( ) Major Medical Equipment ( ) Other:
Intended date of incurring contractual obligation to construction, acquire, lease or finance capital asset: December 2020 **Estimated capital expenditure:** $692,520 ATTACH NARRATIVE PORTION OF THE APPLICATION	**Intended date of undertaking project:** December 2020 **Intended date of beginning to offer services or operate completed project:** Beds already operational **Project Summary:** Permanently add 30 LTACH beds

KINDRED HOSPITAL-SEATTLE

CERTIFICATE OF NEED APPLICATION

PROPOSING
TO
ADD 30 LONG-TERM ACUTE CARE BEDS

June 2020

SECTION I
APPLICANT DESCRIPTION

A. Legal Name of Applicant

The legal name of the applicant is THC-Seattle, LLC d/b/a Kindred Hospital-Seattle (parent company: Kindred Healthcare, LLC[1]). Throughout the application, THC-Seattle or Kindred Seattle will be used interchangeably to refer to the applicant.

B. Address of Each Applicant

Kindred Hospital-Seattle (Kindred Seattle) is located at:

1334 Terry Ave
Seattle, WA 98101

C. If an out of state corporation, submit proof of registration with Secretary of State, Corporations, Trademarks, and Limited Partnerships Division, and a chart showing organizational relationship to any related organizations as defined in Section 405.427 of the Medicare Regulations.

THC-Seattle is a Washington State Limited Liability Company (LLC). Proof of registration with the Washington Secretary of State is included as Exhibit 1.

D. Provide separate listings of each Washington and out-of-state health care facility, including name, address, Medicare provider number, Medicaid provider number, owned and/or managed by each applicant or by a related party, and indicate whether owned or managed. For each out-of-state facility, provide the name, address, telephone number and contact person for the entity responsible for the licensing/survey of each facility.

The provider numbers for Kindred Seattle are:

Medicare: 50-2002
Medicaid: 2133036

[1] Throughout the application, Kindred Healthcare and Kindred Healthcare, LLC will be used interchangeably.

No other facilities are owned by Kindred Seattle. Information regarding the other facilities owned, operated, and/or managed by Kindred Seattle's parent, Kindred Healthcare is included in Exhibit 2. This listing includes long-term acute care hospitals (LTACHs), rehabilitation hospitals and rehabilitation agencies.

E. Facility licensure/accreditation status

Kindred Seattle is fully licensed by the State of Washington and accredited by the Joint Commission. Kindred Seattle was last surveyed in June 2019 and its three-year accreditation was extended to 6/14/2022.

F. Is the applicant reimbursed, or plans to be reimbursed, for services under Titles V, XVIII, and XIX of the Social Security Act?

Kindred Seattle is reimbursed for services provided under Titles XVIII and XIX of the Social Security Act.

G. Describe the history of each applicant with respect to criminal convictions related to ownership/operation of health care facility, license revocations and other sanctions described in WAC 248-19-390(5)(a). If there have been such convictions or sanctions, so state.

THC-Seattle, LLC has no history of criminal convictions related to ownership/operation of a health care facility, license revocations or other sanctions as described in WAC 248-19-390(5)(a), now codified as WAC 246-310-230 (5)(a).

SECTION 2
FACILITY DESCRIPTION

A. Name and Address of the proposed/existing facility

The name and address of the existing facility is:

Kindred Seattle
1334 Terry Ave
Seattle, WA, 98101

B. Name and address of owning entity at completion of project (unless same as applicant)

The owning entity is the same as the applicant.

C. Provide the following information about the owning entity (unless same as applicant).

1. **If an out of state corporation, submit proof of registration with Secretary of State, Corporations, Trademarks, and Limited Partnerships Division, and a chart showing organizational relationship to any related organizations as defined in Section 405.427 of the Medicare Regulations.**
2. **If an out of state partnership, submit proof of registration with Secretary of State, Corporations, Trademarks, and Limited Partnerships Division, and a chart showing organizational relationship to any related organizations as defined in Section 405.427 of the Medicare Regulations.**

THC-Seattle, LLC is a Washington State LLC.

Please see the Certificate of Incorporation and the subsequent conversion documents for THC-Seattle, LLC, and the requested organization chart in Exhibit 1.

D. Name and address of operating entity (unless same as applicant)

The operating entity is the same as the applicant.

E. Geographic identity of primary service area

Kindred Seattle is located within the Central King Hospital Planning Area (Central King). Historically, less than 10% of Kindred Seattle's patients have resided in Central King. We have provided data and information in this application to demonstrate that the primary service area is the 10-county Health Services Area 1. The secondary service area is the rest of Washington State. In addition, 5% of Kindred Seattle's patients typically come from out of state.

Despite actual patient origin, but consistent with guidance provided by the Certificate of Need (CN) Program (the Program), Kindred Seattle used the Central King Hospital Planning Area (Central King) as the planning area for purposes of the acute care bed need projection methodology.

F. Peer group

This question is no longer applicable.

G. List physician specialties represented on active medical staff and indicate number of active staff per specialty

Table 1 details the active medical staff by specialty.

Table 1
Kindred Seattle
Active Medical Staff by Specialty

Name	Specialty
Alhyraba, Mohammed, MD	Critical Care Medicine
Dhamija, Sulakshna, MD	Emergency TeleMedicine
Gallagher, Christopher M., MD	Emergency Telemedicine
Graham, Roger W., MD	Pathology
Horowitz, Alfred L., MD	Diagnostic Radiology
Hutchison, Caitlin J., MD	Physical Medicine & Rehabilitation
Joh, Jung H., MD	Nephrology
Ko, Jocelyn, MD	Internal Medicine
Kyaw, Win, MD	Nephrology
Loland, Vanessa J., MD	Anesthesiology
Mathews, Roy P., DO	Internal Medicine
Melendez, Maria Mercedes, MD	Physical Medicine & Rehabilitation
Patel, Nishi H., MD	Emergency TeleMedicine
Williams, Virgil L., MD	Diagnostic Radiology

Source: Applicant

The medical director is Vanessa Loland, MD. Dr. Loland's license number is MD00030055. A copy of Dr. Loland's contract is included in Exhibit 3.

H. List all other generally similar providers currently operating in the primary service area

With the closure of Kindred Healthcare Northgate in June 2019 and the Regional Hospital for Respiratory and Complex Care in late 2019/early 2020, Kindred Seattle is now the only LTACH in Washington State.

I. For existing hospitals, provide inpatient days/year for the last 5 years, total licensed bed capacity at present, average number of set-up beds in the last twelve months.

Kindred Seattle's licensed bed capacity pre-COVID-19 was 50. Kindred Seattle sought and secured a State waiver and is now operating 80 beds.

The average number of beds set up in the last twelve-month period prior to April 2020 was 50. Today, it is 80 beds.

Table 2 details the historical and 2020 YTD patient days at Kindred Seattle.

Table 2
Kindred Seattle
Historical Utilization, 2015-2020 YTD

	2015	2016	2017	2018	2019	2020 YTD 6/23
Total Patient Days	12,355	12,974	12,118	10,841	13,213	7,068
Total ADC	**33.9**	**35.5**	**33.2**	**29.7**	**36.2**	**46.9**

Source: Applicant, contains only inpatient days from Kindred Seattle.

J. If this project involves construction of 12,000 square feet or more, or construction associated with parking for forty or more vehicles, submit a copy of either an Environmental Impact Statement or a Declaration of non-Significance from the appropriate governmental authority.

The project involves renovation of an existing licensed hospital with no increase in square footage. This question is not applicable.

SECTION 3
PROJECT DESCRIPTION

A. Describe the proposed project. This description should include discussion of any proposed conversion or renovation of existing space to other purposes, as well as the construction of new facility space. Also specify any unique services being proposed.

Long term acute care hospitals (LTACHs) have intensive care unit (ICU) beds and ventilators, and employ critical care nurses, respiratory therapists, and intensivists and specialize in caring for patients with respiratory failure, especially those who require prolonged mechanical ventilation. Until recently, there were 106 LTACH beds located in three licensed hospitals in Washington State. Due to various changes in federal criteria for LTACHs, two of the hospitals, including Kindred Healthcare Northgate closed. As a result, and in early 2020, Kindred Seattle became the sole provider of LTACH services in the state. As a result of the closure of Kindred Northgate and the scaling back of admissions and ultimate closure of Regional Hospital for Respiratory and Complex Care (Regional Hospital), Kindred Seattle's inpatient census increased by almost 22% from 2018 to 2019 and another 30% from 2019 until June 2020.

In addition to the increasing census pressure associated with the closure of the other two LTCAHs, and literally, within weeks of the second hospital, Regional Hospital closing, the COVID-19 pandemic reached Washington State. Shortly thereafter, the demand for post-acute LTACH-level beds increased because LTACHs are a unique post-acute setting and are uniquely qualified to care for these patients.

In April 2020, Kindred Healthcare on behalf of Kindred Seattle, sought and secured a waiver consistent with Governor Inslee's Proclamation 20-36 to increase, on a temporary basis, the bed capacity of Kindred Seattle. At the time of the request, Kindred Seattle was licensed for 50 acute care beds. The waiver approved Kindred Seattle operating 30 additional beds, for a total licensed bed capacity of 80 beds.

Kindred Seattle moved quickly to bring the 30 additional LTACH beds into operation. The space, located on the 4th floor of the Kindred Seattle hospital building, was readily available because it had been operated as a 30-bed nursing home prior to its closing in August 2017. The floor, while licensed as a nursing home, was designed to hospital code requirements, and therefore it was relatively easy to demonstrate in the waiver that the beds could be operated in a manner that ensured patient safety and well-being, as well as being able to meet fire and life safety regulations, maintain infection control standards and building structural integrity. It was necessary to purchase some equipment, and, more importantly, to recruit and hire appropriate staff. Recruiting qualified staff is always a challenge but being able to do so during COVID-19 was even more so. Kindred Seattle made significant gains in hiring so that the beds could open and continues to bring qualified staff on-line.

Three months into the pandemic, Kindred Seattle continues to play an important role, and census is up more than 13% over February's pre-COVID and pre-Regional Hospital closing levels. In February of 2020, the month prior to the COVID-19 emergency in our State, the average daily census (ADC) at Kindred Seattle was 44 and 29 new patients were admitted. Through June 23, 2020, the ADC was about 47 and peaked as high as 56, with about 20% of our patients positive for COVID-19. Census would have been even higher if elective admissions were not prohibited in the State's hospitals during this timeframe. (Many Kindred Seattle patients are traditionally admitted to an acute care hospital as elective, and then became ventilator dependent or experienced another complex condition post-procedure.)

The potential of losing the 30 beds for any period in the foreseeable future is a problem not only for Kindred Seattle but also to the overall healthcare system in Washington. This need is also acknowledged both by the Governor and Department of Health (DOH) in the phased reopening plan which requires healthcare facilities to maintain 20 percent surge capacity. As noted above, Kindred Seattle is already operating above its pre-COVID-19 licensed bed capacity of 50 beds. Given the closure of the other two LTACHs, and based on the changes in our actual census as well as data we have been closely monitoring, both locally and nationally, related to rehabilitation of the sickest COVID-19 patients, we have determined that the 30 beds should be permanently added to our license. As such, this CN application requests approval to make the 30 beds permanent.

To permanently add the 30 beds, some minor construction/remodel is needed. These costs are included in the total capital expenditure for the project.

B. Type of project (indicate all that apply):

1. **___ New Facility or Service**
2. **___ Total replacement of Existing Facility**
3. **__ Renovation or Modernization**
4. **___ Mandatory Correction of Fire and Life/Safety Deficiencies**
5. **___ Substantial Change in Services**
6. **_X_ Expansion/Reduction of Facility**
7. **___ Pre-Development Expenditure in Excess of Minimum**
8. **___ Other**

C. If the proposed project involves the purchasing of an existing service, identify the present owner(s) of that service.

Kindred Seattle is not proposing to purchase an existing service. Therefore, this section is not applicable.

D. Describe any change in licensed and/or set-up bed capacity by unit/service which are part of this project.

Kindred Seattle is proposing an additional 30 long-term acute care beds as part of this project. These beds are already set up as a response to the COVID-19 crisis and are currently operating.

E. Total estimated capital expenditures.

The estimated capital expenditure for this project is $692,520.

F. Total estimated facility-wide operating expenses for the first and second years of operation (separately shown)

Total operating expenses associated with the project for the first two full years of operation is as follows:

2021: $37,287,267
2022: $38,732,437

G. General description of types of patients to be served by the project. Describe the extent of any planned limitations to the services offered, either during the initial years of the project or on a permanent basis.

Kindred Seattle provides extended care to patients who are clinically complex and have multiple complex or chronic conditions. These patients typically arrive at Kindred Seattle directly from a hospital ICU and, because Kindred Seattle is designed, staffed and equipped to serve patients near the intensive care level, patients we receive are less stable upon admission than patients admitted to other post-acute care settings.

Kindred Seattle provides respiratory care, particularly for ventilator-dependent patients; treatment for patients with multiple illnesses or multiple system failure; treatment of wounds caused by disease or accident; and treatment for patients requiring interdisciplinary medical services who are unable to tolerate the more intensive treatments provided in a comprehensive medical rehabilitation hospital. Related to COVID-19, Kindred Seattle is providing care to patients who have become ventilator dependent, need extended respiratory therapy or rehab, or otherwise need complex acute-level care to restore function.

H. Project utilization of service(s) for the first three years of operation following project completion (shown separately). This should be expressed in appropriate workload units of measure (for hospitals, appropriate workload units of measure and ACMVUs as required in the Accounting for Reporting Manual for Hospitals of the State Hospital Commission should be used). RVU measures should also be expressed in procedure units.

The requested information is detailed in Table 3:

Table 3
Kindred Seattle
Projected Patient Days and Discharges, 2020-2023

	2020	2021	2022	2023
Discharges	447	518	536	554
Patient Days	18,250	21,170	21,900	22,630
ADC	50.0	58.0	60.0	62.0

Source: Applicant

I. If applicable, include a copy of the functional program

No functional program exists.

J. Existing sources of patient revenue (Medicare, etc.) with percentage revenue from each source

The current Kindred Seattle payor mix is detailed in Table 4. No change in payer mix is assumed for this expansion project:

Table 4
Kindred Seattle
Current Payer Mix (2020YTD)

Payer	Percent of Revenue
Medicaid/Medicaid Managed Care	16%
Medicare/Medicare Managed Care	54%
Commercial/HMO	28%
Self-Pay/Other	2%
Total	**100.0%**

Source: Applicant

K. Source(s) of financing

The project will be funded from existing cash reserves from Kindred Healthcare, LLC, the parent entity of Kindred Seattle.

L. Equipment proposed:

1. Description of new and replacement equipment proposed.

The proposed new equipment list is included in Exhibit 4. This equipment was already made operational in response to the 30 beds that have been temporarily added to our license. Nonetheless, we have included their costs in this application.

2. Description of equipment to be replaced, including cost of the equipment and salvage value, if any, or disposal or use of the equipment to be replaced.

This question is not applicable.

M. Single line drawings to scale of current locations which identify current departments and services.

The requested single line drawings are in Exhibit 5.

N. Single line drawings to scale of proposed locations which identify current departments and services.

The requested single line drawings are in Exhibit 5.

O. Geographic location of site of proposed project, if other than hospital campus.

1. Indicate the number of acres in the site.

The existing Kindred Seattle campus includes 1.3 acres.

2. Indicate the number of acres in any alternate site, if applicable.

No alternate site is proposed for this project.

3. **Indicate if the primary site or alternate site has been acquired, if applicable.**

No alternate site is proposed for this project.

4. **Address of site.**

The address of the site is:

1334 Terry Ave
Seattle, WA, 98101

5. **If the primary site or alternate site has not been acquired, explain how you will select and acquire a site for the proposed project.**

This question is not applicable.

6. **Describe any of the following which would currently restrict usage of the proposed site and/or alternate site for the proposed project:**
(a) mortgages; (b) liens; (c) assessments; (d) mineral or mining rights; (e) restrictive clauses in the instrument of conveyance; (f) easements and right of ways; (g) building restrictions; (h) water and sewage access (i) probability of flooding; (j) special use restrictions; (k) existence of access roads; (l) access to power and/or electricity sources; (m) shoreline management/environmental impact; (n) others, please explain.

The site is already zoned for, and in use as a hospital. This project proposes to permanently add long-term acute care beds in remodeled existing space. None of the above restricted our ability to add the beds to our license.

7. **Provide documentation that the proposed site may be used for the proposed project. Include a letter from any appropriate municipal authority indicating that the site for the proposed project is properly zoned for the anticipated use and scope of the project or a written explanation of why the proposed project is exempt.**

The site is appropriately zoned and has been used as a LTACH since 2011.

8. **Provide documentation that the applicant has sufficient interest in the site or facility proposed. Sufficient interest shall mean one of the following:**
   a. **Clear legal title to the proposed site; or**
   b. **Lease for at least five years with options to renew for to less than a total of twenty years in the case of a hospital, psychiatric hospital, tuberculosis hospital, or rehabilitation facilities; or**
   c. **Lease for at least one year with options to renew for not less than a total of five years in the case of freestanding kidney dialysis units, ambulatory surgical facilities, hospices, or home health agencies; or**
   d. **Legally enforceable agreement to give such title or such lease in the event that a Certificate of Need is issued for the proposed project.**

Included in Exhibit 6 is documentation from the King County Assessor's office demonstrating that the site is owned by THC-Seattle, Inc., the entity that owns Kindred Seattle. Exhibit 1 provides documentation that THC-Seattle, Inc., is now THC-Seattle, LLC, the legal applicant.

P. Space Requirements

1. Existing gross square footage.

The existing gross square footage is 52,284.

2. Total gross square footage for proposed new addition.

No new square footage is proposed. To add the acute care beds, this project proposes the remodeling of space that was previously operated as a sub-acute skilled nursing facility (SNF).

3. Provide a matrix showing net square feet for all involved services and departments before and after project completion.

The square footage of the nursing units at Kindred Seattle is summarized in Table 5. The new 30-bed unit is located on the 4th floor.

Table 5
Kindred Seattle
Square Footage by Unit

Floor	Number of Beds	Square Footage after Completion
Nursing Unit, 2nd floor	19	11,916
Nursing Unit, 3rd floor	31	11,916
Nursing Unit, 4th floor	30	11,916
Total	**80**	**35,748**

Source: Applicant

4. Do the above responses include any shelled-in areas?

There is no shelled-in space associated with this project.

Q. Proposed Timetables for Project Implementation

Financing:

a. Date for obtaining construction financing:	December 2020
b. Date for obtaining permanent financing:	December 2020
c. Date for obtaining funds necessary to undertake the project:	December 2020

Design:

a. Date for completion and submittal to Consultation and Construction Review Section of preliminary drawings:	December 2020
b. Date for completion and submittal to Consultation and Construction Review Section of final drawings and specifications:	February 2021

Construction:

a. Date for construction contract award:	March 2021
b. Date for 25 percent completion of construction:	April 2021
c. Date for 50 percent completion of construction:	April 2021
d. Date for 75 percent completion of construction:	May 2021
e. Date for completion of construction:	May 2021
f. Date for obtaining licensure approval:	Beds have been in operation since April 2020
g. Date for occupancy/offering of service(s):	Beds have been in operation since April 2020

R. As the applicant(s) for this project, describe your experience and expertise in the planning, developing, financing, and construction of this type of project.

Kindred Healthcare has provided long-term acute care services to thousands of persons across the United States for more than thirty years. With sixty-four facilities located in sixteen States, Kindred Healthcare has successfully developed and operated numerous long-term acute care hospitals to best meet the needs of its patients. All Kindred Healthcare long-term acute care hospitals are accredited by the Joint Commission, demonstrating Kindred Healthcare's commitment to providing the highest quality of care.

Kindred Healthcare has also undertaken numerous renovations to its existing facilities to add services, provide additional bed capacity or to modify spaces within existing buildings to change uses. Kindred Healthcare is constantly completing facility upgrade improvements. Kindred Healthcare's extensive experience with design and renovation of long-term acute care hospitals ensures that it will develop this project incorporating the highest standards and licensure requirements.

S. Describe the relationship of this project to the applicant(s)' long-range plan and long-range financial plan (if any).

Kindred Seattle exists to serve the needs of patients requiring LTACH-level care. While we do not have a specific long-range plan, a key guiding principle is to regularly assess community need. The proposed bed addition is the direct result of identifying a need in the community and 'stepping up' to meet that need. The permanent bed expansion will better enable Kindred Seattle to fulfill its mission *"to help our patients reach their highest potential for health and healing with intensive medical and rehabilitative care through a compassionate patient experience"* by providing more efficient access to long-term acute care for the patients, their families and the physicians treating them, thus expanding the number of medically complex patients Kindred Seattle serves.

SECTION 4
Project Rationale

NEED

1. Identify and analyze the unmet health services needs and/or other problems to which this project is directed.

a. Unmet health services needs of the defined population should be differentiated from physical plant and operating (delivery) deficiencies which are related to present arrangements.

LTACHs provide a necessary, but unique, post-acute setting in that they have ICU beds and ventilators, and employ critical care nurses, respiratory therapists, and intensivists and specialize in caring for patients with respiratory failure, especially those who require prolonged mechanical ventilation. The Program is well aware of the unique value of LTACHs, and wrote the following in its April 28, 2006 CN evaluation which approved a bed expansion to Regional Hospital and the relocation of 50 beds from Kindred Northgate to establish Kindred Seattle[2]:

Long-term acute care hospitals (LTACHs) differ from hospitals in that they furnish extended medical and rehabilitative care to individuals who are clinically complex and have multiple acute or chronic conditions. An LTACH must be certified as an acute care hospital that meets criteria to participate in the Medicare program and has an average inpatient length of stay greater than 25 days. [source: American Hospital Association Long Term Care Hospital home page]

LTACHs also differ from nursing homes and rehabilitation hospitals in that their patients generally require a higher level of medical attention. The LTACH is designed to provide extended medical and rehabilitative care for patients who are clinically complex and have multiple acute or chronic conditions. Most patients in LTACHs have several diagnosis codes on their Medicare claim, which indicates that they have multiple co-morbidities and are less stable on admission than patients admitted to other post-acute care settings. Approximately one half of the patients in an LTACH have five or more diagnoses noted on their claims. [source: Prospective Payment Assessment Commission, 1996]

[2] April 28, 2006 Evaluation of the Certificate of Need Application Submitted on Behalf of THC Seattle, Inc. Proposing to Relocate 50 of its Existing 80 Long-Term Acute Care Beds from North Seattle to Central Seattle in King County, p. 4.

Under the current Medicare payment system, LTACH reimbursement is structured to compensate hospitals for the care of patients whose average length of stay exceeds 25 days. The reimbursement model for general acute care hospitals is not designed to compensate hospitals for this population. As a result, the LTACH is a model of care that provides an environment tailored to medically complex patients and is able to serve those patients under a reimbursement model that adequately covers the costs of treatment. LTACHs in a community enable existing hospitals to improve facility utilization by discharging patients to the LTACH who would otherwise be occupying ICU or other acute care beds for long periods of time and place them in a suitable clinical setting. As a result, the existing hospitals are able to free space to more effectively manage their daily caseload, particularly in intensive care unit (ICU) and critical care unit (CCU) settings, which are often subjected to highly fluctuating occupancy rates. Referral of suitable patients to an LTACH improves hospitals' ability to ensure that ICU and CCU beds are available. [source: American Hospital Association Long Term Care Hospital home page]

Washington State lost 53% of its LTACH bed capacity in the days and months leading up to COVID-19. At the end of 2019, the three LTACHs had a combined census of nearly 63. While our caseload today is less than this even though 20% of our patients are COVID-related, it is because, as noted earlier, many Kindred Seattle patients were traditionally admitted to an acute care hospital as elective, and then became ventilator dependent or experienced another complex condition post-procedure.

The COVID-19 crisis has demonstrated the pivotal role that LTACH beds play in access for specific population cohorts. This CN application simply seeks to restore some of the lost bed capacity, thereby assuring access during general demand times.

b. The negative impact and consequences of unmet needs and deficiencies should be identified.

It is vitally important for Washington's health care system that Kindred Seattle be authorized to continue to operate the additional 30 beds. This is the best way to assure timely access to post-acute respiratory and other rehab services. It is also a way to assure that the State's acute care hospitals serving COVID-19 patients can maintain the Governor's requirement that healthcare facilities operate with 20 percent surge capacity (vacant beds).

Additionally, based on our current ADC and the long term nature of our patients, it would be extremely disruptive to the care delivery system for Kindred Seattle to have to arrange to discharge patients to less appropriate care settings simply because Kindred Seattle's specific waiver request/exemption and/or the Governor's waiver expires. The resulting patient and care-setting disruption would not be in the best interests of either individual patients or statewide healthcare system.

Specifically, without more beds at Kindred Seattle, the State's hospitals will be challenged to timely discharge COVID-19 or other medically complex and respiratory compromised patients requiring intensive long-term support. The State's acute care hospitals need timely discharge access to be able to fully restore elective admissions. Per the Governor's April 29, Interpretive Statement Related to Proclamation 20-24/ Restrictions on Non-Urgent Medical Procedures, hospitals cannot exceed 80% of available bed (licensed and staffed beds) capacity. Kindred Seattle will play a meaningful role in supporting acute care hospitals in assuring that they can be available for elective admissions.

c. The relationship of the project, if any, to the appropriate service specific Performance Standards of the current State Health Plan should be fully documented in this section.

The *State Health Plan* was sunset in 1989. As such, this question is not applicable.

d. The relationship of the project, if any, to the appropriate sections of the regional health council Health Systems Plan or Annual Implementation Plan should be fully documented in this section.

The *State Health Plan* was sunset in 1989. As such, this question is not applicable.

2. In the context of the criteria in WAC 248-19-370(2)(a) and (2)(b), document the manner in which:

a. Access of low income persons, racial and ethnic minorities, women, and mentally handicapped persons and other underserved groups to the services proposed is commensurate with such persons' need for the health services (particularly those needs identified in the applicable Health Systems Plan as deserving of priority,

Admission to Kindred Seattle is based on clinical need. Services are made available to all persons regardless of race, color, creed, sex, national origin, age, handicap, disability, or infectious disease. A copy of Kindred Seattle's admission and non-discrimination policies are included as Exhibit 7.

b. In the case of the relocation of a facility or service, or the reduction or elimination of a service, the present needs of the defined population for that facility or service, including the needs of underserved groups, will continue to be met by the proposed relocation or by alternative arrangements.

This project does not involve the relocation, reduction, or elimination of any service. As such, this question is not applicable.

c. Applicants should include the following: copy of admissions policy, copy of community service policy, reference appropriate access problems identified in State and regional health council planning documents and discuss how this project addresses such problems, other information as appropriate.

For hospital charity care reporting purposes, the DOH divides Washington State into five regions. Kindred Seattle is located within the King County region. According to the DOH's 2016-2018 charity care data (the latest data currently available), the three-year charity care average for King County, excluding Harborview, is 1.00% for gross revenue and 2.21% for adjusted revenue.

Historically, Kindred Seattle has provided charity care below the King County less Harborview regional average. This is attributable to several factors:

1) Kindred Seattle does not have an emergency room, which is the largest source of charity care for Washington's hospitals.

2) 100% of admissions to Kindred Seattle are from other acute care hospitals and typically after a longer stay, the hospital has secured a payment source for the patient. More specifically, these referring hospitals have already completed the necessary paperwork for Medicaid eligibility so essentially all patients transferred to Kindred Seattle have some payor coverage prior to admission.

3) Kindred Seattle has historically not tracked and documented closely the provision of the charity care that it has provided; when it was determined that a patient was unable to pay for services, Kindred Seattle typically wrote off the charges as bad debt. Going forward, Kindred Seattle fully intends to track charity care more closely.

In this application, charity care has been budgeted at the regional average of 2.25% of adjusted revenue. Kindred Seattle is amenable to a condition requiring that we make reasonable efforts to attain the regional level.

3. **Define the population that is expected to be served by the specific project proposed. This may require different definitions for each element of the projected.**

In all cases, provide regional health council population forecasts for the next ten years, broken down into age and sex categories.

In the case of an existing facility, include a patient origin analysis for at least the most recent twelve month period, if such data is maintained, or provide patient origin data from the last state-wide patient origin study. Patient origin is to be indicated by zip code, zip codes are to be grouped by city and county, and include a zip code map illustrating the service area.

The population expected to be served can be defined according to specific needs and circumstances of patients (e. g. alcoholism treatment, renal dialysis), or by the number of persons who prefer to receive the services of a particular recognized school or theory of medical care.

LTACHs deliver care to the most difficult-to-treat, critically ill and medically complex patients – including those with respiratory failure and requiring mechanical ventilation, septicemia, traumatic injuries, wounds, or other severe illnesses complicated by multiple chronic conditions. The average length of stay of LTACH patients is greater than 25 days. The vast majority of LTACH patients come directly from an acute hospital ICU. Per CHARS, in 2018, Washington's LTACHs admitted 525 patients. This represents about 1% of the State's non-OB/non-newborn/non-psych/non acute rehab discharges to post-acute care settings. 90% of the 525 patients were age 45+, and 52% were age 65+.

Table 6 provides patient origin data for Kindred Seattle. Although Kindred Seattle is located in Central King, fewer than 10% of our patients resided in Central King, 39% resided in King County. Approximately, 77% resided in Health Services Area 1 (HSA1); with 95% from the State of Washington.

Table 6
Kindred Seattle
Patient Origin-2019

Patient County	Percentage of Total
Central King	10.0%
Other King	29.0%
Sub-Total King	39.0%
Snohomish	16.3%
Pierce	12.8%
Thurston	5.2%
Grays Harbor	4.7%
Island	3.5%
Clallam	2.9%
Kitsap	2.3%
Yakima	2.3%
Whatcom	1.7%
Grant	1.2%
Spokane	1.2%
Chelan	0.6%
Jefferson	0.6%
Skagit	0.6%
Subtotal Washington State	94.9%
Out of State	5.1%
Total	**100.0%**

Source: WA State CHARS, 2019 (first 6 months only)

As Table 7 indicates, the population of the primary service area, Health Services Planning Area 1 (HSA1) is about 4,800,000. It is expected to grow another 6% by 2025 to 5,100,000. Most relevant to this project is the growth rate for the 45-64 and 65+ age cohorts. CHARS data indicate that 38% of LTACH patients have historically been age 45-64 and nearly 52% were age 65 and over. As Table 7 indicates, while the 45-64 age cohort is not expected to grow rapidly between 2020 and 2025, it is nearly 24% of the total population. In addition, the age 65+ age cohort is expected to grow nearly four times faster than the total population.

Table 7
Health Services Planning Area 1
2010, 2020 and 2025 Population by Age Cohort

	2010	Pct. Of Tot. Pop	2020	Pct. Of Tot. Pop	Pct. Chg. 20-25	2025	Pct. Of Total Pop	Pct. Chg. 20-25
Total Population	4,204,534	100.0%	4,819,869	100.0%	14.6%	5,101,813	100.0%	5.8%
Pop. By Age.								
0-14	784,435	18.7%	874,683	18.1%	11.5%	911,736	17.9%	4.2%
15-19	275,289	6.5%	276,954	5.7%	0.6%	297,619	5.8%	7.5%
20-44	1,499,396	35.7%	1,669,501	34.6%	11.3%	1,735,070	34.0%	3.9%
45-64	1,151,467	27.4%	1,224,093	25.4%	6.3%	1,217,457	23.9%	-0.5%
65-74	271,466	6.5%	475,687	9.9%	75.2%	541,334	10.6%	13.8%
75-84	150,822	3.6%	214,765	4.5%	42.4%	300,787	5.9%	40.1%
85+	71,659	1.7%	84,186	1.7%	17.5%	97,810	1.9%	16.2%
0-64	3,710,587	88.3%	4,045,231	83.9%	9.0%	4,161,882	81.6%	2.9%
65+	493,947	11.7%	774,638	16.1%	56.8%	939,931	18.4%	21.3%
45+	1,645,414	39.1%	1,998,731	41.5%	21.5%	2,157,388	42.3%	7.9%

Source: Washington State 2017 GMA Projections - Medium Series

Per conversation with Program staff, Central King will be the geographic region used as a baseline for estimating the need for the beds requested in this application. The Central King population is depicted in Table 8.

Table 8
Central King Hospital Planning Area
2010, 2020 and 2025 Population by Age Cohort

	2010	Pct of Tot Pop	2020 Est	Pct of Tot Pop	Pct Chg 2010-2019	2025 Proj	Pct of Tot Pop	Pct Chg 2020-2025
Tot. Pop.	**286,520**	**100.0%**	**352,044**	**100.0%**	**22.9%**	**379,066**	**100.0%**	**7.7%**
Pop. By Age								
0-17	42,424	14.8%	53,565	15.2%	26.3%	57,749	15.2%	7.8%
18-44	139,982	48.9%	158,577	45.0%	13.3%	155,853	41.1%	-1.7%
45-64	71,654	25.0%	89,860	25.5%	25.4%	104,126	27.5%	15.9%
65-74	16,981	5.9%	29,986	8.5%	76.6%	36,019	9.5%	20.1%
75-84	10,070	3.5%	13,943	4.0%	38.5%	19,096	5.0%	37.0%
85+	5,409	1.9%	6,113	1.7%	13.0%	6,223	1.6%	1.8%
Tot. 0-64	254,060	88.7%	302,002	85.8%	18.9%	317,728	83.8%	5.2%
Tot. 65 +	32,460	11.3%	50,042	14.2%	54.2%	61,338	16.2%	22.6%
45+	104,114	36.3%	139,902	39.7%	34.4%	165,464	43.7%	18.3%

Source: Claritas

4. **Provide information on the availability and accessibility of similar existing services to the defined population expected to be served. This section should concentrate on their facilities and services which "compete" with the applicant.**
    a. **Identify all existing providers of services similar to those proposed and include sufficient utilization experience of those providers that demonstrates that such existing services are not available in sufficient supply to meet all or some portion of the forecasted utilization.**
    b. **If existing services are available to the defined population, demonstrate that such are not accessible to that population. Time and distance factors, among others, are to be analyzed in this section.**
    c. **If existing services are available and accessible to the defined population, justify why the proposed project does not constitute an unnecessary duplication of services.**

As discussed in earlier sections of this application, Kindred Seattle is the only LTACH operating in the State of Washington. Therefore, the bed addition at Kindred Seattle will not result in an unnecessary duplication of services.

5. **Provide utilization forecasts for each service included in the project. Include the following:**
    a. **Utilization forecasts for at least five years following project completion**
    b. **The complete quantitative methodology used to construct each utilization forecast.**
    c. **Identify and justify all assumptions related to changes in use rate, market share, intensity of service and others.**
    d. **Evidence of the number of persons now using the service who will continue to use the service(s). Utilization experience for existing services involved in the project should be reported for up to the last ten years, as available. Such utilization should be reported in recognized units of measure appropriate to the service. For hospitals, the workload unit measure required by the State Hospital Commission should be reported together with the corresponding number of procedures.**
    e. **Evidence of the number of persons who will begin to use the service(s).**

In its 2006 CN decision approving the expansion of Regional Hospital and the establishment of Kindred Seattle, the Program started its analysis of need by applying the acute care bed need projection methodology to the Planning Area in which each hospital was to be located, but went on to note[3]:

[3] Ibid, p. 19.

Most patients in LTACHs have several diagnosis codes on their Medicare claim, which indicates that they have multiple co-morbidities and are less stable on admission than patients admitted to other post- acute care settings. While the department's numeric bed methodology is a starting point for evaluating need for these projects, it is not the sole determinant. In addition to the numeric methodology above, the department must also determine whether existing acute care providers are available and accessible in the planning area.

Kindred Seattle applied the acute care bed need projection methodology to the Central King Hospital Planning Area and identified need for 144 additional beds today; this is consistent with the bed need estimated by the Program in its 2006 evaluation. A copy of the 10-step methodology and our key underlying assumptions (including an adjustment for the beds located at Swedish Ballard, which is located in the North Planning Area, but licensed under the same license as Swedish First Hill) is included as Exhibit 8[4].

Specific underlying assumptions related to our patient day volumes are detailed below:

- Projected patient days for **2020** were based upon the first six months of 2020 with the additional COVID-19 volumes (ADC of 50), and the loss of volumes from patients admitted to acute care hospitals as elective. This increase is primarily due to the closure of Regional Hospital. Census is expected to be slightly lower for the year because of the reduction in census experienced at the acute care hospitals during the COVID-19 restrictions to elective admissions.

- **2021** Kindred Seattle patient days assume an ADC of 58. This assumes referral of volume associated with the closure of Regional Hospital and a return of elective admissions to other acute care hospitals.

- **2022 and 2023 assume an increase in ADC related largely to population growth and aging.** Specifically, the 65+ population in HSA 1 is expected to grow by 4.2% per year, or more than 21% during the period of 2020-2025. Conservatively, Kindred Seattle estimated that its census would grow at about 75% of this rate, and then rounded it to a census increase of 2 per year in both 2022 and 2023.

- ALOS is assumed to be 40.87 based on 2016-2019 average.

[4] To estimate the number of Swedish Ballard patient days by planning area, Kindred Seattle utilized data from the University of Washington acute care bed expansion application from 2012.

Table 9
Kindred Seattle
Utilization Projections Assuming New 30 Beds
Years 2020-2023

	Discharges	Patient Days	ADC	No. of Beds	Occupancy
2020	447	18,250	50	80	62.5%
2021	518	21,170	58	80	72.5%
2022	536	21,900	60	80	75.0%
2023	554	22,630	62	80	77.5%

Source: Applicant

6. Reference all health care facility-related high priority health service needs for your service area which area called for in current health planning documents, including the health council SHP and AIP and the State Health Planning and Development Agency SHP. If the resources required of this project, including health manpower, management personnel, capital and operating funds, do not address those high priority needs, justify why those resources are not reasonably available to be directed to meet such needs.

The *State Health Plan* was sunset in 1989. As such, this question is not applicable.

7. As applicable, substantiate the following special needs and circumstances which the proposed project is to serve.

- **a. The special needs and circumstances of entities such as medical and other health professions schools, multidisciplinary clinics and specialty centers which provide a substantial portion of their services or resources, or both, to individuals not residing in the health service areas in which the entities are not located or in adjacent health service area.**
- **b. The special needs and circumstances of biomedical and behavioral research projects which are designed to meet a national need and for which local conditions offers special advantages.**
- **c. The special needs and circumstances of osteopathic hospitals and nonallopathic services.**

This question is not applicable.

SECTION 5
Financial Feasibility

1. **All applicable estimated capital costs (actual or replacement costs if a conversion project).**

The estimated capital costs for this project are as follows:

a	Land Purchase	0
b	Land Improvements	0
c	Building Purchase	0
d	Residual Value of Replaced Facility	0
e	Construction Costs	$258,320
f	Moveable Equipment	$297,793[5]
g	Fixed Equipment (not included in construction contract)	
h	Architect & Engineering Fees	$30,000
i	Consulting Fees	$50,000
j	Site Preparation	
k	Supervision and Inspection	
l	Costs Associated with Financing to Include Interim Interest	
m	Cost of financing to include interim interest during construction	
n	Sales Tax:	
	Construction Sales Tax	$26,330
	Equipment Sales Tax	$30,077
o	Other Project Costs:	
p.	**Total Capital Expenditure**	$692,520

2. **Provide a copy of a signed nonbinding contractor's estimate of the project's construction cost, moveable equipment, fixed equipment, consulting fees, site preparation, and supervision and inspection of site (Items e, f, g, i, j, and k above)**

The nonbinding cost estimate is included in Exhibit 9.

[5] These funds, along with their pro rata sales tax, were already expended to make the beds operational under the waiver.

3. **For each service (cost center) provide, gross square feet to be impacted by construction, and estimated cost for items e, f, g, I, j, and k above. Separately indicate net square feet for each service (cost center). Reference appropriate recognized space-planning guidelines you have employed in your space allocation activities.**

The total of e f, g, i, j, and k above is $606,113. Table 10 details the requested information for the proposed bed addition.

Table 10
Kindred Seattle
Capital Cost Information

Const Cost Center	Total GSF	Construction Cost/SF	Total Cost/SF	Cost/Bed
4th Floor	11,916	$50.87	$58.12	$23,084

Source: Applicant

4. **For an existing facility, indicate the increase in capital costs per patient day that would result from this project using the chart below**

This project is being funded from reserves, there is no incremental interest. The incremental depreciation for the 30-bed addition is detailed in Table 11.

Table 11
Kindred Seattle
Incremental Depreciation and Interest Expense

	Year 1 (2021)	Year 2 (2022)	Year 3 (2023)
Incremental Depreciation Expense	$34,626	$34,626	$34,626
Incremental Interest Expense	$0	$0	$0
Total Patient Days	21,170	21,900	22,630
Incremental Capital Expense/PPD	$1.64	$1.58	$1.53

Source: Applicant

5. **Anticipated Sources and Amounts of Financing for the Project (Actual Sources of Conversions)**

Reserves from Kindred Healthcare will be used to fund this project.

6. **For projects to be totally or partially funded from capital allowance, please indicate the amount(s) of capital allowance and budget year(s) during which the funds would be used.**

This project will not be funded from capital allowance. Therefore, this question is not applicable.

7. **Indicate the anticipated interest rate on the construction loan.**

There is no construction loan associated with this project. Therefore, this question is not applicable.

8. **Indicate if you will have a fixed or a variable interest rate on the long-term loan and indicate the rate of interest.**

There is no debt financing for this project. Therefore, this question is not applicable.

9. **Estimated Start-up and Initial Operating Expenses**
    a. **Total Estimated start-up costs. (Expenses incurred prior to opening such as staff training, inventory, etc., reimbursed in accordance with Medicare guidelines for start-up costs.)**
    b. **Estimated period of time necessary for initial start-up. (Period of time after construction completed, but prior to receipt of patients.)**
    c. **Total estimated initial operating deficits (operating deficits occurring during initial operating period.)**
    d. **Estimated initial operating period (Period of time from receipt of first patients until total revenues equal total expenses.)**

Kindred Seattle is an existing operation. No start up period is anticipated.

10. Evidence of Availability of Financing for the Project

Please submit the following:

a. Copies of letter(s) from lending institutions which indicate a willingness to finance the proposed project (both construction and permanent financing). The letter(s) should include.

i. Status of loan application(s).
ii. Purpose of the loan(s).
iii. Proposed interest rate(s) (Fixed or Variable).
iv. Proposed term (period) of the loan(s).
v. Proposed amount of loan(s).
vi. Verification that the lender has examined the financial position of the borrower and found it to be adequate to support the proposal. The examination should reflect other project activity, actual or proposed, that might relate to this specific proposal.

There is no loan or external funding. Project costs will be paid with reserves from Kindred Healthcare, LLC. Company financial statements demonstrating sufficient resources to fund the project are included in Appendix 1.

b. Copies of letter(s) from the appropriate source(s) indicating the availability of financing for the initial start-up costs. The letter(s) should include the same items requested in 5(a) above, as applicable.

No startup costs are anticipated with this project. Therefore, this question is not applicable.

c. Copies of each lease or rental agreement related to the proposed project.

This project does not require any lease or rental agreements. As such, this question is not applicable.

d. Amortization schedule(s) for each financing arrangement including long-term, and any short- term start-up or initial operating deficit loans, setting forth the:

i. Principal.
ii. Term (number of payment periods) (long-term loans may be annualized).
iii. Interest.
iv. Outstanding balance at end of each payment period.

No financing is proposed for this project. Therefore, this question is not applicable.

11. Provide a cost comparison analysis, including a discussion of the advantages and costs, of each of the following alternative financing methods: purchase, lease, Capital Allowance, board-designated reserves, interfund loan, and commercial loan. Provide rationale for choosing the financing method selected.

The use of reserves for a project the size of the capital expenditure associated with the bed addition is the most cost-effective method for financing of this project.

12. Cost center budgets anticipated revenue, and operating costs for the period from the current fiscal year through and including three full fiscal years following completion of the project, without inflation, with and without the project. In the "with" scenario, include start-up costs, and the anticipated period of deficit operations before the project is utilized at the break-even point.

Exhibit 10 contains a copy of the pro forma financials for this project. Please note that the without scenario will be provided with the request for supplemental information.

13. Provide a pro forma balance sheet without inflation, with and without the project. However, if there are no capital costs associated with this project, no pro forma balance sheets are necessary. If the project to be totally funded from hospital reserves or capital allowance, a pro forma balance with the project is sufficient. Submit these statements for the period from the current fiscal year through and including three full fiscal years following completion of the project. Provide a narrative of the assumptions used in preparing these statements. Explain any extraordinary changes in financial position.

Please note that the balance sheet will be provided with the request for supplemental information.

14. Provide a capital expenditure budget covering each year starting with the first year following the last State Hospital Commission budget submittal up through the third year following completion of the project.

There are no capital expenditures (other than routine capital replacements), beyond those identified in this application, estimated to occur in the next three years.

15. The expected sources of revenues for the applicant(s) total operations (e.g., Medicaid, Medicare, Blue Cross, Labor and Industries, etc.) with anticipated percentage of revenue from each source.

No changes in sources of gross revenue by payer are assumed. Table 12 restates the current payer mix.

Table 12
Kindred Seattle
Proposed Payer Mix

Payer	Percent of Revenue
Medicaid/ Medicaid Managed Care	16%
Medicare/ Medicare Managed Care	54%
Commercial/HMO	28%
Self-Pay/Other	2%
Total	**100.0%**

Source: Applicant

16. Provide a copy of the latest State Hospital Commission approved rate sheet.

This question is no longer applicable.

17. Provide the complete audited year-end financial reports for the last three full fiscal years. These should include balance sheets, expense and revenue statements, statements of changes in financial position, and the accompanying notes.

Audited financials for the three most recent years are included as Appendix 1.

On July 2, 2018, Kindred Healthcare, Inc. completed a transaction in which its outstanding shares were acquired by a consortium of private investors. In connection with that transaction, Kindred Healthcare, Inc. was split into two companies. Kindred Healthcare, Inc.'s long-term acute care hospitals, inpatient rehabilitation facilities and contract rehabilitation services business are now owned and operated by its renamed successor, Kindred Healthcare, LLC and various subsidiaries. The remaining home health, hospice, and community care businesses previously belonging to Kindred Healthcare, Inc. were split off under a separate unrelated entity. In response to this request, Appendix 1 includes the audited financial statements from the 2017, 10-K for Kindred Healthcare, Inc., the audited financial statements for 2018, which include six months of financial information for the predecessor company, Kindred Healthcare, Inc. and six months of financial information for the successor company, Kindred Healthcare, LLC, and the audited financial statements for 2019, which include 12 months of financial information for Kindred Healthcare, LLC.

18. The relationship of the project, if any, to the appropriate cost sections of the State Health Plan, regional health council health systems plan or annual implementation plan should be documented.

The *State Health Plan* was sunset in 1989. Therefore, this question is not applicable.

19. Indicate the reduction or addition of FTEs with the salaries, wages, employee benefits for each FTE affected.

Table 13 details the current and total number of new FTEs. The average salaries, wages and benefits of these positions are included in the financials in Exhibit 10.

Table 13
Kindred Seattle
Current and Proposed Staffing by Discipline

	Current and 2020	2021	2022	2023
ADC	50	58	60	62
Nursing:				
RNs	44.1	56.7	63.0	63.0
LPNs	8.4	8.4	8.4	8.4
CNAs	29.4	33.6	33.6	33.6
UC / Tele	6.3	11.6	11.6	11.6
DNS	1.0	1.0	1.0	1.0
House Supervisors	4.2	4.2	4.2	4.2
Other Support	2.5	2.5	2.5	2.5
Total Nursing:	95.9	118.0	124.3	124.3
Ancillary / Support:				
RT - Manager	1.0	1.0	1.0	1.0
RT - Other	15.7	18.4	19.0	19.7
RX - Manager	1.0	1.0	1.0	1.0
RX - Other	6.8	8.1	8.4	8.7
Pulmonary	1.0	1.0	1.0	1.0
Lab - Manager	1.0	1.0	1.0	1.0
Lab - Other	8.0	9.4	9.8	10.2
Rad - Manager	1.0	1.0	1.0	1.0
Rad - Other	1.2	1.2	1.2	1.2
Total Ancillary:	36.7	42.1	43.4	44.8
Admin	67.0	75.1	77.2	79.2
TOTAL:	**199.6**	**235.2**	**244.9**	**248.3**

Source: Applicant

SECTION 6
Project Rationale

STRUCTURE AND PROCESS (QUALITY) OF CARE

1. **Document the following:**
   a. **The availability of sufficient numbers of qualified health manpower and management personnel. If staff availability is a problem, describe the manner in which the problem will be addressed.**
   b. **In the context of the State Health Plan Health Facility/Service General Performance Standard #2h, document the present and future availability of personnel with qualifications appropriate to the level and intensity of care they are and/or will be providing and with training specific to the technologies they are using.**

This project requires an increase in staffing, particularly an increase in clinical staff, and Kindred Seattle believes that it is well positioned to successfully recruit and retain the staff needed for the proposed expansion. Many of the proposed new positions are expanded hours for current staff; and others are for positions where national or state shortages have not been noted thus far. Our experience is that the tightest job market has been for Registered Nurses. In response, Kindred Seattle has developed a comprehensive recruitment and retention plan to ensure that a sufficient number of qualified personnel are available to staff our programs and services. We have done this by developing strategies that tout an LTACH's uniqueness as a place of employment. For example, one of Kindred Seattle's recruitment strategies emphasizes the opportunity for a critical care nurse to use her/his skills in a less stressful, different type of work environment. This strategy has been very effective.

Other strategies employed by Kindred Seattle include:

- Offering an employment environment where staff feels that they make a difference, can use their professional skills, and can grow.

- Continuing to focus on job redesign to allow staff to work longer due to the decreased physical demands of the work. For example, most lifting and repositioning is done either mechanically or with mechanical assist.

- Effectively using the internet and job search engines to 'get the word out' both nationally and locally to identify potential candidates which includes posting to websites such as Indeed, Glassdoor, LinkedIn, nurse.com as well as professional organizations (American Academy of Ambulatory Care Nursing, American Academy of Pain Medicine National Healthcare Career Network Aggregator, American Hospital Association, Society of Critical Care Medicine, etc.)

- Working with local educational institutions to train new professionals.

- Conducting Virtual Career Events for potential candidates
- Providing very competitive salary and benefits as well as employee referral bonus.

As employment demands increase in correspondence with anticipated growth in utilization, Kindred Seattle will continue to leverage its regional and national reputation as an industry-leading provider of long-term acute care to attract high quality nursing and therapy staff.

2. Describe the relationship of ancillary and support services to proposed services, and the capability of ancillary and support services to meet the service demands of the proposed project.

Kindred Seattle has determined that existing hospital support departments will be more than adequate to meet the additional demands resulting from the 30-bed addition as these same departments also supported the 30-bed nursing home when it was in operation. In fact, Kindred Seattle is currently able to operate with the 30-bed addition, fully demonstrating that the ancillary and support departments are more than adequate to meet patient needs.

3. In the context of the State Health Plan Health Facility/Service General Performance Standard #2f, document that the facility has and/or will have written policies evidencing a coordination and referral system that assures that patients receive care at the least intensive and restrictive level appropriate to their needs.

Related to admission, Kindred Seattle's efforts begins as soon as a patient is identified as a possible candidate for admission to the facility. The referring physicians initially determine which patients are appropriate for admission. Immediately upon referral, a comprehensive patient assessment, via chart review, is completed by a Kindred Seattle Clinical Liaison in conjunction with the referring facility staff.

Kindred Seattle screens each patient using McKesson Interqual long-term acute care criteria. The purpose of the review is to ensure that each admission is medically necessary, and that Kindred Seattle is the most appropriate care environment for the patient. The differentiation of care levels available in a general hospital, skilled nursing facility, Kindred Healthcare facility or home care is used to draw appropriate distinctions.

Kindred Seattle's Clinical Liaisons make the initial contacts with referring facilities and respond promptly to referral requests. Within eighteen hours of the referral call (depending on the time of day the referral call was placed), the Clinical Liaison visits either in person or telephonically with the referring site's Case Manager. The Kindred Seattle Clinical Liaison then conducts a clinical evaluation of the patient. The Kindred Seattle Clinical Liaison will also try to visit with the patient and/or the patient's family to provide information about Kindred Seattle to facilitate the possible transition to Kindred Seattle.

The Clinical Liaison uses a standardized form (which was developed based upon Kindred Healthcare's experience in admitting thousands of long-term acute care hospital patients) and professional clinical judgment regarding appropriateness of admission. The standardized clinical information form is entered into a computerized database. The Nursing, Pharmacy, Physician and Administrative teams will all review the patient for appropriateness of admission. Care concerns are reviewed to make sure the level of care the patient requires can be achieved at Kindred Seattle. The Kindred Seattle team evaluates the level of care needed prior to admission.

Related to discharge, Kindred Seattle staff work closely with patients and their families to understand their specific goals (which includes a discharge plan) and develop a care plan that is reflective of these goals. Each patient has an interdisciplinary team that meets weekly (following admission) to review the goals and care plans; shorter meetings/care plan reviews are conducted daily. Adjustments are made to the care plans to ensure that the patient is on target to meet goals and their discharge plan.

4. **Identify the specific means by which the proposed project will promote continuity in the provision of health care to the defined population and avoid unwarranted fragmentation of services. This section should include the identification of existing and proposed formal working relationships with hospitals, nursing homes and other health services resources serving your primary service area. This description should include recent, current and pending cooperative planning activities, shared service agreements, and transfer agreements. Copies of relevant agreements and other documents should be included.**

Kindred Seattle has extensive relationships with area nursing homes, home health and hospice programs as well as community-based programs. For those patients being discharged to these facilities or programs, Kindred Seattle works closely with their admission staff to assure timely and appropriate referral as well as coordination of services.

Kindred Seattle will also coordinate, as needed, with any with the patient's outside care teams to assure that any specific needs, not addressed by Kindred Seattle, are met.

No new agreements are contemplated as a result of permanently adding the 30 beds to our license.

5. **In the context of the State Health Plan Health Facility/Service General Performance Standard #2g, document that your facility ensures and/or will ensure effective continuity of care through discharge planning initiated early in the course of treatment.**

Discharge planning, which is coordinated by the Discharge Planner, begins immediately upon admission and in some instances, even before. Kindred Seattle has a comprehensive discharge planning process in place and its discharge plan objectives include:

- To identify the psychosocial needs of the patient and family at the time of admission
- To assure all needs identified by the interdisciplinary team are addressed prior to discharge
- To facilitate early discharge planning and discharge
- To coordinate discharge planning activities in a timely manner with community and state agencies
- To maintain patient/family confidentiality during discharge planning
- To provide ongoing education to medical staff, hospital employees, patients, and families regarding the necessity for and process of the discharge planning process
- To improve post-hospital patient care by interacting with the community to increase and improve community programs
- To assist Administration in forecasting needs related to discharge planning and post-hospital care
- To continue the patient/hospital liaison following discharge

Through this process, Kindred Seattle supports continuity of care by striving to place each patient in the most appropriate setting.

6. **In context of the State Health Plan Health Facility/Service General Performance Standard #2c, document that your facility has and/or will have a patient priority policy which requires acceptance of patients according to clinical evidence of medical need and potential benefit to patients.**

Admission to Kindred Seattle is based on clinical need. Services are made available to all persons regardless of race, color, creed, sex, national origin, age, handicap, disability, or infectious disease.

7. **Fully describe any history of each applicant with respect to the actions noted in Certificate of Need regulations WAC 248-19-390 (5) (a). If there is such a history, provide clear, cogent and convincing evidence that the proposed project will be operated in a manner that ensures safe and adequate care to the public to be served and in conformance with applicable federal and state requirements.**

Neither Kindred Seattle nor THC-Seattle have any history of criminal convictions related to ownership/operation of a health care facility, license revocations and other sanctions described in WAC 248-19-390(5)(a), now codified at WAC 246-310-230 (5)(a). Kindred Seattle and THC-Seattle have, and will continue to, operate in accordance with all applicable federal and State requirements. As was discussed with Program staff on June 22, 2020, included in Exhibit 11 is a copy of the most recent licensure survey for Kindred Seattle.

8. **Demonstrate that services to be provided will be provided (a) in a manner that ensures safe and adequate care, and (b) in accord with applicable federal and state laws, rules and regulations.**

Kindred Seattle operates all its programs in conformance with applicable federal laws, rules, and regulations.

9. **Describe how the project, complies with the appropriate Quality and Continuity of Care related criteria of the State Health Plan, regional health council systems plan or annual implementation plan.**

The *State Health Plan* was sunset in 1989, and as such this question is no longer applicable.

10. **In the context of the State Health Plan Health Facility/Service General Performance Standard #2b, document that your facility has and/or will have an active utilization review program.**

The *State Health Plan* was sunset in 1989, and as such this question is no longer applicable.

SECTION 7
Project Rationale

COST CONTAINMENT

1. **Document the following:**

    a. **Exploration of alternatives to the project you have chosen to pursue, including postponing action, shared service arrangements, merger, contract services, and different spatial configurations you have evaluated and rejected. Each alternative should be analyzed by application of the following:**
        - **Decision making criteria (e.g. cost limits, availability, quality of care, legal restrictions, etc.).**
        - **Advantages and disadvantages, and whether the sum of either the advantages or the disadvantages outweigh each other by application of the decision-making criteria.**
        - **Capital costs.**
        - **Staffing impact.**

The closure of Kindred Northgate, followed months later by the closure of Regional Hospital, and then, literally within weeks, the arrival of COVID-19 to Washington State created a significant and an immediate shortage of post-acute inpatient options, especially for high acuity patients. In response to these factors, Kindred Healthcare applied for and secured a waiver for Kindred Seattle to add 30 beds.

In the nearly two months that the waivered beds have been operational, Kindred Seattle has had the opportunity to review census, patient needs and length of stay, follow the latest data on COVID-19, and work with acute care hospitals to understand their planning for return of elective patients. In addition, we have identified the incremental needs in the South Sound (where Regional received the most patients from) and have determined that the 30 beds should be permanent so that access can be preserved.

Given that the 4th floor was already designed for high acuity SNF-level patients and given that it had been designed and built to hospital construction standards, no option other than using this space was considered.

2. **The specific ways in which the project will promote staff or system efficiency or productivity.**

This project proposes to utilize existing space within an operating long-term acute care hospital to increase capacity. This promotes staff efficiency since administration and support staff currently employed at the LTACH will serve the additional patients. Additional staff will only be required to maintain appropriate staffing ratios for the additional patients served.

3. **In the case of construction, renovation or expansion, capital cost reductions achieved by architectural planning and engineering methods and methods of building design and construction.**

This project proposes to utilize existing space within an operating long-term acute care hospital to increase capacity. This maximizes efficiency within the building with minimal renovation and equipment requirements, since it will convert previously utilized patient rooms that require little renovation. The use of existing space greatly reduces project costs compared to the construction of a new freestanding LTACH.

4. **In the case of construction, renovation or expansion, an analysis of the capital and operating costs of alternative methods of energy consumption, including the rationale for choosing any method other than the least costly.**

The remodeled space will conform to, or exceed, all State and regional energy and code requirements.

Exhibit 1
Certificate of Incorporation and Registration with Secretary of State Office
Organizational Chart

STATE of WASHINGTON SECRETARY of STATE

I, Ralph Munro, Secretary of State of the State of Washington and custodian of its seal, hereby issue this

CERTIFICATE OF INCORPORATION

to

THC-SEATTLE, INC.

a Washington Profit corporation. Articles of Incorporation were filed for record in this office on the date indicated below:

U.B.I. Number: 601 516 203 Date: January 12, 1994

Given under my hand and the seal of the State of Washington, at Olympia, the State Capitol

Ralph Munro, Secretary of State

SSF 57

2-484736-0

601 516 203

State of Washington
Corporations Division
Office of the Secretary of State

FILED
STATE OF WASHINGTON
JAN 12 1994
RALPH MUNRO
SECRETARY OF STATE

ARTICLES OF INCORPORATION

Pursuant to RCW 23B.02.020 of the Washington Business Corporation Act, the undersigned do(es) hereby submit these Articles of Incorporation for the purpose of forming a business corporation.

1. The name of the corporation is: **THC-SEATTLE, INC.**

(Note: The corporate name, shown above, must contain the word "corporation," "incorporated," "company," or "limited," or the abbreviation "corp.," "inc.," "co.," or "ltd.".)

2. The number of shares the corporation is authorized to issue: 1,000

These shares shall be: (check either a or b)

a. X all of one class, designated as common stock;

-OR-

b. ____ divided into classes or series within a class as provided in the attached schedule, with the information required by RCW 23B.06.010.

3. The name of the initial registered agent is: C T CORPORATION SYSTEM

(Note: The registered agent, appointed above, must reside in the State of Washington and sign the consent to appointment as registered agent at bottom of page.)

4. The initial registered office of the corporation which address is identical to the business office of the registered agent in Washington, is:

Number and Street c/o C T CORPORATION SYSTEM, 520 Pike Street

City, Zip Code Seattle WA 98101

4(a) (Optional) The post office box address, located in the same city as the Washington registered office address, which may be used for mailing purposes only, is:

PO BOX #_____ CITY_____ WA ZIP CODE_____

(Note: Include city and zip code above.)

CONSENT TO APPOINTMENT AS REGISTERED AGENT

(Note: Must be completed and signed by person shown as registered agent on line 3.)

I, C T CORPORATION SYSTEM, hereby consent to serve as Registered Agent in the State of Washington for the above named corporation. I understand that as agent for the corporation, it will be my responsibility to accept Service of Process on behalf of the corporation; to forward license renewals and other mail to the corporation; and to immediately notify the Office of the Secretary of State in the event of my resignation or of any changes in the Registered Office Address.

By: C T CORPORATION SYSTEM
Domenico A. Borriello
(SIGNATURE OF REGISTERED AGENT)

Domenico A. Borriello, Asst. Secy.
(PRINT NAME AND TITLE)

1/11/94
(DATE)

5. Any other provisions the corporation elects to include are attached.

6. The name and address of each incorporator is:
(Note: A minimum of one (1) incorporator is required.)

Name	Address	City	State	Zip Code
A. E. Diamond	818 W. Seventh Street	Los Angeles	CA	90017
D. F. Hickey	818 W. Seventh Street	Los Angeles	CA	90017

7. These Articles will be effective upon filing, unless an extended date and/or time appears here: _____, 19____.
(Note: Extended effective date may not be set at more than 90 days beyond the date the document is stamped "Filed" by the Secretary of State.)

Dated: January 11, 19 94

A E Diamond
(Signature of Incorporator)

A. E. Diamond, Incorporator
(Type or Print Name and Title)

D F Hickey
(Signature of Incorporator)

D. F. Hickey, Incorporator
(Type or Print Name and Title)

Additional Information:

If this corporation has been issued an UBI (Unified Business Identifier) number, under the corporate name shown in this document, by any Washington State agency, please list that number. _____.

UNITED STATES OF AMERICA

The State of Washington

Secretary of State

I, KIM WYMAN, Secretary of State of the State of Washington and custodian of its seal, hereby issue this

CERTIFICATE OF CONVERSION

From

THC-SEATTLE, INC., a/an WASHINGTON PROFIT CORPORATION

to

THC-SEATTLE, LLC, a/an WASHINGTON LIMITED LIABILITY COMPANY, effective on the date indicated below.

Effective Date: 06/20/2018
UBI Number: 601 516 203

Given under my hand and the Seal of the State of Washington at Olympia, the State Capital

Kim Wyman

Kim Wyman, Secretary of State

Date Issued: 06/20/2018

FILED
Secretary of State
State of Washington
Date Filed: 06/20/2018
Effective Date: 06/20/2018
UBI No: 601 516 203

ARTICLES OF ENTITY CONVERSION
OF
THC - SEATTLE, INC.
INTO
THC - SEATTLE, LLC

These Articles of Conversion are submitted for filing pursuant to Section 23B.09.040 and related provisions of the Revised Code of Washington (the "RCW") by THC - Seattle, Inc., a Washington corporation (the "Converting Organization").

1. The name of the Converting Organization is THC - Seattle, Inc. a Washington corporation formed under the RCW.

2. The Converting Organization's original articles of incorporation were filed with the Washington Secretary of State on January 12, 1994.

3. The name of the converted organization is THC - Seattle, LLC, a Washington limited liability company to be organized under the Washington Limited Liability Company Act.

4. The conversion has been approved in accordance with Section 23B.09.030 of the RCW.

5. The Certificate of Formation attached hereto as **Exhibit A** shall be the Certificate of Formation for the converted organization.

6. These Articles of Conversion shall be effective on the date it is filed with the Secretary of State of Washington.

[*Signature page follows.*]

Work Order #: 2018062000286325 - 1
Received Date: 06/20/2018
Amount Received: $240.00

IN WITNESS WHEREOF, the undersigned has executed these Articles of Entity Conversion as of the date first written above.

THC - SEATTLE, INC.

By: _____
Name: Joseph L. Landenwich
Title: General Counsel and Corporate Secretary

[Signature Page to Articles of Entity Conversion - WA - THC- Seattle, Inc.]

Exhibit A

Work Order #: 2018062000286325 - 1
Received Date: 06/20/2018
Amount Received: $240.00

Office of the Secretary of State
Corporations & Charities Division

This Box For Office Use Only

Limited Liability Company

See attached detailed instructions

☐ **Filing Fee $180.00**

☐ **Filing Fee with Expedited Service $230.00**

UBI Number:

CERTIFICATE OF FORMATION

Chapter 25.15 RCW

SECTION 1

NAME OF LIMITED LIABILITY COMPANY:

THC - Seattle, LLC

(Must contain one of the following designations: Limited Liability Company, Limited Liability Co or one of these abbreviations: L.L.C. or LLC. If the designation is omitted, it will default to LLC when processed)

SECTION 2

ADDRESS OF THE PRINCIPAL OFFICE:

Street Address 680 South Fourth Street *City* Louisville *State* KY *Zip* 40202

PO Box _____ *City* _____ *State* _____ *Zip* _____

SECTION 3

EFFECTIVE DATE OF FORMATION: *(Please check one of the following)*

☑ Upon filing by the Secretary of State

☐ Specific Date: _____ *(Specified effective date must be within 90 days AFTER the Certificate of Formation has been filed by the Office of the Secretary of State)*

SECTION 4

TENURE: *(Please check one of the following and indicate the date if applicable)*

☑ Perpetual existence

☐ Specific term of existence _____ *(Number of years or date of termination)*

SECTION 5

DESIGNATION OF REGISTERED AGENT: ***SELECT ONLY ONE AGENT TYPE*** *(RCW 23.95)*

☒ Commercial Agent	☐ Noncommercial Agent (most common)	☐ Office or Position
C T Corporation System	NAME	NAME
NAME ONLY of Commercial Registered Agent as recorded with the Secretary of State. (Address of Commercial Registered Agent is already on file)	*Name of Noncommercial Registered Agent. (Any person or business not registered as a Commercial Registered Agent, must also include the physical address below)*	*List the Office or Position serving as agent. (Only if using the specific office or position as the registered agent, no matter who holds the position like: Secretary, Member, Treasurer, must also include the physical address below)*

Washington State Physical Address ***(Required Only for Noncommercial, Office, or Position):***

Address_____

City_____ WA Zip Code_____

Washington State Alternate Mailing or Postal Address ***(optional):***

Address_____

City_____ WA Zip Code_____

REQUIRED ALL **- CONSENT TO SERVE AS REGISTERED AGENT:**

I hereby consent to serve as Registered Agent in the State of Washington for the above named entity. I understand it will be my responsibility to accept service of process, notices, and demands on behalf of the entity; to forward mail to the entity; and to immediately notify the Office of the Secretary of State if I resign or change the Registered Office Address.

X By: C T Corporation System — 3/20/2018

Signature of Registered Agent | Printed Name/Title | Date

SECTION 6

NAME, ADDRESS AND SIGNATURE OF EACH EXECUTOR:

(If necessary, attach additional names, addresses and signatures)

Name: Joseph L. Landenwich

Address: 680 South Fourth Street City Louisville State KY Zip Code 40202

This document is hereby executed under penalties of perjury, and is, to the best of my knowledge, true and correct.

X_____ 6/20/2018

Signature of Executor | Printed Name | Date | Phone

Office of the Secretary of State Corporations & Charities Division

COVER SHEET FOR CONVERSION OF BUSINESS ENTITY

The undersigned, under penalties of perjury, do hereby attest to the conversion and/or domestication of the specified entity by virtue of the selections and information provided below.

Converting from: *(current domicile and entity type)*

⇩ Choose 1 domicile *(required)*

X	Domestic (Washington)
	Foreign *(list domicile below)*

⇩ Choose 1 entity type *(required)*	Governing statute
X Profit Corporation	RCW 23.B
Limited Liability Company (LLC)	RCW 25.15
Limited Partnership (LP or LLLP)	RCW 25.10
Limited Liability Partnership (LLP)	RCW 25.05
unincorporated entity	
Other: *(list below)*	

Converting to: *(new domicile and entity type)*

⇩ Choose 1 domicile *(required)*

X	Domestic (Washington)
	Foreign *(list domicile below)*

⇩ Choose 1 entity type *(required)*	Governing statute
Profit Corporation	RCW 23.B
X Limited Liability Company (LLC)	RCW 25.15
Limited Partnership (LP or LLLP)	RCW 25.10
Limited Liability Partnership (LLP)	RCW 25.05
unincorporated entity	
Other: *(list below)*	

1. Current name of entity: THC - Seattle, Inc.
2. UBI# (if available): 601 516 203
3. Name of new entity: THC - Seattle, LLC
4. Date conversion is to be effective: _____
5. Street and mailing address for service of process if converted organization is foreign: _____

_____

_____

City_____ State or Country_____ Postal Code_____

*Attach required documents per RCW_____

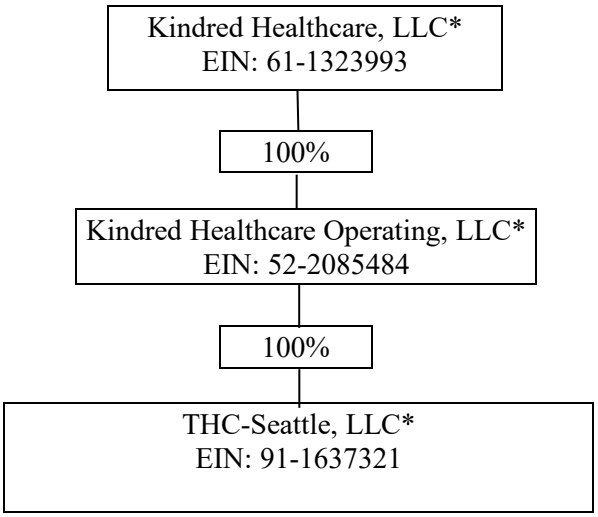
X _____ Joseph L. Landenwich Authorized Signer 6/20/2018

Signature Printed Name Title Date Phone Number

Work Order #: 2018062000286325 - 1
Received Date: 06/20/2018
Amount Received: $240.00

ORGANIZATIONAL CHART

THC-Seattle, LLC



*Address for all entities is:
680 South Fourth Street
Louisville, KY 40202-2412

Exhibit 2
Kindred Healthcare Facility Listing

Kindred Healthcare							
Hospitals and Nursing Centers							
As of:	5/31/2020						
						Medicare	Medicaid
State	Type	Name	Street Address	City	Zip Code	Provider #	Provider #
AZ	IRF	Dignity Health East Valley Rehabilitation Hospital	1515 West Chandler Boulevard	Chandler	85224-6141	03-3040	238199
CA	LTACH	Kindred Hospital - La Mirada	14900 E. Imperial Highway	La Mirada	90638-2172	05-2038	HSP32038F
CA	LTACH	Kindred Hospital - San Gabriel Valley	845 North Lark Ellen	West Covina	91791-1069	05-2038	HSP32038F
CA	LTACH	Kindred Hospital - Santa Ana	1901 N. College Avenue	Santa Ana	92706-2334	05-2038	HSP32038F
CA	LTACH	Kindred Hospital Paramount	16453 Colorado Avenue	Paramount	90723-5011	05-2046	
CA	LTACH	Kindred Hospital Baldwin Park	14148 E. Francisquito Avenue	Baldwin Park	91706-6120	05-2045	HSP32045F
CA	LTACH	Kindred Hospital Riverside	2224 Medical Center Drive	Perris	92571-2638	05-2052	HSP40759F/ HSP30759F
CA	LTACH	Kindred Hospital South Bay	1246 W. 155th Street	Gardena	90247-4011	05-2050	HSP30456I/ HSP40456I
CA	LTACH	Kindred Hospital Rancho	10841 White Oak Avenue	Rancho Cucamonga	91730-3811	05-2049	HSP30756F/ HSP40756F
CA	LTACH	Kindred Hospital - Brea	875 North Brea Boulevard	Brea	92821-2606	05-2039	HSP30711F
CA	LTACH	Kindred Hospital - Ontario	550 North Monterey Avenue	Ontario	91764-3318	05-2037	HSP30041K
CA	LTACH	Kindred Hospital - San Francisco Bay Area	2800 Benedict Drive	San Leandro	94577-6840	05-2034	HSP30705H
CA	LTACH	Kindred Hospital Westminster	200 Hospital Circle	Westminster	92683-3910	05-2035	HSC30363H
CA	LTACH	Kindred Hospital - San Diego	1940 El Cajon Boulevard	San Diego	92104-1005	05-2036	ZZT30220I
CA	LTACH	Kindred Hospital - Los Angeles	5525 West Slauson Avenue	Los Angeles	90056-1047	05-2032	HSC32032G
CA	SAU	Kindred Hospital - Brea	875 North Brea Boulevard	Brea	92821-2606	05-2039	HSP30711F
CO	LTACH	Kindred Hospital - Denver	1920 High Street	Denver	80218-1213	06-2009	05000310
CO	LTACH	Kindred Hospital Aurora	700 Potomac St., 2nd Floor	Aurora	80011-6846	06-2013	1003892563
FL	LTACH	Kindred Hospital - Bay Area St. Petersburg	3030 6th Street South	St. Petersburg	33705-3720	10-2009	0102768-00
FL	LTACH	Kindred Hospital - Bay Area - Tampa	4555 South Manhattan Avenue	Tampa	33611-2305	10-2009	0102342-00
FL	LTACH	Kindred Hospital - South Florida - Coral Gables	5190 Southwest 8th Street	Coral Gables	33134-2476	10-2010	0119938-00
FL	LTACH	Kindred Hospital - South Florida Ft. Lauderdale	1516 East Las Olas Boulevard	Ft. Lauderdale	33301-2346	10-2010	0100196-00
FL	LTACH	Kindred Hospital - South Florida - Hollywood	1859 Van Buren Street	Hollywood	33020-5127	10-2010	010191500
FL	LTACH	Kindred Hospital Ocala	1500 SW 1st Avenue, 5th Floor	Ocala	34471-6504	10-2019	010353500
FL	LTACH	Kindred Hospital The Palm Beaches	5555 W. Blue Heron Boulevard	Riviera Beach	33418-7813	10-2025	0004170-00
FL	LTACH	Kindred Hospital - North Florida	801 Oak Street	Green Cove Springs	32043-4317	10-2015	0102679-00
FL	LTACH	Kindred Hospital - Central Tampa	4801 North Howard Avenue	Tampa	33603-1411	10-2013	010230000
FL	LTACH	Kindred Hospital Melbourne	765 West Nasa Boulevard	Melbourne	32901-1815	10-2027	001681500
FL	SAU	Kindred Hospital - South Florida - Hollywood	1859 Van Buren Street	Hollywood	33020-5127	10-2010	0119938-00
IA	IRF	Mercy Rehabilitation Hospital	1401 Campus Drive	Clive	50325-6500	16-3025	1023520368
IA	IRF	Mercy Iowa City Rehabilitation Hospital	2801 Heartland Drive	Coralville	52241		
IL	LTACH	Kindred - Chicago - Central Hospital	4058 West Melrose Street	Chicago	60641-4794	14-2009	363915965001
IL	LTACH	Kindred - Chicago - Lakeshore	6130 North Sheridan Road	Chicago	60660-2830	14-2009	363915965001
IL	LTACH	Kindred Hospital - Chicago (North Campus)	2544 West Montrose Avenue	Chicago	60618-1537	14-2008	363915365003
IL	LTACH	Kindred Hospital - Chicago (Northlake Campus)	365 East North Avenue	Northlake	60164-2628	14-2008	363915365003
IL	LTACH	Kindred Hospital - Sycamore	225 Edward Street	Sycamore	60178-2137	14-2006	363915965002
IL	LTACH	Kindred Hospital Peoria	500 West Romeo B. Garrett Avenue	Peoria	61605-2301	14-2013	261579585001

State	Type	Name	Street Address	City	Zip Code	Provider #	Provider #
IN	IRF	Community Health Network Rehabilitation Hospital	7343 Clearvista Drive	Indianapolis	46256-4602	15-3043	201197340A
IN	IRF	Community Health Network Rehabilitation Hospital Sou	607 Greenwood Springs Drive	Greenwood	46143-6377	15-3044	300022505
IN	LTACH	Kindred Hospital Indianapolis North	8060 Knue Road	Indianapolis	46250-1976	15-2013	201398160A
IN	LTACH	Kindred Hospital - Indianapolis	1700 West 10th Street	Indianapolis	46222-3802	15-2007	100270780A
IN	LTACH	Kindred Hospital Northwest Indiana	5454 Hohman Avenue, 5th Fl.	Hammond	46320-1931	15-2012	200110710A
KY	LTACH	Kindred Hospital - Louisville at Jewish Hospital	200 Abraham Flexner Way, 2nd Fl Frazier Inst.	Louisville	40202-2878	18-2001	7100229550
KY	LTACH	Kindred Hospital - Louisville	1313 St. Anthony Place	Louisville	40204-1740	18-2001	7100229550
KY	SAU	Kindred Hospital - Louisville	1313 St. Anthony Place	Louisville	40204-1740	18-2001	7100229550
MO	LTACH	Kindred Hospital St. Louis South	10018 Kennerly Road, 3rd Floor, Hyland Bldg. B	St. Louis	631282106	26-2010	013126404
MO	LTACH	Kindred Hospital - St. Louis	4930 Lindell Boulevard	St. Louis	63108-1510	26-2010	013126404
MO	IRF	Mercy Rehabilitation Hospital Springfield	5904 S. Southwood Road	Springfield	65804-5234	26-3032	1871928473
MO	IRF	Mercy Rehabilitation Hospital St. Louis	14561 North Outer Forty Road	Chesterfield	63017-5703	26-3029	016341703
MO	LTACH	Kindred Hospital Northland	500 NW 68th Street	Kansas City	64118-2455	26-2018	016298705
MT	IRF	Rehabilitation Hospital of Montana	3572 Hesper Road	Billings	59102-6891	27-3025	1619445749
NC	LTACH	Kindred Hospital - Greensboro	2401 Southside Boulevard	Greensboro	27406-3311	34-2012	3402012
NC	SAU	Kindred Hospital - Greensboro	2401 Southside Boulevard	Greensboro	27406-3311	34-2012	3402012
NJ	LTACH	Kindred Hospital New Jersey - Morris County	400 W. Blackwell Street	Dover	07801-2525	31-2020	N/A
NJ	LTACH	Kindred Hospital New Jersey - Rahway	865 Stone Street, 4th Floor	Rahway	07065-2742	31-2020	N/A
NJ	LTACH	Kindred Hospital New Jersey - Wayne	224 Hamburg Turnpike, 6th Floor	Wayne	07470-2168	31-202000	N/A
NJ	IRF	Atlantic Rehabilitation Institute	200 Madison Avenue	Madison	07940-1016	31-3038	Pending
NM	LTACH	Kindred Hospital - Albuquerque	700 High Street, N.E.	Albuquerque	87102-2565	32-2002	B1267
NV	LTACH	Kindred Hospital - Las Vegas (Sahara Campus)	5110 West Sahara Avenue	Las Vegas	89146-3406	29-2002	5602007
NV	LTACH	Kindred Hospital Las Vegas - Flamingo Campus	2250 East Flamingo Road	Las Vegas	89119-5170	29-2002	5602027
NV	SAU No Ct.	Kindred Hospital Las Vegas - Flamingo Campus	2250 East Flamingo Road	Las Vegas	89119-5170	29-2002	5602027
OH	IRF	University Hospitals Rehabilitation Hospital	23333 Harvard Road	Beachwood	44122-6232	36-3036	0085308
OH	IRF	University Hospitals Avon Rehabilitation Hospital	37900 Chester Road	Avon	44011-1044	36-3039	0164764
OH	LTACH	Kindred Hospital - Dayton	707 S. Edwin C. Moses Boulevard	Dayton	45417-3462	36-2033	25-63695
OH	LTACH	Kindred Hospital Lima	730 West Market Street	Lima	45801-4602	36-2020	2168041
OK	IRF	Mercy Rehabilitation Hospital Oklahoma City	5401 W. Memorial Road	Oklahoma City	73142-2026	37-3033	200479750A
PA	LTACH	Kindred Hospital Philadelphia - Havertown	2000 Old West Chester Pike	Havertown	19083-2712	39-2027	001759216 0005
PA	LTACH	Kindred Hospital - Philadelphia	6129 Palmetto Street	Philadelphia	19111-5729	39-2027	001759216 0009
PA	IRF	Lancaster Rehabilitation Hospital	675 Good Drive	Lancaster	17601-2426	39-3054	1019110740001
PA	IRF	St. Mary Rehabilitation Hospital	1208 Langhorne Newtown Road	Langhorne	19047-1234	39-3055	1029900720001
TN	IRF	Baptist Memorial Rehabilitation Hospital	1240 South Germantown Road	Germantown	38138-2226	44-3034	N/A
TN	LTACH	Kindred Hospital - Chattanooga	709 Walnut Street	Chattanooga	37402-1916	44-2007	0442007
TX	LTACH	Kindred Hospital - Tarrant County (Arlington Campus)	1000 North Cooper Street	Arlington	76011-5540	45-2028	021011402
TX	LTACH	Southwest Campus)	7800 Oakmont Boulevard	Fort Worth	76132-4203	45-2028	021011401
TX	LTACH	Kindred Hospital Houston NW	11297 Fallbrook Drive	Houston	77065-4230	45-2039	021017101
TX	ARU	Kindred Hospital Houston Medical Center	6441 Main Street	Houston	77030-1502		
TX	ARU	Kindred Hospital Sugar Land	1550 First Colony Blvd.	Sugar Land	77479-4000		
TX	IRF	Methodist Rehabilitation Hospital	3020 W. Wheatland Road	Dallas	75237-3537	67-3031	N/A
TX	IRF	Texas Rehabilitation Hospital of Arlington	900 West Arbrook Blvd.	Arlington	76015-4314	67-3060	N/A
TX	IRF	Texas Rehabilitation Hospital of Fort Worth	425 Alabama Avenue	Fort Worth	76104-1022	67-3048	N/A
TX	IRF	Central Texas Rehabilitation Hospital	700 West 45th Street	Austin	78751-2800	67-3027	190809701
TX	LTACH	Kindred Hospital - San Antonio Central	111 Dallas Street, 4th Floor	San Antonio	78205-1201	45-2073	3662223-01

State	Type	Name	Street Address	City	Zip Code	Provider #	Provider #
TX	LTACH	Kindred Hospital - San Antonio	3636 Medical Drive	San Antonio	78229-2183	45-2016	021002301
TX	LTACH	Kindred Hospital - Mansfield	1802 Highway 157 North	Mansfield	76063-3923	45-2019	021004901
TX	LTACH	Kindred Hospital Houston Medical Center	6441 Main Street	Houston	77030-1502	45-2023	021008001
TX	LTACH	Kindred Hospital Sugar Land	1550 First Colony Blvd.	Sugar Land	77479-4000	45-2080	157203401
TX	LTACH	Kindred Hospital Dallas Central	8050 Meadow Road	Dallas	75231-3406	45-2108	3203846-03
TX	LTACH	Kindred Hospital El Paso	1740 Curie Drive	El Paso	79902-2901	45-2079	150967102
TX	LTACH	Kindred Hospital Clear Lake	350 Blossom Street	Webster	77598-4206	45-2075	149047601
WA	IRF	CHI Franciscan Rehabilitation Hospital	815 S. Vassault Street	Tacoma	98465-2008	50-3026	2105525
WA	LTACH	Kindred Hospital Seattle - First Hill	1334 Terry Avenue	Seattle	98101-2747	50-2002	2133036
WI	IRF	UW Health Rehabilitation Hospital	5115 N. Biltmore Lane	Madison	53718-2161	52-3028	1831583145
WI	IRF	Rehabilitation Hospital of Wisconsin	1625 Coldwater Creek Drive	Waukesha	53188-8028	52-3027	1417120197

Kindred Healthcare
Rehabilitation Agencies
As of: 5/31/2020

State	D/B/A Name	Name of Facility (may be located inside another business)	Address	City	Zip	Medicare Provider #	Medicaid Provider #
AL	RehabCare	RehabCare Agency AL	235 Inverness Center Drive, Apt. 148	Birmingham	35242-4805	01-6556	N/A
CA	RehabCare	RehabCare Agency S CA (Laguna Hills)	24422 Avenida de la Carlota, Ste 165	Laguna Hills	92653-3636	55-6581	N/A
CA	RehabCare	RehabCare Agency N CA (Pleasant Hill)	399 Taylor Blvd, Suite 208	Pleasant Hill	94523-2287	55-6585	N/A
CO	RehabCare	RehabCare Agency CO	12567 West Cedar Drive, Suite 120	Lakewood	80228-2039	06-6626	9000152213
CO	RehabCare	Mullen Home - Little Sisters of the Poor	3629 W. 29th Avenue	Denver	80211-3611	06-6626	9000161913
CO	RehabCare	Balfour at Riverfront Park	1590 Little Raven Street	Denver	80202-6182	06-6626	N/A
CO	RehabCare	Springbrooke	6800 Leetsdale Drive	Denver	80224-1588	06-6626	9000165591
CO	RehabCare	Balfour at Littleton	8160 W.Coal Mine Avenue	Littleton	80123-4430	06-6626	N/A
CO	RehabCare	Balfour Retirement	1855 Plaza Drive	Louisville	80027-2325	06-6626	9000161740
FL	RehabCare	Bob Hope Village	1200 Hawthorne House Drive	Shalimar	32579-1168	68-6949	023589900
FL	RehabCare	American House	4595 Hwy 20 East	Nicevile	32578	68-6949	
IL	RehabCare	RehabCare Agency IL	15 Bronze Pointe, Suite B	Swansea	62226-1197	14-6723	1437323367
IL	RehabCare	Apt. Com. Lady of the Snows	726 Community Drive	Belleville	62223-1026	14-6723	N/A
IL	RehabCare	Garden Place of Colulmbia	480DD Road	Columbia	62236-3837	14-6723	N/A
IL	RehabCare	Beverly Farm	812 Airport Road	Godfrey	62035-2163	14-6723	N/A
IL	RehabCare	IL Rehab Agency Algonquin	212 Eastgate Court	Algonquin	60102-3003	14-6752	1871037861
IN	Bedford Outpatient Therapy Specialists	Bedford Outpatient Therapy Specialists	2137 16th Street	Bedford	47421-3003	15-6640	201216430A
KS	RehabCare	RehabCare Agency KS	15301 West 87th Street, Suite 200	Lenexa	66219-1479	17-6552	N/A
KS	RehabCare	The Sheridan at Overland Park	10300 Indian Creek Parkway	Overland Park	66210-2274	17-6552	N/A
KY	RehabCare	RehabCare Agency KY	108 Diagnostic Drive, Suite C	Frankfort	40601-6556	18-6696	7100487970
KY	RehabCare	Provision Living at Beaumont Centre	1165 Monarch Street	Lexington	40513-1899	18-6696	
LA	The Therapy Group, LLC	The Therapy Group, LLC	7843 Park Avenue	Houma	70364-3112	19-6559	1930598
LA	The Therapy Group, LLC	The Clairborne	2495 Talbot Avenue	Thibodaux	70301-3998	19-6559	1930598
MA	RehabCare	RehabCare Agency MA	49 State Road, Pequot Building, Suite 101A	Dartmouth	02747-3322	22-6550	N/A
MA		The Neuro Rehab Center at Worcester	59 Acton Street	Worcester	01604-4829	N/A	110091687A
MD	Peoplefirst Rehabilitation Services	Peoplefirst Rehabilitation Services (located @ Mercy Ridge Retirement Community)	2525 Pot Springs Road	Timonium	21093-2778	21-6681	416173400
MD	Peoplefirst Rehabilitation Services	Brookdale Olney	2611 Olney Sandy Springs Road	Olney	20832-1604	21-6681	416173400
MI	RehabCare	MI RehabCare Agency	1300 N. Telegraph Rd	Dearborn	48128-1204	23-6891	N/A
MN	RehabCare	RehabCare Agency MN	3390 Annapolis Lane N. (eff. 3/1/18)	Plymouth	55447-5379	24-6509	333993000
MO	RehabCare	RehabCare Agency MO	439 S. Kirkwood Rd, Suite 200	Kirkwood	63122-6169	26-6554	573258407
MO	RehabCare	Autumn View Gardens Ellisville	16219 Autumn View Terrace	Ellisville	63011-4743	26-6554	573258407
MO	RehabCare	Crab Apple Village Senior Estates	214 Hartman Place, Suite 100	St. Clair	63077-2457	26-6554	573258407

Kindred Healthcare
Rehabilitation Agencies
As of: 5/31/2020

State	D/B/A Name	Name of Facility (may be located inside another business)	Address	City	Zip	Medicare Provider #	Medicaid Provider #
MO	RehabCare	Fountains of West County	15826 Clayton Road	Ellisville	63011-2240	26-6554	573258407
MO	RehabCare	Primrose Retirement Com. Jeff. City	1214 Freedom Boulevard	Jefferson City	65109-0082	26-6676	N/A
MO	RehabCare	The Sheridan at Laumeier Park	12470 Rott Rd.	Saint Louis	63127	26-6554	573258407
MO	RehabCare	The Sheridan at Creve Coeur	450 N. Lindbergh Blvd.	Creve Coeur	63141	26-6554	573258407
NC	RehabCare	RehabCare Agency NC	932 Hendersonville Road, Suite 104	Asheville	28803-1761	34-6520	1477507523
NC	RehabCare	Deerfield Episcopal	29 Highbridge Crossing	Asheville	28803-3496	34-6520	1477507523
NC	RehabCare	Brooks Howell Home	266 Merrimon Avenue	Asheville	28801-1218	34-6520	1477507523
OH	RehabCare	RehabCare Agency OH	3864 Center Road, Ste B1	Brunswick	44212-6601	36-6761	0331166
OH	RehabCare	Forest Hills Place Senior Living	3151 Mayfield Road	Cleveland	44118-1757	36-6761	0331166
OK	RehabCare	RehabCare Agency OK	4301 NW 63rd, Ste 304	Oklahoma City	73116-1504	37-6588	200100810A
PA	RehabCare	RehabCare Agency PA	1513 Scalp Avenue, Unit #260	Johnstown	15904-3332	39-6608	N/A
SC	RehabCare	RehabCare Agency SC	421 Squire Pope Road	Hilton Head Island	29926-1229	42-6648	N/A
TN	RehabCare	RehabCare Agency TN	2851 Stage Village Cove, Suite 6	Bartlett	38134-4683	44-6564	Q025161
TN	RehabCare	RehabCare @ Ashland City	2035 Vantage Pointe Road	Ashland C ity	37015-4093	44-6717	Q034161
TN	RehabCare	RehabCare @ Chattanooga	825 Runyan Drive	Chattanooga	37405-1225	44-6721	Q047685
TX	RehabCare	RehabCare Agency TX	4300 Cotton Gin Road, Suite 100	Frisco	75034-4480	45-6662	184688301
TX	RehabCare	Isle at Watermere	101 Watermere Drive	Southlake	76092-8116	45-6662	184688301
TX	RehabCare	Isle at Watercrest of Mansfield	200 East Debbie Lane	Mansfield	76063-9211	45-6662	184688301
TX	RehabCare	James L. West Alzheimer Center	1111 Summitt Avenue	Fort Worth	76102-3425	45-6662	184688301
TX	RehabCare	Heritage Tomball Senior Living	1221 Graham Drive	Tomball	77375	67-6740	394690701
TX	RehabCare	RehabCare @ Round Rock	2851 Joe DiMaggio Boulevard, Bldg. 6, Unit 12	Round Rock	78665-3928	67-6743	394537001
TX	RehabCare	RehabCare @ Raider Ranch	6806 43rd Street	Lubbock	79407-1947	67-6747	394289801
TX	RehabCare	RehabCare @ Isle at Watercrest Dominion	6906 Heuermann Road	San Antonio	78256-2619	67-6746	395485101
VA	Peoplefirst Rehabilitation Services	Peoplefirst Virginia, LLC	112 Oaktree Boulevard	Christiansburg	24073-1488	49-6707	1124216155
VA	Peoplefirst Rehabilitation Services	English Meadows	1140 West Main Street	Christiansburg	24073-4222	49-6707	1124216155
WA	RehabCare	RehabCare Agency WA	8105 166th Avenue NE, Suite 105	Redmond	98052-3999	50-6611	1063954972
WI	RehabCare	RehabCare Agency WI	3939 S. 92nd Street	Greenfield	53228-2140	52-6538	41814900

Exhibit 3
Medical Director Contract

PRESIDENT OF MEDICAL STAFF SERVICES AGREEMENT

THIS PRESIDENT OF MEDICAL STAFF SERVICES AGREEMENT (the "Agreement") is made and entered into by and between THC - Seattle, LLC ("Kindred") and Dr. Vanessa Loland, M.D. ("Physician").

RECITALS:

A. Kindred operates a hospital located in Seattle, in the state of Washington (the "State"), known as Kindred Hospital Seattle - First Hill (the "Hospital").

B. Physician is duly qualified and licensed to practice medicine in the State.

C. Kindred and Physician are not parties to any existing professional services agreements.

D. Hospital, Hospital's medical staff and Physician desire that Physician act as president of the medical staff for the Hospital.

AGREEMENT:

NOW, THEREFORE, the parties hereto agree as follows:

1. **President of Medical Staff**. During the term of this Agreement, Physician agrees to serve as president of the medical staff for the Hospital (the "President"). In connection therewith, Physician agrees to perform the following:

a. Consult with and advise Hospital departments and medical staff appointees regarding appropriate patient care and other clinical issues and have general supervision over all professional work performed at Hospital.

b. Represent the Hospital's medical staff at all Governing Board meetings.

c. Serve as the chairperson of both the Medical Executive Committee and Credentials Committee.

d. Serve on medical staff committees as requested by the Hospital Chief Executive Officer.

e. Participate fully in Hospital's quality improvement program (utilization review, quality improvement, infection control, risk management and peer review).

f. Attend meetings of the medical staff and other meetings as required.

g. Maintain the policies of the Hospital as expressed in medical staff bylaws, rules, regulations and otherwise as they relate to the Hospital and purpose of this Agreement.

2. **Qualifications and Medical Staff Membership**. Physician shall at all times during the term of this Agreement: (i) hold a valid and unrestricted license to practice medicine in the State; (ii) maintain board certification or board eligibility in a specialty which is acceptable to Hospital; (iii) be an active member of the Hospital's medical staff, with all the privileges and responsibilities of medical staff membership and subject to the supervision of the Medical Executive Committee; (iv) maintain a DEA license to prescribe controlled substances; and (v) satisfy the terms and conditions set forth in this Agreement as a condition precedent to Hospital's obligations hereunder.

3. **Compensation.**

a. **President of Medical Staff Services.** Kindred shall pay Physician, in consideration for acting as President, a fee of $245.00 per hour (the "Fee"). Partial hours will be paid on a fifteen (15) minute increment basis. Physician agrees to furnish the Hospital with a monthly summary of the documented administrative and supervisory hours of services performed by Physician. Physician shall invoice Kindred on a monthly basis for the services, and Kindred shall pay Physician the Fee no later than sixty (60) days following the date Kindred receives and approves the invoice and the summary of hours of service. **NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT, IN THE EVENT KINDRED RECEIVES THE REQUIRED TIME RECORDS MORE THAN SIXTY (60) DAYS FOLLOWING THE END OF THE MONTH COVERED BY SUCH TIME RECORDS, THEN NO COMPENSATION SHALL BE DUE FROM KINDRED TO PHYSICIAN WITH RESPECT TO SERVICES PERFORMED DURING SUCH MONTH.** Kindred shall have the authority to request additional or supplementary reports to establish the extent of services provided hereunder. In the event Kindred determines that such reports and records do not accurately reflect or document services hereunder for which payment has been made to Physician, then upon written notice to Physician, Physician shall promptly refund to Kindred the amount of overpayment as determined by Kindred. In the event this Agreement is terminated for any reason by either party, compensation shall be due only for services actually rendered through the effective date of such termination subject to the requirements for verification and other provisions of this Agreement.

b. **Changes in Law**. Physician will work cooperatively with Hospital to implement new procedures, controls, or systems which Hospital may consider necessary in connection with changes in the law or in contracts governing third-party reimbursement. Physician will comply with those provisions of the law which affect Hospital (including laws affecting reimbursement) and will cooperate fully with Hospital in such matters, including Medicare audits and other reimbursement matters. Physician will not do anything which will affect adversely such reimbursement or the Medicare provider status of Hospital.

4. **Time Records**. For purposes of supporting compensation paid hereunder, and consistent with the requirements of federal and state law, the Physician shall maintain time records for each month certifying hours of service provided pursuant to this Agreement. Physician shall submit time records as a condition precedent to the Kindred's payment obligation hereunder. Physician shall utilize the time record form provided by Hospital's Administrative Office. Time records shall be due and submitted to Kindred on or before the 30th day following the close of the month to which the records refer and in no event shall such time records be submitted to, or

accepted by, Kindred later than the 60th day following the end of the month covered by such time records. As part of the time records, Physician shall certify the actual number of hours spent during the month performing services for which Physician receives compensation from Kindred under this Agreement. Kindred may, in its discretion, require additional documentation to establish the extent and value of services provided hereunder.

5. **Professional Standards**. All services herein shall be performed in accordance with all professional standards and in conformance with the rules and regulations of Hospital. Physician shall be qualified as a member in good standing of the professional staff of Hospital and upon qualification shall be subject to all the responsibilities of such staff membership in accordance with the medical staff bylaws and other rules and regulations applicable to Hospital. Physician shall be subject to the ultimate authority and responsibility of the Hospital's governing body for the quality of care provided in the Hospital.

6. **Term and Termination.**

a. **Term.** This Agreement shall be effective as of the 26th day of November, 2019 for a term of one (1) year, unless otherwise terminated earlier as provided below (the "Term").

b. **Termination.** Notwithstanding the foregoing, this Agreement may be terminated by either party for any reason by giving sixty (60) days' prior written notice to the other party. The parties agree and intend that this Agreement is to comply with and be subject to all applicable Federal, State and local laws, rules and regulations, whether now existing, or hereinafter enacted, adopted or created, and each party agrees to abide by all such laws, rules and regulations. In the event any law, rule or regulation, in the opinion of either party's legal counsel, materially affects the obligations of a party or the parties to this Agreement, or may violate or does violate any such law, rule or regulation, the parties agree to negotiate in good faith to amend this Agreement to comply with such law, rule or regulation. If the parties are unable to agree to an amendment, either party shall have the right to immediately terminate this Agreement. It is also the intention of the parties that the compensation, billing and collection arrangements provided for in this Agreement shall not violate any such law, rule or regulation. If, subsequent to the execution of this Agreement, it is determined by either party's legal counsel that this Agreement or any such arrangement herein may violate or does violate any such law, rule or regulation, the parties agree to come together and renegotiate such arrangement so that it, as well as this entire Agreement, complies with such law, rule or regulation. In the event the parties are unable to come to an agreement within sixty (60) calendar days, or sooner if required by law, either party may, without further notice, immediately terminate this Agreement. In the event of the termination of this Agreement for any reason prior to the one (1) year anniversary date hereof, as required under 42 U.S.C. § 1320(a)-7b(b) and 42 U.S.C. § 1395nn, the parties hereto agree not to enter into any similar agreement with each other, on substantially similar terms, for the remainder of said twelve (12) month period.

c. **Default.** If either party commits a breach of this Agreement, the nonbreaching party may terminate the Agreement upon no less than ten (10) days' prior written notice if the breach is not cured within ten (10) days of the breaching party's receipt of written notice of the breach provided, however, Kindred may terminate this Agreement immediately upon the occurrence of any of the following events:

i. Physician's failure to provide adequate coverage as required by this Agreement;

ii. Any act or omission of Physician which jeopardizes the health or safety of any person;

iii. Any loss or suspension or restriction of medical license or loss or suspension or restriction of a DEA narcotics registration certificate or loss or suspension or restriction of Hospital medical staff membership or clinical privileges by Physician; or

iv. Any conviction of Physician of a felony, regardless of whether involving moral turpitude, or a misdemeanor involving moral turpitude.

d. **Termination for Cause**. In the event Physician fails for any reason to meet the qualifications set forth in Section 2, is removed for failure to perform the duties of President of the Medical Staff hereunder, or in the event of such Physician's: (i) death; or (ii) disability which Hospital determines prevents the Physician from carrying out the essential duties and functions required under the terms of this Agreement then Hospital may terminate this Agreement upon written notice to Physician.

7. **Insurance.**

a. **By Physician**. Physician will at all times throughout the Term maintain professional liability insurance in accordance with the Hospital medical staff bylaws, Hospital rules and regulations, and federal, state and local law. Upon termination or expiration of this Agreement, if Physician maintains a policy with insurance that is claims made insurance rather than occurrence insurance Physician will either (i) purchase tail coverage to continue the liability insurance coverage for the period during which the Physician rendered services hereunder or (ii) continue in full force and effect the same level of liability insurance coverage of a claims made basis until the longest statute of limitations for professional liability for acts committed at Hospital has expired.

b. **By Kindred.** Kindred will at all times throughout the Term, maintain liability insurance for administrative and supervisory services provided by Physician. During the term of the Agreement, Kindred shall either (i) maintain at its sole cost and expense, comprehensive general public liability and property damage insurance in an amount adequate to cover the associated risks or (ii) maintain an equivalent program of funded self-insurance.

8. **Compliance**. Physician acknowledges that he or she is aware of Kindred's compliance program and code of conduct. Physician certifies that he or she has received a copy of the code of conduct, which requires that all services provided to Hospital be performed in an ethical and legal manner. Physician certifies that he or she will fulfill his or her respective obligations under this Agreement in accordance with the standards set forth in the code of conduct. In addition, Physician agrees to participate in one (1) hour of general compliance training on an annual basis, which will include an annual certification of Physician's compliance with Kindred's code of conduct.

9. **Parties' Relationship**. Physician at all times will act as independent contractor and not as a partner or agent of Kindred or Hospital. Physician will not act or hold himself or herself out to third parties as a partner, employee, or agent of Kindred or Hospital in the provision of services under this Agreement.

10. **Incurring Financial Obligation**. Physician will not incur any financial obligation on behalf of Kindred or Hospital without the prior written approval of Kindred.

11. **Space, Equipment and Supplies**. During the Term, Hospital will make available the space, utilities, equipment, supplies, and services, including housekeeping and laundry, reasonably necessary for the services performed pursuant to this Agreement. Physician will use such space, utilities, equipment, supplies and services solely for the purpose of fulfilling the administrative and supervisory duties outlined in this Agreement. Hospital in its sole discretion may provide alternative but equally suitable space, utilities, equipment, supplies and services.

12. **Access to Books and Records.** Upon the written request of the Secretary of Health and Human Services or the Comptroller General or any of their duly authorized representatives, Physician will make available those contracts, books, documents, and records necessary to verify the nature and extent of the costs of providing services under this Agreement. Such inspection shall be available up to four (4) years after the rendering of such services. If Physician carries out any of the duties of this Agreement through a subcontract with a value of $10,000 or more over a twelve (12) month period with a related individual or organization, Physician agrees to include this requirement in any such subcontract. This section is included pursuant to and is governed by the requirements of 42 U.S.C. § 1395x(v)(1) and the regulations promulgated thereunder. If Physician is requested to disclose any books, documents, or records relevant to this Agreement for the purpose of an audit or investigation relating directly to the provision of services under this Agreement (e.g., a governmental investigation of billing practices or services provided to Hospital patients), Physician shall notify Hospital of the nature and scope of such request and shall make available to Hospital, upon written request, all such books, documents, or records.

13. **Regulatory Requirements**. Hospital and Physician will provide services contemplated by this Agreement at all times in compliance with federal, state, and local law, rules, and regulations, the policies, rules, and regulations of Hospital, the medical staff bylaws, the applicable standards of The Joint Commission, and all currently accepted and approved methods and practices of the specialty. The parties expressly agree that nothing contained in this Agreement shall require Physician to refer or admit any patients to Hospital. Notwithstanding any unanticipated effect of any provisions of this Agreement, neither party will intentionally conduct itself in such a manner as to violate the prohibition against fraud and abuse in connection with the Medicare and Medicaid programs or other Federal programs.

14. **Notices.** All notices, consents or other communications which either party is required or may desire to give to the other under this Agreement shall be in writing and shall be given by personal delivery or by deposit, postage prepaid, in the United States mail or via certified or registered mail, return receipt requested, addressed to the parties at their respective addresses set forth below:

If to Kindred:

Kindred Hospital Seattle - First Hill
1334 Terry Avenue
Seattle, Washington 98101
Attn: Chief Executive Officer

and to:

THC - Seattle, LLC
680 South Fourth Street
Louisville, KY 40202
Attn: President of Hospital Operations
cc: Chief Counsel, Hospital Division

If to Physician:

Dr. Vanessa Loland, M.D.
3122 B Franklin Avenue E

Seattle, WA 98102

Any notice mailed in compliance with this section shall be deemed to have been given upon the earlier of receipt or three (3) days after deposit, except that notice of change of address shall not be deemed effective until actual receipt by the intended recipient.

15. **Mediation.** The parties agree that they will endeavor to settle any dispute, controversy or claim arising out of or relating to this Agreement, which they are unable to settle through direct discussions, by mediation administered by the National Arbitration Forum under its rules before resorting to arbitration, litigation or other dispute resolution procedure. The requirement of filing a notice of claim with respect to the dispute submitted to mediation shall be suspended until the conclusion of the mediation process. Each party shall share equally in the costs associated with any required mediation.

16. **Certification**. Physician certifies, by executing this Agreement, that he or she is not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this Agreement by any federal department or agency or by the State.

17. **HIPAA Compliance**. Physician acknowledges that he/she meets the definition of a "business associate," and the Hospital acknowledges that it meets the definition of a "covered entity" as set forth in the regulations adopted pursuant to the Health Insurance Portability and Accountability Act (hereinafter, the Health Insurance Portability and Accountability Act and its implementing regulations (including, without limitation, the privacy regulations adopted at 45 C.F.R. Parts 160 and 164 and the code set regulations adopted at 45 C.F.R. Parts 160 and 162), and as same may be amended from time to time, collectively referred to as "HIPAA"), and that this Agreement is subject to the requirements for business associate contracts with covered entities, which will involve the use of individually identifiable health information ("Protected Health Information," as that term is defined by HIPAA). Physician acknowledges that the Hospital will be providing Protected Health Information to the Physician in order for the Physician to carry out his/her obligations under this Agreement. Physician may use the Protected Health Information only for the purpose of carrying out his/her obligations under this Agreement and may not utilize or disclose Protected Health Information other than as permitted or required by this Agreement, or as permitted or required by law. The parties covenant and agree that as of the effective date of the applicable HIPAA regulations that the parties will not use Protected Health Information in any manner that would constitute a violation of HIPAA and will comply with the requirements of HIPAA. The parties further agree that this Agreement shall be deemed automatically amended to incorporate any and all amendments to HIPAA by statute, regulation or Department of Health and Human Services directive, rule or policy, or an interpretation by any court of competent jurisdiction. The parties further agree to:

a. Not use or further disclose Protected Health Information, other than as permitted or required by this Agreement or as required by law;

b. Use appropriate safeguards to prevent the use or disclosure of Protected Health Information other than as provided for in this Agreement;

c. Report to the Hospital any use or disclosure of Protected Health Information not provided for by this Agreement of which business associate becomes aware, including any breach of unsecured PHI, within three (3) days of business associate's discovery of such use or disclosure;

d. Ensure that any agents, including any subcontractors, to whom business associate provides Protected Health Information received from (or created or received by business associate on behalf of) the Hospital, execute a written agreement in which they agree to the same restrictions and conditions that apply to business associate with respect to such information;

e. Ensure that if business associate conducts transactions (defined as the transmission of information between two (2) parties to carry out financial or administrative activities related to health care) in whole or in part for or on behalf of the Hospital, business associate will comply, and will require any of its subcontractors or agents involved with the conduct of such transactions to comply, with each applicable requirement of 45 C.F.R. Parts 160 and 162 for standard transactions;

f. Make available Protected Health Information to individuals seeking access to information about themselves in accordance with 45 C.F.R. § 164.524;

g. Make available Protected Health Information for amendment and incorporate any amendments to Protected Health Information in accordance with the requirements of 45 C.F.R. § 164.526;

h. Make available the information required to provide an accounting of disclosures of Protected Health Information in accordance with 45 C.F.R. § 164.528;

i. Make its internal practices, books and records relating to the use and disclosure of Protected Health Information received from, or created or received by business associate on behalf of, the Hospital available to the Secretary of the United States Department of Health and Human Services for purposes of determining the Health Care Hospital's compliance with 45 C.F.R. Parts 160 and 164;

j. Upon termination of this Agreement, return or destroy all Protected Health Information received from, or created or received by business associate on behalf of, the Hospital that business associate still maintains in any form, and retain no copies of such information, or, if such return or destruction is not feasible, extend the protections of this Agreement to the information and limit further uses and disclosures to those purposes that make return or destruction of the information infeasible.

k. The Hospital may immediately terminate this Agreement in the event that business associate materially breaches any provision of this Agreement.

l. Electronic Protected Health Information. To the extent that business associate creates, receives, maintains or transmits Electronic Protected Health Information on behalf of the Hospital, business associate agrees to:

i. Implement administrative, physical and technical safeguards that reasonably and appropriately protect the confidentiality, integrity and availability of the Electronic Protected Health information;

ii. Ensure that any agent, including a subcontractor, to whom it provides Electronic Protected Health information agrees to implement reasonable and appropriate safeguards to protect it; and

iii. Report to the Hospital any security incident involving Electronic Protected Health Information of which business associate becomes aware within three (3) days of business associate's discovery of such security incident.

m. Business associate shall indemnify and be responsible to Hospital for any fines or expenses incurred by Hospital or its affiliates as a result of a breach of Protected Health Information caused by business associate or business associate's subcontractors or agents.

18. Miscellaneous.

a. Governing Law; Severability. This Agreement shall be construed under, and governed in accordance with, the laws of the State in which Hospital is located. The invalidity or unenforceability of any

provision herein shall not affect the validity or enforceability of any other provision.

b. **Nondiscrimination.** Neither party shall discriminate on the basis of race, color, sex, age, religion, national origin, sexual orientation, pregnancy, marital status, veteran status or handicap in providing services under this Agreement or in the selection of employees or independent contractors.

c. **EEOC Executive Order 11246**. Unless this Agreement is exempted by rules, regulations, or orders of the Secretary of the United States Department of Labor, the parties agree to comply with the Equal Employment Opportunity provisions of Executive Order 11246, § 503 of the Rehabilitation Act of 1973, and the Vietnam Era Veterans' Readjustment Assistance Act.

The parties shall abide by the requirements of 41 CFR 60-1.4(a), 60-300.5(a) and 60-741.5(a). These regulations prohibit discrimination against qualified individuals based on their status as protected veterans or individuals with disabilities, and prohibit discrimination against all individuals based on their race, color, religion, sex, sexual orientation, gender identity or national origin. Moreover, these regulations require that covered prime contractors and subcontractors take affirmative action to employ and advance in employment individuals without regard to race, color, religion, sex, sexual orientation, gender identity, national origin, protected veteran status or disability.

The parties also agree, where applicable, to comply with the regulations set forth under 29 CFR part 471, Appendix A to Subpart A regarding NLRA compliance.

d. **Headings.** The headings of this Agreement are inserted for convenience only and are not to be considered in the interpretation of this Agreement.

e. **Assignability.** Neither party may assign its rights or obligations hereunder without the prior written approval of the non-assigning party.

f. **No Waiver.** No waiver of a breach of any provision of this Agreement will be construed to be a waiver of any other breach of this Agreement, whether of a similar or dissimilar nature.

g. **Survival.** Any provisions of this Agreement creating obligations extending beyond the term of this Agreement will survive the expiration or termination of this Agreement, regardless of the reason for such termination.

h. **Entire Agreement; Amendment.** This Agreement constitutes the entire agreement of the parties hereto and supersedes all prior or contemporaneous agreements, undertakings and understandings of the parties in connection with the subject matter hereof. This Agreement may be modified or amended only in writing duly signed by both parties.

i. **Confidentiality.** In order to facilitate the performance of this Agreement, each party may deem it necessary to disclose to the other certain proprietary and/or confidential information. Such information may include, without limitation, patient information, personnel information, financial information, market information, pricing information and service delivery information. Each party agrees to keep such information

confidential.

j. Electronic Storage of Agreement. The parties agree that the original of the Agreement, including the signature pages, may be scanned and stored in a computer database or similar device, and that any printout or other output which is readable, and which is shown to be an accurate reproduction of the original of this document, may be used for any purpose just as if it were the original Agreement, including the proof of the content of the original writing and the signing of the original writing.

19. Other Arrangements. The existence of this Agreement shall be recorded on a master list of contracts maintained by the Hospital and updated centrally and available for review by the Secretary of Health and Human Services. Such master list shall conform to the requirements of 42 C.F.R. Section 411.357(d).

20. Custody of Medical Records. Physician agrees that all patients for whom Services are performed under the terms of this Agreement are patients of the Hospital. Physician understands and agrees that during the Term and thereafter all medical records, patient charts, case records, case histories or other files concerning patients of Hospital shall belong to and remain the property of Hospital.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth below.

Dr. Vanessa Loland, M.D.

Dated: 11/26/19 ("Physician")

THC - Seattle, LLC d/b/a
Kindred ~~Hospital~~ Seattle - First Hill
By: _____
Title: Chief Executive Officer

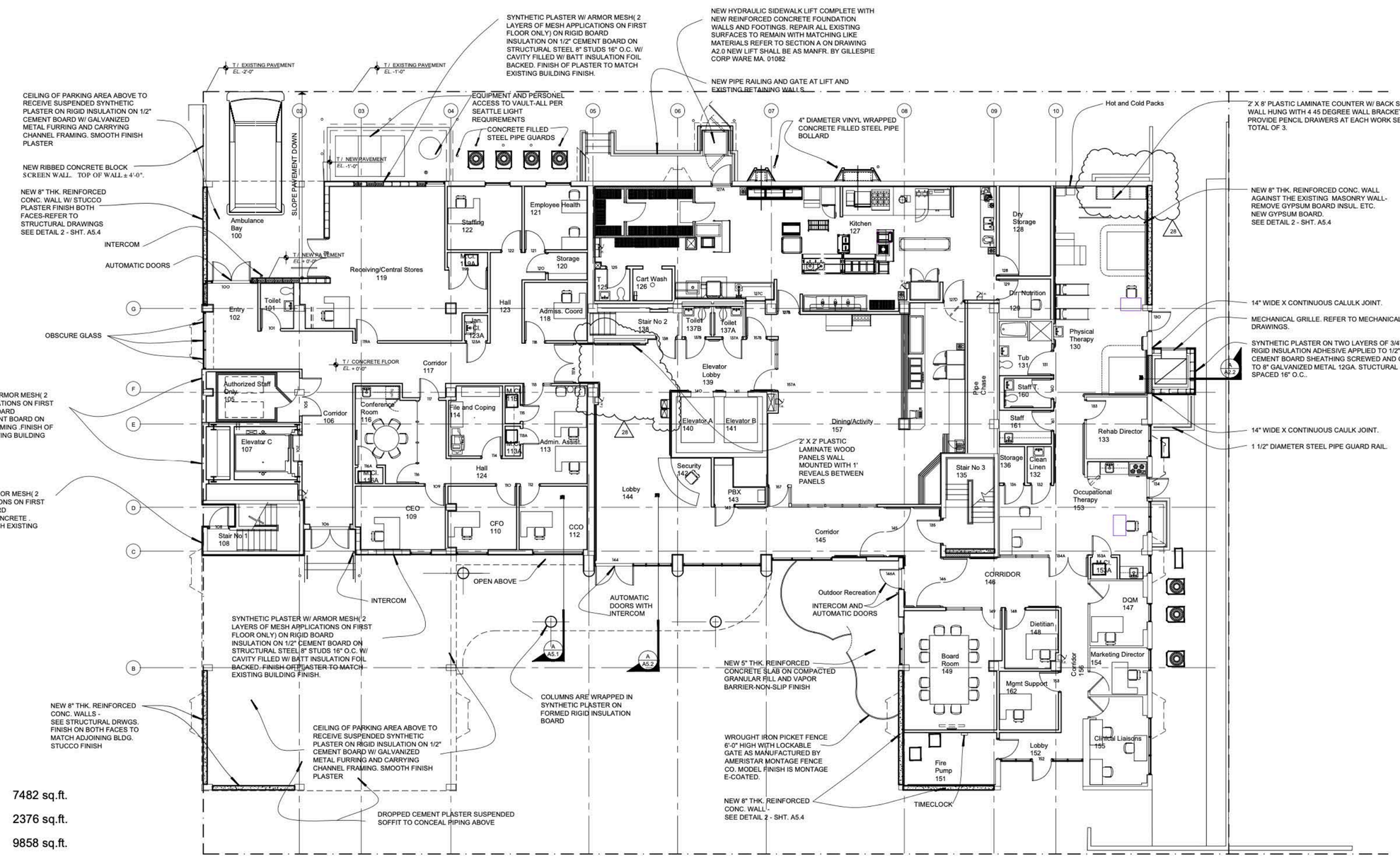
Dated: 11/26/19 ("Hospital")

Exhibit 4
Equipment List

	Total Cost
Fukuda Denshi USA, INC. Telemetry	$143,457
Ro-Vic Wood Products Med Cabinets	$27,320
Medline Bladder Scanners Bio-con	$19,365
Philips 2 Philips TC50 ECG Card	$16,899
Masimo 18 RAD-95 Pulse Ox mac	$9,846
HP Elitebook	$7,291
Pivium 6 TV's and 6 Swing Arms	$6,877
Owens & Minor M9 Autoclave	$2,738
HP Thin Clients Computer Screens (15 screens, installation)	$64,000
	$297,793

Exhibit 5
Single Line Drawings

Existing 1st, 2nd and 3rd Floors



Existing Area	7482 sq.ft.
New Area	2376 sq.ft.
Total Area	9858 sq.ft.

First Floor Plan

SCALE : 1/8" = 1'-0"

BELLI & BELLI ARCHITECTS & ENGINEERS INCORPORATED

BELLI & BELLI OF MISSOURI INCORPORATED

ILLINOIS OFFICE
39 SOUTH MILWAUKEE AVENUE
WHEELING ILLINOIS 60090

NO.	DATE	REVISIONS
03	11.05.2007	REVISION 01 / ADDENDA 03 MISC CODE REVISION
04	05.29.2008	MISCELLANEOUS REVISIONS - ISSUE FOR PERMIT 05.29.08
07	12.24.2008	ENERGY CODE REVIEW COMMENTS
. 12	4-15-10	Miscellaneous Changes
. 15	6.25.2010	Partition Changes
. 16	6.30.2010	Kitchen Equipment Change
. 24	12.15.2010	Miscellaneous Changes
. 28	04.20.11	Additional Owner Changes

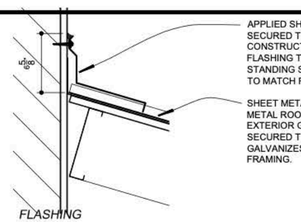
CDMM. NO. 1617

DATE 02.08.2006

First Floor Plan
Improvements To
Kindred Healthcare Inc.
Seattle First Hill Hospital
1334 Terry Avenue, Seattle WA 98101
PROJECT

SHEET **A2.1** OF

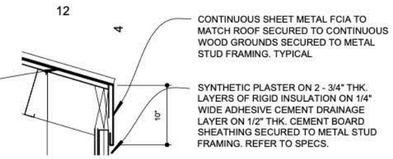
8951 REGISTERED ARCHITECT ALLEN JOHN BELLI STATE OF WASHINGTON



FLASHING

DETAIL 2

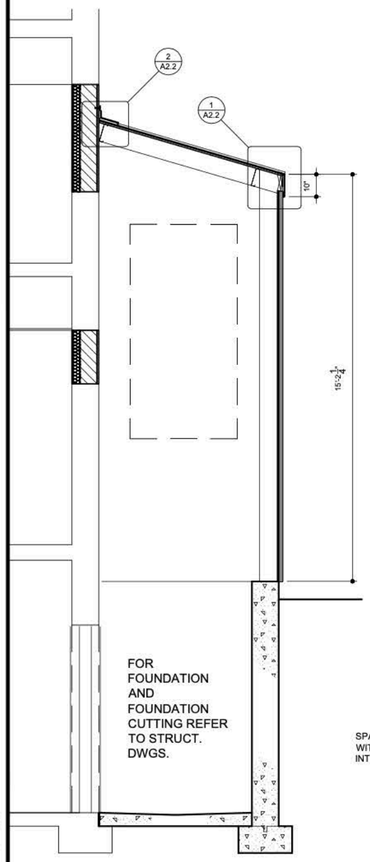
SCALE : 1 1/2" = 1'-0"



FACIA

DETAIL 1

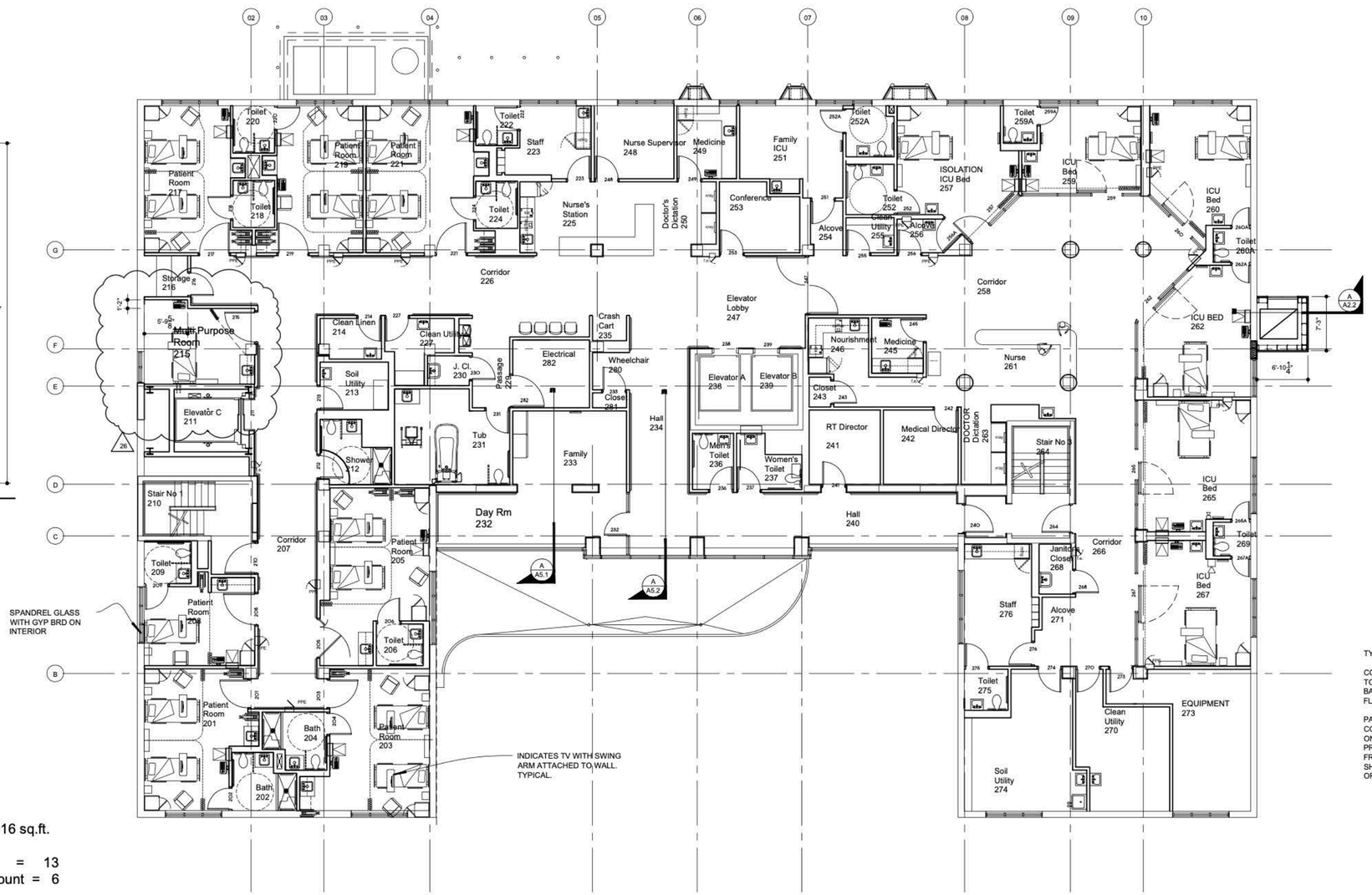
SCALE : 1" = 1'-0"



SECTION THRU MECHANICAL SHAFT

SECTION A

SCALE : 3/8" = 1'-0"



Area = 11916 sq.ft.

Bed Count = 13
ICU Bed Count = 6

Total Bed Count = 19

NORTH

2F Second Floor Plan

SCALE : 1/8" = 1'-0"

TYPICAL PARTITION NOTES

CORRIDOR PARTITIONS-----EXTEND GYPSUM BOARD TO UNDERSIDE OF CONSTRUCTION. PROVIDE SOUND BATT ATTENUATION BLANKET INSULATION FROM FLOOR TO UNDERSIDE OF CONSTRUCTION ABOVE.

PATIENT ROOM PARTITIONS OTHER THAN CORRIDORS-------EXTEND GYPSUM BOARD ONE SIDE ONLY, TO UNDERSIDE OF CONSTRUCTION ABOVE. PROVIDE SOUND BATT ATTENUATION INSULATION FROM FLOOR TO CONSTRUCTION ABOVE.. SAME FOR SHOWERS, TOILETS, BATHS, STAFF ROOMS AND OFFICES.

BELLI & BELLI
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INCORPORATED

BELLI & BELLI
OF MISSOURI
INCORPORATED

ILLINOIS OFFICE
39 SOUTH MILWAUKEE AVENUE
WHEELING ILLINOIS 60090

NO.	DATE	DESCRIPTION OF REVISIONS
03	11.05.2007	REVISION 01 / ADDENDA 03 MISC CODE REVISION
04	05.29.2008	MISCELLANEOUS REVISIONS - ISSUE FOR PERMIT 05.29.08
10	01.30.10	MISC. DOOR CHANGES AND TV LOCATIONS
23	10.18.10	Additional PPE Cabinets
24	12.15.10	Miscellaneous Chages
25	3.1.11	Special procedure Rm.215
26	3.17.11	Special procedure Rm.215

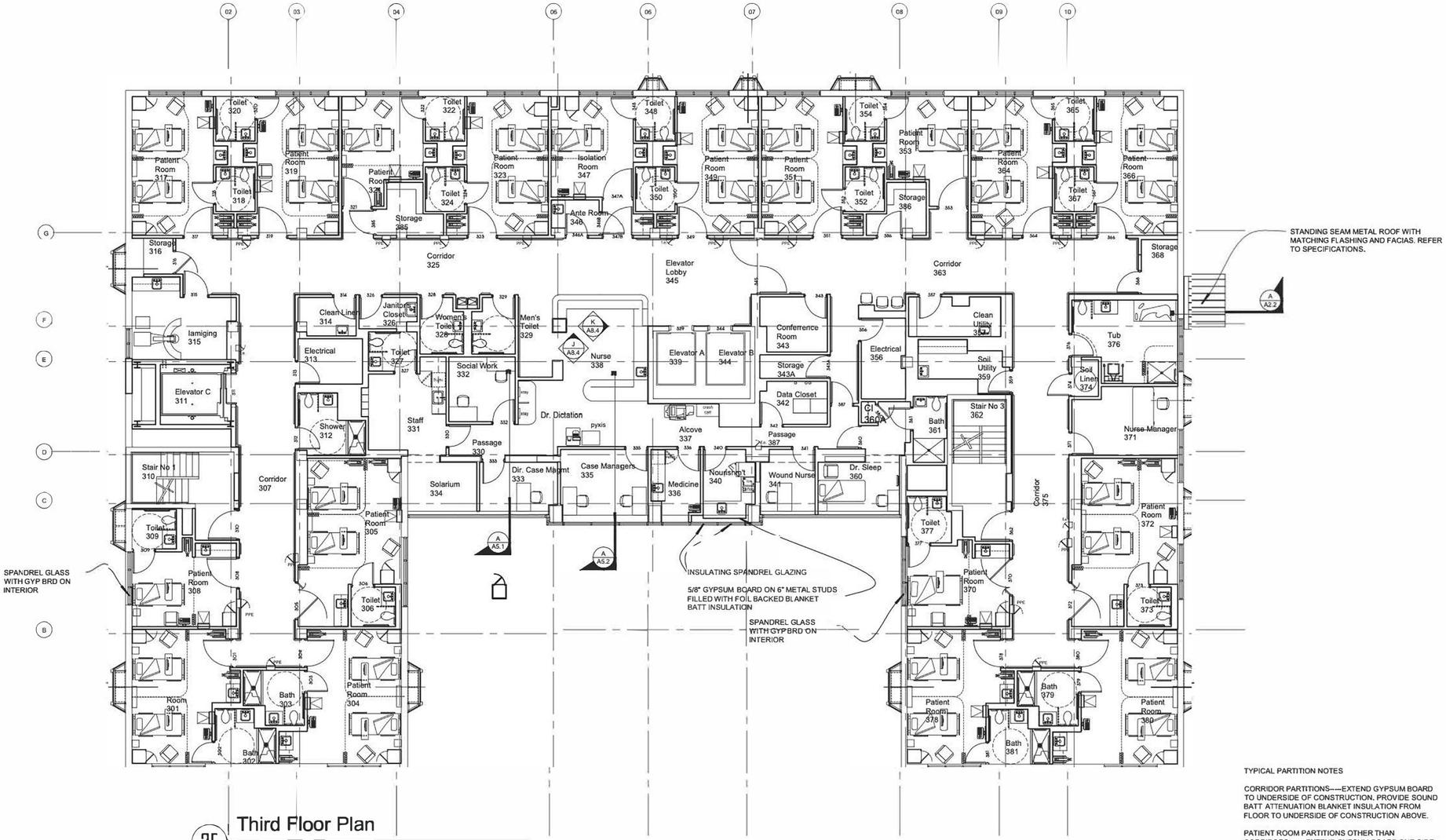
CDMM. NO.	DATE
1617	02.08.2006

PROJECT

Second Floor Plan
Improvements To
Kindred Healthcare Inc.
Seattle First Hill Hospital
1334 Terry Avenue, Seattle WA 98101

SHEET **A2.2** OF

9661 REGISTERED ARCHITECT
ALLEN JOHN BELLI
STATE OF WASHINGTON



Third Floor Plan

3F SCALE : 1/8" = 1'-0"

TYPICAL PARTITION NOTES

CORRIDOR PARTITIONS-----EXTEND GYPSUM BOARD TO UNDERSIDE OF CONSTRUCTION. PROVIDE SOUND BATT ATTENUATION BLANKET INSULATION FROM FLOOR TO UNDERSIDE OF CONSTRUCTION ABOVE.

PATIENT ROOM PARTITIONS OTHER THAN CORRIDORS------EXTEND GYPSUM BOARD ONE SIDE ONLY, TO UNDERSIDE OF CONSTRUCTION ABOVE. PROVIDE SOUND BATT ATTENUATION INSULATION FROM FLOOR TO CONSTRUCTION ABOVE.. SAME FOR SHOWERS, TOILETS. BATHS, STAFF ROOMS AND OFFICES.

REGISTERED ARCHITECT
ALLEN JOHN BELLI
STATE OF WASHINGTON

BELLI & BELLI
ARCHITECTS & ENGINEERS
INCORPORATED

BELLI & BELLI
OF MISSOURI
INCORPORATED

ILLINOIS OFFICE
39 SOUTH MILWAUKEE AVENUE
WHEELING ILLINOIS 60090

NO.	DATE	DESCRIPTION
03	11.05.2007	REVISION 01 / ADDENDA 03 MISC CODE REVISION
04	05.29.2008	MISCELLANEOUS REVISIONS - ISSUE FOR PERMIT 05.29.08
- 09	01.05.10	MISCELLANEOUS CHANGES
- 10	01.30.10	MISC. DOOR CHANGES AND TV LOCATIONS
- 22	10_15_10	Owner On Site Changes
- 23	10.18.10	Multipurpose Rm215, Additional PPE Cabinets

COMM. NO. 1617
DATE 02.08.2006

Third Floor Plan
Improvements To
Kindred Healthcare Inc.
Seattle First Hill Hospital
1334 Terry Avenue, Seattle WA 98101
PROJECT

SHEET A2.3 OF

Proposed 4th Floor

DEMOLITION NOTES

1. REMOVE WALL
2. REMOVE DOOR AND FRAME
3. REMOVE FLOORING
4. REMOVE CEILING AND LIGHTING
5. REMOVE CASEWORK
6. REMOVE PLUMBING FIXTURE
7. REMOVE HAND RAIL

FOURTH FLOOR DEMOLITION PLAN

29 July 2019

RENOVATIONS
for
Kindred Hospital - First Hill, Seattle, WA

ARCHON design + construction

Exhibit 6
King County Assessor Information

Department of Assessments

500 Fourth Avenue, Suite ADM-AS-0708, Seattle, WA 98104

Office Hours: Mon - Fri 8:30 a.m. to 4:30 p.m.

TEL: 206-296-7300
FAX: 206-296-5107
TTY: 206-296-7888

Send us mail

- New Search
- Property Tax Bill
- Map This Property
- Glossary of Terms
- Area Report
- Property Detail

PARCEL

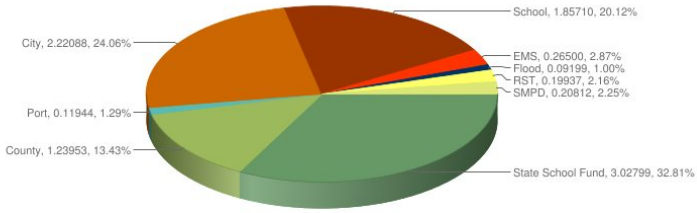
Parcel Number	197820-0320
Name	THC-SEATTLE INC
Site Address	1334 TERRY AVE 98101
Legal	DENNYS A A BROADWAY ADD ALL OF LOTS 1 & 4 & 5 & NWLY 40 FT OF LOT 8 ALL IN BLK 112

BUILDING 1

Year Built	1964
Building Net Square Footage	49243
Construction Class	MASONRY
Building Quality	AVERAGE/GOOD
Lot Size	26400
Present Use	Hospital
Views	No
Waterfront	

TOTAL LEVY RATE DISTRIBUTION

Tax Year: 2020 **Levy Code:** 0010 **Total Levy Rate:** $9.22942 **Total Senior Rate:** $5.46907



52.39% Voter Approved

Click here to see levy distribution comparison by year.

TAX ROLL HISTORY

Valued Year	Tax Year	Appraised Land Value ($)	Appraised Imps Value ($)	Appraised Total ($)	Appraised Imps Increase ($)	Taxable Land Value ($)	Taxable Imps Value ($)	Taxable Total ($)
2019	2020	14,520,000	6,756,200	21,276,200	0	14,520,000	6,756,200	21,276,200
2018	2019	11,880,000	6,668,300	18,548,300	0	11,880,000	6,668,300	18,548,300
2017	2018	8,184,000	9,455,600	17,639,600	0	8,184,000	9,455,600	17,639,600
2016	2017	7,920,000	9,574,200	17,494,200	0	7,920,000	9,574,200	17,494,200
2015	2016	7,260,000	9,806,800	17,066,800	0	7,260,000	9,806,800	17,066,800
2014	2015	6,600,000	9,926,000	16,526,000	0	6,600,000	9,926,000	16,526,000
2013	2014	5,676,000	9,869,400	15,545,400	0	5,676,000	9,869,400	15,545,400
2012	2013	4,356,000	6,650,100	11,006,100	0	4,356,000	6,650,100	11,006,100
2011	2012	4,356,000	6,881,500	11,237,500	6,880,500	4,356,000	6,881,500	11,237,500
2010	2011	4,356,000	1,000	4,357,000	0	4,356,000	1,000	4,357,000
2009	2010	4,356,000	1,000	4,357,000	0	4,356,000	1,000	4,357,000
2008	2009	4,356,000	1,000	4,357,000	0	4,356,000	1,000	4,357,000
2007	2008	4,224,000	1,000	4,225,000	0	4,224,000	1,000	4,225,000
2006	2007	3,168,000	469,900	3,637,900	0	3,168,000	469,900	3,637,900
2005	2006	2,772,000	734,300	3,506,300	0	2,772,000	734,300	3,506,300
2004	2005	2,772,000	734,300	3,506,300	0	2,772,000	734,300	3,506,300
2003	2004	2,772,000	734,300	3,506,300	0	2,772,000	734,300	3,506,300
2002	2003	2,772,000	740,800	3,512,800	0	2,772,000	740,800	3,512,800
2001	2002	2,640,000	1,123,400	3,763,400	0	2,640,000	1,123,400	3,763,400
2000	2001	2,244,000	1,519,400	3,763,400	0	2,244,000	1,519,400	3,763,400

Reference Links:

- King County Taxing Districts Codes and Levies (.PDF)
- King County Tax Links
- Property Tax Advisor
- Washington State Department of Revenue (External link)
- Washington State Board of Tax Appeals (External link)
- Board of Appeals/Equalization
- Districts Report
- iMap
- Recorder's Office
- Scanned images of surveys and other map documents
- Scanned images of plats

1999	2000	2,244,000	1,073,100	3,317,100	0	2,244,000	1,073,100	3,317,100
1998	1999	2,244,000	3,080,100	5,324,100	0	2,244,000	3,080,100	5,324,100
1997	1998	0	0	0	0	1,188,000	3,660,600	4,848,600
1996	1997	0	0	0	0	1,188,000	3,347,200	4,535,200
1994	1995	0	0	0	0	1,188,000	2,862,500	4,050,500
1992	1993	0	0	0	0	1,188,000	2,862,500	4,050,500
1991	1992	0	0	0	0	1,188,000	2,809,000	3,997,000
1990	1991	0	0	0	0	1,188,000	2,809,000	3,997,000
1988	1989	0	0	0	0	864,000	2,556,000	3,420,000
1986	1987	0	0	0	0	864,000	2,556,000	3,420,000
1984	1985	0	0	0	0	518,400	1,864,600	2,383,000
1982	1983	0	0	0	0	518,400	1,864,600	2,383,000

Updated: Jan. 29, 2019

Exhibit 7
Kindred Seattle Policies

HOSPITAL DIVISION

FINANCIAL

POLICIES and PROCEDURES MANUAL

TABLE OF CONTENTS

SECTION 2.0 – PATIENT ADMISSIONS, DISCHARGES AND TRANSFERS

POLICY

The services provided by this hospital are described in the hospital's Plan for the Provision of Patient Care. Such services and selection criteria must be applied equally to all persons seeking care in the hospital. Patient admissions are based upon documented consent, accurate billing and payment information and completed timely.

PURPOSE

To provide guidelines for obtaining proper admission documentation and timely admitting procedures to the hospital according to the hospital's established criteria.

SCOPE

This policy applies to all patient admissions.

2.1 Introduction

Kindred's admission procedures are designed to collect admission and registration data for all patients treated by the hospital.

The procedures help ensure that a) the appropriate legal representative is identified, b) consent for the admission is obtained c) patient information is collected and formatted uniformly, d) pre-certification and verification of insurance and other payor information is obtained, e) accurate data is communicated throughout the organization, and f) an audit trail is provided for managers to maintain quality assurance. In conjunction with the Sales and Marketing Department, financial and operating controls ensure that patients meet admission requirements and that clinical information is captured prior to admission.

The essential elements in the admissions process include:

- Obtain referral status
- Confirm preadmission information
- Document admissions decision made by the CEO/Administrator/designee
- Identify the appropriate legal representative for the admission
- Communicate and explain the admissions process
- Provide a complete admissions documentation package to the patient and/or legal representative and obtain the necessary signatures
- Obtain and verify billing and payment information

2.2 Pre-Admission

The Clinical Liaison/designee shall confirm whether the patient is able to make his/her own decisions. Any patients who are competent may admit themselves. Any questions concerning competency and legal representation should be referred to the

CEO/Administrator/designee. If the patient has a legal representative, the Clinical Liaision/designee shall document the identity of the representative and ask for photo identification to confirm identity. If there is no available legal representative, defer the decision to admit until appropriate representation is obtained and inform CEO/Administrator/designee of all such deferrals.

The Meditech Pre-Admission Edit Routine allows the Admissions Clerk/designee to pre-register the patient and/or edit the pre-admission (Note: A thorough MPI search shall be performed to ensure a duplicate medical record number is not assigned). This Routine will create a ProTouch registration and allow immediate medical record documentation. When pre-admitting a previously admitted patient, make sure the prior stay/episode has been properly discharged to prevent charting and/or billing errors.

Link to Pre-Admission Edit Routine in the Meditech Admissions Manual

2.3 Admission Compliance Information

The services provided by this hospital are described in the hospital's Plan for the Provision of Patient Care. Such services and selection criteria must be applied equally to all persons seeking care in the hospital.

a) Upon approval by the CEO/Administrator/designee to accept a patient, the Admissions Clerk/designee shall begin the admissions process.

Link to Meditech Referral Routine in the Meditech Admissions Manual

b) Waiver of Deductible, Coinsurance and Out of Network Payment Penalties

- Medicare Patients
  In no circumstance may the Medicare co-pays or deductibles be waived.
- Commercial Patients
  Kindred will comply with all State and Federal Laws regarding waiver of deductible, co-pay and out of network penalties.

  In general, deductible, insurance co-pays and out of network penalties may not be waived upon admission. There may be circumstances where waiving co-pay or deductibles may be acceptable. In those circumstances, the CFO/Controller shall get approval from both the Regional Vice-President of Finance (RVPF) and the Corporate Legal Department prior to waiving any co-pays or deductibles.

c) Payment of Insurance Premiums and COBRA by Kindred

- Medicare Patients
  In no circumstance shall the Medicare Part B premiums be paid.

- Commercial Patients
  Kindred will comply with all State and Federal Laws regarding payment of insurance premiums and COBRA payments for patients or potential patients of Kindred hospitals.

  In general, insurance and COBRA premiums shall not be paid for the benefit of a patient or potential patient. In circumstances where a premium payment is considered, the CFO/Controller shall obtain approval from both the RVPF and Corporate Legal Department prior to making any payments or promises to pay.

2.4 Admissions – General Information

Patient Classification

- Inpatient
  An **inpatient** is a person who is admitted to a hospital for bed occupancy for purposes of receiving inpatient hospital services. A person is considered an inpatient if formally admitted as a patient with the expectation of remaining at least overnight and occupying a bed, even though the patient may be discharged or transferred to another hospital and not actually use a hospital bed overnight.
- Outpatient
  An **outpatient's** classification is determined by the patient's physician. The patient will be admitted as an outpatient in Meditech and receive services (rather than supplies alone) from the hospital.

  If a patient with a known diagnosis enters a hospital for a specific minor surgical procedure or other treatment that is expected to keep them in the hospital less than 24 hours, the patient is considered to be an outpatient for coverage purposes (regardless of the hour that the patient entered the hospital, whether the patient used a bed, or whether the patient remained in the hospital past midnight).

a) Types of hospital outpatient services:
   - Services that are diagnostic in nature (e.g. laboratory and imaging)
   - Outpatient surgery
   - Occupational, physical, speech and respiratory therapies
   - Wound care
   - Other services which aid physicians in the treatment of patients.

b) Definitions of Meditech Outpatient Routine Designations

▪ Clinical (CLI)	Used for those patients receiving outpatient ancillary services such as laboratory tests, x-rays or blood tests.
▪ Recurring (RCR)	Outpatients basis receiving a series of treatments such as physical therapy, occupational therapy, speech therapy, chemotherapy, and wound care. Meditech Recurring Admission Training Guide
▪ Emergency (ER)	Patients treated in the emergency room.
▪ Surgical Day Care (SDC)	Patients admitted to the hospital for same-day surgery.
▪ Referred (REF)	Patients receiving outpatient services used for client billing (industrial accounts).
▪ Observation (Ino)	Observation patients are assigned a room and bed, but do not receive automatic room/bed charges (Note: this level shall not be assigned prior to assessment by case management).

2.5 Patient Admissions

The Admission Routines allow the Admissions Clerk/designee to admit patients to the hospital through the Meditech Admissions function and to create ProTouch™ registrations.

Link to Admissions routine in the Meditech Admissions Manual

a) Apache Scoring

Admissions with a Meditech admission source of '4' (Transfer from Hospital) require an Apache score. The clinical pre-assessment information shall be entered into Meditech, generating an Apache III score. The Apache score is a predictor of acuity and LOS (Length of Stay) for critical care patients. For all other admissions, an Apache score *shall not* be obtained.

Link to Apache Score Routine in the Meditech Admissions Manual

If the system does not return an Apache Score when requested, verify the following fields are complete: date of birth, temperature, GCS (Glasgow Coma Score) medications, SBP (Systolic Blood Pressure), DBP (Diastolic Blood Pressure), heart rate, ventilator status, respiratory rate, and referral date. Eyes, motor, and verbal fields are required if the GCS Meds field is marked "Yes." Complete the admission and re-calculate the Apache Score through the Meditech Inpatient Admissions Edit or Pre-Admit Routine

b) Account Number Assignment

Account numbers (unit number, medical record number) are not assigned for new patients when completing Apache Scoring. Instead, the automated Master Patient Index (MPI) in Meditech should be used to search for a prior stay/episode at the unit number

prompt. If the referred patient has a previous stay/episode, the automated process in Meditech should be used to select the patient so that the same unit number (medical record number) may be assigned.

If a patient is selected from within the MPI, the patient's previous demographic information will be pulled into the referral fields, reducing time for entering the referral. The Admissions Clerk/designee shall verify data fields, and edit prior stay demographic information, when necessary.

Meditech assigns a visit-specific account number once all required fields are completed.

c) Completing Admission Forms

- Explain all benefits to the patient or responsible party upon admission
- Document this explanation on the documents scanned into the VPFF.
- Ensure that ***all*** fields are completed on admission documents and that the documents are signed by the patient/representative upon admission.
- Notify Controller/ designee when signatures cannot be obtained and document reason.
- Ensure that Advance Directive information follow-up items are noted and tracked to completion.
- Attach the applicable admission forms to the patient's medical record and scan all documents into the Virtual Patient File Folder as indicated on the Admissions Document Checklist.

All patient admissions and registrations will be completed using the procedures outlined in Section 2.5 with the following exceptions.

a) After Hours Admission

When Admissions Clerk/designee is not available, the Nursing Supervisor/designee shall register the patient in Meditech through the After Hours Admission Routine to create the ProTouch registration and allow for immediate medical record documentation.

Link to After Hours Admission Edit Routine in the Meditech Admissions Manual

b) **Meditech Downtime Procedures**

The Admissions Clerk/designee shall perform admissions in the event of Meditech system downtime using the Virtual Patient File Folder downtime forms routine.

2.6 Admission Documents

The Meditech Admissions Package contains all required forms specific to a facility. Additional optional forms are also available and can be printed upon demand from the Virtual Patient File Folder.

Virtual Patient File Folder (VPFF)

The Virtual Patient File Folder (VPFF) allows users to access all Admission Documents, as well as other financial documents from a central location. All documents generated out of Meditech print with a bar code at the bottom of each page. All admission documents, including the PACE, Insurance Verification, and Insurance Card must be scanned into the folder. In addition, all forms shall be printed from the VPFF.

For work instructions and access to the VPFF go to: Knect – Hospital Division – CBO Patient Financial Folder.

a) Required Inpatient Forms:

- Admission Face Sheet
- Admission Agreement (includes Consent to Treat)
- Patient Rights and Responsibilities
- Alternative Dispute Resolution (ADR) Agreements - Alternative Dispute Resolution is a voluntary program that permits patients or their authorized representative to obtain faster resolution to any disputes (including quality of care or billing issues)

  Link to Alternative Dispute Resolution Procedures

- Organ Donor Consent Forms (Utilize only if required by State law):
  - Anatomical Gift by a Living Donor
  - Anatomical Gift by Next of Kin or other Authorized Persons
- Advance Directives - Form should be utilized by the Social Service Manager/designee to ensure the patient has necessary information and assistance to establish an advance directive if desired. Follow-up action is required to obtain copies of Advance Directives identified on this form (See State specific guidelines).
- Your Right to Decide
- Statement of Ethical Policies
- Notice of Privacy Practices
- Designation of Individuals Authorized to Receive PHI
- Important Message from Medicare/Champus – (Medicare only - see note below)
- Medicare Secondary Payer Questionnaire – (All potential Medicare patients - see note below)
- Election Not to Use Lifetime Reserve Days and document on the Admission Checklist – (Medicare only - see note below)
  Request for Insurance Policy/Letter – (see section 2.8 below)
- Valuables Statement – (see section 2.10 below)
- Admission Document Checklist. (Hospitals may determine it sufficient to obtain the patient's signature on the checklist and the patient's initials on all forms listed on the checklist.)
- Pre-Admission Clinical Evaluation (PACE) Form

b) Additional Resource Forms available within Meditech:

- Emergency Contacts
- Revocation of Election Not to Use Lifetime Reserve Days – (see note below)
- Anatomical Gift
- Cafeteria Ticket
- Authorization and Consent for Surgery (some state specific)
- Refusal for Medical Care (some state specific)
- Revocation of Alternative Dispute Resolution

c) Explanation of additional forms required for Medicare patients:

- Inpatients - An Important Message from Medicare/Champus - This form shall be given to the patient within 2 calendar days of admission and be signed by the patient/representative. A follow-up copy of the form signed at admission shall be given to the patient within 2 calendar days of discharge. This form requires the address of the state Quality Improvement Organization (QIO) be pre-printed. It is the responsibility of the DQM / Admissions Clerk to ensure that this information is accurate. Use http://cms.hhs.gov/QualityImprovementOrgs/ as a resource.

- All patients - Medicare Secondary Payer Questionnaire - Medicare regulations require the hospital to obtain information on possible Medicare secondary payor situations. Also see Section 6.2 "B" Medicare Part A – Specific Instructions.

- Inpatients - Election Not to Use Lifetime Reserve Days. The Admissions Clerk/designee is required to notify patients who have already used, or will use, 90 days of benefits in a spell of illness that they can elect not to use reserve days for all, or part of, the stay. Lifetime Reserve Day use is generally in the beneficiary's best financial interest and thus the patient is "deemed" to have chosen to use these days unless they make an affirmative election to not use this benefit. If a patient elects not to use Lifetime Reserve Days, the Election Not to Use Lifetime Reserve Days Form shall be completed and maintained in the patient's financial folder.

  A Medicare beneficiary who is eligible for medical assistance (Medicaid) under a state plan shall be advised that such assistance will not be available if the beneficiary elects not to use Lifetime Reserve Days.

  Medicare Supplement plans may also require the beneficiary to use all Lifetime Reserve Days before the plan coverage begins.

- Inpatients - Revocation of Election Not To Use Lifetime Reserve Days – Use this form only when a Medicare beneficiary who previously elected not to use Lifetime Reserve Days desires to revoke that election.

d) Required Outpatient Forms

- Patient-specific face sheet
- Admission Agreement (includes Consent to Treat)
- Patient Rights and Responsibilities
- Alternative Dispute Resolution (ADR) Agreement - Alternative Dispute Resolution is a voluntary program that permits patients or their authorized representative to

obtain faster resolution to any disputes (including quality of care or billing issues). See State specific guidelines.

Link to Alternative Dispute Resolution Procedures

- Advance Directives - Form should be utilized by the Social Service Manager/designee to ensure the patient has necessary information and assistance to establish an advance directive if desired. Follow-up action is required to obtain copies of Advance Directives identified on this form.

2.7 Admissions Documentation Audit

The CBO shall review three (3) inpatient and three (3) outpatient (where relevant) financial folders on a monthly basis to ensure admissions documentation is adequate. Evidence of this review shall be documented and retained.

2.8 Request for Insurance Policy

The patient and/or family members shall be requested to provide the hospital with a copy of the patient's insurance policy, whether a supplement to Medicare or any other insurance which the hospital is to bill. The hospital may prepare, in advance, a form letter (to be signed by the patient or authorized representative) requesting that a copy of the patient's insurance policy be mailed directly to the hospital from the insurance carrier for billing purposes. Link to Request for Copy of Insurance Policy Form (sample)

Link to Insurance Company Request for Policy Letter (sample)

The Admissions Clerk/designee shall document all attempts to obtain copies of the patient's insurance policy, insurance card, and other insurance information in the patient's Meditech notes. If the patient is unable to provide a copy of the primary or supplemental insurance policy, the request for policy letter (provided that it bears the signature of the patient or authorized representative) will permit the CBO/designee to obtain a copy directly from the insurance carrier. If the above information cannot be obtained, the CBO/designee shall notify the CFO/Controller.

The hospital is not required to obtain copies of insurance policies for Medicaid, established managed care contracts or outpatients.

2.9 Patient-Specific Contracts

If upon initial insurance verification of a prospective admission, an insurance company requests a discount from verified benefits, the CFO/Controller/Managed Care Representative shall be responsible for negotiating the patient-specific contract. Additionally, any subsequent "Letter of Agreement" shall be prepared and controlled by the CFO/Controller.

A patient-specific "Letter of Agreement" may be created under the following situations involving a non-contracted insurance company requesting a discount from the payment methodology identified in the verification of benefits:

Example 1: Acute benefits are verified at 100% of all billed charges, but the insurer requests a discount.

Example 2: Acute benefits are verified at a percent of charges, but the insurer requests a per diem rate.

Example 3: After admission, the patient moves to different level of care (ICU to Med/Surg) and the insurer requests a different rate.

LOA Medicare Advantage Template

LOA - Per Diems - Exclusions - Stop Loss Template

LOA - % of Charge Template

All patient-specific "Letters of Agreement" should contain language covering the following areas:

A. **Reimbursement:**

The CFO/Controller/Manager Care Representative shall negotiate the reimbursement terms. The preferred order is:

1) Percent of billed charges
2) Per diem plus exclusions and stop-loss provisions
3) All-inclusive per diems and stop-loss provisions

B. **Level of Care:**

The Admissions Coordinator/Clinical Liaison shall inform the CFO/Controller as to what level of care (e.g. ICU, Med/Surg or Acute Rehab, subacute, etc.) the patient will be admitted.

C. **Inclusions / Exclusions:**

List of specific hospital services to be provided and reimbursement for each excluded item. References to AWP (Avg. Wholesale Price) cost plus mark-ups should be avoided due to complexity in administering and billing.

D. **Stop-Loss Language:**

Protection from financial loss due to medically complex patient.

Example:

Switch from per diem to percent of billed charges for all billed charges exceeding a certain charge threshold.

E. **Prompt Payment:**

Expected number of days for an insurance company to pay a bill before payment of total billed charges required.

Suggested Guideline:

If payment under this arrangement is not made within 30 days after receipt of claim, the above- mentioned discounted rate shall be forfeited and full payment is required.

F. **Execution of Letter of Agreement:**

The Letter of Agreement shall be signed by the CFO/Controller/designee and forwarded to the insurer (via mail or fax) for execution. The fully executed Letter of Agreement shall be stored in the VPFF.

G. Terms of the Letter of Agreement should be documented in Meditech and the CBO should be made aware a Letter of Agreement was executed.

H. The CBO shall input the patient specific contract in Meditech.

I. **Insurance Mnemonics:**

If a new insurance mnemonic is required for setup in Meditech, the Insurance Mnemonic Contract Request Form shall be completed and sent directly to the Regional Senior Director of Patient Accounting for approval. Pending approval, the Regional Senior Director of Patient Accounting will forward the request to the Managed Care Department for assignment of the managed care organization code (MCO) and to the email group 'IS-FSD Patient Accounting' for creation in Meditech. Please note that facility personnel will no longer need to call the help desk to open a ticket. Once the insurance mnemonic is complete or if there is an issue with the form, the Meditech Group will notify facility personnel.

Insurance Mnemonic Contract Request

2.10 Medicaid Eligibility/Application Process

The Director of Case Management/designee shall facilitate the Medicaid application process, and the family is responsible for completing state-specific financial disclosure forms for medical assistance eligibility.

2.11 Patient Valuables

Patients should be discouraged from bringing valuables into the hospital. Valuables should be placed with family members upon admission. If no family members are present, valuables should be inventoried by at least two hospital employees on an inventory form (item by item) and placed in a secure location approved by the CFO/Controller. The original copy of the inventory form shall be signed by the persons performing the inventory

2.11 Patient Valuables (Contd.)

and placed in the patient's medical chart, indicating items are being held at the patient's request. A copy of this form shall be given to the patient or responsible party, with another copy of the form accompanying the valuables.

All valuables must be returned upon the patient's request. The patient/representative shall sign the inventory form, indicating the valuables are received/returned. (Copy shall be maintained in the patient's records). State guidelines must be followed when returning valuables.

Link to Patient Valuables Inventory Form (Sample)

2.12 Patient Discharge

A physician's order is required for all discharges (See Administrative Policies and Procedures manual for Kindred's discharge policies.).

The Nursing Department shall discharge all patients through ProTouch™.

The Admissions Clerk/designee shall verify that discharges are occurring accurately in Meditech (e.g. review of Midnight Census Report, room-by-room visual check of patient's, etc.) The discharge disposition (terms upon which the patient leaves the hospital) is required before a DRG can be calculated.

Note: (Outside Services) In general, patients should not be discharged when sent to another facility for outside services (e.g. outpatient surgery, CT or MRI). Patients should be discharged only in the following circumstances:

a) The patient will be receiving a service from the outside provider that is normally performed on an inpatient basis.
b) The patient has complications while at the other facility and the physician decides to admit the patient in that facility. The patient should then be discharged at the time he/she left our hospital.
c) If the patient is kept in observation over 48 hours at the outside provider facility, the patient should be discharged to that facility. The patient should be discharged at the time he/she left our hospital.
d) Observation should be less than 23 hours. Therefore, all patients in observation between 23 to 48 hours should be assessed on a one-by-one basis.

NOTE: See section 6.5.E for hospice elections during an inpatient stay.

2.13 Midnight Census

The purpose of verifying the daily census is to ensure the accuracy of admissions, discharges, census, and location of patients. This process will identify patients not admitted or discharged from Meditech and any change in accommodation type (e.g., a patient was moved from ICU to Med-Surg) and not entered into Meditech.

The Midnight Census Form is completed and initialed by the House Supervisor each evening at Midnight and routed to the Medical Records Department.

Link to Midnight Census Form

The Medical Records Director/designee completes a Medical Records Census report based on the Midnight Census Form information provided by the House Supervisor and forwards this and the Nursing Midnight Census Report to the Admission Director/designee.

Link to Medical Records Census Report

The Admissions Clerk/designee runs the Meditech Census by Unit report and compares the information to these reports (Midnight Census Form, Medical Records Census Report, and Meditech Census) - any discrepancies are resolved and reconciled (review unit charts, nurses notes, etc.). The Midnight Census report, Medical Records Census report, and Meditech Census by Unit report are signed and dated by the Admissions Clerk/designee and forwarded to the business office.

The Admissions Clerk/designee compares these reports (The Midnight Census report, Medical Records Census report, and Meditech Census by Unit report) to the daily ADM batch to ensure room and board charges are accurate based on patient location prior to posting (ADM room and board charges agree to Meditech census). Admissions Clerk/designee initials and dates the package of reports and maintains in business office.

After the verification process is complete, the Admissions Clerk/designee runs the Census by Unit report in Meditech each day and distributes to the following department managers:

CFO/Controller, CCO, Social Services, Materials Mgmt., Rehabilitation, Environmental Services, Nursing Administration

Census by Unit – (Meditech→Admissions→ Reports →Inpatient → Census →Nursing Unit)

2.14 Transfer of Medicare Patients (between hospitals sharing Medicare provider number)

For hospitals that share a single Medicare provider number, the following policies and procedures shall be followed with regard to the transfer of Medicare patients between hospitals:

- A transfer log shall be maintained and reviewed by CFO/Controller at the original and discharging hospitals to track admissions, days, length of stay, transfer date, discharges and DRG revenue per case. In addition, a transfer reconciliation shall be prepared each month to ensure all statistical information has been handled correctly.

Link to Transfer Log Link to Transfer Reconciliation

- The transferring hospital shall notify CMR (Central Medical Records), via CMR tracker, of all discharges to a hospital with the same Medicare provider number. The receiving hospital shall admit the patient as an exception to the interrupted stay rule.
- Upon final patient discharge, notify 'IS-FSD Billing Support' to move all patient days and gross charges from the original hospital to the discharging hospital in Meditech:
  - The final bill shall be submitted to the Medicare intermediary by the discharging hospital.
  - Gross charges and patient days will be included in the Business Warehouse data on the discharging hospital.
  - Remove 1 admission from the discharging hospital (via SKF entry to SAP) in the month of patient transfer (Meditech counting 2 admissions).
  - Remove 1 discharge from the original hospital (via SKF entry to SAP) in the month of patient transfer (Meditech counting 2 discharges).
  - Discharging hospital shall move applicable Medicare patient days to the original hospital via SKF entry to SAP (based upon transfer log information).
  - The following 3 new SKF accounts shall be used to record the manual adjustments required above:

    ADM46 Medicare Admissions Transfer Chronic
    DIS47 Medicare Discharges Transfer Chronic
    PDAY74 Medicare PD Transfer

  - Discharging hospital shall compute net revenue per patient day (PPD) applicable to the patient's entire stay and apply the PPD rate to the length of stay at the original hospital (based upon transfer log – see above).
  - Discharging hospital shall move revenue computed above to the original hospital via journal entry to SAP.
  - Medicare Part B bill shall be completed manually by the discharging hospital, and Medicaid billing responsibility shall remain with the hospital which provided Medicaid services.

2.15 Clinical Liaison Bonus Plan

The Clinical Liaison Bonus Plan is formulated by the Enterprise Senior VP of Sales and Marketing. The approved Plan is available through the Regional VP of Sales & Marketing (RVP) for the each sales region. An automated report created for the monthly calculation of the incentive payouts is located on Knect under the following path:

Knect>Business Warehouse Reports>HD Operations>Sales Marketing

The Director of Marketing (DOM) shall update the revenue and admissions goals for each Clinical Liaison into the CL target master spreadsheet for their market, and submit them to

their Regional AA by the 25th of the month for the next month (e.g. May goal updated before April 25th). Any changes after the first of the month must be approved by the Senior VP of Sales and Marketing.

Upon closing a month, the DOM shall run the Clinical Liaison Bonus report on Knect, verify all data prior to the 15th day of the month (e.g. May close – data reviewed by June 15th), save the file to Excel, and forward the file via email to the Regional VP of Sales & Marketing (RVP) for review and approval. Once approved, the bonus file is sent by the RVP via email to the hospital CFO/Controller (with copy to DOM) for review, processing and payment. Payment shall be made before the end of the month. Any exceptions to the plan are to be approved by the RVP and documented on the report before final payment is approved and processed.

Each month, the CFO/Controller shall make an estimate for the anticipated Clinical Liaison bonus payout and expense to a/c#71684 Clinical Liaison Bonus and accrue to a/c#22111 Clinical Liaison Bonus Payable.

TRANSITIONAL HOSPTIALS CORPORATION
THC-SEATTLE

CHARITY POLICY

THC-Seattle is committed to providing quality healthcare to all patients meeting the required admission criteria, while protecting the integrity of the hospital operations. No patient admitted to THC-Seattle will be denied treatment based on ability to pay, national origin, age, physical disabilities, race color, sex or religion. In compliance with WAS 246-453, THC-Seattle has established the following standards for determining eligibility for charity care.

ELIGIBILITY CRITERIA

THC-Seattle will determine eligibility for charity care under this policy based on the following criteria as calculated for the 12 months prior to the date of request:

1. The full amount of hospital charges will be determined to be charity care for any patient whose gross family income is at or below 100% of the current federal poverty guidelines (as per WAC 246-453-040).
2. A sliding fee schedule will be used to determine the amount which shall be written off for patients with income between 100% and 200% of the federal poverty level. The sliding scale shall be updated annually according to federal poverty guidelines published in the Federal register.

After review of a personal financial statement for, available assets are used to determine eligibility for charity care if family income is greater than 100% of the federal poverty guideline.

PROCESS FOR ELIGIBILITY DETERMINATION

During the patient registration process, the Patient Account Manager will make an initial determination of eligibility based on a verbal or written application for charity care. The classification of a patient account balance as charity will be deemed appropriate in those instances where it can be reasonably be determined that patients have inadequate financial resources to satisfy their medical bills within what would be considered a normal time frame without being subjected to unusually harsh personal financial constraints. Pending that final eligibility determination, the hospital will not initiate collection efforts or requests for deposits, provided that the responsible party is cooperative with the hospital's efforts to reach a determination of sponsorship status, including a return of applications and documentation within fourteen (14) days of receipt.

Charity care forms, instructions, and written applications shall be furnished to patients when charity care is requested, when need is indicated, or when financial screening indicates potential need. All applications need to be accompanied by one or more of the following documentation to verify income amounts indicated on the application form:

1. W-2 withholding statements for all employment during the last 12 months
2. Pay stubs from all employment during the last 12 months
3. Income tax return from the most recently-filed calendar year
4. Forms approving or denying unemployment compensation
5. Written statements from employers or welfare agencies

Patients need to apply for Medicaid or Medical Assistance and need to provide within fourteen (14) days forms approving or denying eligibility for Medicaid and/or state-funded Medicaid Assistance programs.

APPROVAL/DENIAL

All patients approved for charity care will be notified in writing of the amount to be adjusted from their accounts. If a payment is received on a charity care account after write-off, an adjustment will be made to the charity care records in the month payment is received.

Accurate records of all charity care rendered will be maintained and reported to the Department of Health.

EXEMPTIONS FROM STANDARD

Catastrophic hospitalization costs, sizable other medical bills, or other patient specific circumstances (based on fairness and ability to pay) may justify granting charity care, even when a patient exceeds the indigency standards. This policy is supported by WAC 246-453.

PUBLIC NOTIFICATION

The charity care policy is publicly available through the hospital's website and the distribution of written materials indicating the policy to patients at the time the hospital determines third party coverage. Non-English translations of this document will be made available if a specific group of more than 10% of the population in the service are utilizes English as a second language.

WASHINGTON

WITHHOLDING OR WITHDRAWAL OF LIFE-SUSTAINING TREATMENT POLICY

IF THESE GUIDELINES DO NOT CLEARLY ADDRESS A SITUATION AT YOUR HEALTH FACILITY, CONTACT THE LAW DEPARTMENT.

I. POLICY

Kindred recognizes that Adult Persons have the fundamental right to control the decisions relating to the rendering of their own health care, including the decision to have Life-Sustaining Treatment withheld or withdrawn in instances of a Terminal Condition or Permanent Unconscious Condition.

An Incompetent patient does not lose his right to consent to termination of Life-Sustaining Treatment by virtue of his incompetency. Decisions to withhold or withdraw Life-Sustaining Treatment may be made on behalf of a patient pursuant to the patient's Directive (*i.e.*, living will), or pursuant to the decisions made by a court-appointed guardian, the court, an authorized representative who holds the patient's durable power of attorney for health care, or in limited circumstances, the patient's immediate family.

II. DEFINITIONS

"Adult Person" means a person who has attained the age of eighteen, and who has the capacity to make health care decisions.

"Attending Physician" means the Physician selected by, or assigned to, the patient who has primary responsibility for the treatment and care of the patient.

"Directive" means a written document voluntarily executed by the patient generally consistent with the requirements for executing a Directive under Washington law. An example of a Directive is available at **Health Care Directive or Living Will (Form WA-100)**.

"Health Facility" means a hospital, nursing home, home health agency, hospice agency, or assisted living facility as defined by Washington law.

"Incompetent" means any person who is: (i) incompetent by reason of mental illness, developmental disability, senility, habitual drunkenness, excessive use of drugs, or other mental incapacity, of either managing his or her property or caring for himself or herself, or both; or (ii) incapacitated, meaning the superior court has determined the individual has a significant risk of personal harm based upon a demonstrated inability to adequately provide for nutrition, health, housing, or physical safety.

"Life-Sustaining Treatment" any medical or surgical intervention that uses mechanical or other artificial means, including artificially provided nutrition and hydration, to sustain, restore, or replace a vital function, which, when applied to a Qualified Patient, would serve

only to prolong the process of dying. "Life-Sustaining Treatment" shall not include the administration of medication or the performance of any medical or surgical intervention deemed necessary solely to alleviate pain.

"Permanent Unconscious Condition" means an incurable and irreversible condition in which the patient is medically assessed within reasonable medical judgment as having no reasonable probability of recovery from an irreversible coma or a persistent vegetative state.

"Physician" means a person licensed to practice medicine as a Physician in Washington under Title 18, Chapter 18.71 or Chapter 18.57 of the Annotated Revised Code of Washington.

"Provider" means a Physician, advanced registered nurse practitioner, health care provider acting under the direction of a Physician or an advanced registered nurse practitioner, or Health Facility, and its personnel.

"Qualified Patient" means an Adult Person who is a patient diagnosed in writing to have a Terminal Condition by the patient's Attending Physician, who has personally examined the patient, or a patient who is diagnosed in writing to be in a Permanent Unconscious Condition in accordance with accepted medical standards by two Physicians, one of whom is the patient's Attending Physician, and both of whom have personally examined the patient.

"Terminal Condition" means an incurable and irreversible condition caused by injury, disease, or illness, that, within reasonable medical judgment, will cause death within a reasonable period of time in accordance with accepted medical standards, and where the application of Life-Sustaining Treatment serves only to prolong the process of dying.

III. PRELIMINARY NOTES

A. **All executed documents and certificates must become a permanent part of the patient's medical record.**

B. **No Kindred director, executive officer, operator, employee, or other staff member shall serve as a witness to any document or form involving Life-Sustaining Treatment, unless required by law.**

C. An Adult Person may make a written Directive instructing his Physician to withhold or withdraw Life-Sustaining Treatment in the event of a Terminal Condition or Permanent Unconscious Condition. An Adult Person may also execute a durable power of attorney for health care that grants to an authorized representative the patient's right to control his or her health care decisions regarding Life-Sustaining Treatment.

D. Prior to withholding or withdrawal of Life-Sustaining Treatment, the diagnosis of a Terminal Condition by the Attending Physician or the diagnosis of a Permanent

Unconscious Condition by two physicians, one of whom is the Attending Physician, must be entered in writing and made a permanent part of the patient's medical record.

E. If the patient has executed a Directive and subsequently becomes comatose or rendered incapable of communicating with the Attending Physician, the Directive remains in effect for the duration of the comatose condition or until such time as the patient's condition renders the patient able to communicate with the Attending Physician.

F. A Directive executed in another political jurisdiction (*e.g.*, state, territory) is valid to the extent that the indicated health care treatment does not conflict with Washington state law and federal constitutional law. **Contact the Law Department for questions concerning the validity of Directives executed in other states**.

G. Before any person authorized to request the withholding or withdrawal of Life-Sustaining Treatment on behalf of an Incompetent patient may exercise that authority, he must first determine in good faith that that patient, if competent, would request the withholding or withdrawal of Life-Sustaining Treatment. If the authorized person cannot determine what the patient would request, then the withholding or withdrawal of Life-Sustaining Treatment may only occur if it is in the patient's best interests. **Contact the Law Department** if the Qualified Patient's Attending Physician, consulting Physician(s), and/or the patient's immediate family members disagree as to the patient's best interests.

H. If a Qualified Patient capable of making health care decisions indicates that he or she wishes to die at home, the patient must be discharged as soon as reasonably possible. The Provider or Health Facility has an obligation to explain the medical risks of an immediate discharge to the Qualified Patient.

I. If the patient is pregnant, any executed Directive has no force or effect. **Contact the Law Department.**

IV. PROCEDURES

A. If Patient is Competent

1. Determine the patient's wishes regarding the withholding or withdrawal of Life-Sustaining Treatment by discussing the patient's condition and the implications of administering, withholding, or withdrawing Life-Sustaining Treatment. Document this discussion in the patient's medical record.

2. As long as the patient is able to make informed health care decisions regarding the withholding or withdrawal of Life-Sustaining Treatment, the patient may continue to do so.

3. If the patient provides a Directive or durable power of attorney for health care that addresses the withholding or withdrawal of Life-Sustaining Treatment, or if one is

already located in the patient's medical record, discuss the provisions of the document(s) with respect to the patient's planned health care decision.

4. If the patient does not have a Directive in effect, consider offering the patient the opportunity to execute the **Health Care Directive or Living Will (Form WA-100)**. See **Section IV.B.2.b** of this policy for execution instructions and witness requirements.

5. If the patient wishes to proceed with the withholding or withdrawal of Life-Sustaining Treatment:

   a. The patient should complete **Acknowledgement of Request to Withhold or Withdraw Life-Sustaining Treatment and Release (Form WA-102)**. The form should be witnessed and signed by an individual 18 years or older. **No Kindred director, executive officer, operator, employee, or other staff member shall serve as a witness to this form.**

   b. The Attending Physician must complete **Attending Physician's Certificate (Form WA-103)** certifying that the patient is competent and has a Terminal Condition.

   Note: If a Qualified Patient capable of making health care decisions indicates that he or she wishes to die at home, the patient must be discharged as soon as reasonably possible. The health care Provider or Health Facility has an obligation to explain the medical risks of an immediate discharge to the Qualified Patient.

B. If Patient is Incompetent

1. Determine whether the patient has executed a written Directive that indicates the withholding or withdrawal of Life-Sustaining Treatment, or a durable power of attorney that grants decision-making authority regarding Life-Sustaining Treatment. If so, a copy of the document must be made a part of the patient's medical record.

2. Incompetency must be determined by a court order or by affidavit of the Attending Physician. See **Attending Physician's Certificate (Form WA-200)**.

3. **Patient has Executed a Directive**

   a. Determine what the Directive specifies as the patient's wishes in the current medical situation. A health care decision to withhold or withdraw Life-Sustaining Treatment must be consistent with the Directive.

   b. Make reasonable efforts to confirm that the Directive is valid.

i. Any Adult Person may execute a written Directive instructing the withholding or withdrawal of Life-Sustaining Treatment if the Adult Person is in a Terminal Condition or Permanent Unconscious Condition.

ii. The written Directive must have been dated and signed by the patient;

iii. A Directive must have been witnessed and signed by two witnesses who at the time of signing: (i) were not related to the patient by blood or marriage; (ii) were not entitled to any portion of the patient's estate; (iii) were not a director, executive officer, operator, employee, or other staff member of the patient's Attending Physician or a Health Facility where the patient was receiving care; and (iv) did not and will not at any time have a claim against the patient's estate.

iv. A Directive may, but is not required to be in the form of **Health Care Directive or Living Will (Form WA-100)**.

v. A Directive is not valid if the patient has revoked it. A patient's Directive may be revoked at any time by the patient, **without regard to his mental state or competency**, by any of the following methods:

   (a) By being canceled, defaced, obliterated, burned, torn, or otherwise destroyed by the patient or by some person in the patient's presence and by the patient's direction.

   (b) By the patient's written revocation expressing his intent to revoke that is signed and dated by the patient, effective only upon communication to the Attending Physician by the patient or by a person acting on behalf of the patient.

   (c) By the patient's verbal expression of his intent to revoke the Directive, effective only upon communication to the Attending Physician by the patient or by a person acting on behalf of the patient.

vi. If the patient became comatose or was rendered incapable of communicating with the Attending Physician, the Directive remains in effect for the duration of the comatose condition or until such time as the patient's condition renders the patient able to communicate with the Attending Physician.

vii. A Directive executed in another political jurisdiction (*e.g.*, state, territory) is valid to the extent that the indicated health care treatment does not conflict with Washington state law and federal constitutional law. **Contact the Law Department for questions concerning the validity of Directives executed in other states.**

c. Before any person authorized to request the withholding or withdrawal of Life-Sustaining Treatment on behalf of an Incompetent patient may exercise that authority, he must first determine in good faith that that patient, if competent, would request the withholding or withdrawal of Life-Sustaining Treatment. If the authorized person cannot determine what the patient would request, then the withholding or withdrawal of Life-Sustaining Treatment may only occur if it is in the patient's best interests. **Contact the Law Department** if the Qualified Patient's Attending Physician, consulting Physician(s), and/or the patient's immediate family members disagree as to the patient's best interests.

d. Prior to withholding or withdrawal of Life-Sustaining Treatment, the Attending Physician must complete **Attending Physician's Certificate (Form WA-200)** certifying the diagnosis of a Terminal Condition or that the patient is Incompetent and is in a Permanent Unconscious Condition. If the diagnosis is a Permanent Unconscious Condition, a consulting physician must confirm this diagnosis by completing **Consulting Physician's Certificate (WA-201)**.

4. **Patient has Executed a Durable Power of Attorney for Health Care**

a. Contact the person appointed in the durable power of attorney for health care. Prior to the withholding or withdrawal of Life-Sustaining Treatment, the designated person should complete the **Request to Withhold or Withdraw Life-Sustaining Treatment and Release (Form WA-202)** before one witness who is 18 years of age or older. **No Kindred director, executive officer, operator, employee, or other staff member shall serve as a witness to this form.**

b. Before any person authorized to request the withholding or withdrawal of Life-Sustaining Treatment on behalf of an Incompetent patient may exercise that authority, he must first determine in good faith that that patient, if competent, would request the withholding or withdrawal of Life-Sustaining Treatment. If the authorized person cannot determine what the patient would request, then the withholding or withdrawal of Life-Sustaining Treatment may only occur if it is in the patient's best interests. **Contact the Law Department** if the Qualified Patient's Attending Physician, consulting Physician(s), and/or the patient's immediate family members disagree as to the patient's best interests.

c. Prior to withholding or withdrawal of Life-Sustaining Treatment, the Attending Physician must complete **Attending Physician's Certificate (Form WA-200)** certifying the diagnosis of a Terminal Condition or that the patient is Incompetent and is in a Permanent Unconscious Condition. If the diagnosis is a Permanent Unconscious Condition, a consulting physician must

confirm this diagnosis by completing **Consulting Physician's Certificate (WA-201)**.

5. **Patient does not have a Directive or Durable Power of Attorney for Health Care**

   a. Contact the patient's guardian, if any, and the patient's immediate family members. The following steps must be taken:

      i. **The Attending Physician and at least two other qualified Physicians must certify that they agree with the decision** to withhold or withdraw Life-Sustaining Treatment, and that the patient is Incompetent and either (1) in a persistent vegetative state with no reasonable chance of recovery and being maintained by life support, or (2) in an advanced stage of a terminal and incurable illness and suffering severe and permanent mental and physical deterioration. These certifications should be obtained by completing **Attending Physician's Certificate (Form WA-200) and two Consulting Physician's Certificates (Form WA-201)**.

      Note: If any of the Physicians or the Health Facility involved object to the decision, court intervention is necessary. Contact the Law Department.

      ii. If the patient has a court-appointed guardian, the guardian must agree with the decision to withhold or withdraw Life-Sustaining Treatment and must complete the **Request to Withhold or Withdraw Life-Sustaining Treatment and Release (Form WA-202)**.

      Note: If the guardian or any immediate family member objects to the decision, court intervention is necessary. Contact the Law Department.

      iii. If the patient has no court-appointed guardian, one of the following, in order of priority, must complete the **Request to Withhold or Withdraw Life-Sustaining Treatment and Release (Form WA-202)**:

         (a) the individual, if any, to whom the patient has given a durable power of attorney that encompasses the authority to make health care decisions;

         (b) the patient's spouse or state-registered domestic partner;

         (c) children of the patient 18 years or older;

         (d) the parent of the patient; or

(e) siblings of the patient 18 years or older.

b. **If there is no legal guardian and none of the above individuals are available, a court must either make the decision or appoint a guardian. Contact the Law Department.**

c. The **Request to Withhold or Withdraw Life-Sustaining Treatment and Release (Form WA-202)** must be witnessed and signed by one witness of at least 18 years of age. **No Kindred director, executive officer, operator, employee, or other staff member shall serve as a witness to this form.**

d. Before any person authorized to request the withholding or withdrawal of Life-Sustaining Treatment on behalf of an Incompetent patient may exercise that authority, he must first determine in good faith that that patient, if competent, would request the withholding or withdrawal of Life-Sustaining Treatment. If the authorized person cannot determine what the patient would request, then the withholding or withdrawal of Life-Sustaining Treatment may only occur if it is in the patient's best interests. **Contact the Law Department** if the Qualified Patient's Attending Physician, consulting Physician(s), and/or the patient's immediate family members disagree as to the patient's best interests.

V. REFUSAL TO COMPLY WITH DIRECTIVE

The Attending Physician or Health Facility must inform the patient or patient's authorized representative of the existence of any policy or practice that would preclude the honoring of the patient's directive at the time the Physician or Health Facility becomes aware of the existence of such a Directive.

1. After being informed of such policy or Directive, if the patient or representative chooses to retain the Physician or Health Facility, the Physician or Health Facility with the patient or the patient's representative must prepare a written plan to be filed with the patient's Directive that sets forth the Physician's or Health Facility's intended actions should the patient's medical status change so that the Directive would become operative.

2. The Physician or Health Facility has no obligation to honor the patient's Directive if they have complied with the requirement of preparing a written plan.

3. The Directive shall be conclusively presumed, unless revoked, to be the directions of the patient regarding the withholding or withdrawal of Life-Sustaining Treatment.

All executed documents must become a permanent part of the patient's medical record.

IF THIS POLICY DOES NOT CLEARLY ADDRESS A SITUATION AT YOUR HEALTH FACILITY, CONTACT THE LAW DEPARTMENT.

VI. FORMS

A. For use with Competent patients

1. WA-100: Health Care Directive or Living Will
2. WA-101: Durable Power of Attorney for Health Care
3. WA-102: Acknowledgement of Request to Withhold or Withdraw Life-Sustaining Treatment and Release
4. WA-103: Attending Physician's Certificate

B. For use with Incompetent patients

5. WA-200: Attending Physician's Certificate
6. WA-201: Consulting Physician's Certificate
7. WA-202: Request to Withhold or Withdraw Life-Sustaining Treatment and Release

VI. REFERENCES

A. Statutes

1. Title 7. Special Proceedings and Actions, Chapter 7.70, Actions for Injuries Resulting from Health Care
2. Title 11. Probate and Trust Law, Chapter 11.88, Guardianship -- Appointment, Qualification, Removal of Guardians
3. Title 11. Probate and Trust Law, Chapter 11, Power of Attorney
4. Title 70. Public Health and Safety, Chapter 70.122, Natural Death Act

☐ **Facility Specific Addendum Attached - Review All of Policy and Addendum Pages**
(Check if State Specific and/or Facility Specific Policy Addendum is attached)

PURPOSE

This policy establishes guidelines the patient has the right to information concerning their right to accept or refuse medical or surgical treatment. Patients will be encouraged to communicate their health care treatment wishes with their significant others, legal representatives and health care providers and create an advance directive. The advance directive will be utilized in the event the patient becomes incapacitated at a later date. The existence of an advance directive or lack thereof, will not determine the patients access to care, treatment or services.

POLICY

The policy of Kindred Hospital is to assure compliance with the Patient Self-Determination Act (PSDA) by describing how information about advance directives is provided to the patient, collected and documented. In addition, this policy supports a patient's uncompromised ability and right to participate in medical decision making regarding their care.

1. During the admissions process:
   a. The admission coordinator, case manager/social worker or nursing representative admitting the patient will ask the patient, whether or not the patient has completed an advance directive. If the patient is incapacitated, the patient's designated representative will be asked whether or not the patient has completed an advance directive.
   b. A request will be made to the patient/designated representative to provide a copy of the advance directive for placement in the medical records.
   c. As part of the admission process, the patient/ designated representative will be provided with written information outlining the individual's rights to make decisions concerning medical care ("Your Right to Decide").
   d. Hospital staff (usually the admitting nurse), will document whether or not an advance directive has been received in the medical record.
   e. The Living Will is documented on the state-approved form and executed in a manner consistent with state law. A Living Will may be revoked or changed at any time in the manner recognized by state law.
   f. The Durable Power of Attorney for Health Care is documented on the state-approved form and signed executed in a manner consistent with state law.
   g. The physician should be notified about the presence of POLST/MOLST forms and review the forms with the patient and/or legal representative. They require a valid physician order and are not automatically enforceable. Refer to the Legal Resources page on Knect for the applicability of POLST/MOLST forms in this state.
   h. If the patient has lost the capacity to make healthcare decisions or there are questions about authentication or verification of advance directives, please refer to the Legal Resources page in KNect under the specific state or contact the Law Department to determine who is authorized to make healthcare decisions for the patient.

DEFINITIONS

1. Advance Directives: The written or oral instructions communicating the health care treatment wishes of an adult, in the event the adult becomes incapacitated. These instructions include but are not limited to a living will, designation of a healthcare proxy or durable power of attorney for healthcare, or consent for an order to withhold resuscitation efforts (DNR).
2. Cardio-pulmonary Resuscitation (CPR): Are interventions that include chest compressions, artificial ventilation, medications per protocol and the use of defibrillation devices, as appropriate. These interventions are only implemented when a patient's breathing and heart has stopped. CPR includes following the Advanced Cardiac Life Support (ACLS) resuscitation protocol.
   - H-PC 08-002 Code Status Classification
3. Comfort Measures Only: Measures or treatments intended to provide patient comfort. Examples of Comfort Measures include: artificial tears and saliva, anti-nausea medications, medications to decrease secretions, pain meds, ice chips/water, anti-anxiety meds, palliative care consult, hospice consult, pastoral care consult, etc. The patient will not receive further diagnostic studies, new therapies (although current therapy may continue), basic or advanced life support, or transfer to a critical care unit.
4. Durable Power of Attorney (DPOA) for Health Care: A document recognized by state law that delegates the authority to another person (usually called a healthcare agent, proxy or surrogate) to make healthcare decisions for the adult patient when he/she is incapacitated. The DPOA may also describe specific wishes regarding the type of health care choices and treatments that the adult patient wishes to receive. If a DPOA is in effect, the agent or surrogate must be given relevant health care information so that informed decisions can be made for the patient.
5. Incapacitated: A medical determination that an adult lacks the ability to understand and appreciate the nature and consequences of a treatment decision, including the significant benefits, laws and reasonable alternatives related to a health care decision.
6. Life – Sustaining Treatment: Treatment that, based on reasonable medical judgment, sustains the life of a patient and without which, the patient will die. The term includes both life support, such as mechanical ventilation, kidney dialysis, artificial ventilation and hydration. The term does ***not*** include the administration of pain management medication or the performance of a medical procedure considered necessary to provide comfort care or any other medical care provided to alleviate a patient's pain.
7. Living Will: A document that contains specific instructions from an adult concerning their wishes about the type of health care choices and treatments that the adult does or does not want to receive. A Living Will does not designate an agent to make health care decisions.
8. No CPR/No Code/Do Not Resuscitate (DNR) Order: These designations mean specifically that IF ***cardiac and/or respiratory arrest*** occurs, cardio pulmonary resuscitation (CPR) will **not** be performed. *A No CPR order by itself does not indicate that the patient has declined other appropriate treatments including, comfort measures only and services of life-sustaining treatment.*
9. POLST/MOLST Forms: Physician Order for Life-Sustaining Treatment (POLST) or Medical Orders for Life-Sustaining Treatment (MOLST) are sets of medical orders recognized by state law that reflects patient preferences regarding CPR and life-sustaining treatment in the community. POLST/MOLDT forms are not advance directives and are not a substitute for designation of health care proxies or other advance directives. They must be confirmed by valid physician orders.

PROCEDURE

Not applicable

References

1. Patient Self-Determination Act (PSDA)
2. TJC: RI.01.02.01; RI.01.05.01
3. CMS: 482.12(f)
4. H-PC 08-006 Informed Consent
5. Knect>Hospital Division> Legal Resources> State Documents

Kindred Healthcare

Code Status Classification

H-PC 08-002

Release Date: 06/2017	HD Manual Patient Care	Page 1 of 2
Original Date: 06/1992	Section 08 Ethics & Healthcare Decision Making	

☐ **Facility Specific Addendum Attached - Review All of Policy and Addendum Pages**
(Check if State Specific and/or Facility Specific Policy Addendum is attached)

PURPOSE

This policy establishes the classification for patient resuscitation in the event of a cardiac, respiratory or cardiopulmonary arrest. Guidelines are given on the process for communicating code/status determinations and changes during the hospital stay.

POLICY

1. This policy of Kindred Hospital outlines the process and steps needed to determine and document the code status of patients.
    a. Patients are asked about code status and their preferences regarding life-sustaining treatment at admission.
    b. There shall be two categories of Code Status in Kindred Hospitals for patient resuscitation (Yes and No).
    c. Patients are provided resuscitation services unless precluded by a legal advance directive and physician's order.
    d. Any patient without a Code Status designation will receive a CPR (cardiopulmonary resuscitation)/Full Code Status.
    e. The primary reference point for Code Status classification is the electronic medical record. Paper documents are used only in the event that the electronic record is unavailable, in a hospital with a paper only record, or to document new orders, which should be transmitted to the electronic record.

CATEGORY YES Full Code. The patient will receive CPR in the event of a cardiac and/or respiratory arrest. Category Yes, is used on any patient without a Code Status designation.

CATEGORY NO No CPR. No CPR will be administered in the event of cardiac or pulmonary arrest. Also may be referred to as a Do Not Resuscitate (DNR) addendum.

DEFINITIONS

Not Applicable

PROCEDURE

1. At admission:
    a. Inquire from patients and legal representatives about the existence of advance directives at admission.
    b. The patient or representative is asked about preferences for life-sustaining treatment and it is documented in the medical record.
        - H-PC 08-001 Advance Directives
    c. The physician is expected to review the patient's written advance directive and the patient's documented preferences about life-sustaining treatment (if available) at admission and when

new information becomes available related to the patient's wishes about CPR and end of life care.

2. Advance directives (if available) are considered prior to the Code Status being entered as the physician's order and that the physician considers the patient and family member/responsible party wishes.

3. End of life care is a continuing discussion during the hospital stay. When new information becomes available or patient circumstances change, this information (changes in wishes, code status, etc.) should be incorporated into the patient's plan of care.

4. CPR orders will be reviewed periodically at the hospital's routine meetings (care transitions, IDT, as needed or appropriate) and updated as needed.

5. A patient without a code status designation will default to a Category YES and the patient will receive CPR in the event of cardiac and/or pulmonary arrest.

6. A decision to withhold resuscitation services does not limit other diagnostic or therapeutic interventions or admission to a special care unit within the hospital.

7. Code Status classification and patient's preferences for life-sustaining treatment are documented in ProTouch (preferred) or on the Code Status Classification form (only if the electronic record is unavailable or in hospitals with a paper-only record).
    d. H-OS-003-000 Code Status Order and Assessment

    ❖ *NOTE: Documentation forms may be viewed from the SMARTworks application. Review 'SMARTworks How to Guide' posted in the Clinical Resource Library. Knect-> Hospital Division-> Clinical Operations-> Clinical Resource Library-> Medical Records-> Forms. To log into SMARTworks, go to www.smartworks.com.*

    ❖ *NOTE: Above referenced Medical Record Forms are mandatory and should be ordered, not photo copied. You may order the forms via IntelliOrder in the corporate catalog under the vendor Standard Register.*

References

1. TJC: RI.01.02.01; RI.01.05.01
2. CMS: 482.12(f)
3. H-PC 08-006 Informed Consent

☐ **Facility Specific Addendum Attached - Review All of Policy and Addendum Pages**
(Check if State Specific and/or Facility Specific Policy Addendum is attached)

PURPOSE

This policy describes applicable state reporting requirements for hospitals. When an individual, whether a patient or a family member, expresses a desire to terminate a patient's life support treatment, state law must be carefully followed.

The Hospital complies with state law governing requests for Termination of Life Support. These requirements are detailed on Knect / Hospital Division / Legal Resources under the State Documents Section. While efforts have been made to provide specific instructions for handling these requests, legal requirements for reporting may change at any time. Therefore, if any doubt exists regarding the applicability of state law to the request being considered, contact the Law Department for clarification at the following address:

Chief Counsel, Hospital Division
Kindred Healthcare, Inc.
680 South Fourth Avenue
Louisville, KY 40202-2412
(502) 596-7218

POLICY

The policy of Kindred Hospital is to ensure the following:

1. The CEO or, if the CEO is unavailable, the CCO or Administrator on call, shall review the Termination of Life Support requirements on Knect and assure the state-mandated process is followed.

2. The CEO or, if the CEO is unavailable, the CCO or Administrator on call, ensures forms required by state law are completed, whether by physician, LIP, family members or the patient.

3. The CEO or, if the CEO is unavailable, the CCO or Administrator on call, and the physician will review the supporting documentation of the request to discontinue life support. If there are concerns regarding the legal sufficiency of the supporting documentation or there is a dispute among the involved parties, the Hospital CEO will confer with the Corporate Law Department and Vice President/Chief Clinical Officer/Senior Director of Clinical Operations (as applicable) or Executive Director.

4. The physician will have discussed, established and documented the process for the withdrawal/termination of life support prior to its initiation, in consultation and concurrence with the patient/family and the hospital staff. No Kindred employee shall be compelled to participate in the process. The patient will continue to receive any medication or treatment necessary to provide comfort or alleviate pain during the review process.

5. If the documentation is in order and all requirements of state law have been met, the physician proceeds with the termination. The physician shall remove designated medical devices (such as ventilator and nutritional feedings) himself/herself or may delegate it to qualified licensed staff (example, RT or RN). If the

documentation is not complete, the CEO/designee works with the physician and hospital staff to complete the documentation.

6. The patient shall receive comfort care measures as appropriate, including pain or anxiety medications, oral and other personal care. Visitation rules shall be liberally applied, including visitations by spiritual advisors, family and friends.

7. At a minimum, the Ethics Committee should review, on a quarterly basis, a summary of Termination of Life Support Activity. Additional required reviews may be designated/required by the Regional Vice President or Hospital CEO.

8. All completed Termination of Life Support forms shall be kept in the patient medical records.

DEFINITIONS

Not applicable

PROCEDURE

Not applicable

Kindred Healthcare

Notice of Non-Discrimination

H-PC 09-011

Release Date: 06/2017	HD Manual Patient Care	Page 1 of 1
Original Date: 06/1992	Section 09 Patient Rights and Civil Rights	

☐ **Facility Specific Addendum Attached - Review All of Policy and Addendum Pages**
(Check if State Specific and/or Facility Specific Policy Addendum is attached)

PURPOSE

This policy establishes guidelines for notice of non-discrimination. Kindred will admit and treat all patients without regard to race, color, creed, national origin, age, handicap, disability, or infectious disease (e.g., Acquired Immunodeficiency Syndrome).

POLICY

The policy of Kindred Hospital is to ensure the following:

1. Kindred Healthcare provides for individualized assessment of risks and for accommodations to minimize risks through the hospital Infection Control Program.
2. There is no distinction in a patient's eligibility for providing patient services to any of our patients. There is also no distinction in the manner for providing patient services to any of our patients. All patient care policies, procedures and decisions shall be made without regard to race, color, creed, national origin, age, handicap, or disability.
3. All persons and or organizations having the occasion to either refer or recommend a Kindred Hospital are advised to do so without regard to a patient's race, color, creed, national origin, age, handicap, or disability or infectious disease.
4. This policy is in accordance with the provisions of Title VI of the Civil Rights Act of 1964, Section 504 of the Rehabilitation Act of 1973, the Age Discrimination Act of 1975, and regulations of the U. S. Department of Health and Human Services. (Issued pursuant to the statutes at Title 45, Code of Federal Regulations ("CFR") Parts 80, 84 and 91).
5. If you have any questions about this policy, please contact the facility's Section 504 Coordinator (the Chief Executive Officer/Executive Director or Administrator).

DEFINITIONS

Not applicable

PROCEDURE

Not applicable

References

1. Title VI of the Civil Rights Act of 1964
2. Section 504 of the Rehabilitation Act of 1973
3. Age Discrimination Act of 1975

Kindred

Methods Which Provide Notice of Non-Discrimination

H-PC 09-015

Release Date: 06/2017	HD Manual Patient Care	Page 1 of 1
Original Date: 3/1998	**Section 09** Patient Rights and Civil Rights	

☐ **Facility Specific Addendum Attached - Review All of Policy and Addendum Pages**
(Check if State Specific and/or Facility Specific Policy Addendum is attached)

PURPOSE

This policy establishes guidelines that Kindred will provide program participants, employees, professional and union organizations, impaired and handicapped individuals and other interested persons, with information concerning its non-discrimination policies.

POLICY

The policy of Kindred Hospital is to ensure these policies will be disseminated via materials such as brochures, advertisements, human resource publications and the employee handbook.

DEFINITIONS

H-PC 09-015 A Methods Which Provide Notice of Non-Discrimination: A hospital listing of methods which Kindred uses to provide all interested persons information concerning its non-discrimination policies.

PROCEDURE

Not applicable

References

1. CMS: 482.13
2. TJC: LD.04.01.01

OFFICE for CIVIL RIGHTS

Methods Which Provide Notice of Non-Discrimination

Parties	Methods of Dissemination
Employees	• Employee handbook • Application • Employment Advertisements • Brochures
Applicants for Employment	• Application • Employment Advertisements
Unions of Professional Organizations	• Union Contracts/Negotiations • Employee handbook • Advertisements • Brochures
Community Groups and General Public	• Brochures • Educational Material • Advertisements
Referred Sources	• As Above • Admission Policy
Visually and hearing Impaired Persons, Handicapped and Elderly	• All information is distributed in writing to the hearing impaired individual or patient or to a visually impaired individual or patient in the presence of their representative • Material can be obtained in various languages, or in Braille upon request • TTD/TTY machines are available for the hearing impaired persons • All written information may be verbalized to a handicapped and/or elderly person via Kindred Healthcare representatives.

WASHINGTON

WITHHOLDING OR WITHDRAWAL OF LIFE-SUSTAINING TREATMENT POLICY

IF THESE GUIDELINES DO NOT CLEARLY ADDRESS A SITUATION AT YOUR HEALTH FACILITY, CONTACT THE LAW DEPARTMENT.

I. POLICY

Kindred recognizes that Adult Persons have the fundamental right to control the decisions relating to the rendering of their own health care, including the decision to have Life-Sustaining Treatment withheld or withdrawn in instances of a Terminal Condition or Permanent Unconscious Condition.

An Incompetent patient does not lose his right to consent to termination of Life-Sustaining Treatment by virtue of his incompetency. Decisions to withhold or withdraw Life-Sustaining Treatment may be made on behalf of a patient pursuant to the patient's Directive (*i.e.*, living will), or pursuant to the decisions made by a court-appointed guardian, the court, an authorized representative who holds the patient's durable power of attorney for health care, or in limited circumstances, the patient's immediate family.

II. DEFINITIONS

"Adult Person" means a person who has attained the age of eighteen, and who has the capacity to make health care decisions.

"Attending Physician" means the Physician selected by, or assigned to, the patient who has primary responsibility for the treatment and care of the patient.

"Directive" means a written document voluntarily executed by the patient generally consistent with the requirements for executing a Directive under Washington law. An example of a Directive is available at **Health Care Directive or Living Will (Form WA-100)**.

"Health Facility" means a hospital, nursing home, home health agency, hospice agency, or assisted living facility as defined by Washington law.

"Incompetent" means any person who is: (i) incompetent by reason of mental illness, developmental disability, senility, habitual drunkenness, excessive use of drugs, or other mental incapacity, of either managing his or her property or caring for himself or herself, or both; or (ii) incapacitated, meaning the superior court has determined the individual has a significant risk of personal harm based upon a demonstrated inability to adequately provide for nutrition, health, housing, or physical safety.

"Life-Sustaining Treatment" any medical or surgical intervention that uses mechanical or other artificial means, including artificially provided nutrition and hydration, to sustain, restore, or replace a vital function, which, when applied to a Qualified Patient, would serve

Exhibit 8
Acute Care Bed Need Methodology

Step 1

1. 2010-2019 Total Resident Days

Excludes MDC 19 and MDC 15, Rehab Service Line

Annualized

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Central King	96,596	96,908	90,774	93,276	100,427	103,844	107,551	113,023	115,258	123,426
HSA# 1	1,267,601	1,295,306	1,277,619	1,299,439	1,339,322	1,406,109	1,432,191	1,474,455	1,505,098	1,539,802
Statewide Total	2,044,196	2,058,891	2,045,627	2,060,462	2,109,252	2,206,003	2,256,172	2,323,198	2,363,159	2,438,826

STEP 2: Total Resident Days Adjusted to Exclude All Psychiatric Patient Days

2-A. 2010-2019 Total Resident Days (from Step 1)

Excludes MDC 19, MDC 15, Rehab

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Central King	96,596	96,908	90,774	93,276	100,427	103,844	107,551	113,023	115,258	123,426
HSA# 1	1,267,601	1,295,306	1,277,619	1,299,439	1,339,322	1,406,109	1,432,191	1,474,455	1,505,098	1,539,802
Statewide Total	2,044,196	2,058,891	2,045,627	2,060,462	2,109,252	2,206,003	2,256,172	2,323,198	2,363,159	2,438,826

2-B. 2010-2019 Total Psychiatric Hospital Non-MDC 19 Patient Days

Excludes MDC 19, MDC 15, Rehab

Annualized

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Central King	86	55	126	173	707	1,799	1,579	1,805	2,428	2,128
HSA# 1	1,384	1,639	2,907	3,101	9,823	16,266	15,482	16,250	16,704	16,806
Statewide Total	1,563	1,916	3,185	3,410	11,148	18,411	18,309	19,713	20,467	21,322

2C. 2010-2019 Total Resident Days Adjusted to Exclude All Psychiatric Patient Days

Excludes MDC 19, MDC 15, Rehab

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Central King	96,510	96,853	90,648	93,103	99,720	102,045	105,972	111,218	112,830	121,298
HSA# 1	1,266,217	1,293,667	1,274,712	1,296,338	1,329,499	1,389,843	1,416,709	1,458,205	1,488,394	1,522,996
Statewide Total	2,042,633	2,056,975	2,042,442	2,057,052	2,098,104	2,187,592	2,237,863	2,303,485	2,342,692	2,417,504

STEP 3: Historical Average Use Rates

3-A. 2010-2019 Total Resident Days Adjusted to Exclude All Psychiatric Patient Days (from Step 2-C.)

Excludes MDC 19, MDC 15, Rehab

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Central King	96,510	96,853	90,648	93,103	99,720	102,045	105,972	111,218	112,830	121,298
HSA# 1	1,266,217	1,293,667	1,274,712	1,296,338	1,329,499	1,389,843	1,416,709	1,458,205	1,488,394	1,522,996
Statewide Total	2,042,633	2,056,975	2,042,442	2,057,052	2,098,104	2,187,592	2,237,863	2,303,485	2,342,692	2,417,504

3-B. 2010-2019 Total Populations

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Central King	286,520	292,558	298,758	305,126	311,668	318,391	325,302	332,407	339,714	347,232
HSA # 1	4,204,534	4,231,500	4,261,500	4,303,625	4,361,850	4,429,440	4,523,580	4,612,100	4,688,920	4,767,780
Statewide Total	6,724,540	6,767,900	6,817,770	6,882,400	6,968,170	7,061,410	7,183,700	7,310,300	7,427,570	7,546,410

3-C. 2010-2019 Total Use Rates Per 1,000

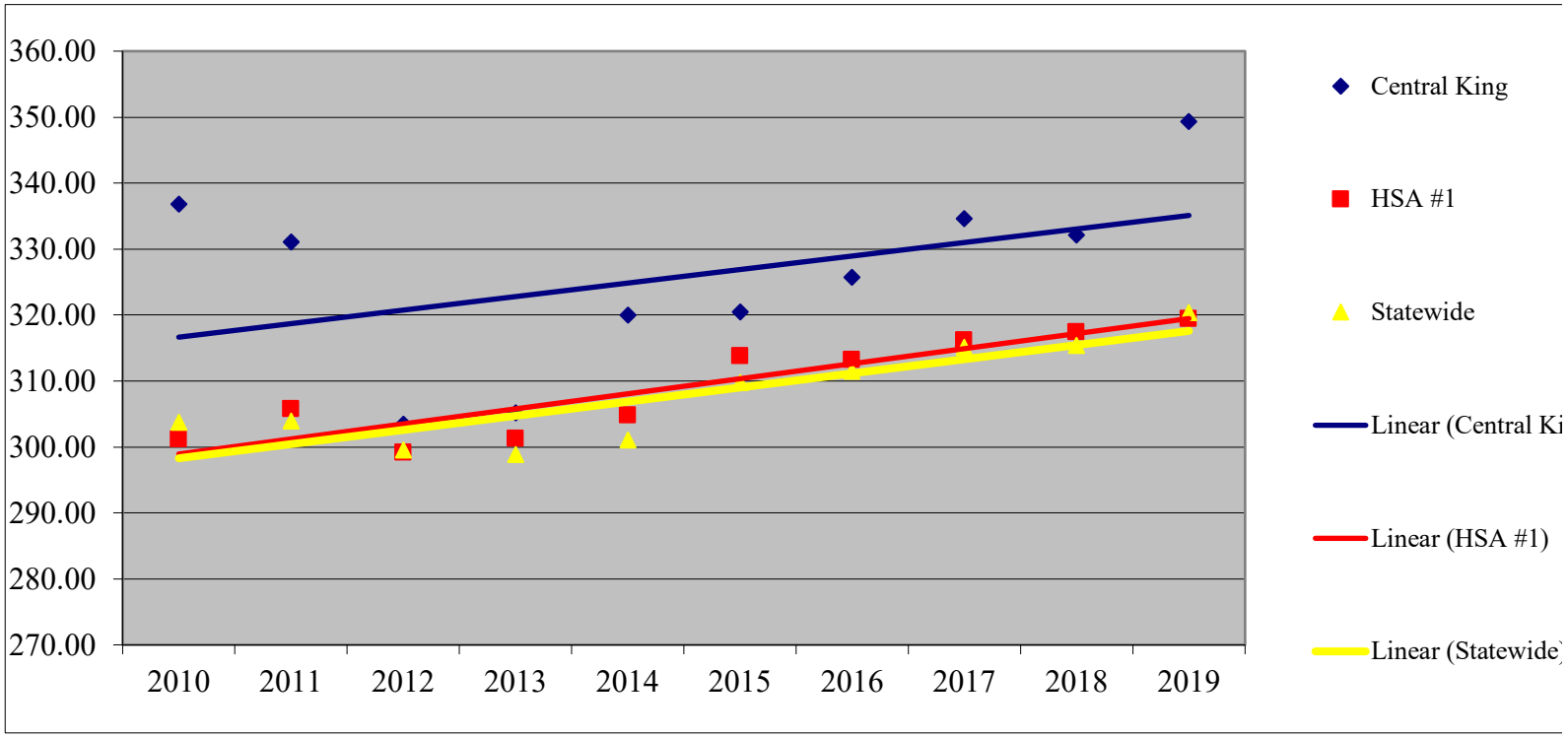
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Central King	336.84	331.06	303.42	305.13	319.96	320.50	325.77	334.58	332.13	349.33
HSA # 1	301.16	305.72	299.12	301.22	304.80	313.77	313.18	316.17	317.43	319.44
Statewide Total	303.76	303.93	299.58	298.89	301.10	309.80	311.52	315.10	315.40	320.35

STEP 4: Historical Use Rate Trend Lines and Slopes

4-A. 2010-2019 Total Use Rates Per 1,000 (from Step 3-C.)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Central King	336.84	331.06	303.42	305.13	319.96	320.50	325.77	334.58	332.13	349.33
HSA# 1	301.16	305.72	299.12	301.22	304.80	313.77	313.18	316.17	317.43	319.44
Statewide Total	303.76	303.93	299.58	298.89	301.10	309.80	311.52	315.10	315.40	320.35

4-B. 2010-2019 Total Use Rate Trend Lines



4-C. 2010-2019 Total Use Rate Slopes

HSA#1	2.28
Statewide Total	2.14

STEP 5: Allocation of Patient (Provider) Days Back to Planning Areas Where the Patients Live

5-A. 2019 (Provider) Days by Age and Residence

Excludes MDC 19 ,MDC 15, Rehab

Central King (Data has been annualized, x2)

	Total Patient Days	Out-of-State Days	Total Less Out-of-State	% Out-of-State	
Age 0-64	207,989	12,311	195,678	5.92%	
Age 65+	161,135	6,975	154,160	4.33%	
Total	369,124	19,286	349,838	5.22%	

Other Washington (WA-Central King)

	Total Patient Days	Out-of-State Days	Total Less Out-of-State	% Out-of-State
Age 0-64	1,107,001	50,939	1,056,062	4.60%
Age 65+	1,047,705	36,101	1,011,604	3.45%
Total	2,154,706	87,040	2,067,666	4.04%

5-B. 2019 Patient Days by Age and Residence, to Providers by Area

Excludes MDC 19 , MDC 15, Rehab

Residents of Central King

	To Planning Area Providers	To Other WA Providers	Total Resident Days (Excl. Out-of-State)	2018 Add (Patient) Days Provided in OR *	2018 Total Resident Days
Age 0-64	48,167	22,063	70,230	282	70,512
Age 65+	39,687	10,699	50,386	44	50,430
Total	**87,854**	**32,762**	**120,616**	**326**	**120,942**

Other WA Residents

	To Planning Area Providers	To Other WA Providers	Total Resident Days (Excl. Out-of-State)	Add (Patient) Days Provided in OR *	Total Resident Days
Age 0-64	170,168	1,072,040	1,242,208	40011	1,282,219
Age 65+	123,364	1,031,396	1,154,760	26395	1,181,155
Total	**293,532**	**2,103,436**	**2,396,968**	**66,406**	**2,463,374**

5-C. 2019 Market Shares - Percentage of Total Resident Patient Days

Excludes MDC 19, MDC 15, Rehab

Residents of Central King

	To Planning Area Providers	To Other WA Providers	To OR Providers	
Age 0-64	68.31%	31.29%	0.40%	100.00%
Age 65+	78.70%	21.22%	0.09%	100.00%
Total	**72.64%**	**27.09%**	**0.27%**	100.00%

Other WA Residents

Age 0-64	13.27%	83.61%	3.12%	100.00%
Age 65+	10.44%	87.32%	2.23%	100.00%
Total	**11.92%**	**85.39%**	**2.70%**	100.00%

STEP 6: Planning Area Use Rates by Age

Excludes MDC 19, MDC 15, Rehab

6-A. 2018 Population* by Age

	Central King	Other WA
Age 0-64	299,142	5,926,119
Age 65+	48,090	1,122,746
Total	**347,232**	**7,048,865**

* Planning area population from OFM(2017)

Other WA population = Statewide population from OFM (2017), minus Planning Area population.

6-B. 2019 Use Rates by Age

Excludes MDC 19, MDC 15, Rehab

	Central King	Other WA
Age 0-64	235.71	216.37
Age 65+	1,048.66	1,052.02
Total	**348.30**	**349.47**

STEP 7A: Planning Area Use Rates by Age

7A-A. 2019 Use Rates by Age (from Step 6-B)
Excludes MDC 19, MDC 15, Rehab

	Central King
Age 0-64	235.71
Age 65+	1,048.66
Total	**348.30**

7A-B. Projected Use Rates by Age fo Central King
Excludes MDC 19 , MDC 15, Rehab

	2019	2020	2021	2022	2023	2024	2025	2026
Age 0-64 using HSATrend	235.71	238.00	240.28	242.56	244.84	247.12	249.41	251.69
Age 0-64 using State Trend	235.71	237.86	240.00	242.15	244.29	246.44	248.58	250.73
Age 65+ using HSA Trend	1,048.66	1,050.94	1,053.22	1,055.51	1,057.79	1,060.07	1,062.35	1,064.63
Age 65+ using State Trend	1,048.66	1,050.80	1,052.95	1,055.09	1,057.24	1,059.38	1,061.53	1,063.67

Trended Use Rates (from above) that are Closest to Central King
Current Value - i.e., Requires the Smallest Adjustment

	2019	2020	2021	2022	2023	2024	2025	2026
Age 0-64 using State Trend	235.71	237.86	240.00	242.15	244.29	246.44	248.58	250.73
Age 65+ using State Trend	1,048.66	1,050.80	1,052.95	1,055.09	1,057.24	1,059.38	1,061.53	1,063.67

THESE CALCULATIONS ENSURE THAT THE USE RATE CLOSEST TO THE CURRENT VALUE ALWAYS APPEARS IN ROWS 24 and 2

Calculate the Difference from current Use Rate

Age 0-64 using HSATrend	0.00	2.28	4.56	6.85	9.13	11.41	13.69	15.97
Age 0-64 using State Trend	0.00	2.14	4.29	6.43	8.58	10.72	12.87	15.01

Calculation to ensure the above values are posititve.

Age 0-64 using stateTrend	0.00	2.28	4.56	6.85	9.13	11.41	13.69	15.97
Age 0-64 using State Trend	0.00	2.14	4.29	6.43	8.58	10.72	12.87	15.01

Calculate the Difference from current Use Rate

Age 65+ using HSA Trend	0.00	2.28	4.56	6.85	9.13	11.41	13.69	15.97
Age 65+ using State Trend	0.00	2.14	4.29	6.43	8.58	10.72	12.87	15.01

Calc: Ensures above values are posititve.

Age 65+ using HSA Trend	0.00	2.28	4.56	6.85	9.13	11.41	13.69	15.97
Age 65+ using State Trend	0.00	2.14	4.29	6.43	8.58	10.72	12.87	15.01

7A-A. 2019 Use Rates by Age (from Step 6-B)

Excludes MDC 19, MDC 15, Rehab

	Other WA
Age 0-64	216.37
Age 65+	1,052.02
Total	**349.47**

7A-B. Projected Use Rates by Age fo Central King

Excludes MDC 19, MDC 15, Rehab

	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Age 0-64 using HSATrend	216.37	218.65	220.93	223.21	225.50	227.78	230.06	232.34
Age 0-64 using State Trend	216.37	218.51	220.66	222.80	224.95	227.09	229.24	231.38
Age 65+ using HSA Trend	1,052.02	1,054.31	1,056.59	1,058.87	1,061.15	1,063.43	1,065.72	1,068.00
Age 65+ using State Trend	1,052.02	1,054.17	1,056.31	1,058.46	1,060.60	1,062.75	1,064.89	1,067.04

STEP 8: Forecast Patient Days Using Trended Use Rates

8A. Projected Use Rates by Age (from Step 7A-B.) for
Central King

	2019	2020	2021	2022	2023	2024	2025	2026
Age 0-64 using State Trend	235.71	237.86	240.00	242.15	244.29	246.44	248.58	250.73
Age 65+ using State Trend	1,048.66	1,050.80	1,052.95	1,055.09	1,057.24	1,059.38	1,061.53	1,063.67

8B. Projected Population* for
Central King

	2019	2020	2021	2022	2023	2024	2025	2026
0-64	299,142	302,130	305,148	308,196	311,274	314,383	317,523	320,695
65+	48,090	50,073	52,137	54,287	56,525	58,855	61,281	63,808
Total	**347,232**	**352,203**	**357,285**	**362,482**	**367,799**	**373,238**	**378,805**	**384,503**

8C. Projected Resident Patient Days* for
Central King

	2019	2020	2021	2022	2023	2024	2025	2026
0-64	70,512	71,864	73,237	74,629	76,042	77,476	78,931	80,407
65+	50,430	52,617	54,898	57,277	59,760	62,350	65,052	67,871
Total	**120,942**	**124,481**	**128,134**	**131,906**	**135,802**	**139,826**	**143,983**	**148,278**

Excludes MDC 19, MDC 15, Rehab

8A. Projected Use Rates by Age (from Step 7A-B.) for
Other WA

	2019	2020	2021	2022	2023	2024	2025	2026
Age 0-64 using State Trend	216.37	218.51	220.66	222.80	224.95	227.09	229.24	231.38
Age 65+ using State Trend	1052.02	1054.17	1056.31	1058.46	1060.60	1062.75	1064.89	1067.04

8B. Projected Population* for
Other WA

	2019	2020	2021	2022	2023	2024	2025	2026
0-64	5,926,119	5,989,469	6,054,080	6,087,770	6,122,148	6,157,224	6,193,007	6,229,508
65+	1,122,746	1,173,554	1,227,058	1,271,402	1,317,849	1,366,517	1,417,532	1,471,026
Total	**7,048,865**	**7,163,023**	**7,281,138**	**7,359,173**	**7,439,998**	**7,523,741**	**7,610,539**	**7,700,534**

8c. Projected Resident Patient Days* for
Other Washington

	2019	2020	2021	2022	2023	2024	2025	2026
0-64	1,282,219	1,308,772	1,335,874	1,356,365	1,377,155	1,398,251	1,419,659	1,441,387
65+	1,181,155	1,237,123	1,296,157	1,345,726	1,397,714	1,452,262	1,509,518	1,569,639
Total	**2,463,374**	**2,545,895**	**2,632,032**	**2,702,091**	**2,774,869**	**2,850,513**	**2,929,177**	**3,011,026**

STEP 9: Allocate Forecasted Patient Days to the Planning Areas Where Services are Expected to Be Provided

9A. (From Steps 8-C and D).

Projected Resident Patient Days* for Central King

	2019	2020	2021	2022	2023	2024	2025	2026
0-64	70,512	71,864	73,237	74,629	76,042	77,476	78,931	80,407
65+	50,430	52,617	54,898	57,277	59,760	62,350	65,052	67,871
Total	**120,942**	**124,481**	**128,134**	**131,906**	**135,802**	**139,826**	**143,983**	**148,278**

Excludes MDC 19 , MDC 15, Rehab

Projected Resident Patient Days* for Other Washington

	2019	2020	2021	2022	2023	2024	2025	2026
0-64	1,282,219	1,308,772	1,335,874	1,356,365	1,377,155	1,398,251	1,419,659	1,441,387
65+	1,181,155	1,237,123	1,296,157	1,345,726	1,397,714	1,452,262	1,509,518	1,569,639
Total	**2,463,374**	**2,545,895**	**2,632,032**	**2,702,091**	**2,774,869**	**2,850,513**	**2,929,177**	**3,011,026**

Excludes MDC 19, MDC 15, Rehab

9-B. 2018 Market Shares - Percentage of Total Resident Patient Days (From Step 5-C)

Excludes MDC 19, MDC 15, Rehab

Residents of Central King	To Planning Area Providers	To Other WA Providers	To OR Providers
Age 0-64	68.31%	31.29%	0.40%
Age 65+	78.70%	21.22%	0.09%
Total	**72.64%**	**27.09%**	**0.27%**

Other WA Residents

Age 0-64	13.27%	83.61%	3.12%
Age 65+	10.44%	87.32%	2.23%
Total	**11.92%**	**85.39%**	**2.70%**

9C. **Central King Resident Patient Days* to Providers** **Central King**

	2019	2020	2021	2022	2023	2024	2025	2026
0-64	48,167	49,091	50,028	50,979	51,945	52,924	53,918	54,926
65+	39,687	41,408	43,203	45,076	47,029	49,068	51,194	53,412
Total	**87,854**	**90,498**	**93,231**	**96,055**	**98,974**	**101,992**	**105,112**	**108,339**

Central King Resident Patient Days to Other Washington Providers

	2019	2020	2021	2022	2023	2024	2025	2026
0-64	22,063	22,486	22,916	23,351	23,793	24,242	24,697	25,159
65+	10,699	11,163	11,647	12,152	12,678	13,228	13,801	14,399
Total	**32,762**	**33,649**	**34,562**	**35,503**	**36,472**	**37,470**	**38,498**	**39,558**

Central King Resident Patient Days to Oregon Providers

	2019	2020	2021	2022	2023	2024	2025	2026
0-64	282	287	293	298	304	310	316	322
65+	44	46	48	50	52	54	57	59
Total	**326**	**333**	**341**	**348**	**356**	**364**	**372**	**381**

9D. **Other Washington Resident Patient Days* to Central King Providers**

	2019	2020	2021	2022	2023	2024	2025	2026
0-64	170,168	173,692	177,289	180,008	182,767	185,567	188,408	191,292
65+	123,364	129,210	135,375	140,552	145,982	151,679	157,659	163,939
Total	**293,532**	**302,901**	**312,664**	**320,561**	**328,750**	**337,246**	**346,068**	**355,230**

Other Washington Resident Patient Days to Other Washington Providers

	2019	2020	2021	2022	2023	2024	2025	2026
0-64	1,072,040	1,094,240	1,116,900	1,134,032	1,151,414	1,169,052	1,186,951	1,205,118
65+	1,031,396	1,080,268	1,131,817	1,175,101	1,220,498	1,268,129	1,318,126	1,370,624
Total	**2,103,436**	**2,174,508**	**2,248,717**	**2,309,133**	**2,371,912**	**2,437,182**	**2,505,077**	**2,575,741**

Other Washington Resident Patient Days to Oregon Providers

	2019	2020	2021	2022	2023	2024	2025	2026
0-64	40,011	40,840	41,685	42,325	42,973	43,632	44,300	44,978
65+	26,395	27,646	28,965	30,073	31,234	32,453	33,733	35,076
Total	**66,406**	**68,485**	**70,650**	**72,397**	**74,208**	**76,085**	**78,033**	**80,054**

9E. **Total Washington Resident Patient Days* to Central King Providers**

	2019	2020	2021	2022	2023	2024	2025	2026
0-64	218,335	222,783	227,317	230,988	234,712	238,491	242,326	246,218
65+	163,051	170,617	178,578	185,628	193,012	200,747	208,853	217,351
Total	**381,386**	**393,400**	**405,895**	**416,616**	**427,724**	**439,238**	**451,179**	**463,569**

Total Washington Resident Patient Days* to Other Washington Providers

	2019	2020	2021	2022	2023	2024	2025	2026
0-64	1,094,103	1,116,726	1,139,816	1,157,383	1,175,208	1,193,294	1,211,648	1,230,277
65+	1,042,095	1,091,431	1,143,464	1,187,252	1,233,176	1,281,357	1,331,927	1,385,023
Total	**2,136,198**	**2,208,157**	**2,283,280**	**2,344,636**	**2,408,384**	**2,474,651**	**2,543,575**	**2,615,300**

Total Washington Resident Patient Days* to Oregon Providers

	2019	2020	2021	2022	2023	2024	2025	2026
0-64	40,293	41,127	41,978	42,623	43,278	43,942	44,615	45,299
65+	26,439	27,692	29,013	30,123	31,287	32,508	33,790	35,136
Total	**66,732**	**68,819**	**70,991**	**72,746**	**74,564**	**76,449**	**78,405**	**80,435**

9-F. Percent Out-of-State Resident Patient Days * (From Step 5-A)

Central King

	% Out-of-State	
Age 0-64	5.92%	
Age 65+	4.33%	
Total	**5.22%**	

Other Washington

Age 0-64	4.60%	
Age 65+	3.45%	
Total	**4.04%**	

9-F. Total Patient Days*, Including Out-of-State Residents

Central King

	2019	2020	2021	2022	2023	2024	2025	2026
0-64	231,258	235,969	240,772	244,660	248,605	252,607	256,669	260,792
65+	170,109	178,003	186,308	193,663	201,366	209,437	217,894	226,759
Total	**401,367**	**413,972**	**427,080**	**438,323**	**449,971**	**462,044**	**474,563**	**487,551**

Central King

Provider Market Share of All Planning Area Resident Days

	2019	2020	2021	2022	2023	2024	2025	2026
Total	72.64%	72.70%	72.76%	72.82%	72.88%	72.94%	73.00%	73.06%

Central King

Inmigration Days

	2019	2020	2021	2022	2023	2024	2025	2026
Total	313,513	323,474	333,849	342,268	350,997	360,053	369,452	379,213

Excludes MDC 19, MDC 15, Rehab

STEP 10: Apply Weighted Occupancy Standard to Determine Bed Need

2019 BASELINE

Final Bed Need Calculations

Excludes MDC 19, MDC 15, Rehab

Central King

	2019	2020	2021	2022	2023	2024	2025	2026
Population 0-64	299,142	302,130	305,148	308,196	311,274	314,383	317,523	320,695
0-64 Use Rate	235.71	237.86	240.00	242.15	244.29	246.44	248.58	250.73
Population 65+	48,090	50,073	52,137	54,287	56,525	58,855	61,281	63,808
65+ Use Rate	1,048.66	1,050.80	1,052.95	1,055.09	1,057.24	1,059.38	1,061.53	1,063.67
Total Population	347,232	352,203	357,285	362,482	367,799	373,238	378,805	384,503
Total Area Resident Days	120,942	124,481	128,134	131,906	135,802	139,826	143,983	148,278
Total Days in Area Hospitals	401,367	413,972	427,080	438,323	449,971	462,044	474,563	487,551
Planning Area Available Beds								
UW/Harborview Medical Center	320	320	320	320	320	320	320	320
Kindred	50	50	50	50	50	50	50	50
Swedish Cherry Hill	224	224	224	224	224	224	224	224
Seattle Cancer Allian.	20	20	20	20	20	20	20	20
Swedish First Hill/Ballard	548	548	548	548	548	548	548	548
Virginia Mason Medical Center	211	211	211	211	211	211	211	211
TOTAL	1,373	1,373	1,373	1,373	1,373	1,373	1,373	1,373
Weighted Occupancy Standard	72.51%	72.51%	72.51%	72.51%	72.51%	72.51%	72.51%	72.51%
Gross Bed Need	1,517	1,564	1,614	1,656	1,700	1,746	1,793	1,842
Net Bed Need / Surplus	144	191	241	283	327	373	420	469

Exhibit 9
Cost Estimator Letter

W.G.CLARK
CONSTRUCTION CO.

May 27, 2020

Mr. Daniel Preston
Archon Design + Construction
1860 Mellwood Avenue, Suite 268
Louisville, KY 40206

Ref: Occupied Kindred Hospital First Hill – 4th Floor Refresh (REV 1)

Dear Daniel:

We are pleased to provide the following ROM budget proposal for the Occupied 4th Floor Refresh of the Kindred Hospital First Hill per the one (1) page Renovations plan from Archon Design + Construction dated 3/18/19 and the two (2) page Project Narrative from Archon Design + Construction dated 4/2/19. No other plans, documents or specifications have been provided or used in the assembly of this budget. Listed below is our budget for the 4th Floor Refresh.

SCOPE OF WORK – Provide all supervision, labor, materials, equipment, scheduling, coordination and project management required for refresh of the space per documents:

ROM Budget:	**$237,164.00**
10.1% W. S S.T.	**$23,954.00**
Total Cost:	**$ 261,118.00**
COVID Alternate - Add	**$21,156.00**
10.1% W.S.S.T.	**$2376.00**
Total Cost:	**$23,532.00**

CLARIFICATIONS & ASSUMPTIONS:

1) Excludes permit, fees, engineering, architecture and special inspections. We believe that the proposed scope of work is maintenance work and does not require a permit.
2) Excludes abatement and removal of asbestos and hazardous materials (none noted).
3) Excludes replacement or painting of the existing PVC baseboard. It is solid color (white) and appears in good shape. Also, there are concerns about paint adhering to the PVC finish.
4) Excludes painting or refinishing of the existing wood doors. Includes painting the frames.
5) Includes new restroom accessories for the converted storage/men's restroom (grab bars, TP dispenser, vanity mirror, seat gasket dispenser).
6) Includes removal and reinstallation of wall mounted cork boards, white boards and other items so that the painting can be performed.
7) Excludes any elevator work.
8) Excludes any painting/work in the stairwells.
9) Excludes permanent signage for the new men's and women's restroom doors. This is to be provided by owner and installed by contractor.
10) Includes replacing the existing push button combination lock on the men's storage/restroom door to match the hardware on the existing women's door.
11) Existing furnishings and equipment in the resident rooms will be concentrated in the center of each room and protected during the painting process. We do not include removal of the furnishings or equipment from the 4th floor.

12) The Nourishment station includes a countertop to match existing, sink and accessories. No lower or upper cabinets are included in this proposal. No appliances are included in this proposal (under counter refrigerator).
13) Includes construction broom clean of the space by GC. Sanitary and final cleaning by Kindred.
14) Assumes use of the Kindred dumpster for minor construction debris due to limited space for placing a construction dumpster.
15) Includes new countertop/cabinet in the men's restroom to match the one in the existing women's restroom.
16) Includes replacement of existing damaged countertop in the Seminar Room.
17) Project duration is projected to be two months.

Thank you for this opportunity to present our budget for consideration. Due to the project area currently being occupied, upon acceptance of the above ROM budget, WGC will coordinate with Kindred Hospital to develop an appropriate construction/phasing schedule, ICRA plan and finalized budget.

Do not hesitate to contact me with any questions.

Sincerely,

Jim Bray

Jim Bray - Senior Project Manager
Special Projects Group

CC: Nekia Williams
Abby Danao
File

Exhibit 10
Financials

4543 SEATTLE-FIRST HILL

	2017 Actual		2018 Actual		2019 Actual		2020 Projection		2021 Forecast		2022 Forecast		2023 Forecast	
	ADC	PPD	ADC	PPD	ADC	PPD	ADC	PPD	ADC	PPD	ADC	PPD	ADC	PPD
Patient Days:	**33.2**	**12,120**	**29.7**	**10,830**	**36.2**	**13,215**	**50.0**	**18,294**	**58.0**	**21,170**	**60.0**	**21,900**	**62.0**	**22,630**
Gross Revenue:	**$82,061,208**	**$6,770.73**	**$81,621,104**	**$7,536.57**	**$124,968,124**	**$9,456.54**	**$164,526,909**	**$8,993.49**	**$191,769,507**	**$9,058.55**	**$198,375,627**	**$9,058.25**	**$204,981,748**	**$9,057.97**
Less: Contractual Allowances	($61,484,234)	($5,072.96)	($61,162,707)	($5,647.53)	($93,645,460)	($7,086.30)	($123,395,182)	($6,745.12)	($143,827,130)	($6,793.91)	($148,781,720)	($6,793.69)	($153,736,311)	($6,793.47)
Less: Charity Care	($314,828)	($25.98)	($313,013)	($28.90)	($479,237)	($36.26)	($670,404)	($36.65)	($774,347)	($36.58)	($801,049)	($36.58)	($827,750)	($36.58)
Less: Bad Debt	($467,752)	($38.59)	$276,099	$25.49	($44,001)	($3.33)	($521,424)	($28.50)	($688,309)	($32.51)	($712,043)	($32.51)	($735,778)	($32.51)
Net Revenue - Total	**$19,794,394**	**$1,633.20**	**$20,421,482**	**$1,885.64**	**$30,799,426**	**$2,330.64**	**$39,939,900**	**$2,183.22**	**$46,479,721**	**$2,195.55**	**$48,080,815**	**$2,195.47**	**$49,681,909**	**$2,195.40**
Operating Expenses														
Total Labor Expense	**$9,668,021**	**$797.69**	**$9,908,432**	**$914.91**	**$12,723,732**	**$962.82**	**$18,463,748**	**$1,009.28**	**22,397,860**	**$1,058.00**	**23,190,348**	**$1,058.92**	**24,052,902**	**$1,062.88**
Employee Benefits	$2,028,628	$167.38	$1,518,338	$140.20	$1,846,298	$139.71	$2,056,255	$112.40	$2,291,017	$108.22	$2,602,789	$118.85	$2,939,699	$129.90
Supplies	$1,104,439	$91.13	$1,111,611	$102.64	$1,380,242	$104.45	$1,891,202	$103.38	$2,117,000	$100.00	$2,190,000	$100.00	$2,263,000	$100.00
Pharmaceuticals	$843,659	$69.61	$866,244	$79.99	$1,154,399	$87.36	$1,610,342	$88.03	$1,820,620	$86.00	$1,883,400	$86.00	$1,946,180	$86.00
Outside Services	$2,821,858	$232.83	$1,865,984	$172.30	$2,837,271	$214.70	$3,594,326	$196.48	$4,234,000	$200.00	$4,380,000	$200.00	$4,526,000	$200.00
Rehab Services	$721,823	$59.56	$644,277	$59.49	$842,450	$63.75	$1,158,384	$63.32	$1,333,710	$63.00	$1,379,700	$63.00	$1,425,690	$63.00
Professional Fees	$520,337	$42.93	$353,698	$32.66	$417,427	$31.59	$422,639	$23.10	$411,180	$19.42	$411,180	$18.78	$411,180	$18.17
Medical Director Fees	$4,410	$0.36	$4,410	$0.41	$4,410	$0.33	$7,350	$0.40	$8,820	$0.42	$8,820	$0.40	$8,820	$0.39
Equipment Rental	$413,341	$34.10	$179,263	$16.55	$326,670	$24.72	$336,215	$18.38	$381,060	$18.00	$394,200	$18.00	$407,340	$18.00
Utilities	$348,829	$28.78	$349,623	$32.28	$347,398	$26.29	$336,511	$18.39	$336,000	$15.87	$336,000	$15.34	$336,000	$14.85
Other Operating	$650,595	$53.68	$678,426	$62.64	$755,246	$57.15	$769,807	$42.08	$660,000	$31.18	$660,000	$30.14	$660,000	$29.16
Other Income	$3,144	$0.26	$1,721	$0.16	$0	$0.00	$0	$0.00		$0.00		$0.00		$0.00
Other Fixed	$701,391	$57.87	$726,269	$67.06	$807,401	$61.10	$1,307,034	$71.45	$1,296,000	$61.22	$1,296,000	$59.18	$1,296,000	$57.27
Total Operating Expenses	**$19,830,475**	**$1,636.18**	**$18,208,297**	**$1,681.28**	**$23,442,943**	**$1,773.96**	**$31,953,812**	**$1,746.68**	**$37,287,267**	**$1,761.33**	**$38,732,437**	**$1,768.60**	**$40,272,811**	**$1,779.62**
Fixed Expenses														
Depreciation/Amortization	$1,912,592	$157.80	$1,912,388	$176.58	$362,074	$27.40	$392,525	$21.46	$424,746	$20.06	$424,746	$19.39	$424,746	$18.77
Rent	$601	$0.05	$129,665	$11.97	$210,343	$15.92	$240,638	$13.15	$198,360	$9.37	$198,360	$9.06	$198,360	$8.77
Management Fees	$1,286,410	$106.14	$1,339,925	$123.72	$1,225,350	$92.72	$2,239,210	$122.40	$2,788,783	$131.73	$2,884,849	$131.73	$2,980,915	$131.72
Sponsor Fees		$0.00	$0	$0.00	$289,447	$21.90		$0.00		$0.00		$0.00		$0.00
Interest Expense	$120	$0.01	$4,440	$0.41		$0.00	($22)	($0.00)		$0.00		$0.00		$0.00
Interest Income		$0.00		$0.00		$0.00	$11,372	$0.62		$0.00		$0.00		$0.00
Expense - Fixed	**$3,199,723**	**$264.00**	**$3,386,417**	**$312.69**	**$2,087,214**	**$157.94**	**$2,883,723**	**$157.63**	**$3,411,889**	**$161.17**	**$3,507,955**	**$160.18**	**$3,604,021**	**$159.26**
Expense - Total	**$23,030,198**	**$1,900.18**	**$21,594,714**	**$1,993.97**	**$25,530,157**	**$1,931.91**	**$34,837,535**	**$1,904.31**	**$40,699,157**	**$1,922.49**	**$42,240,392**	**$1,928.79**	**$43,876,832**	**$1,938.88**
Net Income	($3,235,803)	($266.98)	($1,173,231)	($108.33)	$5,558,715	$420.64	$5,102,365	$278.91	$5,780,564	$273.05	$5,840,423	$266.69	$5,805,077	$256.52
EBITDARM	**$377,261**	**$31.13**	**$2,392,449**	**$220.91**	**$7,683,152**	**$581.40**	**$8,322,303**	**$454.92**	**$9,573,514**	**$452.22**	**$9,742,578**	**$444.87**	**$9,816,438**	**$433.78**

Exhibit 11
Kindred Seattle Licensure Survey

From: Stone, Shannon G.
To: Krueger, Janelle; Manor, Lisa
Subject: FW: Kindred Hospital - Seattle POC
Date: Wednesday, June 24, 2020 11:41:02 AM
Attachments: image001.png

Here is the email confirming approval—I don't find any paper copy in my records—suspect they went to Doug/Quality…

From: Sassi, Lisa A (DOH) [mailto:Lisa.Sassi@DOH.WA.GOV]
Sent: Friday, August 16, 2019 11:04 AM
To: Stone, Shannon G. <Shannon.Stone@kindred.com>
Cc: Douglas, Amelia <Amelia.Douglas@kindred.com>; McCoy, Doug <Doug.McCoy@kindred.com>; Manor, Lisa <Lisa.Manor@kindred.com>
Subject: [EXTERNAL] RE: Kindred Hospital - Seattle POC

Thank you. I am approving your plans of correction, effective today. Thank you for your efforts.
Lisa

From: Stone, Shannon G. [mailto:Shannon.Stone@kindred.com]
Sent: Friday, August 16, 2019 11:02 AM
To: Sassi, Lisa A (DOH) <Lisa.Sassi@DOH.WA.GOV>
Cc: Douglas, Amelia <Amelia.Douglas@kindred.com>; McCoy, Doug <Doug.McCoy@kindred.com>; Manor, Lisa <Lisa.Manor@kindred.com>
Subject: RE: Kindred Hospital - Seattle POC

Hello, again! ☺

The rates were set lower than the facility's performance for last year as well as for the overall corporate performance for 2018. This is correct to my understanding. I have included Lisa Manor (regional SDCO who worked on the rate determinations) on this discussion should there be any other factors needing clarification regarding the rate determination. Thanks so much!

Shannon

From: Sassi, Lisa A (DOH) [mailto:Lisa.Sassi@DOH.WA.GOV]
Sent: Friday, August 16, 2019 10:47 AM
To: Stone, Shannon G.
Subject: [EXTERNAL] RE: Kindred Hospital - Seattle POC

Hello,
On the phone you told me that Kindred-Seattle set your performance expectation as higher (lower infection rate) than the company average and higher (lower infection rate) than your facility's performance last year.
Is that correct?
Lisa

From: Stone, Shannon G. [mailto:Shannon.Stone@kindred.com]
Sent: Friday, August 16, 2019 10:37 AM
To: Sassi, Lisa A (DOH) <Lisa.Sassi@DOH.WA.GOV>
Cc: McCoy, Doug <Doug.McCoy@kindred.com>; Douglas, Amelia <Amelia.Douglas@kindred.com>
Subject: RE: Kindred Hospital - Seattle POC
Importance: High

Good morning, Miss Lisa.

Thank you for reaching out for clarification.

The rates provided on the MDROs was calculated after reviewing both corporate and facility performance for 2018. The rates were then determined based on solely improving performance with the goal of having zero infections.

Please let me know if you were to need more clarification regarding this matter.

Regards,

Shannon Stone
DNP, RN, NEA-BC, CNML, CCRN-K, PCCN-K, SCRN
Chief Clinical Officer/Chief Nurse Executive
Kindred Healthcare

Seattle First Hill
1334 Terry Avenue
Seattle, WA 98101
206.922.6720 (o)
915.497.8934 (c)

From: Sassi, Lisa A (DOH) [mailto:Lisa.Sassi@DOH.WA.GOV]
Sent: Friday, August 16, 2019 10:27 AM
To: Stone, Shannon G.
Subject: [EXTERNAL] FW: Kindred Hospital - Seattle POC

Shannon,

Per our conversation and the email chain below, please provide the information to me that we just spoke about.
Lisa

Lisa Sassi, RN, MN, BSN
Nurse Consultant
Health Systems Oversight
Health Systems Quality Assurance
Washington State Department of Health
lisa.sassi@doh.wa.gov
360-236-4658 | www.doh.wa.gov

From: Sassi, Lisa A (DOH)
Sent: Saturday, August 10, 2019 12:24 PM
To: 'McCoy, Doug' <Doug.McCoy@kindred.com>
Subject: RE: Kindred Hospital - Seattle POC

Doug,
Thank you for your response. The answer on oral hygiene sounds fine.
Can your infection preventionists and/or chief clinical officer address my original question about the MDRO infection rates. It does not have to be an elaborate response but I would like to know the general method for arriving at the goals for rates (i.e. MRSA=0.63, VRE=0.54, ESBL=0.05….) listed in the plan of correction on page 3.
I will be back in the office on Friday and I will look for the response at that time.
Thanks to you and your team.
Lisa

From: McCoy, Doug [mailto:Doug.McCoy@kindred.com]
Sent: Thursday, August 8, 2019 4:13 PM
To: Sassi, Lisa A (DOH) <Lisa.Sassi@DOH.WA.GOV>
Subject: RE: Kindred Hospital - Seattle POC

Lisa –
Regarding oral hygiene, we are doing full house quality rounds daily which include verbal validation confirmation from the patient that they were offered and received oral care. For those who are unable to respond there is a visual observation to ensure it was completed. There is also a chart review to ensure the care plan is present and up to date.
The Kindred goal for the 5 MDROs identified would be zero, so each facility is individualized based on their rate history and improvement plan. We would need to request the hospital infection plan from various facilities to determine how they compare as the company reports only benchmark CAUTI and CLABSI infection rates.

Hope that is helpful.

Thanks
Doug

From: Sassi, Lisa A (DOH) [mailto:Lisa.Sassi@DOH.WA.GOV]
Sent: Tuesday, August 06, 2019 11:45 AM
To: McCoy, Doug
Subject: [EXTERNAL] RE: Kindred Hospital - Seattle POC

Doug,
I took a very quick look at what you sent. You do not need to get back to me right away.
Here a 2 questions:
-Will the facility be validating the Plan of Care for oral hygiene every shift is implemented (i.e. the patients receive assistance to ensure oral hygiene)? Providing supplies may not be all that is needed for everyone.
-I see the facility established new MDRO rates for 5 kinds of infections. How do those rates compare to rates set by other Kindred facilities?
Thank you,
Lisa

From: McCoy, Doug [mailto:Doug.McCoy@kindred.com]
Sent: Monday, August 5, 2019 12:29 PM
To: Sassi, Lisa A (DOH) <Lisa.Sassi@DOH.WA.GOV>
Subject: Kindred Hospital - Seattle POC

Lisa,

Attached is an electronic copy of the plan of correction for both the State and CMS statement of deficiencies we received. I have sent everything to you via mail, but wanted to include an electronic copy for your convenience.
Thank you for your time and recommendations with our team.

Sincerely,

Doug McCoy – Market CEO
Kindred Hospitals - Seattle

Dedicated to Hope, Healing and Recovery.

Kindred Hospitals
of Seattle

August 29, 2019

Via Email

Ms. Deborah Barrette, RN
Office of Health Systems Oversight
Health Systems Quality Assurance
Washington State Department of Health
111 Israel Road SE
Tumwater, WA 98501
deborah.barrette@dog.wa.gov

Re: Kindred Hospital – Seattle/Provider No. 50-2002

Dear Ms. Barrette:

This letter transmits the Plan of Correction that responds to the survey completed August 6, 2019 by the State of Washington Department of Health (State survey agency).

On August 19, 2019 Kindred Hospital – Seattle received the Statement of Deficiencies (CMS Form 2567L and State Form 2567) and now presents its Plan of Correction to respond to the deficiencies. This letter, the Plan of Correction, and the attachments are submitted electronically per your instructions.

We appreciate the opportunity to provide this information and would be happy to respond to any questions you or your staff may have. Please feel free to contact me at (206) 922-6700 or via email at Doug.mccoy@kindred.com.

Sincerely,

Doug McCoy
Market Chief Executive Officer
Kindred Hospital • Seattle

Enclosures

Cc: Lorene Perona, Vice President, Clinical Operations HD
Linn Billingsley, Division Vice President HD

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION	(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:	(X2) MULTIPLE CONSTRUCTION	(X3) DATE SURVEY COMPLETED
	502002	A. BUILDING _____ B. WING _____	C 08/06/2019

NAME OF PROVIDER OR SUPPLIER	STREET ADDRESS, CITY, STATE, ZIP CODE
KINDRED HOSPITAL-SEATTLE	10631 8TH AVE NE SEATTLE, WA 98125

(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETION DATE
A 000	INITIAL COMMENTS MEDICARE COMPLAINT INVESTIGATION The Washington State Department of Health (DOH) in accordance with Medicare Conditions of Participation for hospitals 42 CFR Part 482, conducted this health and safety investigation. Onsite date: 08/06/19 Case number: 2019-9524 Intake number: 92299 The investigation was conducted by: Surveyor #27347 There was a violation found pertinent to this complaint.	A 000	1. A written PLAN OF CORRECTION is required for each deficiency listed on the Statement of Deficiencies. 2. EACH plan of correction statement must include the following: * The regulation number and/or the tag number; * HOW the deficiency will be corrected; * WHO is responsible for making the correction; * WHAT will be done to prevent reoccurrence and how you will monitor for continued compliance; and * WHEN the correction will be completed. 3. Your PLAN OF CORRECTION must be returned within 10 calendar days from the date you receive the Statement of Deficiencies. PLAN OF CORRECTION DUE: August 29, 2019 4. The Administrator or Representative's signature is required on the first page of the original. 5. Return the original report with the required signatures.	
A 396	NURSING CARE PLAN CFR(s): 482.23(b)(4) The hospital must ensure that the nursing staff develops, and keeps current, a nursing care plan for each patient. The nursing care plan may be part of an interdisciplinary care plan This STANDARD is not met as evidenced by: Based on interview and document review, the hospital failed to implement its policies and procedures for the care of a patient that required	A 396		

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LABORATORY DIRECTOR'S OR PROVIDER/SUPPLIER REPRESENTATIVE'S SIGNATURE | TITLE: CEO | (X6) DATE: 8/29/19

Any deficiency statement ending with an asterisk (*) denotes a deficiency which the institution may be excused from correcting providing it is determined that other safeguards provide sufficient protection to the patients. (See instructions.) Except for nursing homes, the findings stated above are disclosable 90 days following the date of survey whether or not a plan of correction is provided. For nursing homes, the above findings and plans of correction are disclosable 14 days following the date these documents are made available to the facility. If deficiencies are cited, an approved plan of correction is requisite to continued program participation.

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION	(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:	(X2) MULTIPLE CONSTRUCTION	(X3) DATE SURVEY COMPLETED
	502002	A. BUILDING _____ B. WING _____	C 08/06/2019

NAME OF PROVIDER OR SUPPLIER	STREET ADDRESS, CITY, STATE, ZIP CODE
KINDRED HOSPITAL-SEATTLE	10631 8TH AVE NE SEATTLE, WA 98125

(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETION DATE
A 396	Continued From page 1 the need of podiatry (foot care) services for 1 of 6 patient records reviewed (Patient #1). Failure to implement the use of podiatry services puts patients at risk for a decreased quality of life when their foot care issues are not addressed. Findings included: 1. Record review of the hospital's policy titled "Medical Staff Rules and Regulations" showed that consultation for specialized assessments needed to be done within 48 hours of a request. 2. Review of Patient #1's medical record showed that: a. Patient #1 was admitted to the hospital on 04/18/19 for a respiratory condition. The patient was on a ventilator (machine that breathes for the patient) at the time of admission. b. On 04/19/19, a physician ordered a podiatry consult for the patient's overgrown toenails. c. On 06/27/19 the patient was discharged to a skilled nursing facility specializing in treating patients with respiratory conditions. The patient was no longer on a ventilator. The patient was able to breathe on their own. The patient had not received any services from a podiatrist (doctor specializing in the care of feet) while in the hospital. 3. On 08/06/19 at 9:45 AM, the investigator interviewed a licensed nurse (Staff #1). Staff #1 stated that the hospital's contracted podiatrist was contacted but the podiatrist had a medical emergency and was unable to come see the	A 396		

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION	(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:	(X2) MULTIPLE CONSTRUCTION	(X3) DATE SURVEY COMPLETED
	502002	A. BUILDING _____ B. WING _____	C 08/06/2019

NAME OF PROVIDER OR SUPPLIER	STREET ADDRESS, CITY, STATE, ZIP CODE
KINDRED HOSPITAL-SEATTLE	10631 8TH AVE NE SEATTLE, WA 98125

(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETION DATE
A 396	Continued From page 2 patient. Staff #1 stated that the hospital should have notified the attending physician and made arrangements for the patient to see another podiatrist. 4. On 08/06/19 at 12:15 PM, the investigator interviewed a licensed nurse (Staff #2). Staff #2 verified the above information.	A 396		

Kindred Hospitals
of Seattle

ID Prefix Tag	Summary Statement of Deficiencies	How Deficiency Was Corrected(*Immediate Actions Taken & System Changes made)*	How the Actions Will Be Incorporated into QAPI Plan(*Monitoring*)	Responsible Party	Date of Correction
A 396	NURSING CARE PLAN CFR(s): 482.23(b)(4) The hospital must ensure that the nursing staff develops, and keeps current, a nursing care plan for each patient. The nursing care plan may be part of an interdisciplinary care plan	All patient records were immediately reviewed on August 6, 2019 to determine if all consultation orders were completed as ordered and per Medical Staff Rules & Regulations. The CCO and Director of Case Management immediately reviewed the process for ensuring execution of specialty-specific physician consults. Additionally, the Medical Staff Rules and Regulations were reviewed by Hospital Leadership and the Medical Director to identify any needed revisions. It was determined the Medical Staff Rules and Regulations do not differentiate timeliness expectations between consults needed to manage a critical disease process and those consults that are requested for co-management of a non-urgent chronic condition (i.e., podiatric conditions). The decision was made to present a revision of the Medical Staff Rules and Regulations to the Medical Executive Committee with the following: • Consults to co-manage non-urgent/non critical conditions are expected to be conducted within 14 days of order, unless otherwise prescribed in the physician order. • Consults to manage a critical disease process are expected to be conducted within 48 hours of order. An ad hoc Medical Executive Committee vote on the revised consultation expectations in the Rules and Regulations was conducted via email on August 27, 2019 and accepted unanimously via email with voting members of the Medical Executive Committee on August 28, 2019.	The Director of Case Management, or designee (case management coordinator/analyst), validates initiation of all new podiatry consults by reviewing pending consults and pending patient orders. Any consults not yet executed are escalated through the Director of Case Management to the DNCS. The measure being audited is as follows: # patients assessed by podiatry # patients with new podiatry consult Physician consults are tracked weekly in Interdisciplinary Care Team meeting and reported by the Health Information Manager during daily leadership meetings (M-F). The measure being audited is as follows: # newly ordered consults conducted timely # newly ordered consults Notifications to physicians with non-compliant consultation expectations are conducted as defined by the Medical Staff Bylaws. The results of these consult audits are incorporated into the QAPI plan via aggregation, analysis and reporting to a sub-committee of Quality Council, MEC, and GB monthly for 3 months or until 100% compliance is sustained.	CCO	8/29/19

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8/29/19

Kindred Hospitals
of Seattle

ID Prefix Tag	Summary Statement of Deficiencies	How Deficiency Was Corrected(***Immediate Actions Taken & System Changes made)***	How the Actions Will Be Incorporated into QAPI Plan(***Monitoring***)	Responsible Party	Date of Correction
151		A new process to improve nurse to nurse communication on occurrence of consultation orders and their subsequent execution was developed and implemented. A trigger made by the clinical bedside nurse begins a process of notifying a mid-level provider available 24/7 of the need for a podiatry consult. The new order for a consult then appears on the daily report the Health and Information Manager, or delegate, creates and is disseminated in morning huddle. The Wound Care Coordinator, or delegate, completes a daily audit of all patients assessed by the Wound Care Team to identify any podiatric consult orders that have not yet occurred. If there is an outstanding podiatric consult the nurse to nurse communication process described above is triggered. Education was initiated on August 28, 2019 to Clinical bedside nurses by the Educator Manager, or designee, on proper facilitation of the ordering for podiatry consults within the electronic medical record, as well as the escalation process of notifying nursing supervisor who would then contact hospital administration should a consult not be initiated. This education was conducted via in-person huddles and one-on-one in-services.			

8/29/19

Final Accreditation Report

Kindred Hospital Seattle
10631 8th Avenue NE
Seattle, WA 98125

Organization Identification Number: 5140
Unannounced Full Event: 6/11/2019 - 6/13/2019

Program Surveyed
Hospital

The Joint Commission
Table of Contents

The Joint Commission
Executive Summary

Program	Survey Dates	Event Outcome	Follow-up Activity	Follow-up Time Frame or Submission Due Date
Hospital	06/11/2019 - 06/13/2019	Requirements for Improvement	Clarification (Optional)	Submit within 10 Business Days from the final posted report date
			Unannounced Medicare Deficiency Survey	Survey within 45 Calendar Days from the last day of survey
			Evidence of Standards Compliance (ESC)	Submit within 60 Calendar Days from the final posted report date

The Joint Commission
What's Next - Follow-up Activity

Program: Hospital

Standard	EP	SAFER™ Placement	CoP	Tag	Included in the Medicare Deficiency Survey (within 45 Calendar Days)	Included in the Evidence of Standard Compliance (within 60 calendar days)
EC.02.01.01	5	Low / Pattern	§482.41 (a)	A-0701	✓	✓
EC.02.02.01	5	Moderate / Limited	§482.41 (a)	A-0701	✓	✓
EC.02.03.03	1	Low / Limited	§482.41 (b)(1)(i)	A-0710	✓	✓
EC.02.03.05	1	Low / Limited	§482.41 (d)(2)	A-0724	✓	✓
	25	Moderate / Limited	§482.41 (d)(2)	A-0724	✓	✓
EC.02.05.01	14	Moderate / Pattern	§482.42	A-0747	✓	✓
EC.02.05.05	5	Low / Limited	§482.41 (d)(2)	A-0724	✓	✓
	6	Low / Limited	§482.41 (d)(2)	A-0724	✓	✓
EC.02.05.07	1	Low / Limited	§482.15 (e)(2)	E-0041	✓	✓
EC.02.05.09	11	Low / Limited	§482.41 (d)(2)	A-0724	✓	✓
	12	Moderate / Limited				✓
EM.02.01.01	12	Low / Limited	§482.15 (a)(3)	E-0007	✓	✓
	14	Low / Limited	§482.15 (b)(8)	E-0026	✓	✓
EM.03.01.03	14	Low / Limited	§482.15 (d)(2)(iii)	E-0039	✓	✓

The Joint Commission

Standard	EP	SAFER™ Placement	CoP	Tag	Included in the Medicare Deficiency Survey (within 45 Calendar Days)	Included in the Evidence of Standard Compliance (within 60 calendar days)
HR.01.01.01	2	Low / Limited				✓
	5	Low / Limited				✓
HR.01.06.01	1	Low / Limited				✓
	3	Low / Limited				✓
IC.01.02.01	3	High / Limited	§482.42	A-0747	✓	✓
IC.02.01.01	1	Moderate / Pattern	§482.42	A-0747	✓	✓
IC.02.02.01	4	Moderate / Limited	§482.42	A-0747	✓	✓
LS.02.01.10	11	Moderate / Limited	§482.41 (b)(1)(i)	A-0710	✓	✓
	14	Low / Limited	§482.41 (b)(1)(i)	A-0710	✓	✓
LS.02.01.20	13	Low / Limited				✓
LS.02.01.30	19	Low / Limited	§482.41 (b)(1)(i)	A-0710	✓	✓
LS.02.01.35	4	Low / Limited	§482.41 (b)(1)(i)	A-0710	✓	✓
	6	Low / Limited	§482.41 (b)(1)(i)	A-0710	✓	✓
MM.05.01.07	2	Moderate / Pattern	§482.23 (c)	A-0405		✓
MM.05.01.11	2	High / Pattern	§482.25 (a)(3)	A-0494		✓
MM.06.01.01	3	High / Pattern	§482.23 (c)	A-0405		✓
MS.03.01.01	16	Low / Limited	§482.26 (c)(2)	A-0547		✓

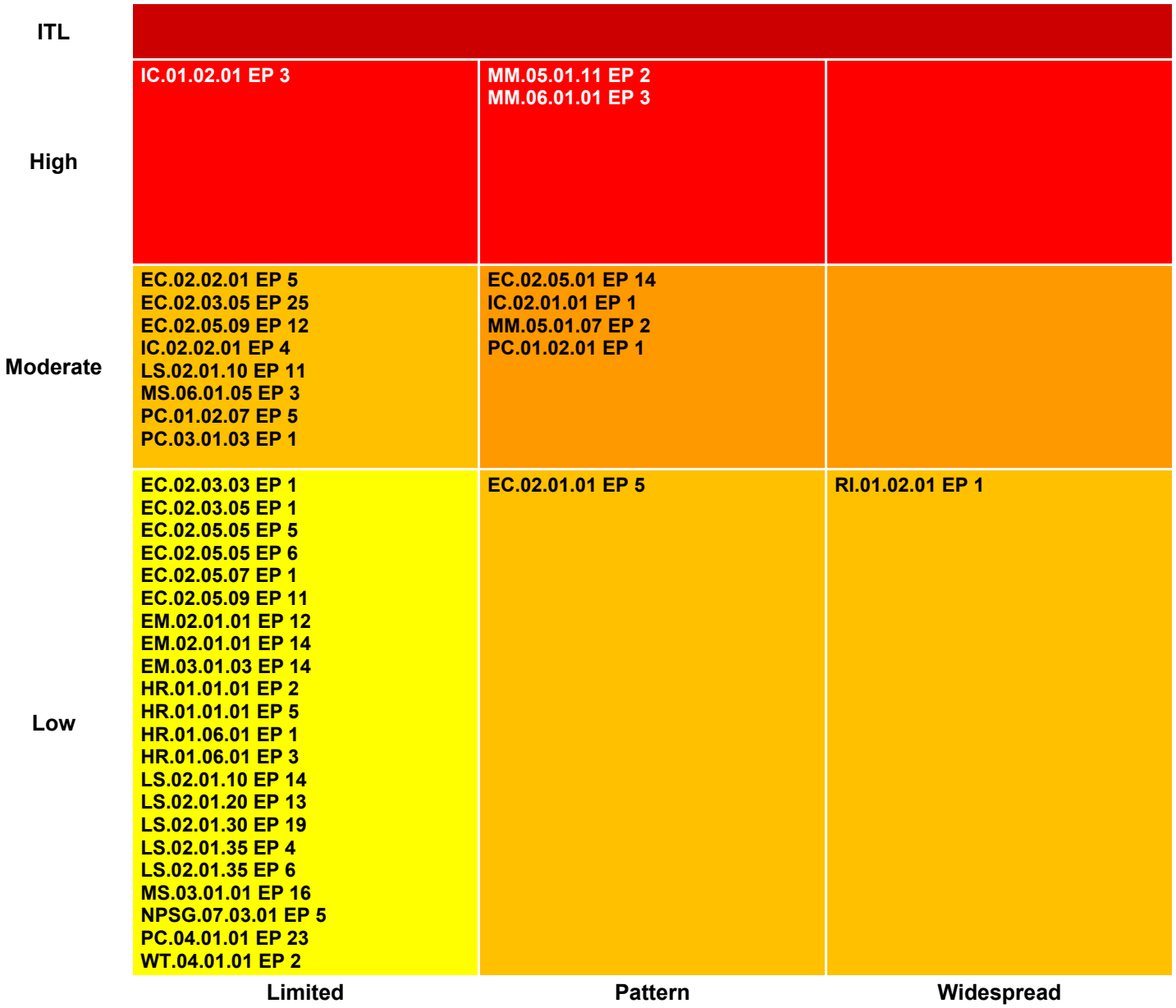
The Joint Commission

Standard	EP	SAFER™ Placement	CoP	Tag	Included in the Medicare Deficiency Survey (within 45 Calendar Days)	Included in the Evidence of Standard Compliance (within 60 calendar days)
MS.06.01.05	3	Moderate / Limited				✓
NPSG.07.03.01	5	Low / Limited				✓
PC.01.02.01	1	Moderate / Pattern				✓
PC.01.02.07	5	Moderate / Limited				✓
PC.03.01.03	1	Moderate / Limited	§482.52 (b)	A-1002		✓
PC.04.01.01	23	Low / Limited	§482.43 (c)(6)	A-0823		✓
RI.01.02.01	1	Low / Widespread	§482.13 (b)(4)	A-0133		✓
WT.04.01.01	2	Low / Limited				✓

The Joint Commission
SAFER™ Matrix
Program: Hospital

Likelihood to harm a Patient / Visitor / Staff

The Joint Commission



The Joint Commission

Scope

The Joint Commission
The Centers for Medicaid and Medicare Services (CMS) Summary

Program: Hospital

CoP(s)	Tag	CoP Score	Corresponds to:
§482.13	A-0115	Standard	
§482.13(b)(4)	A-0133	Standard	HAP/RI.01.02.01/EP1
§482.23	A-0385	Standard	
§482.23(c)	A-0405	Standard	HAP/MM.05.01.07/EP2 HAP/MM.06.01.01/EP3
§482.25	A-0489	Standard	
§482.25(a)(3)	A-0494	Standard	HAP/MM.05.01.11/EP2
§482.26	A-0528	Standard	
§482.26(c)(2)	A-0547	Standard	HAP/MS.03.01.01/EP16
§482.41	A-0700	Condition	
§482.41(a)	A-0701	Standard	HAP/EC.02.01.01/EP5 HAP/EC.02.02.01/EP5
§482.41(b)(1)(i)	A-0710	Standard	HAP/EC.02.03.03/EP1 HAP/LS.02.01.10/EP11 HAP/LS.02.01.10/EP14 HAP/LS.02.01.30/EP19 HAP/LS.02.01.35/EP4 HAP/LS.02.01.35/EP6
§482.41(d)(2)	A-0724	Standard	HAP/EC.02.03.05/EP1 HAP/EC.02.03.05/EP25 HAP/EC.02.05.05/EP5 HAP/EC.02.05.05/EP6 HAP/EC.02.05.09/EP11
§482.42	A-0747	Condition	HAP/IC.02.01.01/EP1 HAP/IC.02.02.01/EP4 HAP/IC.01.02.01/EP3 HAP/EC.02.05.01/EP14
§482.43	A-0799	Standard	
§482.43(c)(6)	A-0823	Standard	HAP/PC.04.01.01/EP23

The Joint Commission

CoP(s)	Tag	CoP Score	Corresponds to:
§482.52	A-1000	Standard	
§482.52(b)	A-1002	Standard	HAP/PC.03.01.03/EP1
§482.15	E-0001	Condition	
§482.15(a)(3)	E-0007	Standard	HAP/EM.02.01.01/EP12
§482.15(b)(8)	E-0026	Standard	HAP/EM.02.01.01/EP14
§482.15(d)(2)(iii)	E-0039	Standard	HAP/EM.03.01.03/EP14
§482.15(e)(2)	E-0041	Standard	HAP/EC.02.05.07/EP1

The Joint Commission
Requirements for Improvement

Program: Hospital

Standard	EP	SAFER™ Placement	EP Text	Observation	CoP	CoP Score
EC.02.01.01	5	Low Pattern	The hospital maintains all grounds and equipment.	1). Observed in Building Tour at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . It was observed that the trash compactor was located in an unsecured area near the loading dock. The key-operated control was left in the "On" position, allowing the compactor to be operated by unauthorized persons.	§482.41(a)	Standard
				2). Observed in Building Tour at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . The trash compactor was located in an unsecure area in an alley on the back of the hospital. At time of survey it was unattended but started without a key when tested.	§482.41(a)	Standard
EC.02.02.01	5	Moderate Limited	The hospital minimizes risks associated with selecting, handling, storing, transporting, using, and disposing of hazardous chemicals.	1). Observed in Building Tour at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . The basement EVS storage room and basement mechanical room had containers of bleach but no accessible eye was station. The EVS storage room and mechanical room serve the hospital. This finding was observed during survey activity, but corrected onsite prior to the surveyor's departure.	§482.41(a)	Standard
				2). Observed in Building Tour at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . The emergency generator had non-maintenance free batteries. These batteries required regular service and contained corrosive sulfuric acid. There was no accessible eye wash station in the area. This finding was observed during survey activity, but corrected onsite prior to the surveyor's departure.	§482.41(a)	Standard
EC.02.03.03	1	Low Limited	The hospital conducts fire drills once per shift per quarter in each building defined as a health care occupancy by the Life Safety Code. The hospital conducts quarterly fire drills in each building defined as an ambulatory health care occupancy by the Life	1). Observed in Building Tour at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . Day shift hours were from 7:00 AM to 7:00 PM. The 1st shift 4th quarter fire drill was conducted on 10/9/18 at 6:49 AM which was prior to start of 1st	§482.41(b)(1)(i)	Standard

Standard	EP	SAFER™ Placement	EP Text	Observation	CoP	CoP Score
			Safety Code. (See also LS.01.02.01, EP 11) Note 1: Evacuation of patients during drills is not required. Note 2: When drills are conducted between 9:00 P.M. and 6:00 A.M., the hospital may use alternative methods to notify staff instead of activating audible alarms. Note 3: In leased or rented facilities, drills need be conducted only in areas of the building that the hospital occupies.	shift.		
EC.02.03.05	1	Low Limited	At least quarterly, the hospital tests supervisory signal devices on the inventory (except valve tamper switches). The results and completion dates are documented. Note 1: For additional guidance on performing tests, see NFPA 72-2010: Table 14.4.5. Note 2: Supervisory signals include the following: control valves; pressure supervisory; pressure tank, pressure supervisory for a dry pipe (both high and low conditions), steam pressure; water level supervisory signal initiating device; water temperature supervisory; and room temperature supervisory.	1). Observed in Document Review at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . Supervisory signal testing was conducted on 10/8/19 and 4/17/18 which is a semi-annual basis. Supervisory signal testing is required on a quarterly basis.	§482.41(d)(2)	Standard
EC.02.03.05	25	Moderate Limited	The hospital has annual inspection and testing of fire door assemblies by individuals who can demonstrate knowledge and understanding of the operating components of the door being tested. Testing begins with a pre-test visual inspection; testing includes both sides of the opening. Note 1: Nonrated doors, including corridor doors to patient care rooms and smoke barrier doors, are not subject to the annual inspection and testing requirements of either NFPA 80 or NFPA 105. Note 2: For hospitals that use Joint Commission accreditation for deemed status purposes: Nonrated doors should be routinely inspected and maintained in accordance with the facility maintenance program. Note 3: For additional guidance on testing of door assemblies, see NFPA 101-2012: 7.2.1.5.10.1; 7.2.1.5.11; 7.2.1.15; NFPA 80-2010: 4.8.4; 5.2.1; 5.2.3; 5.2.4; 5.2.6; 5.2.7; 6.3.1.7; NFPA 105-2010:	1). Observed in Document Review at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . It was observed that the rated cross-corridor doors at the first floor exit passageway were not included in the annual door inspection.	§482.41(d)(2)	Standard

Standard	EP	SAFER™ Placement	EP Text	Observation	CoP	CoP Score
			5.2.1.			
EC.02.05.01	14	Moderate Pattern	The hospital minimizes pathogenic biological agents in cooling towers, domestic hot- and cold-water systems, and other aerosolizing water systems.	1). Observed in Document Review at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . It was observed that the hospital had not implemented its water management program at either campus.	§482.42	Condition
EC.02.05.05	5	Low Limited	The hospital inspects, tests, and maintains the following: Infection control utility system components on the inventory. The completion date and the results of the activities are documented. Note 1: Required activities and associated frequencies for maintaining, inspecting, and testing of utility systems components completed in accordance with manufacturers' recommendations must have a 100% completion rate. Note 2: Scheduled maintenance activities for infection control utility systems components in an alternative equipment maintenance (AEM) program inventory must have a 100% completion rate.	1). Observed in Building Tour at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . Dishwasher temperatures recorded on 6/1/19 and 6/3/19 were below policy range with no documented corrective action.	§482.41(d)(2)	Standard
EC.02.05.05	6	Low Limited	The hospital inspects, tests, and maintains the following: Non-high-risk utility system components on the inventory. The completion date and the results of the activities are documented. Note: Scheduled maintenance activities for non-high -risk utility systems components in an alternative equipment maintenance (AEM) program inventory must have a 100% completion rate. AEM frequency is determined by the hospital AEM program.	1). Observed in Building Tour at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . It was observed that the walk-in refrigerator temperature log contained an entry of 40.1 degrees for the evening of June 7, 2019. The maximum temperature allowed was 39 degrees. There was no documentation of corrective actions.	§482.41(d)(2)	Standard
				2). Observed in Building Tour at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . There were two electrical panels blocked by boxes in the Food Services dry storage room. This finding was observed during survey activity, but corrected onsite prior to the surveyor's departure.	§482.41(d)(2)	Standard
EC.02.05.07	1	Low Limited	At least monthly, the hospital performs a functional test of emergency lighting systems and exit signs required for egress and task lighting for a minimum duration of 30 seconds, along with a visual inspection of other exit signs. The test results and completion dates are documented. (For full text,	1). Observed in Document Review at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . The visual inspection of exit signs was currently being completed on a quarterly basis instead of the required monthly basis.	§482.15(e)(2)	Standard

Standard	EP	SAFER™ Placement	EP Text	Observation	CoP	CoP Score
			refer to NFPA 101-2012: 7.9.3; 7.10.9; NFPA 99-2012: 6.3.2.2.11.5)			
EC.02.05.09	11	Low Limited	The hospital makes main supply valves and area shutoff valves for piped medical gas and vacuum systems accessible and clearly identifies what the valves control. Piping is labeled by stencil or adhesive markers identifying the gas or vacuum system, including the name of system or chemical symbol, color code (see NFPA 99-2012: Table 5.1.11), and operating pressure if other than standard. Labels are at intervals of 20 feet or less and are in every room, at both sides of wall penetrations, and on every story traversed by riser. Piping is not painted. Shutoff valves are identified with the name or chemical symbol of the gas or vacuum system, room or area served, and caution to not use the valve except in emergency. (For full text, refer to NFPA 99-2012: 5.1.4; 5.1.11.1; 5.1.11.2; 5.1.14.3; 5.2.11; 5.3.13.3; 5.3.11)	1). Observed in Building Tour at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . The source valve for medical vacuum was not labeled as a source valve. The source valve label for medical air was faded and barely legible.	§482.41(d)(2)	Standard
				2). Observed in Building Tour at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . It was observed that the oxygen system source valve label did not contain a caution not to close except in emergency.	§482.41(d)(2)	Standard
EC.02.05.09	12	Moderate Limited	The hospital implements a policy on all cylinders within the hospital that includes the following: - Labeling, handling, and transporting (for example, in carts, attached to equipment, on racks) in accordance with NFPA 99-2012: 11.5.3.1 and 11.6.2 - Physically segregating full and empty cylinders from each other in order to assist staff in selecting the proper cylinder - Adaptors or conversion fittings are prohibited - Oxygen cylinders, containers, and associated equipment are protected from contamination, damage, and contact with oil and grease - Cylinders are kept away from heat and flammable materials and do not exceed a temperature of 130°F - Nitrous oxide and carbon dioxide cylinders do not reach temperatures lower than manufacturer recommendations or -20°F	1). Observed in Building Tour at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . There was an O2 e-cylinder outside of room 301 that was laying on the floor and not properly secured. This finding was observed during survey activity, but corrected onsite prior to the surveyor's departure.		

Standard	EP	SAFER™ Placement	EP Text	Observation	CoP	CoP Score
			- Valve protection caps (if supplied) are secured in place when cylinder is not in use - Labeling empty cylinders - Prohibiting transfilling in any compartment with patient care (For full text, refer to NFPA 99-2012: 11.6.1; 11.6.2; 11.6.5; 11.7.3)			
EM.02.01.01	12	Low Limited	For hospitals that use Joint Commission accreditation for deemed status purposes: The Emergency Operations Plan includes a continuity of operations strategy that covers the following: - A succession plan that lists who replaces key leaders during an emergency if a leader is not available to carry out his or her duties - A delegation of authority plan that describes the decisions and policies that can be implemented by authorized successors during an emergency and criteria or triggers that initiate this delegation Note: A continuity of operations strategy is an essential component of emergency management planning. The goal of emergency management planning is to provide care to individuals who are incapacitated by emergencies in the community or in the organization. A continuity of operations strategy focuses on the organization, with the goal of protecting the organization's physical plant, information technology systems, business and financial operations, and other infrastructure from direct disruption or damage so that it can continue to function throughout or shortly after an emergency. When the organization itself becomes, or is at risk of becoming, a victim of an emergency (power failure, fire, flood, bomb threat, and so forth), it is the continuity of operations strategy that provides the resilience to respond and recover.	1). Observed in Document Review at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . The Emergency Operations Plan did not include a continuity of operations strategy.	§482.15(a)(3)	Standard
EM.02.01.01	14	Low Limited	For hospitals that use Joint Commission accreditation for deemed status purposes: The hospital has a procedure for requesting an 1135 waiver for care and treatment at an alternative care site. Note: During disasters, organizations may need to	1). Observed in Document Review at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . The organization did not have a process to request an 1135 waiver.	§482.15(b)(8)	Standard

Standard	EP	SAFER™ Placement	EP Text	Observation	CoP	CoP Score
			request 1135 waivers to address care and treatment at an alternate care site identified by emergency management officials. The 1135 waivers are granted by the federal government during declared public health emergencies; these waivers authorize modification of certain federal regulatory requirements (for example, Medicare, Medicaid, Children's Health Insurance Program, Health Insurance Portability and Accountability Act) for a defined time period during response and recovery.			
EM.03.01.03	14	Low Limited	The evaluation of all emergency response exercises and all responses to actual emergencies includes the identification of deficiencies and opportunities for improvement. This evaluation is documented.	1). Observed in Document Review at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . The organization did not document critiques identifying deficiencies & opportunities for the active shooter drill conducted in November 2018 or the earthquake drill conducted in December 2018.	§482.15(d)(2)(iii)	Standard
HR.01.01.01	2	Low Limited	The hospital verifies and documents the following: - Credentials of care providers using the primary source when licensure, certification, or registration is required by law and regulation to practice their profession. This is done at the time of hire and at the time credentials are renewed. - Credentials of care providers (primary source not required) when licensure, certification, or registration is not required by law and regulation. This is done at the time of hire and at the time credentials are renewed. Note 1: It is acceptable to verify current licensure, certification, or registration with the primary source via a secure electronic communication or by telephone, if this verification is documented. Note 2: A primary verification source may designate another agency to communicate credentials information. The designated agency can then be used as a primary source. Note 3: An external organization (for example, a credentials verification organization [CVO]) may be used to verify credentials information. A CVO must meet the CVO guidelines identified in the Glossary.	1). Observed in HR File Review at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . During review of a respiratory therapist's (RT) HR file, there was no evidence that the primary source verification of the required CRT or RRT was performed upon hire or as of the survey date. The RT was hired on 10/23/18 and the date of survey was 6/12/19. The CRT or RRT certifications were required by the organization and defined in the job description as such.		
HR.01.01.01	5	Low Limited	Staff comply with applicable health screening as required by law and regulation or hospital policy.	1). Observed in HR File Review at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site .		

Standard	EP	SAFER™ Placement	EP Text	Observation	CoP	CoP Score
			Health screening compliance is documented.	The organization policy titled "Tuberculosis (TB) Screening for Healthcare Workers" (rev. 06/2018) required that "employees with a documented history of TB or a previous positive TST are evaluated with a chest x-ray initially. If the employee has a current negative chest x-ray and can provide the employee health nurse with a copy, completes a symptom screen...and is not necessary to obtain another chest x-ray". In the HR file of a newly hired nurse, the chest x-ray that was present was from 2006. The nurse's date of hire was 9/5/2018. The Director of Quality verified that this would not be considered a current x-ray and the new employee should have had an x-ray performed in accordance with the policy.		
HR.01.06.01	1	Low Limited	The hospital defines the competencies it requires of its staff who provide patient care, treatment, or services. (See also NPSG.03.06.01, EP 3)	1). Observed in HR File Review at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . During review of a wound care nurse's HR file, there were no competencies defined for this dedicated role. The job description was specific to wound care functions, however the only competencies that had been completed were for general nursing practices. The education manager verified this observation.		
HR.01.06.01	3	Low Limited	An individual with the educational background, experience, or knowledge related to the skills being reviewed assesses competence. Note: When a suitable individual cannot be found to assess staff competence, the hospital can utilize an outside individual for this task. If a suitable individual inside or outside the hospital cannot be found, the hospital may consult the competency guidelines from an appropriate professional organization to make its assessment.	1). Observed in HR File Review at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . During review of the 2018 competencies for a dietician, a nurse educator without dietician experience completed the competency assessment of the dietician.		
IC.01.02.01	3	High Limited	The hospital provides equipment and supplies to support the infection prevention and control program.	1). Observed in Tracer Activities at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . During tracer activities in the Decontamination Room, personal protective equipment (PPE) consistent with exposure risk was not available as evidenced by: Utility gloves (fitted to the wrist) were not provided to staff performing cleaning and decontamination of bronchoscopes. Fitted gloves	§482.42	Condition

Standard	EP	SAFER™ Placement	EP Text	Observation	CoP	CoP Score
				were not available in the organization for the staff to use. The Respiratory Director verified this observation.		
IC.02.01.01	1	Moderate Pattern	The hospital implements its infection prevention and control activities, including surveillance, to minimize, reduce, or eliminate the risk of infection. (See also MM.09.01.01, EP 5)	1). Observed in Tracer Activities at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . During tracer activities in the Pharmacy, there was no documentation of the cleaning of the walls in the compounding room in May 2019. Additionally, there was no documentation of the cleaning of the shelves and bins in the compounding room in January and April 2019. The Pharmacy Director verified these observations.	§482.42	Condition
IC.02.02.01	4	Moderate Limited	The hospital implements infection prevention and control activities when doing the following: Storing medical equipment, devices, and supplies.	1). Observed in Tracer Activities at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . During tracer activities in the clean supply room, there were six packages of Sage pre-moistened CHG towelettes placed in a warmer that were not discarded after 84 hours as required by the manufacturer's instructions for use (MIFU). The Sage warmer was set at 125 degrees on the "B" setting, however the 84-hour time-limited setting is designated as the "C" setting. The warmer was changed to the "C" setting and the wipes were replaced during the survey.	§482.42	Condition
				2). Observed in Tracer Activities at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . The Sterile Supply room had two endotracheal tube holders with documented expiration dates of over 10 months prior to survey (2018-08)		
				3). Observed in Tracer Activities at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . The Medical Surgical Unit Sterile Supply room had PPE stored on open wire bottom shelves.	§482.42	Condition
LS.02.01.10	11	Moderate Limited	Fire-rated doors within walls and floors have functioning hardware, including positive latching devices and self-closing or automatic-closing devices (either kept closed or activated by release device complying with NFPA 101- 2012:7.2.1.8.2). Gaps between meeting edges of door pairs are no more than 1/8 of an inch wide, and undercuts are no	1). Observed in Building Tour at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . It was observed that the Life Safety Drawings identified an exit passageway on the first floor leading from an exit stairwell to an exit discharge. A set of rated cross-corridor doors which formed a part of the exit passageway failed to latch when allowed	§482.41(b)(1)(i)	Standard

Standard	EP	SAFER™ Placement	EP Text	Observation	CoP	CoP Score
			larger than 3/4 of an inch. Fire-rated doors within walls do not have unapproved protective plates greater than 16 inches from the bottom of the door. Blocking or wedging open fire-rated doors is prohibited. (For full text, refer to NFPA 101-2012: 8.3.3.1; 7.2.1.8.2; NFPA 80-2010: 4.8.4.1; 5.2.13.3; 6.3.1.7; 6.4.5)	to close.The surveyor discussed the Life Safety deficiency with the organization, and it was determined that the following ILSMs will be implemented until the deficiency has been resolved and according to the organization's ILSM policy: Conduct education promoting awareness of deficiencies(EP-13)		
LS.02.01.10	14	Low Limited	The space around pipes, conduits, bus ducts, cables, wires, air ducts, or pneumatic tubes penetrating the walls or floors are protected with an approved fire-rated material. Note: Polyurethane expanding foam is not an accepted fire-rated material for this purpose. (For full text, refer to NFPA 101-2012: 8.3.5)	1). Observed in Building Tour at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . There were two penetrations in the fire wall for the oxygen tank manifold room that were not sealed with an approved fire rated material. This finding was observed during survey activity, but corrected onsite prior to the surveyor's departure. The corrective action taken needs to be included in the organization's Evidence of Standards Compliance submission	§482.41(b)(1)(i)	Standard
LS.02.01.20	13	Low Limited	An exit enclosure is not used for any purpose that has the potential to interfere with its use as an exit and, if so designated, as an area of refuge. Open space within the exit enclosure is not used for any purpose that has the potential to interfere with egress. (For full text, refer to NFPA 101-2012: 18/19.2.2.3; 7.1.3.2.3; 7.2.2.5.3.1)	1). Observed in Building Tour at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . There was a chair on the fourth floor landing in Stair 1. There was a wet floor sign on the third floor landing in Stair 1. This finding was observed during survey activity, but corrected onsite prior to the surveyor's departure. The corrective action taken needs to be included in the organization's Evidence of Standards Compliance submission		
LS.02.01.30	19	Low Limited	Smoke barriers extend from the floor slab to the floor or roof slab above, through any concealed spaces (such as those above suspended ceilings and interstitial spaces), and extend continuously from exterior wall to exterior wall. All penetrations are properly sealed. (For full text, refer to NFPA 101-2012: 18/19.3.7.3; 8.2.3; 8.5.2; 8.5.6; 8.7) Note: Polyurethane expanding foam is not an accepted fire-rated material for this purpose.	1). Observed in Building Tour at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . There were two 1/2" conduits penetrating the smoke barrier above the ceiling outside the 3rd floor physicians sleep room that were not properly sealed. This finding was observed during survey activity, but corrected onsite prior to the surveyor's departure. The corrective action taken needs to be included in the organization's Evidence of Standards Compliance submission	§482.41(b)(1)(i)	Standard
LS.02.01.35	4	Low Limited	Piping for approved automatic sprinkler systems is not used to support any other item. (For full text, refer to NFPA 25-2011: 5.2.2.2)	1). Observed in Building Tour at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . There were data cables supported by fire sprinkler piping above the ceiling outside the 3rd	§482.41(b)(1)(i)	Standard

Standard	EP	SAFER™ Placement	EP Text	Observation	CoP	CoP Score
				floor physicians sleep room.This finding was observed during survey activity, but corrected onsite prior to the surveyor's departure. The corrective action taken needs to be included in the organization's Evidence of Standards Compliance submission		
				2). Observed in Building Tour at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . There were data cables supported by fire sprinkler piping above the ceiling outside room 311.This finding was observed during survey activity, but corrected onsite prior to the surveyor's departure. The corrective action taken needs to be included in the organization's Evidence of Standards Compliance submission	§482.41(b)(1)(i)	Standard
LS.02.01.35	6	Low Limited	There are 18 inches or more of open space maintained below the sprinkler deflector to the top of storage. Note: Perimeter wall and stack shelving may extend up to the ceiling when not located directly below a sprinkler head. (For full text, refer to NFPA 101-2012: 18.3.5.1; 19.3.5.3; 9.7.1.1; NFPA 13-2010: 8.5.5.2; 8.5.5.2.1; 8.5.5.3)	1). Observed in Building Tour at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . There was less than 18 inches of open space maintained below the sprinkler deflector to the top of storage in two areas on the top shelves in Materials Management. This finding was observed during survey activity, but corrected onsite prior to the surveyor's departure. The corrective action taken needs to be included in the organization's Evidence of Standards Compliance submission	§482.41(b)(1)(i)	Standard
				2). Observed in Building Tour at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . There was a fire sprinler pipe blocked by refrigeration piping in the therapy gym mechanical room. This finding was observed during survey activity, but corrected onsite prior to the surveyor's departure. The corrective action taken needs to be included in the organization's Evidence of Standards Compliance submission	§482.41(b)(1)(i)	Standard
				3). Observed in Building Tour at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . It was observed that materials on the top shelves in the main clean supply room were stored such that it encroached on the 18 inch clearance.This finding was observed during survey activity, but corrected	§482.41(b)(1)(i)	Standard

Standard	EP	SAFER™ Placement	EP Text	Observation	CoP	CoP Score
				onsite prior to the surveyor's departure. The corrective action taken needs to be included in the organization's Evidence of Standards Compliance submission		
MM.05.01.07	2	Moderate Pattern	Staff use clean or sterile techniques and maintain clean, uncluttered, and functionally separate areas for product preparation to avoid contamination of medications.	1). Observed in Tracer Activities at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . During tracer activities in the Pharmacy, it was observed that on May 31 and June 3, 2019 there was no documented evidence that the daily cleaning of the Compounding Aseptic Isolator (CAI) had been performed. It was verified that there were medications that had been compounded on these two dates. This observation was verified by the Pharmacy Director.	§482.23(c)	Standard
				2). Observed in Tracer Activities at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . During tracer activities in the Pharmacy, there were multiple dates on the 2019 logs where the daily cleaning of the CAI was not documented. The specific dates were: January 6, 10, 11, February 14, 23, 24 and March 17. Additionally, there was one weekly disinfection of the CAI that had not been performed between February 1 - 13, 2019. It was verified that there were medications that had been compounded on these dates.The Pharmacy Director verified these observations.	§482.23(c)	Standard
MM.05.01.11	2	High Pattern	The hospital dispenses medications and maintains records in accordance with law and regulation, licensure, and professional standards of practice. Note 1: Dispensing practices and recordkeeping include antidiversion strategies. Note 2: This element of performance is also applicable to sample medications.	1). Observed in Tracer Activities at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . During review of the Patient Controlled Analgesia (PCA) Flowsheets from June 7-11, 2019 for a patient on a Dilaudid PCA pump, there was no evidence of the amount wasted on June 10 when the bag was changed. A second record was reviewed and was also lacking the amount of Dilaudid wasted from the PCA on 3/24/19. This was not in accordance with the organization policy titled "Controlled Substance/Sedative and PCA Infusion" (rev. 06/2018) that stated, "Proper documentation of narcotic removal and waste will be completed to ensure proper control and inventory of controlled substances". Additionally, On June 11, there was a	§482.25(a)(3)	Standard

Standard	EP	SAFER™ Placement	EP Text	Observation	CoP	CoP Score
				discrepancy between the amount that the pump registered in the bag hanging, the amount documented on the log and the actual amount in the bag. The pump reading was 82.8mL, however the actual amount in the bag when measured by the pharmacist was 91.6mL. It was determined that the nurse incorrectly keyed the volume at shift change into the machine creating the discrepancy. This was not in accordance with the organization policy titled "Controlled Substance Infusion Dispensing and Administration" (rev. 06/2018) that stated, "It is the responsibility of the pharmacy and/or the administering nurse to secure the controlled substance infusion in such a way to prevent tampering of the IV bag and pump settings".		
MM.06.01.01	3	High Pattern	Before administration, the individual administering the medication does the following: - Verifies that the medication selected matches the medication order and product label - Visually inspects the medication for particulates, discoloration, or other loss of integrity (See also MM.03.01.05, EP 2; MM.05.01.07, EP 3) - Verifies that the medication has not expired - Verifies that no contraindications exist - Verifies that the medication is being administered at the proper time, in the prescribed dose, and by the correct route - Discusses any unresolved concerns about the medication with the patient's licensed independent practitioner, prescriber (if different from the licensed independent practitioner), and/or staff involved with the patient's care, treatment, and services	1). Observed in Tracer Activities at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . In 3 out of 3 patient records reviewed, the Patient Controlled Analgesia (PCA) Flowsheets for patients on a Dilaudid PCA pump had several incidences observed where a nurse incorrectly programmed a PCA pump or documented incorrect information on the Flowsheets. This was evidenced in the first record by three distinct discrepancies documented at shift change on the log between the amount of narcotic administration that the patient received versus the total volume left in the bag. In the second and third records, there were also multiple entries on the log where the documented amount of Dilaudid received did not match the total volume that had been infused. This was not in accordance with the organization policy titled "Controlled Substance/Sedative and PCA Infusion" (rev. 06/2018) that stated, "At the change of shift, the on-coming and off-going Nurses assigned to the patient will check the PCA...pump readout and the labeled container for accuracy. Two licensed nurses will document the total amount of narcotic infused, the amount remaining, PCA/infusion pump settings and initial the respective Flowsheet".	§482.23(c)	Standard

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Standard	EP	SAFER™ Placement	EP Text	Observation	CoP	CoP Score
MS.03.01.01	16	Low Limited	For hospitals that use Joint Commission accreditation for deemed status purposes: The medical staff determines the qualifications of the radiology staff who use equipment and administer procedures. Note: Technologists who perform diagnostic computed tomography exams will, at a minimum, meet the requirements specified at HR.01.01.01, EP 32.	1). Observed in Credentialing and Privileging at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . The HCO did not have documentation that the medical staff determines the qualifications of the radiology staff who use equipment and administer procedures.	§482.26(c)(2)	Standard
MS.06.01.05	3	Moderate Limited	All of the criteria used are consistently evaluated for all practitioners holding that privilege.	1). Observed in Credentialing and Privileging at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . The clinician was maintained on the Medical Staff with privileges in the Active Staff category through 2 re-appointment cycles with no documented clinical activity. The decision to grant or deny a privilege(s), and/or to renew an existing privilege(s), was not in compliance with the HCOs bylaws in that the Physician did not meet HCO criteria for Active Staff membership. "The Active Staff consists of Physicians, dentist, and Podiatrist who regularly (i.e, more than five (5) times a year) admit or co-admit patients to the Hospital, or who provide service to patients on a regular basis as consultant upon their request (a minimum of twelve (12) consultations per years is required), ..."		
NPSG.07.03.01	5	Low Limited	Measure and monitor multidrug-resistant organism prevention processes and outcomes, including the following: - Multidrug-resistant organism infection rates using evidence-based metrics - Compliance with evidence-based guidelines or best practices - Evaluation of the education program provided to staff and licensed independent practitioners (See also MM.09.01.01, EP 5) Note: Surveillance may be targeted rather than hospitalwide.	1). Observed in Infection Control Tracer at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . During review of the organization's data collection for multidrug resistant organisms (MDRO), the information was collected and reported using raw numbers only, there were no rates calculated and there were no goals set for measuring and monitoring outcomes. The acting infection control practitioner concurred that there were no evidence-based metrics utilized at this time in the data reporting process at this time.		
PC.01.02.01	1	Moderate Pattern	The hospital defines, in writing, the scope and content of screening, assessment, and reassessment. Patient information is collected according to these requirements.	1). Observed in Record Review at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . In 2 out of 5 patient records reviewed, there was no evidence of a suicide risk assessment		

Standard	EP	SAFER™ Placement	EP Text	Observation	CoP	CoP Score
			Note 1: In defining the scope and content of the information it collects, the organization may want to consider information that it can obtain, with the patient's consent, from the patient's family and the patient's other care providers, as well as information conveyed on any medical jewelry. Note 2: Assessment and reassessment information includes the patient's perception of the effectiveness of, and any side effects related to, his or her medication(s).	having been completed in the initial nursing assessments. This was not in accordance with the organization's policy titled 'Assessment/Re-Assessment - Interdisciplinary Patient" (rev. 03/2019) that stated, "The RN admission assessment of the patient will include: Biophysical, Psychosocial...the psychosocial assessment includes a suicide risk assessment".		
PC.01.02.07	5	Moderate Limited	The hospital involves patients in the pain management treatment planning process through the following: - Developing realistic expectations and measurable goals that are understood by the patient for the degree, duration, and reduction of pain - Discussing the objectives used to evaluate treatment progress (for example, relief of pain and improved physical and psychosocial function) - Providing education on pain management, treatment options, and safe use of opioid and non-opioid medications when prescribed (See also RI.01.02.01, EPs 2–4, 8; RI.01.03.01, EP 1)	1). Observed in Tracer Activities at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . Pain Medications noted for Oxycodone PRN Severe Pain Scale > 7 and Tylenol PRN Pain Scale 1-3; There was no orders written to cover patient with Moderate Pain of 4-7. The patient received both Tylenol and Oxycodone for mild and moderate pain levell scores. There was no documentation in the record that the patient was involved in the decision not to offer medications for his moderate pain levels.		
PC.03.01.03	1	Moderate Limited	Before operative or other high-risk procedures are initiated, or before moderate or deep sedation or anesthesia is administered: The hospital conducts a presedation or preanesthesia patient assessment. (See also RC.02.01.01, EP 2)	1). Observed in Record Review at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . During review of a patient record who had a procedure performed under moderate sedation, there was no evidence of a Mallampati classification having been evaluated in the pre-anesthesia assessment. This was not in accordance with the organization's policy titled "Moderate Sedation Analgesia" (rev. 06/2018) that stated, "The patient evaluation should include: ii. evaluation of airway via the Mallampati Classification".	§482.52(b)	Standard
PC.04.01.01	23	Low Limited	For hospitals that use Joint Commission accreditation for deemed status purposes: When the discharge planning evaluation indicates a need for home health care, the hospital includes in the discharge plan a list of participating Medicare home health agencies (which have requested to be on the	1). Observed in Record Review at Kindred Hospital Seattle - First Hill (1334 Terry Ave, Seattle, WA) site . In 1 out of 2 patient records reviewed, the organization did not provide a patient in need of home health services a list of participating Medicare home health agencies at the time of discharge. This	§482.43(c)(6)	Standard

Standard	EP	SAFER™ Placement	EP Text	Observation	CoP	CoP Score
			list) that are available and serve the patient's geographic area. For patients enrolled in managed care organizations, the hospital lists home health agencies that have a contract with the managed care organization.	was evidenced by documentation in the record that stated, "Facility list/patient choice form provided to patient/family: no. HH agency at CHI Franciscan couldn't fit him in so Kindred accepted". The social worker verified this observation.		
RI.01.02.01	1	Low Widespread	The hospital involves the patient in making decisions about his or her care, treatment, and services, including the right to have his or her family and physician promptly notified of his or her admission to the hospital. Note: For hospitals that use Joint Commission accreditation for deemed status purposes and have swing beds: The resident has the right to be informed in advance of changes to his or her plan of care.	1). Observed in Tracer Activities at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . In 30 out of 30 patient records reviewed, there was no evidence the organization had a process in place to ask each inpatient if they wanted family and/or their physician notified of their inpatient admission.	§482.13(b)(4)	Standard
WT.04.01.01	2	Low Limited	The documented quality control rationale for waived testing is based on the following: - How the test is used - Reagent stability - Manufacturers' recommendations - The hospital's experience with the test - Currently accepted guidelines	1). Observed in Tracer Activities at Kindred Hospital Seattle (10631 8th Avenue NE, Seattle, WA) site . In 1 out of 5 glucometer control solutions, the revised date of expiration was documented as 12/30/19 (date of survey 6/11/19), which was outside of the 90 -day revised expiration per the MIFU. This vial was discarded during survey.		

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Appendix

Conditions of Participation Text

Program: Hospital

CoP	Tag	CoP Standard text
§482.13 Condition of Participation: Patient's Rights	A-0115	§482.13 Condition of Participation: Patient's Rights A hospital must protect and promote each patient's rights.
§482.13(b)(4) Standard: Exercise of Rights	A-0133	(4) The patient has the right to have a family member or representative of his or her choice and his or her own physician notified promptly of his or her admission to the hospital.
§482.23 Condition of Participation: Nursing Services	A-0385	§482.23 Condition of Participation: Nursing Services The hospital must have an organized nursing service that provides 24-hour nursing services. The nursing services must be furnished or supervised by a registered nurse.
§482.23(c) Standard: Preparation and Administration of Drugs	A-0405	(c) Standard: Preparation and administration of drugs.
§482.25 Condition of Participation: Pharmaceutical Services	A-0489	§482.25 Condition of Participation: Pharmaceutical Services The hospital must have pharmaceutical services that meet the needs of the patients. The institution must have a pharmacy directed by a registered pharmacist or a drug storage area under competent supervision. The medical staff is responsible for developing policies and procedures that minimize drug errors. This function may be delegated to the hospital's organized pharmaceutical service.
§482.25(a)(3) Standard: Pharmacy Management and Administration	A-0494	(3) Current and accurate records must be kept of the receipt and disposition of all scheduled drugs.
§482.26 Condition of Participation: Radiologic Services	A-0528	§482.26 Condition of Participation: Radiologic Services The hospital must maintain, or have available, diagnostic radiologic services. If therapeutic services are also provided, they, as well as the diagnostic services, must meet professionally approved standards for safety and personnel qualifications.
§482.26(c)(2) Standard: Personnel	A-0547	(2) Only personnel designated as qualified by the medical staff may use the radiologic equipment and administer procedures.
§482.41 Condition of Participation: Physical Environment	A-0700	§482.41 Condition of Participation: Physical Environment The hospital must be constructed, arranged, and maintained to ensure the safety of the patient, and to provide facilities for diagnosis and treatment and for special hospital services appropriate to the needs of the community.

CoP	Tag	CoP Standard text
§482.41(a) Standard: Buildings	A-0701	§482.41(a) Standard: Buildings The condition of the physical plant and the overall hospital environment must be developed and maintained in such a manner that the safety and well-being of patients are assured.
§482.41(b)(1)(i) Standard: Life Safety from Fire	A-0710	(i) The hospital must meet the applicable provisions and must proceed in accordance with the Life Safety Code (NFPA 101 and Tentative Interim Amendments TIA 12–1, TIA 12–2, TIA 12–3, and TIA 12–4.) Outpatient surgical departments must meet the provisions applicable to Ambulatory Health Care Occupancies, regardless of the number of patients served.
§482.41(d)(2) Standard: Facilities	A-0724	(2) Facilities, supplies, and equipment must be maintained to ensure an acceptable level of safety and quality.
§482.42 Condition of Participation: Infection Control	A-0747	§482.42 Condition of Participation: Infection Control The hospital must provide a sanitary environment to avoid sources and transmission of infections and communicable diseases. There must be an active program for the prevention, control, and investigation of infections and communicable diseases.
§482.43 Condition of Participation: Discharge Planning	A-0799	§482.43 Condition of Participation: Discharge Planning The hospital must have in effect a discharge planning process that applies to all patients. The hospital's policies and procedures must be specified in writing.
§482.43(c)(6) Standard: Discharge Plan	A-0823	(6) The hospital must include in the discharge plan a list of HHAs or SNFs that are available to the patient, that are participating in the Medicare program, and that serve the geographic area (as defined by the HHA) in which the patient resides, or in the case of a SNF, in the geographic area requested by the patient. HHAs must request to be listed by the hospital as available.
§482.52 Condition of Participation: Anesthesia Services	A-1000	§482.52 Condition of Participation: Anesthesia Services If the hospital furnishes anesthesia services, they must be provided in a well-organized manner under the direction of a qualified doctor of medicine or osteopathy. The service is responsible for all anesthesia administered in the hospital.
§482.52(b) Standard: Delivery of Services	A-1002	§482.52(b) Standard: Delivery of Services Anesthesia services must be consistent with needs and resources. Policies on anesthesia procedures must include the delineation of preanesthesia and postanesthesia responsibilities. The policies must ensure that the following are provided for each patient:
§482.15 Establishment of the Emergency Program (EP)	E-0001	§482.15 Condition of Participation: Emergency Preparedness The hospital must comply with all applicable Federal, State, and local emergency preparedness requirements. The hospital must develop and maintain a comprehensive emergency preparedness program that meets the requirements of this section, utilizing an all-hazards approach. The emergency preparedness program must include, but not be limited to, the following elements:

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CoP	Tag	CoP Standard text
§482.15(a)(3) EP Program Patient Population	E-0007	(3) Address patient population, including, but not limited to, persons at-risk; the type of services the hospital has the ability to provide in an emergency; and continuity of operations, including delegations of authority and succession plans.
§482.15(b)(8) Roles under a Waiver Declared by Secretary	E-0026	(8) The role of the hospital under a waiver declared by the Secretary , in accordance with section 1135 of the Act, in the provision of care and treatment at an alternate care site identified by emergency management officials.
§482.15(d)(2)(iii) Emergency Prep Testing Requirements	E-0039	(iii) Analyze the hospital's response to and maintain documentation of all drills, tabletop exercises, and emergency events, and revise the hospital's emergency plan, as needed.
§482.15(e)(2) Hospital CAH and LTC Emergency Power	E-0041	(2) Emergency generator inspection and testing. The hospital must implement the emergency power system inspection, testing, and maintenance requirements found in the Health Care Facilities Code, NFPA 110, and Life Safety Code.

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Appendix

Standard and EP Text

Program: Hospital

Standard	EP	Standard Text	EP Text
EC.02.01.01	5	The hospital manages safety and security risks.	The hospital maintains all grounds and equipment.
EC.02.02.01	5	The hospital manages risks related to hazardous materials and waste.	The hospital minimizes risks associated with selecting, handling, storing, transporting, using, and disposing of hazardous chemicals.
EC.02.03.03	1	The hospital conducts fire drills.	The hospital conducts fire drills once per shift per quarter in each building defined as a health care occupancy by the Life Safety Code. The hospital conducts quarterly fire drills in each building defined as an ambulatory health care occupancy by the Life Safety Code. (See also LS.01.02.01, EP 11) Note 1: Evacuation of patients during drills is not required. Note 2: When drills are conducted between 9:00 P.M. and 6:00 A.M., the hospital may use alternative methods to notify staff instead of activating audible alarms. Note 3: In leased or rented facilities, drills need be conducted only in areas of the building that the hospital occupies.
EC.02.03.05	1	The hospital maintains fire safety equipment and fire safety building features. Note: This standard does not require hospitals to have the types of fire safety equipment and building features described below. However, if these types of equipment or features exist within the building, then the following maintenance, testing, and inspection requirements apply.	At least quarterly, the hospital tests supervisory signal devices on the inventory (except valve tamper switches). The results and completion dates are documented. Note 1: For additional guidance on performing tests, see NFPA 72-2010: Table 14.4.5. Note 2: Supervisory signals include the following: control valves; pressure supervisory; pressure tank, pressure supervisory for a dry pipe (both high and low conditions), steam pressure; water level supervisory signal initiating device; water temperature supervisory; and room temperature supervisory.
EC.02.03.05	25	The hospital maintains fire safety equipment and fire safety building features. Note: This standard does not require hospitals to have the types of fire safety equipment and building features described below. However, if these types of equipment or features exist within the building, then the following maintenance, testing, and inspection requirements apply.	The hospital has annual inspection and testing of fire door assemblies by individuals who can demonstrate knowledge and understanding of the operating components of the door being tested. Testing begins with a pre-test visual inspection; testing includes both sides of the opening. Note 1: Nonrated doors, including corridor doors to patient care rooms and smoke barrier doors, are not subject to the annual inspection and testing requirements of either NFPA 80 or NFPA 105. Note 2: For hospitals that use Joint Commission accreditation for deemed status purposes: Nonrated doors should be routinely inspected and

Standard	EP	Standard Text	EP Text
			maintained in accordance with the facility maintenance program. Note 3: For additional guidance on testing of door assemblies, see NFPA 101-2012: 7.2.1.5.10.1; 7.2.1.5.11; 7.2.1.15; NFPA 80-2010: 4.8.4; 5.2.1; 5.2.3; 5.2.4; 5.2.6; 5.2.7; 6.3.1.7; NFPA 105-2010: 5.2.1.
EC.02.05.01	14	The hospital manages risks associated with its utility systems.	The hospital minimizes pathogenic biological agents in cooling towers, domestic hot- and cold-water systems, and other aerosolizing water systems.
EC.02.05.05	5	The hospital inspects, tests, and maintains utility systems. Note: At times, maintenance is performed by an external service. In these cases, hospitals are not required to possess maintenance documentation but must have access to such documentation during survey and as needed.	The hospital inspects, tests, and maintains the following: Infection control utility system components on the inventory. The completion date and the results of the activities are documented. Note 1: Required activities and associated frequencies for maintaining, inspecting, and testing of utility systems components completed in accordance with manufacturers' recommendations must have a 100% completion rate. Note 2: Scheduled maintenance activities for infection control utility systems components in an alternative equipment maintenance (AEM) program inventory must have a 100% completion rate.
EC.02.05.05	6	The hospital inspects, tests, and maintains utility systems. Note: At times, maintenance is performed by an external service. In these cases, hospitals are not required to possess maintenance documentation but must have access to such documentation during survey and as needed.	The hospital inspects, tests, and maintains the following: Non-high-risk utility system components on the inventory. The completion date and the results of the activities are documented. Note: Scheduled maintenance activities for non-high-risk utility systems components in an alternative equipment maintenance (AEM) program inventory must have a 100% completion rate. AEM frequency is determined by the hospital AEM program.
EC.02.05.07	1	The hospital inspects, tests, and maintains emergency power systems. Note: This standard does not require hospitals to have the types of emergency power equipment discussed below. However, if these types of equipment exist within the building, then the following maintenance, testing, and inspection requirements apply.	At least monthly, the hospital performs a functional test of emergency lighting systems and exit signs required for egress and task lighting for a minimum duration of 30 seconds, along with a visual inspection of other exit signs. The test results and completion dates are documented. (For full text, refer to NFPA 101-2012: 7.9.3; 7.10.9; NFPA 99-2012: 6.3.2.2.11.5)
EC.02.05.09	11	The hospital inspects, tests, and maintains medical gas and vacuum systems. Note: This standard does not require hospitals to have the medical gas and vacuum systems discussed below. However, if a hospital has these types of systems, then the following inspection, testing, and maintenance requirements apply.	The hospital makes main supply valves and area shutoff valves for piped medical gas and vacuum systems accessible and clearly identifies what the valves control. Piping is labeled by stencil or adhesive markers identifying the gas or vacuum system, including the name of system or chemical symbol, color code (see NFPA 99-2012: Table 5.1.11), and operating pressure if other than standard. Labels are at intervals of 20 feet or less and are in every room, at both sides of wall penetrations, and on every story traversed by riser. Piping is not painted. Shutoff valves are identified with the name or chemical symbol of the gas or vacuum system, room or area served, and caution to not use the valve except in emergency. (For full text, refer to NFPA 99-2012: 5.1.4; 5.1.11.1; 5.1.11.2; 5.1.14.3; 5.2.11; 5.3.13.3; 5.3.11)

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Standard	EP	Standard Text	EP Text
EC.02.05.09	12	The hospital inspects, tests, and maintains medical gas and vacuum systems. Note: This standard does not require hospitals to have the medical gas and vacuum systems discussed below. However, if a hospital has these types of systems, then the following inspection, testing, and maintenance requirements apply.	The hospital implements a policy on all cylinders within the hospital that includes the following: - Labeling, handling, and transporting (for example, in carts, attached to equipment, on racks) in accordance with NFPA 99-2012: 11.5.3.1 and 11.6.2 - Physically segregating full and empty cylinders from each other in order to assist staff in selecting the proper cylinder - Adaptors or conversion fittings are prohibited - Oxygen cylinders, containers, and associated equipment are protected from contamination, damage, and contact with oil and grease - Cylinders are kept away from heat and flammable materials and do not exceed a temperature of 130°F - Nitrous oxide and carbon dioxide cylinders do not reach temperatures lower than manufacturer recommendations or -20°F - Valve protection caps (if supplied) are secured in place when cylinder is not in use - Labeling empty cylinders - Prohibiting transfilling in any compartment with patient care (For full text, refer to NFPA 99-2012: 11.6.1; 11.6.2; 11.6.5; 11.7.3)
EM.02.01.01	12	The hospital has an Emergency Operations Plan. Note: The hospital's Emergency Operations Plan (EOP) is designed to coordinate its communications, resources and assets, safety and security, staff responsibilities, utilities, and patient clinical and support activities during an emergency (refer to Standards EM.02.02.01, EM.02.02.03, EM.02.02.05, EM.02.02.07, EM.02.02.09, and EM.02.02.11). Although emergencies have many causes, the effects on these areas of the organization and the required response effort may be similar. This "all hazards" approach supports a general response capability that is sufficiently nimble to address a range of emergencies of different duration, scale, and cause. For this reason, the plan's response procedures address the prioritized emergencies but are also adaptable to other emergencies that the organization may experience.	For hospitals that use Joint Commission accreditation for deemed status purposes: The Emergency Operations Plan includes a continuity of operations strategy that covers the following: - A succession plan that lists who replaces key leaders during an emergency if a leader is not available to carry out his or her duties - A delegation of authority plan that describes the decisions and policies that can be implemented by authorized successors during an emergency and criteria or triggers that initiate this delegation Note: A continuity of operations strategy is an essential component of emergency management planning. The goal of emergency management planning is to provide care to individuals who are incapacitated by emergencies in the community or in the organization. A continuity of operations strategy focuses on the organization, with the goal of protecting the organization's physical plant, information technology systems, business and financial operations, and other infrastructure from direct disruption or damage so that it can continue to function throughout or shortly after an emergency. When the organization itself becomes, or is at risk of becoming, a victim of an emergency (power failure, fire, flood, bomb threat, and so forth), it is the continuity of operations strategy that provides the resilience to respond and recover.
EM.02.01.01	14	The hospital has an Emergency Operations Plan. Note: The hospital's Emergency Operations Plan (EOP) is designed to coordinate its communications, resources and assets, safety and security,	For hospitals that use Joint Commission accreditation for deemed status purposes: The hospital has a procedure for requesting an 1135 waiver for care and treatment at an alternative care site.

Standard	EP	Standard Text	EP Text
		staff responsibilities, utilities, and patient clinical and support activities during an emergency (refer to Standards EM.02.02.01, EM.02.02.03, EM.02.02.05, EM.02.02.07, EM.02.02.09, and EM.02.02.11). Although emergencies have many causes, the effects on these areas of the organization and the required response effort may be similar. This "all hazards" approach supports a general response capability that is sufficiently nimble to address a range of emergencies of different duration, scale, and cause. For this reason, the plan's response procedures address the prioritized emergencies but are also adaptable to other emergencies that the organization may experience.	Note: During disasters, organizations may need to request 1135 waivers to address care and treatment at an alternate care site identified by emergency management officials. The 1135 waivers are granted by the federal government during declared public health emergencies; these waivers authorize modification of certain federal regulatory requirements (for example, Medicare, Medicaid, Children's Health Insurance Program, Health Insurance Portability and Accountability Act) for a defined time period during response and recovery.
EM.03.01.03	14	The hospital evaluates the effectiveness of its Emergency Operations Plan.	The evaluation of all emergency response exercises and all responses to actual emergencies includes the identification of deficiencies and opportunities for improvement. This evaluation is documented.
HR.01.01.01	2	The hospital defines and verifies staff qualifications.	The hospital verifies and documents the following: - Credentials of care providers using the primary source when licensure, certification, or registration is required by law and regulation to practice their profession. This is done at the time of hire and at the time credentials are renewed. - Credentials of care providers (primary source not required) when licensure, certification, or registration is not required by law and regulation. This is done at the time of hire and at the time credentials are renewed. Note 1: It is acceptable to verify current licensure, certification, or registration with the primary source via a secure electronic communication or by telephone, if this verification is documented. Note 2: A primary verification source may designate another agency to communicate credentials information. The designated agency can then be used as a primary source. Note 3: An external organization (for example, a credentials verification organization [CVO]) may be used to verify credentials information. A CVO must meet the CVO guidelines identified in the Glossary.
HR.01.01.01	5	The hospital defines and verifies staff qualifications.	Staff comply with applicable health screening as required by law and regulation or hospital policy. Health screening compliance is documented.
HR.01.06.01	1	Staff are competent to perform their responsibilities.	The hospital defines the competencies it requires of its staff who provide patient care, treatment, or services. (See also NPSG.03.06.01, EP 3)
HR.01.06.01	3	Staff are competent to perform their responsibilities.	An individual with the educational background, experience, or knowledge related to the skills being reviewed assesses competence. Note: When a suitable individual cannot be found to assess staff competence, the hospital can utilize an outside individual for this task. If a suitable individual inside or outside the hospital cannot be found, the hospital may consult the competency guidelines from an appropriate professional organization to make its assessment.

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Standard	EP	Standard Text	EP Text
IC.01.02.01	3	Hospital leaders allocate needed resources for the infection prevention and control program.	The hospital provides equipment and supplies to support the infection prevention and control program.
IC.02.01.01	1	The hospital implements its infection prevention and control plan.	The hospital implements its infection prevention and control activities, including surveillance, to minimize, reduce, or eliminate the risk of infection. (See also MM.09.01.01, EP 5)
IC.02.02.01	4	The hospital reduces the risk of infections associated with medical equipment, devices, and supplies.	The hospital implements infection prevention and control activities when doing the following: Storing medical equipment, devices, and supplies.
LS.02.01.10	11	Building and fire protection features are designed and maintained to minimize the effects of fire, smoke, and heat.	Fire-rated doors within walls and floors have functioning hardware, including positive latching devices and self-closing or automatic-closing devices (either kept closed or activated by release device complying with NFPA 101- 2012:7.2.1.8.2). Gaps between meeting edges of door pairs are no more than 1/8 of an inch wide, and undercuts are no larger than 3/4 of an inch. Fire-rated doors within walls do not have unapproved protective plates greater than 16 inches from the bottom of the door. Blocking or wedging open fire-rated doors is prohibited. (For full text, refer to NFPA 101-2012: 8.3.3.1; 7.2.1.8.2; NFPA 80-2010: 4.8.4.1; 5.2.13.3; 6.3.1.7; 6.4.5)
LS.02.01.10	14	Building and fire protection features are designed and maintained to minimize the effects of fire, smoke, and heat.	The space around pipes, conduits, bus ducts, cables, wires, air ducts, or pneumatic tubes penetrating the walls or floors are protected with an approved fire-rated material. Note: Polyurethane expanding foam is not an accepted fire-rated material for this purpose. (For full text, refer to NFPA 101-2012: 8.3.5)
LS.02.01.20	13	The hospital maintains the integrity of the means of egress.	An exit enclosure is not used for any purpose that has the potential to interfere with its use as an exit and, if so designated, as an area of refuge. Open space within the exit enclosure is not used for any purpose that has the potential to interfere with egress. (For full text, refer to NFPA 101-2012: 18/19.2.2.3; 7.1.3.2.3; 7.2.2.5.3.1)
LS.02.01.30	19	The hospital provides and maintains building features to protect individuals from the hazards of fire and smoke.	Smoke barriers extend from the floor slab to the floor or roof slab above, through any concealed spaces (such as those above suspended ceilings and interstitial spaces), and extend continuously from exterior wall to exterior wall. All penetrations are properly sealed. (For full text, refer to NFPA 101-2012: 18/19.3.7.3; 8.2.3; 8.5.2; 8.5.6; 8.7) Note: Polyurethane expanding foam is not an accepted fire-rated material for this purpose.
LS.02.01.35	4	The hospital provides and maintains systems for extinguishing fires.	Piping for approved automatic sprinkler systems is not used to support any other item. (For full text, refer to NFPA 25-2011: 5.2.2.2)
LS.02.01.35	6	The hospital provides and maintains systems for extinguishing fires.	There are 18 inches or more of open space maintained below the sprinkler deflector to the top of storage. Note: Perimeter wall and stack shelving may extend up to the ceiling when

Standard	EP	Standard Text	EP Text
			not located directly below a sprinkler head. (For full text, refer to NFPA 101 -2012: 18.3.5.1; 19.3.5.3; 9.7.1.1; NFPA 13-2010: 8.5.5.2; 8.5.5.2.1; 8.5.5.3)
MM.05.01.07	2	The hospital safely prepares medications.	Staff use clean or sterile techniques and maintain clean, uncluttered, and functionally separate areas for product preparation to avoid contamination of medications.
MM.05.01.11	2	The hospital safely dispenses medications.	The hospital dispenses medications and maintains records in accordance with law and regulation, licensure, and professional standards of practice. Note 1: Dispensing practices and recordkeeping include antidiversion strategies. Note 2: This element of performance is also applicable to sample medications.
MM.06.01.01	3	The hospital safely administers medications.	Before administration, the individual administering the medication does the following: - Verifies that the medication selected matches the medication order and product label - Visually inspects the medication for particulates, discoloration, or other loss of integrity (See also MM.03.01.05, EP 2; MM.05.01.07, EP 3) - Verifies that the medication has not expired - Verifies that no contraindications exist - Verifies that the medication is being administered at the proper time, in the prescribed dose, and by the correct route - Discusses any unresolved concerns about the medication with the patient's licensed independent practitioner, prescriber (if different from the licensed independent practitioner), and/or staff involved with the patient's care, treatment, and services
MS.03.01.01	16	The organized medical staff oversees the quality of patient care, treatment, and services provided by practitioners privileged through the medical staff process.	For hospitals that use Joint Commission accreditation for deemed status purposes: The medical staff determines the qualifications of the radiology staff who use equipment and administer procedures. Note: Technologists who perform diagnostic computed tomography exams will, at a minimum, meet the requirements specified at HR.01.01.01, EP 32.
MS.06.01.05	3	The decision to grant or deny a privilege(s), and/or to renew an existing privilege(s), is an objective, evidence-based process.	All of the criteria used are consistently evaluated for all practitioners holding that privilege.
NPSG.07.03.01	5	Implement evidence-based practices to prevent health care–associated infections due to multidrug-resistant organisms in acute care hospitals. Note: This requirement applies to, but is not limited to, epidemiologically important organisms such as methicillin-resistant Staphylococcus aureus (MRSA), Clostridium difficile (CDI), vancomycin-resistant enterococci (VRE), carbapenem-resistant enterobacteriaceae (CRE), and other	Measure and monitor multidrug-resistant organism prevention processes and outcomes, including the following: - Multidrug-resistant organism infection rates using evidence-based metrics - Compliance with evidence-based guidelines or best practices - Evaluation of the education program provided to staff and licensed

Standard	EP	Standard Text	EP Text
		multidrug-resistant gram-negative bacteria.	independent practitioners (See also MM.09.01.01, EP 5) Note: Surveillance may be targeted rather than hospitalwide.
PC.01.02.01	1	The hospital assesses and reassesses its patients.	The hospital defines, in writing, the scope and content of screening, assessment, and reassessment. Patient information is collected according to these requirements. Note 1: In defining the scope and content of the information it collects, the organization may want to consider information that it can obtain, with the patient's consent, from the patient's family and the patient's other care providers, as well as information conveyed on any medical jewelry. Note 2: Assessment and reassessment information includes the patient's perception of the effectiveness of, and any side effects related to, his or her medication(s).
PC.01.02.07	5	The hospital assesses and manages the patient's pain and minimizes the risks associated with treatment.	The hospital involves patients in the pain management treatment planning process through the following: - Developing realistic expectations and measurable goals that are understood by the patient for the degree, duration, and reduction of pain - Discussing the objectives used to evaluate treatment progress (for example, relief of pain and improved physical and psychosocial function) - Providing education on pain management, treatment options, and safe use of opioid and non-opioid medications when prescribed (See also RI.01.02.01, EPs 2–4, 8; RI.01.03.01, EP 1)
PC.03.01.03	1	The hospital provides the patient with care before initiating operative or other high-risk procedures, including those that require the administration of moderate or deep sedation or anesthesia.	Before operative or other high-risk procedures are initiated, or before moderate or deep sedation or anesthesia is administered: The hospital conducts a presedation or preanesthesia patient assessment. (See also RC.02.01.01, EP 2)
PC.04.01.01	23	The hospital follows a process that addresses the patient's need for continuing care, treatment, and services after discharge or transfer.	For hospitals that use Joint Commission accreditation for deemed status purposes: When the discharge planning evaluation indicates a need for home health care, the hospital includes in the discharge plan a list of participating Medicare home health agencies (which have requested to be on the list) that are available and serve the patient's geographic area. For patients enrolled in managed care organizations, the hospital lists home health agencies that have a contract with the managed care organization.
RI.01.02.01	1	The hospital respects the patient's right to participate in decisions about his or her care, treatment, and services. Note: For hospitals that use Joint Commission accreditation for deemed status purposes: This right is not to be construed as a mechanism to demand the provision of treatment or services deemed medically unnecessary or inappropriate.	The hospital involves the patient in making decisions about his or her care, treatment, and services, including the right to have his or her family and physician promptly notified of his or her admission to the hospital. Note: For hospitals that use Joint Commission accreditation for deemed status purposes and have swing beds: The resident has the right to be informed in advance of changes to his or her plan of care.
WT.04.01.01	2	The hospital performs quality control checks for waived testing on each	The documented quality control rationale for waived testing is based on

Standard	EP	Standard Text	EP Text
		procedure. Note: Internal quality controls may include electronic, liquid, or control zone. External quality controls may include electronic or liquid.	the following: - How the test is used - Reagent stability - Manufacturers' recommendations - The hospital's experience with the test - Currently accepted guidelines

The Joint Commission

Appendix

Report Section Information

SAFER™ Matrix Description

All Requirements for Improvement (RFIs) are plotted on the SAFER matrix according to the likelihood the issue could cause harm to patient(s), staff, and/or visitor(s), and the scope at which the RFI is observed. Combined, these characteristics identify a risk level for each RFI, which in turn will determine the level of required post-survey follow up. As the risk level of an RFI increases, the placement of the standard and Element of Performance moves from the bottom left corner to the upper right. The definitions for the Likelihood to Harm a Patient/Staff/Visitor and Scope are as follows:

Likelihood to Harm a Patient/Staff/Visitor:
- Low: harm could happen, but would be rare
- Moderate: harm could happen occasionally
- High: harm could happen any time

Scope:
- Limited: unique occurrence that is not representative of routine/regular practice
- Pattern: multiple occurrences with potential to impact few/some patients, staff, visitors and/or settings
- Widespread: multiple occurrences with potential to impact most/all patients, staff, visitors and/or settings

The Evidence of Standards Compliance (ESC) or Plan of Correction (POC) forms with findings of a higher risk will require two additional fields within the ESC or POC. The organization will provide a more detailed description of Leadership Involvement and Preventive Analysis to assist in sustainment of the compliance plan. Additionally, these higher risk findings will be provided to surveyors for possible review or onsite validation during any subsequent onsite surveys, up until the next full triennial survey occurs. The below legend illustrates the follow-up activity associated with each level of risk.

SAFER™ Matrix Placement	Required Follow-Up Activity
HIGH/LIMITED HIGH/PATTERN HIGH/WIDESPREAD	• Two additional areas surrounding Leadership Involvement and Preventive Analysis will be included in the ESC or POC • Finding will be highlighted for potential review by surveyors on subsequent onsite surveys up to and including the next full survey or review
MODERATE/PATTERN MODERATE/WIDESPREAD	
MODERATE/LIMITED LOW/PATTERN LOW/WIDESPREAD	• ESC or POC will not include Leadership Involvement and Preventive Analysis
LOW/LIMITED	

The Joint Commission

Appendix

Report Section Information

CMS Summary Description

For organizations that utilize The Joint Commission for deeming purposes, observations noted within the Requirements for Improvement (RFI) section that are crosswalked to a CMS Condition of Participation (CoP)/Condition for Coverage (CfC) are highlighted in this section. The table included within this section incorporates, from a Centers for Medicare and Medicaid Services (CMS) perspective, the CoPs/CfCs that were noted as noncompliant during the survey, the Joint Commission standard and element of performance the CoP/CfC is associated with, the CMS score (either Standard or Condition Level), and if the standard and EP will be included in an upcoming Medicare Deficiency Survey (MEDDEF) if applicable.

Requirements for Improvement Description

Observations noted within the Requirements for Improvement (RFI) section require follow-up through the Evidence of Standards Compliance (ESC) process. The identified timeframes for submission for each observation are found in the Executive Summary section of the Final Report. If a follow-up survey is required, the unannounced visit will focus on the requirements for improvement although other areas, if observed, could still become findings. The time frame to perform the unannouced follow-up visit is dependent on the scope and severity of the issue identified within Requirements for Improvement.

The Joint Commission

Appendix

Report Section Information

Clarification Instructions

Documents not available at the time of survey
Any required documents that are not available at the time of survey will no longer be eligible for the clarification process. These RFIs will become action items in the post-survey ESC process.

Clerical Errors
Clerical errors in the report will no longer be eligible for the clarification process. The Joint Commission will work with the organization to correct the clerical error, so that the report is accurate. The corrected RFIs will become action items in the post-survey process.

Audit Option
There will no longer be an audit option as part of the clarification process. With the implementation of the SAFER™ matrix, the "C" Element of Performance (EP) category is eliminated. The "C" EPs were the subject of Clarification Audits.

The clarification process provides an organization the opportunity to demonstrate compliance with standards that were scored “not compliant” at the time of the survey. The organization has 10 business days from the date the report is published on the extranet site to submit the clarification. *The Evidence of Standards Compliance (ESC) due dates will remain the same whether or not the organization submits a clarification and/or is successful in the clarification process.*

Clarifications may take either of the following forms:

- An organization believes it had adequate evidence available to the surveyor(s) and was in compliance **at the time of the survey.** (Please note that actions taken during or immediately after the survey will not be considered.) The organization must use the clarification form to support their contention.

- The organization has detailed evidence that was not immediately available **at the time of the survey.** The clarification must include an explanation as to why the surveyor(s) did not have access to the information or why it was not provided to the surveyor(s) at the time of the survey. However, any required documents that are not available at the time of survey are not eligible for the Clarification Process. These RFIs will become action items in the post-survey ESC process.

- Please do not submit supplemental documentation unless requested by The Joint Commission. If additional information is requested, the organization will be required to highlight the relevance to the standards in the documentation.

Appendix 1
Kindred Healthcare
Audited Financial Statements

Kindred Healthcare, LLC

Consolidated Financial Statements for the year ended December 31, 2019 and for the period July 2 – December 31, 2018 of Kindred Healthcare, LLC and Combined Financial Statements for the period January 1 – July 1, 2018 of Kindred Hospital Company (A carve-out business of Kindred Healthcare, Inc.)

KINDRED HEALTHCARE, LLC
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors

To the Board of Directors of Kindred Healthcare, LLC

We have audited the accompanying consolidated financial statements of Kindred Healthcare, LLC and its subsidiaries (Successor Company), which comprise the consolidated balance sheets as of December 31, 2019 and 2018 and the related consolidated statements of operations, comprehensive loss, members' equity, and cash flows for the year ended December 31, 2019 and for the period July 2, 2018 to December 31, 2018.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 our 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, we consider internal control relevant to the Successor Company'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 Successor Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kindred Healthcare, LLC and its subsidiaries (Successor Company) as of December 31, 2019 and 2018 and the results of their operations and their cash flows for the year ended December 31, 2019 and for the period July 2, 2018 to December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Louisville, Kentucky
March 2, 2020

PricewaterhouseCoopers LLP, 500 West Main Street, Suite 1800, Louisville, Kentucky 40202-2941
T: (502) 589 6100, F: (502) 585 7875, www.pwc.com/us

Report of Independent Auditors

To the Board of Directors of Kindred Healthcare, LLC

We have audited the accompanying combined financial statements of Kindred Hospital Company (a carve-out business of Kindred Healthcare, Inc.) and its subsidiaries (Predecessor Company), which comprise the combined statements of operations, comprehensive loss, members' equity, and cash flows for the period from January 1, 2018 to July 1, 2018.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Predecessor Company's preparation and fair presentation of the combined 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 Predecessor Company'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the results of Kindred Hospital Company (a carve-out business of Kindred Healthcare, Inc.) and its subsidiaries (Predecessor Company) operations and their cash flows for the period from January 1, 2018 to July 1, 2018 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Louisville, Kentucky
March 4, 2019, except for the effect of discontinued operations discussed in Note 4 to the consolidated financial statements, as to which the date is March 2, 2020

PricewaterhouseCoopers LLP, 500 West Main Street, Suite 1800, Louisville, Kentucky 40202-2941
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KINDRED HEALTHCARE, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)

	Successor Company		Predecessor Company
	Year ended December 31, 2019	July 2 – December 31, 2018	January 1 – July 1, 2018
Revenues	$ 3,229,680	$ 1,605,138	$ 1,698,584
Salaries, wages and benefits	2,048,820	1,045,973	1,103,266
Supplies	206,622	102,831	113,389
Building rent	192,265	96,715	99,629
Equipment rent	27,365	15,821	15,928
Other operating expenses	573,631	281,153	239,257
Other income	(32,116)	(27,037)	(2,641)
Litigation contingency expense	2,181	1,912	1,432
Restructuring charges (Note 5)	46,789	55,351	11,824
Depreciation and amortization	68,604	32,692	40,519
Sponsor fees and value capture initiatives (Note 17)	28,406	8,101	–
Interest expense	45,560	22,547	124,027
Investment income	(1,346)	(395)	(261)
	3,206,781	1,635,664	1,746,369
Income (loss) from continuing operations before income taxes	22,899	(30,526)	(47,785)
Provision for income taxes (Note 6)	1,717	566	1,766
Income (loss) from continuing operations	21,182	(31,092)	(49,551)
Discontinued operations, net of income taxes (Note 4):			
Income (loss) from discontinued operations	2,539	5,494	(1,702)
Loss on divestiture of operations	(2,926)	(5,830)	(7,893)
Loss from discontinued operations	(387)	(336)	(9,595)
Net income (loss)	20,795	(31,428)	(59,146)
Earnings attributable to noncontrolling interests:			
Continuing operations	(51,998)	(20,891)	(21,202)
Discontinued operations	–	(80)	(700)
	(51,998)	(20,971)	(21,902)
Loss attributable to Successor Company	$ (31,203)	$ (52,399)	
Loss attributable to Predecessor Company			$ (81,048)
Amounts attributable to Kindred:			
Loss from continuing operations	$ (30,816)	$ (51,983)	$ (70,753)
Loss from discontinued operations	(387)	(416)	(10,295)
Net loss	$ (31,203)	$ (52,399)	$ (81,048)

See accompanying notes to the consolidated financial statements.

KINDRED HEALTHCARE, LLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Successor Company		Predecessor Company
	Year ended December 31, 2019	July 2 – December 31, 2018	January 1 – July 1, 2018
Net income (loss)	$ 20,795	$ (31,428)	$ (59,146)
Other comprehensive loss:			
Interest rate swap (Notes 1 and 10):			
Change in unrealized gains (losses)	(6,918)	(7,086)	4,125
Reclassification of settlement gain in net loss	–	–	(9,874)
Reclassification of gains realized in net income (loss), net of payments	–	–	(816)
Net change	(6,918)	(7,086)	(6,565)
Defined benefit post-retirement plan:			
Unrealized loss due to fair value adjustments	(339)	(408)	–
Other comprehensive loss	(7,257)	(7,494)	(6,565)
Comprehensive income (loss)	13,538	(38,922)	(65,711)
Earnings attributable to noncontrolling interests	(51,998)	(20,971)	(21,902)
Comprehensive loss attributable to Successor Company	$ (38,460)	$ (59,893)	
Comprehensive loss attributable to Predecessor Company			$ (87,613)

See accompanying notes to the consolidated financial statements.

KINDRED HEALTHCARE, LLC
CONSOLIDATED BALANCE SHEETS
(In thousands)

	Successor Company	
	December 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 66,992	$ 84,213
Insurance subsidiary investments	3,998	6,951
Accounts receivable less allowance for loss of $45,914 – 2019 and $56,492 – 2018	689,673	693,339
Inventories	19,626	20,486
Income taxes	916	2,299
Assets held for sale	–	53,054
Other (Note 14)	51,637	47,956
	832,842	908,298
Property and equipment, at cost:		
Land	50,016	56,044
Buildings	205,980	205,750
Equipment	237,281	159,854
Construction in progress	64,065	47,530
	557,342	469,178
Accumulated depreciation	(87,681)	(28,415)
	469,661	440,763
Goodwill	333,002	320,963
Intangible assets less accumulated amortization of $30,353 – 2019 and $15,469 – 2018	165,159	199,905
Insurance subsidiary investments	19,579	24,662
Other (Note 14)	225,947	238,580
Total assets (a)	$ 2,046,190	$ 2,133,171
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable	$ 153,538	$ 114,458
Salaries, wages and other compensation	203,462	232,934
Due to third party payors	30,816	42,309
Professional liability risks	45,299	41,205
Accrued lease termination fees	8,773	8,081
Other accrued liabilities (Note 14)	189,269	230,341
Long-term debt due within one year	4,118	4,433
	635,275	673,761
Long-term debt	543,684	455,760
Professional liability risks	213,131	233,732
Deferred credits and other liabilities (Note 14)	332,691	410,430
Commitments and contingencies (Note 11)		
Members' equity:		
Controlling members' equity:		
Members' investment	228,121	224,201
Accumulated other comprehensive loss	(14,751)	(7,494)
Accumulated deficit	(83,602)	(52,399)
	129,768	164,308
Noncontrolling interests	191,641	195,180
Total members' equity	321,409	359,488
Total liabilities (a) and members' equity	$ 2,046,190	$ 2,133,171

(a) The Company's consolidated assets as of December 31, 2019 and December 31, 2018 include total assets of variable interest entities of $399.0 million and $375.2 million, respectively, which can only be used to settle the obligations of the variable interest entities. The Company's consolidated liabilities as of December 31, 2019 and December 31, 2018 include total liabilities of variable interest entities of $57.3 million and $46.4 million, respectively. See note 1 of the notes to consolidated financial statements.

See accompanying notes to the consolidated financial statements.

KINDRED HEALTHCARE, LLC
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
(In thousands)

	Shares of common stock	Par value common stock	Members' investment	Accumulated other comprehensive income (loss)	Accumulated deficit	Noncontrolling interests	Total
Predecessor Company:							
Balances, December 31, 2017	91,454	$ 22,864	$ (158,859)	$ 6,179	$ (1,892,097)	$ 220,766	$ (1,801,147)
Adoption of new revenue standard					(5,268)		(5,268)
Comprehensive loss:							
Net income (loss)					(81,048)	21,902	(59,146)
Other				(6,565)			(6,565)
Comprehensive loss							(65,711)
Cancellation of non-vested restricted stock	(67)	(17)	17				–
Issuance of common stock in connection with employee benefit plans	203	51	(51)				–
Shares tendered by employees for statutory tax withholdings upon issuance of common stock	(479)	(120)	(4,166)		(64)		(4,350)
Stock-based compensation amortization			6,612				6,612
Contributions from noncontrolling interests						11,001	11,001
Distributions to noncontrolling interests						(42,841)	(42,841)
Transfers from Kindred at Home, net			102,887				102,887
Balances, July 1, 2018	91,111	22,778	(53,560)	(386)	(1,978,477)	210,828	(1,798,817)
Successor Company:							
Balances, July 2, 2018	91,111	22,778	(53,560)	(386)	(1,978,477)	210,828	(1,798,817)
Split of company to private investors	(91,111)	(22,778)	53,560	386	1,978,477	(15,768)	1,993,877
Proceeds from parent investors			219,896				219,896
Comprehensive loss:							
Net income (loss)					(52,399)	20,971	(31,428)
Other				(7,494)			(7,494)
Comprehensive loss							(38,922)
Equity unit buy-in program			3,780				3,780
Service-vested profit units compensation amortization			525				525
Contributions from noncontrolling interests						2,190	2,190
Distributions to noncontrolling interests						(22,783)	(22,783)
Purchase of noncontrolling interests						(258)	(258)
Balances, December 31, 2018	–	–	224,201	(7,494)	(52,399)	195,180	359,488
Comprehensive income:							
Net income (loss)					(31,203)	51,998	20,795
Other				(7,257)			(7,257)
Comprehensive income							13,538
Equity unit buy-in program			2,692				2,692
Service-vested profit units compensation amortization			1,228				1,228
Contributions from noncontrolling interests						14,168	14,168
Distributions to noncontrolling interests						(64,920)	(64,920)
Divestiture of noncontrolling interests						(4,571)	(4,571)
Other						(214)	(214)
Balances, December 31, 2019	–	$ –	$ 228,121	$ (14,751)	$ (83,602)	$ 191,641	$ 321,409

See accompanying notes to the consolidated financial statements.

KINDRED HEALTHCARE, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Successor Company		Predecessor Company
	Year ended December 31, 2019	July 2 – December 31, 2018	January 1 – July 1, 2018
Cash flows from operating activities:			
Net income (loss)	$ 20,795	$ (31,428)	$ (59,146)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	63,095	28,415	39,841
Amortization of intangible assets	5,580	4,340	4,292
Amortization of leasehold interest assets and liabilities, net	(21,367)	(9,495)	549
Amortization of deferred compensation costs	1,228	525	6,612
Amortization of deferred financing costs	3,365	1,636	8,511
Provision for doubtful accounts	4,943	(1,323)	(2,072)
Deferred income taxes	283	89	654
Loss on divestiture of discontinued operations	2,926	5,830	7,893
Other	(236)	(843)	747
Change in operating assets and liabilities:			
Accounts receivable	(9,349)	44,759	2,046
Inventories and other assets	9,804	175,268	(124,816)
Accounts payable	30,652	(16,338)	(41,584)
Income taxes	1,383	358	(1,104)
Due to third party payors	(11,493)	23,939	(7,594)
Other accrued liabilities	(56,905)	(255,471)	52,099
Net cash provided by (used in) operating activities	44,704	(29,739)	(113,072)
Cash flows from investing activities:			
Routine capital expenditures	(57,133)	(31,580)	(23,701)
Development capital expenditures	(30,101)	(7,546)	(11,615)
Acquisition of healthcare facilities	(27,487)	–	–
Sale of assets	12,510	11,771	21,217
Proceeds from notes receivable	6,590	–	–
Net change in other investments	(4)	(1,782)	(4,329)
Other	(934)	343	(417)
Net cash used in investing activities	(96,559)	(28,794)	(18,845)
Cash flows from financing activities:			
Proceeds from borrowings under revolving credit	895,850	507,000	757,000
Repayment of borrowings from revolving credit	(805,850)	(442,700)	(744,900)
Proceeds from issuance of term loan, net of discount	–	405,900	–
Repayment of term loan	(4,100)	(1,025)	(7,017)
Repayment of other long-term debt	(362)	(217)	(384)
Payment of deferred financing costs	(290)	(18,561)	(119)
Distribution to Kindred equity holders	(4,139)	(754,249)	–
Net transfers from Kindred at Home	–	166,441	103,587
Proceeds from parent investors	–	219,896	–
Equity unit buy-in program	2,692	3,780	–
Tax payments for equity awards issuance	–	–	(4,350)
Contributions from noncontrolling interests	2,354	2,190	626
Distributions to noncontrolling interests	(64,920)	(22,783)	(42,841)
Purchase of noncontrolling interests	–	(258)	–
Net cash provided by financing activities	21,235	65,414	61,602
Change in cash, cash equivalents and restricted cash	(30,620)	6,881	(70,315)
Cash, cash equivalents and restricted cash at beginning of period	133,156	126,275	196,590
Cash, cash equivalents and restricted cash at end of period	$ 102,536	$ 133,156	$ 126,275
Supplemental information:			
Interest payments	$ 40,938	$ 19,766	$ 110,708
Income tax payments	528	404	514
Rental payments to Ventas, Inc.	124,801	61,658	60,747
Non-cash contributions from noncontrolling interests	11,814	–	10,375
Property and equipment in various liability accounts	49,074	24,699	–

See accompanying notes to the consolidated financial statements.

KINDRED HEALTHCARE, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

Reporting entity

Kindred Healthcare, LLC is a healthcare services company that through its subsidiaries operates long-term acute care ("LTAC") hospitals, inpatient rehabilitation hospitals ("IRFs"), and a contract rehabilitation services business across the United States (collectively, the "Company" or the "Successor Company"). For purposes of these statements and related notes, the successor period is being presented on a consolidated basis for the Company and the predecessor period is being presented on a combined basis for Kindred Hospital Company (a carve-out business of Kindred Healthcare, Inc.) (the "Predecessor Company").

The accompanying financial statements present the consolidated (for successor period) and combined (for predecessor period) changes in members' equity, revenues, expenses and cash flows of the Successor Company and Predecessor Company, respectively, excluding Gentiva Health Services, Inc. (d/b/a Kindred at Home) ("KAH"). Through July 1, 2018, KAH was an operating division of Kindred Healthcare, Inc. ("Kindred") and primarily provided home health, hospice and community care services for patients in a variety of settings, including their homes, nursing centers and other residential settings. KAH has been excluded from the Predecessor Company accompanying combined financial statements and was considered a related party.

Reorganization of Kindred

On July 2, 2018, Kindred was acquired by a consortium of three companies: TPG Capital ("TPG"), Welsh, Carson, Anderson & Stowe ("WCAS") and Humana Inc. ("Humana") for approximately $4.3 billion in cash including the assumption or repayment of net debt (the "Kindred Reorganization"). Under the terms of the Merger Agreement (as defined herein), stockholders of Kindred received $9.00 in cash for each share of Kindred common stock they held.

Immediately following the acquisition of Kindred, KAH (formerly an operating division of Kindred) was separated from Kindred and now operates as a stand-alone company that was owned 40% by Humana, with the remaining 60% of KAH owned by TPG and WCAS at the time of the separation. The Company now operates as a separate specialty hospital company owned primarily by TPG and WCAS. See Note 2.

As used in these financial statements, the term "Predecessor Company" refers to the Company and its operations for the period January 1, 2018 through July 1, 2018, while the term "Successor Company" is used to describe the Company and its operations for the year ended December 31, 2019 and for the period July 2, 2018 through December 31, 2018.

In connection with the Kindred Reorganization, the Company revalued all assets and liabilities. For accounting purposes, these adjustments have been recorded in the consolidated financial statements as of July 2, 2018. Since the Kindred Reorganization materially changed the amounts previously recorded in the Company's consolidated financial statements, a black line separates the Successor Company from the Predecessor Company to signify the difference in the basis of presentation of the financial statements for each respective entity.

Basis of presentation

The Predecessor Company has not historically constituted a separate legal entity and stand-alone financial statements had not previously been prepared for the Predecessor Company. The accompanying combined financial statements of the Predecessor Company have been prepared on a stand-alone basis derived from the financial statements and related accounting records of Kindred and reflect the historical results of operations, financial position, and cash flows of the Predecessor Company as they were historically managed for the period January 1, 2018 through July 1, 2018.

The accompanying consolidated financial statements of the Successor Company and the accompanying combined financial statements of the Predecessor Company include all subsidiaries that the Company controls, including variable interest entities ("VIEs") for which the Company is the primary beneficiary. All intercompany transactions have been eliminated.

The Company has completed several transactions related to the divestiture of unprofitable hospitals and nursing centers to improve its future operating results. Kindred has completed the SNF Divestiture (as defined and described more fully in Note 3). For accounting purposes, the operating results of these businesses and the losses associated with these transactions have been classified as discontinued operations in the accompanying consolidated statements of operations and accompanying combined statement of operations for all periods presented.

The accompanying consolidated financial statements and accompanying combined financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") and include amounts based upon the estimates and judgments of management. Actual amounts may differ from those estimates.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Principles of combination

The Predecessor Company financial statements reflect allocations of direct and indirect expenses to KAH related to certain support functions provided by Kindred. Management believes the assumptions underlying the Predecessor Company financial statements, including the assumptions regarding allocation of expenses, are reasonable. Nevertheless, the Predecessor Company financial statements may not include all of the actual expenses that would have been incurred by the Company and may not reflect the Company's financial position, results of operations and cash flows that would have been reported if the Company had been a stand-alone entity during the period presented. See Note 17.

Recently issued accounting requirements

In November 2018, the Financial Accounting Standards Board (the "FASB") issued a clarification of existing authoritative guidance stating that elements of collaborative arrangements could qualify as transactions with customers in the scope of the Accounting Standards Codification 606, *Revenue from Contracts with Customers*, and all of the related amendments. The guidance precludes an entity from presenting consideration from a transaction in a collaborative arrangement as revenue from contracts with customers if the counterparty is not a customer for that transaction. For nonpublic entities, the amendment is effective for fiscal years beginning after December 15, 2020, and early adoption is permitted. The Company will not elect to early adopt and the adoption of the amendment is not expected to have a material impact on the Company's business, financial position, results of operations or liquidity.

In October 2018, the FASB amended authoritative guidance of derivatives and hedging to allow the Overnight Index Swap rate based on the Secured Overnight Financing Rate as a benchmark rate for hedge accounting purposes should the London Interbank Offered Rate ("LIBOR") no longer be sustainable. Since the Company has not already adopted the 2017 amendment Targeted Improvements to Accounting for Hedging Activities, the amendments will be required to be adopted concurrently with the 2017 amendment, or for annual periods beginning after December 15, 2019. The adoption of these amendments is not expected to have a material impact on the Company's business, financial position, results of operations or liquidity.

In August 2018, the FASB issued amended authoritative guidance which changes the fair value measurement disclosure requirements. The amendment removes disclosure requirements for timing of transfers between hierarchy levels, Level 3 valuation processes, and changes in unrealized gains and losses for recurring Level 3 fair value measurements held at the end of the reporting period. The amendment modifies existing requirements to disclose purchases, issuances, and transfers into and out of Level 3 assets and liabilities. The amendment is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendment should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. The amendment is not expected to have a material impact on the Company's business, financial position, results of operations or liquidity.

In August 2017, the FASB issued amended authoritative guidance with the objective of improving the financial reporting of hedging relationships under GAAP to better portray economic results and to simplify the application of the current hedge accounting guidance. The new guidance is effective for annual periods beginning after December 15, 2020, interim periods within annual periods beginning after December 15, 2021, and early adoption is permitted. The Company will not elect to early adopt and the adoption of the amendment is not expected to have a material impact on the Company's business, financial position, results of operations or liquidity.

In June 2016, the FASB issued amended authoritative guidance for accounting for credit losses on financial instruments. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The new guidance is effective for annual periods beginning after December 15, 2022 and early adoption is permitted. The Company will not elect to early adopt and the adoption of the amendment is not expected to have a material impact on the Company's business, financial position, results of operations or liquidity.

In February 2016, the FASB issued amended authoritative guidance on accounting for leases. The new provisions require that a lessee of operating leases recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The lease liability will be equal to the present value of lease payments, with the right-of-use asset based upon the lease liability. The classification criteria for distinguishing between finance (or capital) leases and operating leases are substantially similar to the previous lease guidance, but with no explicit bright lines. As such, operating leases will result in straight-line rent expense similar to current practice. For short term leases (term of 12 months or less), a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities, which would generally result in lease expense being recognized on a straight-line basis over the lease term. The guidance is effective for annual periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. The

NOTE 1 – BASIS OF PRESENTATION (Continued)

Recently issued accounting requirements (Continued)

Company will early adopt in 2020 with a cumulative-effect adjustment as of January 1, 2020. The Company will apply the modified retrospective approach with the election of the practical expedients, therefore not electing the use of hindsight. Additionally, the Company will elect a permitted accounting policy to not apply the new guidance to leases with an initial term of 12 months or less. The adoption of this authoritative guidance will result in recognition of additional operating lease assets and lease liabilities of $885 million to $935 million as of January 1, 2020. The adoption of this authoritative guidance will not have a material impact on the Company's consolidated statements of operations or comprehensive loss, business or liquidity.

Revenues

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

The transaction price for the Company's contracts represents its best estimate of the consideration the Company expects to receive and includes assumptions regarding variable consideration as applicable. These variable considerations include estimated amounts due from patients and third party payors for healthcare services provided, including anticipated settlements under reimbursement agreements with Medicare, Medicaid, Medicare Advantage, Managed Medicaid, and other third party payors. Revenues under third party agreements are subject to examination and retroactive adjustment. Provisions for estimated third party adjustments are provided in the period the related services are rendered to the extent it is probable that a significant reversal of cumulative revenue will occur. Any remaining differences between the amounts accrued and subsequent settlements are recorded in the periods in which the interim or final settlements are determined.

A summary of revenues by payor type follows (in thousands):

	Successor Company		Predecessor Company
	Year ended December 31, 2019	July 2 – December 31, 2018	January 1 – July 1, 2018
Medicare	$ 1,141,368	$ 571,975	$ 626,786
Medicaid	113,932	54,020	49,616
Medicare Advantage	384,643	166,923	178,630
Managed Medicaid	234,836	110,192	112,396
Contracted services	812,728	439,582	478,210
Commercial	550,818	262,035	271,230
Other	65,625	34,403	21,355
	3,303,950	1,639,130	1,738,223
Eliminations	(74,270)	(33,992)	(39,639)
	$ 3,229,680	$ 1,605,138	$ 1,698,584

NOTE 1 – BASIS OF PRESENTATION (Continued)

Cash, cash equivalents and restricted cash

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less when purchased. The Company reclassifies outstanding checks in excess of funds on deposit. As of December 31, 2019, $10.8 million was reclassified to accounts payable and $1.0 million was reclassified to salaries, wages and other compensation. As of December 31, 2018, $20.2 million was reclassified to accounts payable and $1.5 million was reclassified to salaries, wages and other compensation.

The Company follows the authoritative guidance that simplifies the disclosure of restricted cash within the statements of cash flows. The following table provides a reconciliation of cash and cash equivalents, as reported in the accompanying consolidated balance sheets, to cash, cash equivalents and restricted cash, as reported in the accompanying consolidated statements of cash flows (in thousands):

	December 31, 2019	December 31, 2018
Cash and cash equivalents	$ 66,992	$ 84,213
Restricted cash:		
Funds in escrow (current)	8,684	–
Insurance subsidiary investments (current)	3,998	6,951
Other assets (current)	3,283	172
Insurance subsidiary investments (long-term)	19,579	24,662
Funds in escrow (long-term)	–	17,158
Cash, cash equivalents and restricted cash	$ 102,536	$ 133,156

Insurance subsidiary investments

The Company maintains a portfolio of insurance subsidiary investments, consisting principally of cash and cash equivalents, for the payment of claims and expenses related to professional liability and workers compensation risks maintained by its limited purpose insurance subsidiary, Cornerstone Insurance Company (“Cornerstone”). These investments are reported at fair value. Since the Company’s insurance subsidiary investments are restricted for a limited purpose, they are classified in the accompanying consolidated balance sheets based upon the expected current and long-term cash requirements of Cornerstone. See Note 8.

Accounts receivable

Accounts receivable consist primarily of amounts due from the Medicare and Medicaid programs, other government programs, managed care health plans, commercial insurance companies, skilled nursing and hospital customers, individual patients and other customers. Estimated provisions for doubtful accounts for contracts with customers are recorded to the extent it is probable that a portion or all of a particular account will not be collected.

In evaluating the collectibility of accounts receivable, the Company considers a number of factors, including the age of the accounts, changes in collection patterns, the composition of patient accounts by payor type, the status of ongoing disputes with third party payors and general industry conditions. Actual collections of accounts receivable in subsequent periods may require changes in the estimated provision for loss or changes in variable consideration estimates. Changes in these estimates are charged or credited to the results of operations in the period of change.

The provision for doubtful accounts totaled $6.0 million and $1.2 million for the year ended December 31, 2019 and for the period July 2, 2018 through December 31, 2018, respectively, for the Successor Company. The provision for doubtful accounts totaled $2.1 million for the period January 1, 2018 through July 1, 2018 for the Predecessor Company.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Due to third party payors

The Company's LTAC hospitals and IRFs are required to submit cost reports at least annually to various state and federal agencies administering the respective reimbursement programs. In many instances, interim cash payments to the Company are only an estimate of the amount due for services provided. Any overpayment to the Company arising from the completion of a cost report is recorded as a liability in the accompanying consolidated balance sheets.

Kindred entered into a five-year corporate integrity agreement with the United States Department of Health and Human Services Office of Inspector General (the "OIG") on January 11, 2016 (the "RehabCare CIA"). The RehabCare CIA imposes monitoring, auditing (including by an independent review organization), reporting, certification, oversight, screening, and training obligations with which the Company must comply. These obligations include retention of an independent review organization to perform duties under the RehabCare CIA, which include reviewing compliance by RehabCare Group, Inc. and its subsidiaries ("RehabCare"), a therapy services company acquired by Kindred on June 1, 2011, with federal program requirements and accepted medical practices, and annual reporting obligations to the OIG regarding RehabCare's compliance with the RehabCare CIA (including corresponding certification by senior management and the board of directors or a committee thereof). In the event of a breach of the RehabCare CIA, the Company could become liable for payment of certain stipulated penalties, or RehabCare's subsidiaries could be excluded from participation in federal healthcare programs. The costs associated with compliance with the RehabCare CIA could be substantial and may be greater than the Company currently anticipates.

Any breach or failure to comply with the RehabCare CIA, the imposition of substantial monetary penalties, or any suspension or exclusion from participation in federal healthcare programs, could have a material adverse effect on the Company's business, financial position, results of operations, and liquidity.

Inventories

Inventories consist primarily of pharmaceutical and medical supplies and are stated at the lower of cost (first-in, first-out) or market.

Property and equipment

Property and equipment is carried at cost less accumulated depreciation. Depreciation expense, computed by the straight-line method, was $63.0 million and $28.4 million for the year ended December 31, 2019 and for the period July 2, 2018 through December 31, 2018, respectively, for the Successor Company. Depreciation expense, computed by the straight-line method, was $36.2 million for the period January 1, 2018 through July 1, 2018 for the Predecessor Company. These amounts include amortization of assets recorded under capital leases. Depreciation rates for buildings range generally from 20 to 40 years. Leasehold improvements are depreciated over their estimated useful lives or the remaining lease term, whichever is shorter. Estimated useful lives of equipment vary from five to 15 years. Depreciation expense is not recorded for property and equipment classified as held for sale. Repairs and maintenance are expensed as incurred.

The Company separates capital expenditures into two categories, routine and development, in the accompanying consolidated statements of cash flows. Purchases of routine property and equipment include expenditures at existing facilities that generally do not result in increased capacity or the expansion of services. Development capital expenditures include expenditures for the development of new facilities or the expansion of services or capacity at existing facilities.

Long-lived assets

The Company reviews the carrying value of certain long-lived assets and finite lived intangible assets with respect to any events or circumstances that indicate an impairment or an adjustment to the amortization period is necessary. If circumstances suggest that the recorded amounts cannot be recovered based upon estimated future undiscounted cash flows, the carrying values of such assets are reduced to fair value.

In assessing the carrying values of long-lived assets, the Company estimates future cash flows at the lowest level for which there are independent, identifiable cash flows. For this purpose, these cash flows are aggregated based upon the contractual agreements underlying the operation of the facility or group of facilities. Generally, an individual facility for hospitals or IRFs, skilled nursing rehabilitation services reporting unit, or hospital rehabilitation services reporting unit are considered the lowest level for which there are independent, identifiable cash flows. However, to the extent that groups of facilities are leased under a master lease agreement in which the operations of a facility and compliance with the lease terms are interdependent upon other facilities in the agreement (including the Company's ability to renew the lease or divest a particular property), the Company defines the group of facilities under a master lease agreement, or a renewal bundle in a master lease, as the lowest level for which there are independent, identifiable cash flows. Accordingly, the estimated cash flows of all facilities within a master lease agreement, or within a renewal bundle in a master lease, are aggregated for purposes of evaluating the carrying values of long-lived assets.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Goodwill and intangible assets

Goodwill and indefinite-lived intangible assets primarily originated from business combinations accounted for as purchase transactions or from the Kindred Reorganization.

A summary of goodwill by reporting unit follows (in thousands):

	Hospitals	Accountable Care Organization	Hospital rehabilitation services	IRFs	RehabCare	Total
Balances, December 31, 2017	$ 125,045	$ 983	$ 173,618	$ 326,335	$ –	$ 625,981
Acquisitions	–	–	–	10,375	–	10,375
Balances, July 1, 2018	125,045	983	173,618	336,710	–	636,356
Balances, July 2, 2018	125,045	983	173,618	336,710	–	636,356
Kindred Reorganization purchase accounting adjustments	(125,045)	(983)	(58,681)	(130,684)	–	(315,393)
Balances, December 31, 2018	–	–	114,937	206,026	–	320,963
Acquisitions	8,548	–	–	9,232	–	17,780
Dispositions	–	–	–	(6,033)	–	(6,033)
Kindred Reorganization purchase accounting adjustments	–	–	105	187	–	292
Balances, December 31, 2019	$ 8,548	$ –	$ 115,042	$ 209,412	$ –	$ 333,002

The Successor Company had no accumulated goodwill impairment charges as of December 31, 2019. The Predecessor Company had accumulated goodwill impairment charges totaling $651.3 million as of July 1, 2018, which were incurred in 2017 and prior periods.

In accordance with the authoritative guidance for goodwill and other intangible assets, the Company is required to perform an impairment test for goodwill and indefinite-lived intangible assets at least annually or more frequently if adverse events or changes in circumstances indicate that the asset may be impaired. The Company performs its annual goodwill impairment test on October 1 each fiscal year for each of its reporting units.

A reporting unit is either an operating segment or one level below the operating segment, referred to as a component. When the components within the Company's operating segments have similar economic characteristics, the Company aggregates the components of its operating segments into one reporting unit. Accordingly, the Company has determined that its reporting units are hospitals, the Accountable Care Organization, hospital rehabilitation services, IRFs, and RehabCare.

Accounting guidance allows the Company to perform a qualitative assessment about the likelihood of the carrying value of a reporting unit exceeding its fair value, referred to as the step zero assessment. The step zero assessment requires the evaluation of certain qualitative factors, including macroeconomic conditions, industry and market considerations, cost factors and overall financial performance, as well as company and reporting unit factors. If the Company's step zero assessment indicates that it is more likely than not that the fair value of a reporting unit is less than the carrying value amount, then the Company would perform a quantitative impairment test. The Company applied the step zero assessment to its hospitals and IRF reporting units as of October 1, 2019, and its two reporting units with goodwill as of October 1, 2018. The Company's step zero assessment concluded that it is not more likely than not that the fair value of the reporting unit is less than its carrying value amount. Therefore, a quantitative goodwill impairment test for these reporting units was not required.

The Company did perform a quantitative impairment test to determine if the carrying value of the hospital rehabilitation services reporting unit exceeded its fair value as of October 1, 2019. Based upon the results of the quantitative impairment test for the hospital rehabilitation services reporting unit at October 1, 2019, no impairment charges were recorded.

The Company relies on the widely accepted valuation technique of the discounted cash flow approach which captures both the future income potential of the reporting unit and actions of market participants in the industry that includes the reporting unit. This type of analyses requires the Company to make assumptions and estimates regarding future cash flows, industry-specific economic factors and the profitability of future business strategies. The discounted cash flow approach uses a projection of estimated operating results and cash flows that are discounted using a weighted average cost of capital. Under the discounted cash flow approach, the projection uses management's best estimates of economic and market conditions over the projected period including growth rates in the number of sites of service, reimbursement rates, operating costs, rent expense, and capital expenditures. Other significant estimates and assumptions include terminal value growth rates, changes in working capital requirements and weighted average cost of capital.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Goodwill and intangible assets (Continued)

Adverse changes in the operating environment and related key assumptions used to determine the fair value of the Company's reporting units and indefinite-lived intangible assets may result in future impairment charges for a portion or all of these assets. Specifically, if the rate of growth of government and commercial revenues earned by the Company's reporting units were to be less than projected, if healthcare reforms were to negatively impact the Company's business, or if recent increases in labor costs materially exceed the Company's projections in its reporting units or business segments, an impairment charge of a portion or all of these assets may be required. An impairment charge could have a material adverse effect on the Company's business, financial position and results of operations, but would not be expected to have an impact on the Company's cash flows or liquidity.

The Company's indefinite-lived intangible assets consist of a trade name, Medicare certifications, and certificates of need. The fair values of the Company's indefinite-lived intangible assets are derived from current market data such as royalty rates and projections at a facility or reporting unit, which include management's best estimates of economic and market conditions over the projected period. Significant assumptions include projected revenues, operating costs, rent expense, capital expenditures, terminal value growth rates, changes in working capital requirements, weighted average cost of capital and opportunity costs.

The Company performs its annual indefinite-lived intangible asset impairment tests on October 1 each fiscal year. Based upon the results of the annual impairment test for indefinite-lived intangible assets discussed above for the years ended December 31, 2019 and December 31, 2018, no impairment charges were recorded.

The Company's intangible assets include both finite and indefinite-lived intangible assets. The Company's intangible assets with finite lives are amortized in accordance with the authoritative guidance for goodwill and other intangible assets, such as leasehold interest assets and non-compete agreements, using the straight-line method over their estimated useful lives ranging from two to 38 years.

Amortization expense computed by the straight-line method totaled $5.6 million and $4.3 million for the year ended December 31, 2019 and for the period July 2, 2018 through December 31, 2018, respectively, for the Successor Company. Amortization expense computed by the straight-line method totaled $4.3 million for the period January 1, 2018 through July 1, 2018 for the Predecessor Company.

The estimated annual amortization expense for the next five years for intangible assets at December 31, 2019 follows (in thousands):

2020	$ 1,240
2021	$ –
2022	$ –
2023	$ –
2024	$ –

The amortization of leasehold interests is recorded as a component of building rent expense.

A summary of intangible assets at December 31 follows (in thousands):

	2019				2018			
	Cost	Accumulated amortization	Carrying value	Weighted average life	Cost	Accumulated amortization	Carrying value	Weighted average life
Non-current:								
Certificates of need (indefinite life)	$ 38,000	$ –	$ 38,000		$ 38,000	$ –	$ 38,000	
Medicare certifications (indefinite life)	29,135	–	29,135		29,100	–	29,100	
Trade name (indefinite life)	28,000	–	28,000		28,000	–	28,000	
Leasehold interest assets	95,418	(26,634)	68,784	8 years	109,115	(11,129)	97,986	8 years
Non-compete agreements	4,959	(3,719)	1,240	2 years	11,159	(4,340)	6,819	1 year
	$195,512	$ (30,353)	$165,159		$215,374	$ (15,469)	$199,905	

NOTE 1 – BASIS OF PRESENTATION (Continued)

Cost-method investments

The aggregate carrying amount of all cost-method investments was $15.2 million and $15.0 million as of December 31, 2019 and December 31, 2018, respectively. Each investment was evaluated for impairment and no impairment charges were recorded as of December 31, 2019 or December 31, 2018.

Insurance risks

Provisions for loss for professional liability and workers compensation risks are based upon management's best available information, including actuarially determined estimates of loss. To the extent that expected ultimate claims costs vary from historical provisions for loss, future earnings will be charged or credited. See Note 7.

Derivative financial instruments

The Company accounts for derivative financial instruments in accordance with the authoritative guidance for derivatives and hedging. These derivative financial instruments are recognized as assets or liabilities in the accompanying consolidated balance sheets and are measured at fair value. The Company's derivatives are designated as cash flow hedges. The Company entered into an interest rate swap agreement in October 2018 to hedge its floating interest rate risk. Kindred previously had three interest rate swap agreements that were settled in June 2018.

The interest rate swap was assessed for hedge effectiveness for accounting purposes and the Company determined the interest rate swap qualifies for cash flow hedge accounting treatment at December 31, 2019 and December 31, 2018. The Company uses the private company simplified hedge accounting standard and records the effective portion of the gain or loss on derivative financial instruments in accumulated other comprehensive income (loss) as a component of members' equity and records the ineffective portion of the gain or loss on derivative financial instruments as interest expense. There was no ineffectiveness related to the interest rate swap for the Successor Company for the year ended December 31, 2019 or for the period July 2, 2018 through December 31, 2018. There was no ineffectiveness related to the interest rate swap for the Predecessor Company for the period January 1, 2018 through July 1, 2018. See Note 10.

Variable interest entities

The Company follows the provisions of the authoritative guidance for determining whether an entity is a VIE. In order to determine if the Company is a primary beneficiary of a VIE for financial reporting purposes, it must consider whether it has the power to direct activities of the VIE that most significantly impact the performance of the VIE and whether the Company has the obligation to absorb losses or the right to receive returns that would be significant to the VIE. The Company consolidates a VIE when it is the primary beneficiary.

The Company had 21 operating IRFs as of December 31, 2019, all of which were partnerships subject to an operating and management services agreement. Under GAAP, the Company determined that 19 of these 21 partnerships qualify as VIEs and concluded that the Company is the primary beneficiary in all but one partnership. The Company holds an ownership interest and acts as manager in each of the partnerships. Through the management services agreement, the Company is delegated necessary responsibilities to provide management services, administrative services and direction of the day-to-day operations. Based upon the Company's assessment of the most significant activities of the IRFs, the manager has the ability to direct the majority of those activities in 18 of these partnerships.

The analysis upon which the consolidation determination rests can be complex, can involve uncertainties, and requires judgment on various matters, some of which could be subject to different interpretations.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Variable interest entities (Continued)

The carrying amounts and classifications of the assets and liabilities of the consolidated VIEs are as follows (in thousands):

	December 31, 2019	December 31, 2018
Assets:		
Current assets:		
Cash and cash equivalents	$ 40,276	$ 49,139
Accounts receivable, net	55,831	47,201
Inventories	2,074	1,862
Other	4,622	3,534
	102,803	101,736
Property and equipment, net	29,992	21,570
Goodwill	192,497	177,274
Intangible assets, net	73,650	74,614
Other	23	6
Total assets	$ 398,965	$ 375,200
Liabilities:		
Current liabilities:		
Accounts payable	$ 32,265	$ 25,457
Salaries, wages and other compensation	7,336	4,477
Other accrued liabilities	6,740	5,578
Long-term debt due within one year	18	359
	46,359	35,871
Long-term debt	–	21
Deferred credits and other liabilities	10,979	10,541
Total liabilities	$ 57,338	$ 46,433

Allocated expense

Amounts were allocated from the Predecessor Company for costs attributable to the operations of KAH. The expenses incurred by the Predecessor Company include costs from certain support center and shared service functions provided by the Predecessor Company to KAH.

All support center costs of the Predecessor Company that were specifically identifiable to KAH have been allocated to KAH. Where specific identification of charges to KAH was not practicable, a percentage of revenues method was applied to all remaining general support center overhead costs. These costs include overhead expenses such as accounting, cash management, cost reimbursement reporting, human resources, legal, executive management, marketing and software and information technology.

In the opinion of management, the cost allocations have been determined on a reasonable basis and include all the costs of doing business. The amounts that would have been or will be incurred on a stand-alone basis could differ from the amounts allocated due to economies of scale, management judgment, or other factors. See Note 17 for additional information regarding related party transactions.

Other information

The Successor Company and the Predecessor Company both performed evaluations of subsequent events through the date on which the accompanying consolidated financial statements were issued. See Note 18.

Reclassifications

Certain prior period amounts have been reclassified to conform with the current period presentation.

NOTE 2 – ACQUISITIONS

Acquisition of healthcare facilities

During 2019, the Company acquired a LTAC hospital with 177 beds from Promise Healthcare Group, LLC for $21.7 million in cash, consisting of $2.6 million of property and equipment, $8.5 million of goodwill, $9.5 million of intangible assets and $1.1 million of other assets. The fair value of this acquisition was measured primarily using discounted cash flow methodologies which are considered Level 3 inputs (as described in Note 15).

During 2019, the Company paid $5.8 million in cash for a nursing center which was subsequently sold. See Note 3.

Acquisition of Kindred

Merger Agreement

On July 2, 2018, Kindred was acquired by a consortium of TPG, WCAS and Humana. Subject to the terms and conditions of an Agreement and Plan of Merger (the "Merger Agreement") among Kindred, Kentucky Hospital Holdings, LLC ("HospitalCo Parent"), Kentucky Homecare Holdings, Inc. ("Parent") and Kentucky Homecare Merger Sub, Inc. ("Merger Sub"), Merger Sub was merged with and into Kindred (the "Merger"), with Kindred continuing as the surviving company in the Merger.

At the effective time of the Merger, each share of Kindred common stock, par value $0.25 per share ("Common Stock") issued and outstanding immediately prior to the effective time of the Merger (other than shares held by Parent, HospitalCo Parent, Merger Sub or Kindred and their respective wholly owned subsidiaries (which were cancelled) and shares that are owned by stockholders who properly exercised and perfected a demand for appraisal rights under Delaware law), were cancelled and converted into the right to receive $9.00 in cash, without interest (the "Merger Consideration"). See Note 16.

Separation Agreement

Concurrently with the execution and delivery of the Merger Agreement, on December 19, 2017, Kindred, Parent, HospitalCo Parent, and Kentucky Hospital Merger Sub, Inc., entered into a Separation Agreement (the "Separation Agreement"), pursuant to which, promptly following the effective time of the Merger, Kindred was separated from its former home health, hospice and community care services business and acquired by HospitalCo Parent.

The Separation Agreement relates to, among other things (i) certain restructuring transactions that took place with respect to Kindred and its subsidiaries, (ii) procedures concerning the transfer of certain assets and employees used or employed in Kindred's respective businesses and (iii) the allocation of costs and expenses related to the separation of Kindred from KAH.

NOTE 2 – ACQUISITIONS (Continued)

Acquisition of Kindred (Continued)

Purchase price allocation

The Merger purchase price of $219.9 million was allocated based upon the estimated fair value of the tangible and intangible assets, and goodwill.

The following is the Merger purchase price allocation (in thousands):

Cash and cash equivalents		$ 141,030
Accounts receivable		737,712
Inventories		20,922
Income taxes		2,657
Assets held for sale		9,546
Other current assets		223,476
Property and equipment		582,786
Identifiable intangible assets:		
Certificates of need (indefinite life)	$ 38,000	
Medicare certifications (indefinite life)	29,100	
Trade name (indefinite life)	28,000	
Leasehold interest assets	109,115	
Non-compete agreements	11,159	
Total identifiable intangible assets		215,374
Insurance subsidiary investments		22,308
Other long-term assets		228,827
Accounts payable		(132,229)
Salaries, wages and other compensation		(210,085)
Due to third party payors		(18,369)
Professional liability risks, current portion		(43,898)
Other accrued liabilities		(368,650)
Current portion of long-term debt		(3,390)
Long-term debt, less current portion		(493,026)
Professional liability risks, long-term portion		(238,992)
Leasehold interest liabilities		(268,800)
Other long-term liabilities		(313,498)
Noncontrolling interests		(195,060)
Total identifiable net assets		(101,359)
Goodwill		321,255
Net assets		$ 219,896

The fair value allocation was measured primarily using a discounted cash flows methodology, which is considered a Level 3 input (as described in Note 15).

NOTE 3 – DIVESTITURES

Continuing operations

During 2019, the Company closed four LTAC hospitals and recorded write-offs of property and equipment of $0.9 million and leasehold assets of $1.2 million. Property and equipment of $4.9 million for one of these LTAC hospitals was moved to long-term assets held for sale as of December 31, 2019.

During 2019, the Company also sold three IRFs for $12.5 million in cash and recorded write-offs of goodwill of $6.0 million and leasehold interest liabilities of $5.0 million As a result of the sale, the Company recorded a loss of $5.4 million. See Note 5.

NOTE 3 – DIVESTITURES (Continued)

Discontinued operations

Skilled nursing facility business exit

On June 30, 2017, Kindred entered into a definitive agreement with BM Eagle Holdings, LLC, a joint venture led by affiliates of BlueMountain Capital Management, LLC ("BlueMountain"), under which Kindred agreed to sell its skilled nursing facility business for $700 million in cash (the "SNF Divestiture"). The SNF Divestiture included 89 nursing centers with 11,308 licensed beds and seven assisted living facilities with 380 licensed beds in 18 states. Through July 1, 2018, the Predecessor Company completed the sale or closed 86 of the skilled nursing facilities and all seven of the assisted living facilities on various dates. The Successor Company completed the sale of the remaining three skilled nursing facilities between July 2, 2018 and December 31, 2018.

In accordance with authoritative guidance for discontinued operations accounting, the skilled nursing facility business was moved to discontinued operations for all periods presented.

In connection with the SNF Divestiture, Kindred entered into an interim management agreement in the third quarter of 2017 with certain affiliates of BlueMountain in the state of California whereby Kindred would lease its license of certain operations to such affiliates until licensure approval was obtained. Because the Company had continuing involvement in the business through purveying certain rights of ownership of the assets while under the interim management agreement and license sublease, the Company did not meet the requirements for a sale-leaseback transaction as described in ASC 840-40, *Leases - Sale-Leaseback Transactions*. Under the failed-sale-leaseback accounting model, the Company was deemed under GAAP to still own certain real estate assets sold to BlueMountain, which the Company reflected in its accompanying consolidated balance sheet as of December 31, 2018 as assets held for sale. The Company also treated a portion of the pretax cash proceeds from the SNF Divestiture as though it were the result of a $53.1 million other current liability financing obligation in the Company's accompanying consolidated balance sheet as of December 31, 2018 until continuing involvement ceased. The lease terminated upon licensure approval, at which time the Company ceased to recognize the remaining other current liability financing obligation, as well as the remaining net book value of the real estate assets. During 2019, all licensure approvals were received and the then current liability financing obligation and net book value of the real estate assets totaling $53.1 million were written-off.

During 2018, the Successor Company recorded $5.8 million of pretax charges related to the SNF Divestiture consisting of transaction and other costs. During 2018, the Predecessor Company recorded $7.9 million of pretax charges related to the SNF Divestiture, including $5.2 million of transaction and other costs and $2.7 million of retention costs.

Other discontinued operations

The Company recorded a loss on divestiture of $2.9 million for the year ended December 31, 2019 related to the sale of a nursing center.

NOTE 4 – DISCONTINUED OPERATIONS

In accordance with the authoritative guidance for the impairment or disposal of long-lived assets, the divestiture of unprofitable businesses has been accounted for as discontinued operations. Accordingly, the results of operations of these businesses for all periods presented and the losses related to these divestitures have been classified as discontinued operations, net of income taxes, in the accompanying consolidated statements of operations and accompanying combined statement of operations. The Company recorded a loss on divestiture of $2.9 million for the year ended December 31, 2019 related to the sale of a nursing center, which was classified as discontinued operations in all periods presented. The operations of this divested nursing center were immaterial to the Company.

The following table summarizes (in thousands) the SNF Divestiture liability activity (included in current liabilities):

	Retention	Transaction and other costs	Total
Liability balance at December 31, 2017	$ 5,436	$ 5,600	$ 11,036
Expense	2,686	1,303	3,989
Payments	(4,400)	(4,468)	(8,868)
Liability balance at July 1, 2018	3,722	2,435	6,157
Liability balance at July 2, 2018	3,722	2,435	6,157
Expense	–	6,042	6,042
Payments	(2,199)	(3,064)	(5,263)
Liability balance at December 31, 2018	1,523	5,413	6,936
Expense	(507)	591	84
Payments	(1,016)	(4,147)	(5,163)
Liability balance at December 31, 2019	$ –	$ 1,857	$ 1,857

NOTE 4 – DISCONTINUED OPERATIONS (Continued)

A summary of discontinued operations follows (in thousands):

	Successor Company		Predecessor Company
	Year ended December 31, 2019	July 2 – December 31, 2018	January 1 – July 1, 2018
Revenues	$ 16,465	$ 14,091	$ 22,993
Salaries, wages and benefits	7,387	6,748	14,298
Supplies	826	516	1,035
Building rent	974	1,724	3,600
Equipment rent	404	474	552
Other operating expenses	4,338	2,932	1,867
Other income	(3)	(3,855)	(214)
Depreciation and amortization	71	63	3,614
Sponsor fees and value capture initiatives	–	45	–
Interest expense	1	2	4
Investment income	(72)	(52)	(61)
	13,926	8,597	24,695
Income (loss) from operations before income taxes	2,539	5,494	(1,702)
Provision for income taxes	–	–	–
Income (loss) from operations	2,539	5,494	(1,702)
Loss on divestiture of operations	(2,926)	(5,830)	(7,893)
Loss from discontinued operations	(387)	(336)	(9,595)
Earnings attributable to noncontrolling interests	–	(80)	(700)
Loss attributable to Kindred	$ (387)	$ (416)	$ (10,295)

NOTE 5 – RESTRUCTURING CHARGES

The Company has initiated various restructuring activities whereby it has incurred costs associated with reorganizing its operations, including the divestiture, closure of facilities, reduced headcount and realigned operations in order to improve operations, cost efficiencies and capital structure in response to changes in the healthcare industry, increasing leverage and to partially mitigate reductions in reimbursement rates from third party payors. The costs associated with these activities are reported as restructuring charges in the accompanying consolidated statements of operations and accompanying combined statement of operations and would have been recorded as salaries, wages and benefits, other operating expenses or rent expense if not classified as restructuring charges.

The following table sets forth the restructuring charges incurred by restructuring activities (in thousands):

	Successor Company		Predecessor Company
	Year ended December 31, 2019	July 2 – December 31, 2018	January 1 – July 1, 2018
Acquisition of Kindred	$ 5,833	$ 52,645	$ 9,484
LTAC Hospital Portfolio Optimization Strategy 2019 and 2020 Plan	30,283	–	–
LTAC Hospital Portfolio Repositioning 2017 Plan	2,642	880	1,089
LTAC Hospital Portfolio Repositioning 2016 Plan	1,739	1,536	1,251
IRF Portfolio Repositioning 2019 Plan	5,438	–	–
Other various	854	290	–
	$ 46,789	$ 55,351	$ 11,824

Restructuring Activities

Acquisition of Kindred

During 2017, Kindred announced that the board had approved the Merger Agreement as described in Note 2. The costs incurred in 2019 and 2018 related to the Merger Agreement included retention, severance and merger costs and were substantially completed in 2019.

NOTE 5 – RESTRUCTURING CHARGES (Continued)

Restructuring Activities (Continued)

Acquisition of Kindred (Continued)

The composition of the restructuring charges that the Company has incurred for these restructuring initiatives is as follows (in thousands):

	Successor Company		Predecessor Company
	Year ended December 31, 2019	July 2 – December 31, 2018	January 1 – July 1, 2018
Retention and severance costs	$ 4,157	$ 45,118	$ 2,422
Merger costs	1,676	7,527	7,062
	$ 5,833	$ 52,645	$ 9,484

The following table (in thousands) summarizes the Merger restructuring liability activity (included in current liabilities):

	Retention and severance costs	Merger costs	Total
Liability balance at December 31, 2017	$ –	$ 7,907	$ 7,907
Expense	2,422	7,062	9,484
Payments	(406)	(6,043)	(6,449)
Liability balance at July 1, 2018	2,016	8,926	10,942
Liability balance at July 2, 2018	2,016	8,926	10,942
Expense	45,118	7,527	52,645
Payments	(37,757)	(15,026)	(52,783)
Liability balance at December 31, 2018	9,377	1,427	10,804
Expense	4,157	1,676	5,833
Payments	(12,926)	(2,636)	(15,562)
Liability balance at December 31, 2019	$ 608	$ 467	$ 1,075

LTAC Hospital Portfolio Optimization Strategy 2019 and 2020 Plan

During 2019, Kindred approved the LTAC hospital portfolio optimization strategy 2019 and 2020 plan that incorporated the closure of certain LTAC hospitals. Kindred closed four LTAC hospitals during 2019 and is expecting additional closures during 2020. The activities related to the LTAC hospital portfolio optimization strategy 2019 and 2020 plan are expected to be substantially completed in 2020.

The composition of the restructuring charges that the Company has incurred for these activities is as follows (in thousands):

	Year ended December 31, 2019
Lease termination costs	$ 31,695
Transaction costs	1,615
Severance	1,204
Asset write-offs	1,032
Leasehold interest assets and liabilities net write-offs	(5,263)
	$ 30,283

NOTE 5 – RESTRUCTURING CHARGES (Continued)

Restructuring Activities (Continued)

LTAC Hospital Portfolio Optimization Strategy 2019 and 2020 Plan (Continued)

The following table (in thousands) summarizes the Company's LTAC hospital portfolio optimization strategy 2019 and 2020 plan liability activity (included in current liabilities and deferred credits and other liabilities) during the year ended December 31, 2019, which does not include non-cash write-offs of $1.0 million related to assets and $5.3 million related to net leasehold interest assets and liabilities:

	Severance costs	Lease termination costs	Transaction costs	Total
Liability balance at December 31, 2018	$ –	$ –	$ –	$ –
Expense	1,204	31,695	1,615	34,514
Payments	(1,204)	(17,130)	(1,488)	(19,822)
Liability balance at December 31, 2019	$ –	$ 14,565	$ 127	$ 14,692

LTAC Hospital Portfolio Repositioning 2017 Plan

During 2017, Kindred approved the LTAC hospital portfolio repositioning 2017 plan that incorporated the closure and conversion of certain LTAC hospitals as part of its mitigation strategies in response to new patient criteria for LTAC hospitals. The activities related to the LTAC hospital portfolio repositioning 2017 plan were substantially completed by the end of 2018, except for the lease termination liability and related costs which will extend through 2025.

The composition of the restructuring charges that the Company has incurred for these activities is as follows (in thousands):

	Successor Company		Predecessor Company
	Year ended December 31, 2019	July 2 – December 31, 2018	January 1 – July 1, 2018
Lease termination costs	$ 1,615	$ 844	$ 938
(Gain) loss on disposal	1,027	36	(424)
Asset write-offs	–	–	418
Severance	–	–	157
	$ 2,642	$ 880	$ 1,089

The following table (in thousands) summarizes the Company's LTAC hospital portfolio repositioning 2017 plan liability activity (included in current liabilities and deferred credits and other liabilities):

	Lease termination costs
Liability balance at December 31, 2017	$ 31,645
Expense	938
Payments	(2,519)
Liability balance at July 1, 2018	30,064
Liability balance at July 2, 2018	30,064
Expense	844
Payments	(2,567)
Liability balance at December 31, 2018	28,341
Expense	1,615
Payments	(5,187)
Liability balance at December 31, 2019	$ 24,769

NOTE 5 – RESTRUCTURING CHARGES (Continued)

Restructuring Activities (Continued)

LTAC Hospital Portfolio Repositioning 2016 Plan

During 2016, Kindred approved the LTAC hospital portfolio repositioning 2016 plan that incorporated the divestiture, swap or closure of certain LTAC hospitals as part of its mitigation strategies to prepare for new patient criteria for LTAC hospitals. The activities related to the LTAC hospital portfolio repositioning 2016 plan were substantially completed during 2016, except for the lease termination liability and related costs which will extend through 2025.

The composition of the restructuring charges that the Company has incurred for these activities is as follows (in thousands):

	Successor Company		Predecessor Company
	Year ended December 31, 2019	July 2 – December 31, 2018	January 1 – July 1, 2018
Lease termination costs	$ 2,482	$ 1,536	$ 1,251
Gain on disposal	(743)	–	–
	$ 1,739	$ 1,536	$ 1,251

The following table (in thousands) summarizes the Company's LTAC hospital portfolio repositioning 2016 plan liability activity (included in current liabilities and deferred credits and other liabilities):

	Lease termination costs
Liability balance at December 31, 2017	$ 33,945
Expense	1,251
Payments	(5,236)
Liability balance at July 1, 2018	29,960
Liability balance at July 2, 2018	29,960
Expense	1,536
Payments	(6,212)
Liability balance at December 31, 2018	25,284
Expense	2,482
Payments	(6,712)
Liability balance at December 31, 2019	$ 21,054

IRF Portfolio Repositioning 2019 Plan

During 2019, Kindred sold three IRFs as part of the IRF portfolio repositioning 2019 plan and recorded a loss on divestiture of $5.4 million. See Note 3.

NOTE 6 – INCOME TAXES

Provision for income taxes consists of the following (in thousands):

	Successor Company		Predecessor Company
	Year ended December 31, 2019	July 2 – December 31, 2018	January 1 – July 1, 2018
Current:			
Federal	$ 514	$ 427	$ –
State	152	81	1,112
	666	508	1,112
Deferred	1,051	58	654
	$ 1,717	$ 566	$ 1,766

Reconciliation of federal statutory income tax expense (benefit) to the provision for income taxes follows (in thousands):

	Successor Company		Predecessor Company
	Year ended December 31, 2019	July 2 – December 31, 2018	January 1 – July 1, 2018
Income tax expense (benefit) at federal rate	$ 629	$ 480	$ (10,444)
State income tax expense (benefit), net of federal income tax expense (benefit)	151	86	(1,989)
Gain on sale of partnership interest	–	–	6,164
Valuation allowance	–	–	(11,842)
Noncontrolling interests	–	–	(5,476)
Interest expense disallowance	–	–	20,037
Federal and state tax credits	–	–	(320)
Transaction costs	–	–	4,517
Other items, net	937	–	1,119
	$ 1,717	$ 566	$ 1,766

Other items consist of meals, entertainment, lobbying, and other permanent differences, which individually are deemed immaterial.

Predecessor Company

The Tax Cuts and Jobs Act of 2017, which was enacted on December 22, 2017, was generally effective in 2018 and made broad and significantly complex changes to the federal corporate tax system, including the reduction in the U.S. federal corporate income tax rate from 35% to 21% and the limitation on the deductibility of interest expense.

At each balance sheet date, management assesses all available positive and negative evidence to determine whether a valuation allowance is needed against its deferred tax assets. The authoritative guidance requires evidence related to events that have actually happened to be weighted more significantly than evidence that is projected or expected to happen. A significant piece of negative evidence according to this weighting standard is if there are cumulative losses in the two most recent years and the current year, which was the case for Kindred at July 1, 2018. Accordingly, a full valuation allowance was recorded at July 1, 2018. The amount of deferred tax asset considered realizable, however, could be adjusted if the weighting of the positive and negative evidence changes.

The Predecessor Company followed the provisions of the authoritative guidance for accounting for uncertainty in income taxes which clarified the accounting for uncertain income tax issues recognized in an entity's financial statements. The guidance prescribed a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in an income tax return.

The Predecessor Company recorded accrued interest and penalties associated with uncertain tax positions as income tax expense in the accompanying combined statement of operations. The Predecessor Company did not have any reserves for uncertain income taxes at July 1, 2018.

NOTE 6 – INCOME TAXES (Continued)

Predecessor Company (Continued)

The federal statute of limitations remains open for income tax years 2016 through 2018 for the Predecessor Company. During 2019, the Company resolved the federal income tax audits for the 2017 income tax year for the Predecessor Company. In February 2020, the Company resolved the federal income tax audits for the income tax period ending July 1, 2018.

State jurisdictions generally have statutes of limitations for income tax returns ranging from three to five years. The state impact of federal income tax changes remains subject to examination by various states for a period of up to one year after formal notification to the states. Currently, the Company has various state income tax returns under examination for the Predecessor Company.

Successor Company

Following the Kindred Reorganization and separation, Kindred Healthcare, LLC was a disregarded entity of HospitalCo Parent. HospitalCo Parent was taxed as a C Corporation from the separation date through August 1, 2018. On August 1, 2018, HospitalCo Parent was converted to a single member limited liability company (the "Conversion") wholly owned by Kentucky Hospital Holdings JV, L.P., ("Hospital JV"), an entity taxed as a partnership for U.S. federal income tax purposes. There was no income tax due or refundable on the HospitalCo Parent C Corporation income tax return and the net operating loss generated in that one month was eliminated following the Conversion. Immediately following the Conversion, Kindred Healthcare, LLC became a disregarded entity of Hospital JV so it is effectively treated as a partnership for federal income tax purposes from August 2, 2018 through December 31, 2019. As such, federal and state taxable income or loss generally passes through to the individual partners for inclusion in their respective income tax returns.

The federal current income tax expense from the Successor Company was mainly generated by Cornerstone, which is a wholly owned C Corporation required to file a separate federal income tax return.

NOTE 7 – INSURANCE RISKS

On a per-claim basis, the Company maintains a self-insured retention and Cornerstone insures all losses in excess of this retention. Cornerstone maintains commercial reinsurance through unaffiliated commercial reinsurers for these losses in excess of the Company's retention. On a per-claim basis, the Company maintains a deductible under commercial insurance policies for workers compensation which provide coverage up to statutory limits in each state. The provisions for loss for professional liability and workers compensation risks are based upon management's best available information, including actuarially determined estimates of loss.

The allowance for professional liability risks includes an estimate of the expected cost to settle reported claims and an amount, based upon past experiences, for losses incurred but not reported including claims related to the nursing centers prior to the SNF Divestiture. These liabilities are necessarily based upon estimates and, while management believes that the provision for loss is adequate, the ultimate liability may be in excess of, or less than, the amounts recorded. To the extent that expected ultimate claims costs vary from historical provisions for loss, future earnings will be charged or credited.

The provision for loss for insurance risks, including the cost of coverage maintained with unaffiliated commercial reinsurance and insurance carriers, follows (in thousands):

	Successor Company		Predecessor Company
	Year ended December 31, 2019	July 2 – December 31, 2018	January 1 – July 1, 2018
Professional liability:			
Continuing operations	$ 27,294	$ 16,088	$ 16,942
Discontinued operations	(2,243)	(3,596)	(5,134)
Workers compensation:			
Continuing operations	$ 13,739	$ 4,091	$ 4,138
Discontinued operations	(1,117)	(646)	(1,839)

NOTE 7 – INSURANCE RISKS (Continued)

A summary of the assets and liabilities related to insurance risks included in the accompanying consolidated balance sheets at December 31 follows (in thousands):

	2019			2018		
	Professional liability	Workers compensation	Total	Professional liability	Workers compensation	Total
Assets:						
Current:						
Insurance subsidiary investments	$ 3,391	$ 607	$ 3,998	$ 6,511	$ 440	$ 6,951
Reinsurance and other recoverables	731	1,540	2,271	286	1,447	1,733
Other	–	50	50	–	50	50
	4,122	2,197	6,319	6,797	1,937	8,734
Non-current:						
Insurance subsidiary investments	5,327	14,252	19,579	9,791	14,871	24,662
Reinsurance and other recoverables	108,627	47,264	155,891	97,515	51,208	148,723
Deposits	–	1,512	1,512	–	1,514	1,514
	113,954	63,028	176,982	107,306	67,593	174,899
	$ 118,076	$ 65,225	$ 183,301	$ 114,103	$ 69,530	$ 183,633
Liabilities:						
Allowance for insurance risks:						
Current	$ 45,299	$ 12,129	$ 57,428	$ 41,205	$ 13,475	$ 54,680
Non-current	213,131	70,537	283,668	233,732	78,418	312,150
	$ 258,430	$ 82,666	$ 341,096	$ 274,937	$ 91,893	$ 366,830

The provision for loss for professional liability risks, including the portion related to estimated claims that have been incurred but not reported, is not funded to Cornerstone.

The provision for loss for workers compensation risks is not funded to Cornerstone.

NOTE 8 – INSURANCE SUBSIDIARY INVESTMENTS

The Company maintains a portfolio of insurance subsidiary investments, consisting principally of cash and cash equivalents, for the payment of claims and expenses related to professional liability and workers compensation risks maintained by Cornerstone. These investments are reported at fair value. Since the Company's insurance subsidiary investments are restricted for a limited purpose, they are classified in the accompanying consolidated balance sheets based upon the expected current and long-term cash requirements of Cornerstone.

The Company's insurance subsidiary cash and cash equivalents were $23.6 million and $31.6 million at December 31, 2019 and December 31, 2018, respectively.

Investment income earned by Cornerstone approximated $0.4 million and $0.1 million for the year ended December 31, 2019 and for the period July 2, 2018 through December 31, 2018, respectively, for the Successor Company. Investment income earned by Cornerstone approximated $0.1 million for the period January 1, 2018 through July 1, 2018 for the Predecessor Company.

NOTE 9 – LEASES

Various facility leases include contingent annual rent escalators based upon a change in the Consumer Price Index or other agreed upon terms such as a patient revenue test. These contingent rents are included in building rent expense in the time period incurred. The Successor Company recorded contingent rent of $0.9 million and $1.0 million for the year ended December 31, 2019 and for the period July 2, 2018 through December 31, 2018, respectively, including both continuing operations and discontinued operations. The Predecessor Company recorded contingent rent of $0.3 million for the period January 1, 2018 through July 1, 2018, including both continuing operations and discontinued operations.

NOTE 9 – LEASES (Continued)

Future minimum payments under non-cancelable operating leases are as follows (in thousands):

	Minimum payments		
	Ventas	Other	Total
2020	$ 114,924	$ 77,881	$ 192,805
2021	115,850	72,492	188,342
2022	116,800	65,993	182,793
2023	100,255	65,112	165,367
2024	92,493	64,114	156,607
Thereafter	30,943	250,468	281,411

Ventas master lease agreement

At December 31, 2019, the Company leased from Ventas, Inc. ("Ventas") and its affiliates 29 LTAC hospitals under one master lease agreement (the "Master Lease Agreement"). The Master Lease Agreement includes land, buildings, structures, and other improvements on the land, easements, and similar appurtenances to the land and improvements, and permanently affixed equipment, machinery, and other fixtures relating to the operation of the leased properties. There are two bundles of leased properties under the Master Lease Agreement, with each bundle containing several LTAC hospitals.

Recent master lease amendment

In March 2018, Kindred and Ventas entered into an Amendment No. 3 to the Master Lease Agreement pursuant to which rents were reallocated among the 29 Ventas properties.

Rental amounts and escalators

The Master Lease Agreement is commonly known as a triple-net lease or an absolute-net lease. Accordingly, in addition to rent, the Company is required to pay the following: (1) all insurance required in connection with the leased properties and the business conducted on the leased properties, (2) certain taxes levied on or with respect to the leased properties (other than taxes on the income of Ventas), and (3) all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties.

The Successor Company paid rents to Ventas (including amounts classified within discontinued operations) of $124.8 million and $61.7 million for the year ended December 31, 2019 and for the period July 2, 2018 through December 31, 2018, respectively. The Predecessor Company paid rents to Ventas (including amounts classified within discontinued operations) of $60.7 million for the period January 1, 2018 through July 1, 2018.

The Master Lease Agreement provides for rent escalations each May 1. All annual rent escalators are payable in cash. The contingent annual rent escalator for the Master Lease Agreement is based upon annual increases in the Consumer Price Index, subject to a ceiling of 4%. In 2019, the contingent annual rent escalator was 1.52% for the Master Lease Agreement.

NOTE 10 – LONG-TERM DEBT

Capitalization

A summary of long-term debt at December 31 follows (in thousands):

	2019	2018
Term Loan Facility, net of unamortized original issue discount of $3.2 million at December 31, 2019 and $3.8 million at December 31, 2018	$ 401,654	$ 405,168
ABL Facility	154,300	64,300
Other	18	380
Debt issuance costs, net of accumulated amortization	(8,170)	(9,655)
Total debt, average life of 5 years (weighted average rate 6.7% for 2019 and 7.6% for 2018)	547,802	460,193
Amounts due within one year	(4,118)	(4,433)
Long-term debt	$ 543,684	$ 455,760

NOTE 10 – LONG-TERM DEBT (Continued)

The following table summarizes scheduled maturities of long-term debt (in thousands):

	Term Loan Facility	ABL Facility	Other	Total
2020	$ 4,100	$ –	$ 18	$ 4,118
2021	4,100	–	–	4,100
2022	4,100	–	–	4,100
2023	4,100	154,300	–	158,400
2024	4,100	–	–	4,100
Thereafter	384,375	–	–	384,375
	$ 404,875	$ 154,300	$ 18	$ 559,193

The estimated fair value of the Company's long-term debt approximated $561.2 million and $444.9 million at December 31, 2019 and December 31, 2018, respectively. See Note 15.

Credit Facilities

As used herein, the "Credit Facilities" refers collectively to the Term Loan Facility and the ABL Facility, in each case as defined and described below.

Term Loan Facility

The "Term Loan Facility" refers to the Company's $410 million term loan credit facility provided pursuant to the terms and provisions of that certain Term Loan Credit Agreement dated as of July 2, 2018 (the "Term Loan Credit Agreement"), among the Company, the lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as administrative agent and collateral agent. All obligations under the Term Loan Facility are fully and unconditionally guaranteed, subject to certain customary release provisions, by substantially all of the Company's wholly owned, domestic material subsidiaries (subject to certain designated exceptions), as well as the Company's immediate parent entity, plus any foreign or non-wholly owned domestic subsidiaries that the Company may determine from time to time in its sole discretion (collectively, the "Guarantors"). The obligations under the Term Loan Facility are secured by substantially all of the assets of the Company and the Guarantors.

The Term Loan Facility (1) matures on July 2, 2025, (2) amortizes annually at 1.00%, payable in quarterly installments commencing on December 31, 2018, (3) imposes a variety of restrictions including restrictions on the Company's ability to incur debt and liens and make acquisitions, investments and payments on equity and junior debt, and (4) provides for interest rate margins of 5.00% for LIBOR borrowings and 4.00% for base rate borrowings. The Term Loan Facility contains no financial maintenance covenants. See Note 18.

ABL Facility

The "ABL Facility" refers to the Company's $450 million asset-based loan revolving credit facility provided pursuant to the terms and provisions of that certain ABL Credit Agreement dated as of July 2, 2018 (the "ABL Credit Agreement") among the Company, the lenders party thereto from time to time, and JPMorgan Chase Bank, N.A., as administrative agent and collateral agent. All obligations under the ABL Facility are fully and unconditionally guaranteed, subject to certain customary release provisions, by substantially all of the Company's wholly owned, domestic material subsidiaries (subject to certain designated exceptions), as well as the Company's immediate parent entity, plus any foreign or non-wholly owned domestic subsidiaries that the Company may determine from time to time in its sole discretion. The obligations under the ABL Facility are secured by substantially the same collateral as the obligations under the Term Loan Facility. As of December 31, 2019, $51.0 million of letters of credit were outstanding under the ABL Facility.

The ABL Facility (1) matures on July 2, 2023, (2) contains a financial maintenance covenant in the form of a springing minimum fixed charge coverage ratio, (3) imposes a variety of restrictions including restrictions on the Company's ability to incur debt and liens and make acquisitions, investments and payments on equity and junior debt, particularly if the payment condition is not satisfied, (4) provides for interest rate margins of 2.00% to 2.50% for LIBOR borrowings and 1.00% to 1.50% for base rate borrowings (in each case depending on average daily excess availability), and (5) employs a borrowing base calculation to determine total available capacity thereunder.

The Company was in compliance with the terms of the Credit Facilities at December 31, 2019.

NOTE 10 – LONG-TERM DEBT (Continued)

Interest rate swap

In October 2018, the Company entered into an interest rate swap agreement to hedge its floating interest rate on $250 million of outstanding Term Loan Facility debt. The interest rate swap has an effective date of September 30, 2018, and expires on September 30, 2023. The Company is required to make payments based upon a fixed interest rate of 3.1079% calculated on the notional amount of $250 million. In exchange, the Company will receive interest on $250 million at a variable interest rate that is based upon the one-month LIBOR rate.

In January 2016, Kindred entered into three interest rate swap agreements to hedge its floating interest rate on an aggregate of $325 million of debt outstanding. The interest rate swaps had an effective date of January 11, 2016, and were set to expire on January 9, 2021. Kindred was required to make payments based upon a fixed interest rate of 1.862% and 1.855% calculated on the notional amount of $175 million and $150 million, respectively. In exchange, Kindred received interest on $325 million at a variable interest rate that was based upon the three-month LIBOR, subject to a minimum rate of 1.0%. In connection with the Kindred Reorganization, these interest rate swap agreements were settled in June 2018 by the Predecessor Company resulting in a pretax gain of $9.9 million.

The interest rate swap was assessed for hedge effectiveness for accounting purposes and the Company determined the interest rate swap qualifies for cash flow hedge accounting treatment at December 31, 2019 and December 31, 2018. The Company uses the private company simplified hedge accounting standard and records the effective portion of the gain or loss on derivative financial instruments in accumulated other comprehensive income (loss) as a component of members' equity and records the ineffective portion of the gain or loss on derivative financial instruments as interest expense. There was no ineffectiveness related to the interest rate swap for the Successor Company for the year ended December 31, 2019 or for the period July 2, 2018 through December 31, 2018. There was no ineffectiveness related to the interest rate swap for the Predecessor Company for the period January 1, 2018 through July 1, 2018.

At December 31, 2019 and December 31, 2018, the fair value of the interest rate swap was recorded in other accrued liabilities for $14.0 million and $7.1 million, respectively. The fair value was determined by reference to a third party valuation and is considered a Level 2 input within the fair value hierarchy (as described in Note 15).

NOTE 11 – CONTINGENCIES

Management continually evaluates contingencies based upon the best available information. In addition, allowances for losses are provided currently for disputed items that have continuing significance, such as certain third party reimbursements and deductions that continue to be claimed in current cost reports and income tax returns.

Management believes that allowances for losses have been provided to the extent necessary and that its assessment of contingencies is reasonable.

Principal contingencies are described below:

Revenues – Certain third party payments are subject to examination by agencies administering the various reimbursement programs. The Company is contesting certain issues raised in audits of prior year cost reports and the denial of payment by third parties to the Company's customers.

Professional liability risks – The Company has provided for losses for professional liability risks based upon management's best available information including actuarially determined estimates. Ultimate claims costs may differ from the provisions for loss. See Note 7.

Legal and regulatory proceedings – The Company is a party to various legal actions and regulatory and other governmental and internal audits and investigations in the ordinary course of business (including investigations resulting from the Company's obligation to self-report suspected violations of law). The Company cannot predict the ultimate outcome of pending litigation and regulatory and other governmental and internal audits and investigations. The U.S. Department of Justice (the "DOJ"), the Centers for Medicare and Medicaid Services ("CMS") or other federal and state enforcement and regulatory agencies may conduct additional investigations related to the Company's businesses in the future. These matters could potentially subject the Company to sanctions, damages, recoupments, fines, and other penalties (some of which may not be covered by insurance), which may, either individually or in the aggregate, have a material adverse effect on the Company's business, financial position, results of operations, and liquidity. See Note 16.

NOTE 11 – CONTINGENCIES (Continued)

Other indemnifications – In the ordinary course of business, the Company enters into contracts containing standard indemnification provisions and indemnifications specific to a transaction, such as a disposal of an operating facility. These indemnifications may cover claims related to employment-related matters, governmental regulations, environmental issues and tax matters, as well as patient, third party payor, supplier and contractual relationships. The Company also is subject to indemnity claims under contracts with its Kindred Rehabilitation Services division customers related to the provision of its services. Obligations under these indemnities generally are initiated by a breach of the terms of a contract or by a third party claim or event. These indemnifications could potentially subject the Company to damages and other payments which may, either individually or in the aggregate, have a material adverse effect on the Company's business, financial position, results of operations or liquidity.

Income taxes – The Company is subject to various federal and state income tax audits in the ordinary course of business. Such audits could result in increased income tax payments, interest and penalties.

NOTE 12 – CAPITAL STOCK AND SHARE-BASED COMPENSATION

Capital stock

As part of the Kindred Reorganization, the majority of the shares of Kindred Common Stock, unvested service-based restricted shares and unvested performance-based restricted shares were paid out in cash at $9.00 per share. The unearned compensation expense for unvested service-based restricted shares and unvested performance-based restricted shares totaling $10.5 million as of June 30, 2018 were written off as a restructuring charge in the Successor Company accompanying consolidated statement of operations.

Former shareholders owning 6.9 million shares of Kindred Common Stock have not been paid due to pending litigation. See Note 16. The Company has an accrual related to these pending payments totaling $62.0 million as of both December 31, 2019 and December 31, 2018 in other accrued liabilities in the accompanying consolidated balance sheets. In addition, certain Kindred employees owning 0.1 million shares of Kindred Common Stock have not been paid out at $9.00 per share. The payouts will occur under the original vesting of the unvested service-based restricted shares and unvested performance-based restricted shares programs. The Company has an accrual totaling $1.3 million and $5.5 million as of December 31, 2019 and December 31, 2018, respectively, in other accrued liabilities in the accompanying consolidated balance sheets related to these pending employee payouts.

The Predecessor Company financial statements reflect compensation expense related to unvested service-based restricted shares and unvested performance-based restricted shares totaling $5.2 million and $1.4 million, respectively, for the period January 1, 2018 through July 1, 2018.

Service-vesting profit units

The Successor Company implemented a service-vesting profit unit plan in 2018. Service-vesting profit units primarily vest ratably over a five-year period.

At December 31, 2019 and December 31, 2018, unearned compensation costs related to service-vesting profit units aggregated $4.3 million and $5.0 million, respectively, and are reported in the accompanying consolidated balance sheets in members' investment as a component of members' equity. These costs will be expensed over the remaining weighted average vesting period of four years. Compensation expense for the Successor Company related to these awards approximated $1.2 million and $0.5 million for the year ended December 31, 2019 and for the period July 2, 2018 through December 31, 2018, respectively.

A summary of service-vesting profit units follows:

	Service-vesting profit units	Weighted average fair value at date of grant
Outstanding, July 2, 2018	–	$ –
Granted	15,430,588	0.36
Outstanding, December 31, 2018	15,430,588	0.36
Granted	1,216,890	0.39
Outstanding, December 31, 2019	16,647,478	$ 0.36
Vested, December 31, 2019	3,030,814	$ 0.36

NOTE 12 – CAPITAL STOCK AND SHARE-BASED COMPENSATION (Continued)

Service-vesting profit units (Continued)

The following is a summary of the weighted average significant assumptions used in estimating the fair value of service-vesting profit units granted in 2019 and 2018:

	2019	2018
Assumptions:		
Risk-free interest rate	2.20%	2.83%
Expected volatility	33.10%	35.46%
Expected term	7 years	7 years

The risk-free interest rate is based upon published data on U.S. Treasuries that match the term of the award. Expected volatility was estimated using the average volatility of the Successor Company's peers. Expected term is based on a typical option expected life.

MOIC-vesting profit units

The Successor Company implemented a multiple of invested capital ("MOIC) vesting profit unit plan in 2018. Compensation expense will not be recognized by the Successor Company until it is probable that a covered transaction (a performance condition) will occur.

A summary of non-vested MOIC-vesting profit units follows:

	Non-vested MOIC-vesting profit units
Balances, July 2, 2018	–
Granted	10,654,056
Balances, December 31, 2018	10,654,056
Granted	466,890
Balances, December 31, 2019	11,120,946

NOTE 13 – EMPLOYEE BENEFIT PLANS

The Company maintains defined contribution retirement plans covering employees who meet certain minimum eligibility requirements. Benefits are determined as a percentage of a participant's contributions and generally are vested based upon length of service. Retirement plan expense for employees of the Successor Company was $3.2 million and $1.5 million for the year ended December 31, 2019 and for the period July 2, 2018 through December 31, 2018, respectively. Retirement plan expense for employees of the Predecessor Company was $1.5 million for the period January 1, 2018 through July 1, 2018. Amounts equal to retirement plan expense are funded annually.

NOTE 14 – BALANCE SHEET INFORMATION

Supplemental information related to the accompanying consolidated balance sheets at December 31 follows (in thousands):

	2019	2018
Other current assets:		
Prepaid assets	$ 21,694	$ 27,721
Funds in escrow	8,684	–
KAH receivable – malpractice and workers compensation	5,673	8,958
Receivable from sale of equipment	4,167	4,167
Restricted cash	3,283	172
KAH receivable – transition services agreement and other miscellaneous (see Note 17)	2,686	5,737
Other	5,450	1,201
	$ 51,637	$ 47,956
Other long-term assets:		
Reinsurance and other recoverables	$ 155,891	$ 148,723
Cost-method investments	15,200	15,000
Receivable from sale of equipment	7,986	12,153
KAH receivable – malpractice and workers compensation	7,916	15,699
Funds in escrow	–	17,158
Other	38,954	29,847
	$ 225,947	$ 238,580
Other accrued liabilities:		
Dissenting shares (see Note 12)	$ 62,033	$ 62,033
Patient accounts	47,936	52,173
Taxes other than income	20,598	22,902
Accrued acquisition and divestiture costs	17,941	12,529
Fair market value of swap derivative	14,004	7,086
Equipment purchases liabilities	12,385	6,306
Sale-leaseback financing obligation related to the SNF Divestiture (see Note 3)	–	53,054
Other	14,372	14,258
	$ 189,269	$ 230,341
Deferred credits and other liabilities:		
Leasehold interest liabilities	$ 175,082	$ 248,175
Accrued workers compensation	70,537	78,418
Accrued lease termination fees	37,040	44,813
Equipment purchases liabilities	28,324	18,393
Other	21,708	20,631
	$ 332,691	$ 410,430

NOTE 15 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The Company follows the provisions of the authoritative guidance for fair value measurements, which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under GAAP.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance related to fair value measures establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency asset backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Company's assets and liabilities measured at fair value on a recurring basis and any associated losses for the year ended December 31 are summarized below (in thousands):

	Fair value measurements			Assets/liabilities	
	Level 1	Level 2	Level 3	at fair value	Total losses
December 31, 2019					
Recurring:					
Assets:					
Money market funds	$ 1,057	$ –	$ –	$ 1,057	$ –
Deposits held in money market funds	100	–	–	100	–
	$ 1,157	$ –	$ –	$ 1,157	$ –
Liabilities:					
Interest rate swap	$ –	$ 14,004	$ –	$ 14,004	$ –
December 31, 2018					
Recurring:					
Assets:					
Money market funds	$ 1,050	$ –	$ –	$ 1,050	$ –
Deposits held in money market funds	110	–	–	110	–
	$ 1,160	$ –	$ –	$ 1,160	$ –
Liabilities:					
Interest rate swap	$ –	$ 7,086	$ –	$ 7,086	$ –

Recurring measurements

The Company's insurance subsidiary's cash and cash equivalents of $23.6 million and $31.6 million as of December 31, 2019 and December 31, 2018, respectively, classified as insurance subsidiary investments, is maintained for the payment of claims and expenses related to professional liability and workers compensation risks.

The Company had money market funds totaling $1.1 million as of both December 31, 2019 and December 31, 2018 related to a deferred compensation plan that is maintained for certain of the Company's current and former employees.

The Company's deposits held in money market funds consist primarily of cash and cash equivalents for the Company's general corporate purposes.

NOTE 15 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Recurring measurements (Continued)

The fair value of the derivative asset or liability associated with the interest rate swap is estimated using industry-standard valuation models, which are Level 2 measurements. Such models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rate curves. See Note 10.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments. The carrying value is equal to fair value for financial instruments that are based upon quoted market prices or current market rates. The Company's long-term debt is based upon Level 2 inputs.

	December 31, 2019		December 31, 2018	
(In thousands)	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	$ 66,992	$ 66,992	$ 84,213	$ 84,213
Insurance subsidiary investments	23,577	23,577	31,613	31,613
Long-term debt, including amounts due within one year (excluding capital lease obligations totaling $0.1 million at December 31, 2018)	547,802	561,218	460,090	444,924

NOTE 16 – LEGAL AND REGULATORY PROCEEDINGS

The Company provides services in a highly regulated industry and is subject to various legal actions and regulatory and other governmental and internal audits and investigations in the ordinary course of business (including investigations resulting from the Company's obligation to self-report suspected violations of law). These matters could (1) require the Company to pay substantial damages, fines, penalties or amounts in judgments or settlements, which individually or in the aggregate could exceed amounts, if any, that may be recovered under the Company's insurance policies where coverage applies and is available; (2) cause the Company to incur substantial expenses; (3) require significant time and attention from the Company's management; (4) subject the Company to sanctions, including possible exclusions from the Medicare and Medicaid programs; and (5) cause the Company to close or sell one or more facilities or otherwise modify the way the Company conducts business. The ultimate resolution of these matters, whether as a result of litigation or settlement, could have a material adverse effect on the Company's business, financial position, results of operations, and liquidity.

In accordance with authoritative accounting guidance related to loss contingencies, the Company records an accrued liability for litigation and regulatory matters that are both probable and reasonably estimable. Additional losses in excess of amounts accrued may be reasonably possible. The Company reviews loss contingencies that are reasonably possible and determines whether an estimate of the possible loss or range of loss, individually or in aggregate, can be disclosed in the Company's consolidated financial statements. These estimates are based upon currently available information for those legal and regulatory proceedings in which the Company is involved, taking into account the Company's best estimate of losses for those matters for which such estimate can be made. The Company's estimates involve significant judgment and a variety of assumptions, given that (1) these legal and regulatory proceedings may be in early stages; (2) discovery may not be completed; (3) damages sought in these legal and regulatory proceedings can be unsubstantiated or indeterminate; (4) the matters often involve legal uncertainties or evolving areas of law; (5) there are often significant facts in dispute; and/or (6) there is a wide range of possible outcomes. Accordingly, the Company's estimated loss or range of loss may change from time to time, and actual losses may be more or less than the current estimate. At this time, except as otherwise specifically noted, no estimate of the possible loss or range of loss, individually or in the aggregate, in excess of the amounts accrued, if any, can be made regarding the matters described below.

Set forth below are descriptions of the Company's significant legal proceedings.

Medicare and Medicaid payment reviews, audits, and investigations—As a result of the Company's participation in the Medicare and Medicaid programs, the Company faces and is currently subject to various governmental and internal reviews, audits, and investigations to verify the Company's compliance with these programs and applicable laws and regulations. The Company is routinely subject to audits under various government programs, such as the CMS Recovery Audit Contractor program, in which third party firms engaged by CMS conduct extensive reviews of claims data and medical and other records to identify potential improper payments to healthcare providers under the Medicare program. In addition, the Company, like other healthcare providers, is subject to ongoing investigations by the OIG, the DOJ and state attorneys general into the billing of services provided to Medicare and Medicaid patients, including whether such services were properly documented and billed, whether services provided were medically necessary, and general compliance with conditions of participation in the Medicare and Medicaid programs. Private pay sources such as third party insurance and managed care entities also often reserve the right to conduct audits. The Company's costs to respond to and defend any such reviews, audits, and investigations are significant and are likely to increase in the current enforcement environment. These audits and investigations may require the Company to

NOTE 16 – LEGAL AND REGULATORY PROCEEDINGS (Continued)

refund or retroactively adjust amounts that have been paid under the relevant government program or by other payors. Further, an adverse review, audit, or investigation also could result in other adverse consequences, particularly if the underlying conduct is found to be pervasive or systemic. These consequences include (1) state or federal agencies imposing fines, penalties, and other sanctions on the Company; (2) loss of the Company's right to participate in the Medicare or Medicaid programs or one or more third party payor networks; (3) indemnity claims asserted by customers and others for which the Company provides services; and (4) damage to the Company's reputation in various markets, which could adversely affect the Company's ability to attract patients, customers and employees.

Whistleblower lawsuits—The Company is also subject to *qui tam* or "whistleblower" lawsuits under the federal False Claims Act and comparable state laws for allegedly submitting fraudulent bills for services to the Medicare and Medicaid programs. These lawsuits can result in monetary damages, fines, attorneys' fees, and the award of bounties to private *qui tam* plaintiffs who successfully bring these lawsuits and to the respective government programs. The Company also could be subject to civil penalties (including the loss of the Company's licenses to operate one or more facilities or healthcare activities), criminal penalties (for violations of certain laws and regulations), and exclusion of one or more facilities or healthcare activities from participation in the Medicare, Medicaid, and other federal and state healthcare programs. The lawsuits are in various stages of adjudication or investigation and involve a wide variety of claims and potential outcomes.

Employment-related lawsuits—The Company's operations are subject to a variety of federal and state employment-related laws and regulations, including but not limited to the U.S. Fair Labor Standards Act, Equal Employment Opportunity laws, and enforcement policies of the Equal Employment Opportunity Commission, the Office of Civil Rights and state attorneys general, federal and state wage and hour laws, and a variety of laws enacted by the federal and state governments that govern these and other employment-related matters. Accordingly, the Company is currently subject to employee-related claims, class actions and other lawsuits and proceedings in connection with the Company's operations, including but not limited to those related to alleged wrongful discharge, illegal discrimination, and violations of equal employment and federal and state wage and hour laws. Because labor represents such a large portion of the Company's operating costs, noncompliance with these evolving federal and state laws and regulations could subject the Company to significant back pay awards, fines, and additional lawsuits and proceedings. These claims, lawsuits, and proceedings are in various stages of adjudication or investigation and involve a wide variety of claims and potential outcomes.

Statutory shareholder appraisal action— During March 2018, Kindred received notices from 21 of its former shareholders, holding 8,120,003 shares of Common Stock in the aggregate, indicating their election to seek statutory appraisal of their shares of Common Stock instead of accepting the Merger Consideration of $9.00 per share. Seventeen of the 21 former shareholders, holding 1,227,401 shares in the aggregate, subsequently elected to accept the Merger Consideration and forego appraisal of their respective shares. On July 31, 2018, the remaining former shareholders, including Brigade Leveraged Capital Structures Fund Ltd., Brigade Calvary Fund Ltd. and Brigade Distressed Value Master Fund Ltd., filed a complaint in the Court of Chancery of the State of Delaware seeking appraisal rights for 6,892,602 shares of Common Stock. The Company disputes the allegations in the complaint and will defend this lawsuit vigorously.

Ordinary course matters—In addition to the matters described above, the Company is subject to investigations, claims, and lawsuits in the ordinary course of business, including investigations resulting from the Company's obligation to self-report suspected violations of law and professional liability claims, particularly in the Company's hospital operations and former nursing center operations. In many of these claims, plaintiffs' attorneys are seeking significant fines and compensatory and punitive damages in addition to attorneys' fees. The Company maintains professional and general liability insurance in amounts and coverage that management believes are sufficient for the Company's operations. However, the Company's insurance may not cover all claims against the Company or the full extent of its liability.

NOTE 17 – RELATED PARTY TRANSACTIONS

Support center allocations

The Predecessor Company provided certain support functions to KAH on a centralized basis, including cash management, accounts receivable processing, property and equipment record keeping, accounts payable processing, payroll and general bookkeeping. The Predecessor Company also managed general business functions on behalf of KAH, including cost reimbursement reporting, human resources, financial reporting and legal services. The Predecessor Company referred to these expenses as support center allocations and have been allocated between the Predecessor Company and KAH based upon a percentage of net revenues. The Predecessor Company allocated expenses of $53.7 million for January 1, 2018 through July 1, 2018 were charged to KAH, which are presented as a reduction of other operating expenses in the accompanying combined statement of operations of the Predecessor Company.

Intercompany services

The Predecessor Company provided services to KAH mainly related to rehabilitation and hospital services totaling $1.2 million for the period January 1, 2018 through July 1, 2018. The income is recorded in revenues in the accompanying combined statement of operations.

Transition services agreement

As part of the Merger, the Successor Company entered into a transition services agreement with KAH to provide information system services and various transition services such as payroll, marketing, government affairs and income taxes. The Successor Company recorded $29.9 million and $24.6 million for the year ended December 31, 2019 and for the period July 2, 2018 through December 31, 2018, respectively, in other income in the Successor Company accompanying consolidated statements of operations.

Sponsor fees and value capture initiatives

As part of the Merger, the Successor Company entered into management services agreements with TPG and WCAS. As part of these agreements, the Successor Company is required to pay each a monthly fee. These fees totaled $2.4 million and $1.9 million for the year ended December 31, 2019 and for the period July 2, 2018 through December 31, 2018, respectively, in the Successor Company accompanying consolidated statements of operations.

The Successor Company is also required to pay third party consultants and vendors, and incur other expenses related to various value capture initiatives which are expected to generate future cost savings. The expense for these items totaled $26.0 million and $6.2 million for the year ended December 31, 2019 and for the period July 2, 2018 through December 31, 2018, respectively, in the Successor Company accompanying consolidated statements of operations.

NOTE 18 – SUBSEQUENT EVENT

On February 19, 2020, the Company entered into an incremental agreement to the Term Loan Facility that provided for an incremental term loan in an aggregate principal amount of $200 million under the Term Loan Facility. The Company used the net proceeds of the incremental term loan to repay outstanding borrowings under its ABL Facility. The incremental term loan was issued with 100 basis points of original issue discount and has the same terms as, and is fungible with, the other term loan outstanding under the Term Loan Facility.

Kindred Healthcare, LLC

Combined Financial Statements for the period January 1 – July 1, 2018 of Kindred Hospital Company (A carve-out business of Kindred Healthcare, Inc.) and Consolidated Financial Statements for the period July 2 – December 31, 2018 of Kindred Healthcare, LLC

KINDRED HEALTHCARE, LLC
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Report of Independent Auditors

To the Board of Directors of Kindred Healthcare, LLC

We have audited the accompanying consolidated financial statements of Kindred Healthcare, LLC and its subsidiaries (Successor Company), which comprise the consolidated balance sheet as of December 31, 2018 and the related consolidated statements of operations, comprehensive loss, members' equity, and cash flows for the period from July 2, 2018 to December 31, 2018.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated 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 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 our 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, we consider internal control relevant to the Successor Company'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 Successor Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kindred Healthcare, LLC and its subsidiaries (Successor Company) as of December 31, 2018 and the results of their operations and their cash flows for the period from July 2, 2018 to December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 4, 2019

PricewaterhouseCoopers LLP, 500 West Main Street, Suite 1800, Louisville, Kentucky 40202-2941
T: (502) 589 6100, F: (502) 585 7875, www.pwc.com

Report of Independent Auditors

To the Board of Directors of Kindred Healthcare, LLC

We have audited the accompanying combined financial statements of Kindred Hospital Company (a carve-out business of Kindred Healthcare, Inc.) and its subsidiaries (Predecessor Company), which comprise the combined statements of operations, comprehensive loss, members' equity, and cash flows for the period from January 1, 2018 to July 1, 2018.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Predecessor Company's preparation and fair presentation of the combined 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 Predecessor Company'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the results of Kindred Hospital Company (a carve-out business of Kindred Healthcare, Inc.) and its subsidiaries (Predecessor Company) operations and their cash flows for the period from January 1, 2018 to July 1, 2018 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 4, 2019

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KINDRED HEALTHCARE, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)

	Successor Company	Predecessor Company
	July 2 – December 31, 2018	January 1 – July 1, 2018
Revenues	$ 1,613,262	$ 1,706,744
Salaries, wages and benefits	1,051,471	1,108,206
Supplies	103,324	113,903
Building rent	97,374	100,794
Equipment rent	16,279	16,439
Other operating expenses	283,785	242,016
Other income	(27,037)	(2,642)
Litigation contingency expense	1,912	1,432
Restructuring charges (Note 5)	55,351	11,824
Depreciation and amortization	32,755	40,736
Sponsor fees and value capture initiatives (Note 17)	8,146	–
Interest expense	22,548	124,029
Investment income	(397)	(261)
	1,645,511	1,756,476
Loss from continuing operations before income taxes	(32,249)	(49,732)
Provision for income taxes (Note 6)	566	1,766
Loss from continuing operations	(32,815)	(51,498)
Discontinued operations, net of income taxes (Note 4):		
Income from discontinued operations	7,217	245
Loss on divestiture of operations	(5,830)	(7,893)
Income (loss) from discontinued operations	1,387	(7,648)
Net loss	(31,428)	(59,146)
Earnings attributable to noncontrolling interests:		
Continuing operations	(20,891)	(21,202)
Discontinued operations	(80)	(700)
	(20,971)	(21,902)
Loss attributable to Successor Company	$ (52,399)	
Loss attributable to Predecessor Company		$ (81,048)
Amounts attributable to Kindred:		
Loss from continuing operations	$ (53,706)	$ (72,700)
Income (loss) from discontinued operations	1,307	(8,348)
Net loss	$ (52,399)	$ (81,048)

See accompanying notes to the consolidated financial statements.

KINDRED HEALTHCARE, LLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Successor Company	Predecessor Company
	July 2 – December 31, 2018	January 1 – July 1, 2018
Net loss	$ (31,428)	$ (59,146)
Other comprehensive loss:		
Interest rate swap (Notes 1 and 10):		
Change in unrealized gains (losses)	(7,086)	4,125
Reclassification of settlement gain in net loss	–	(9,874)
Reclassification of gains realized in net loss, net of payments	–	(816)
Net change	(7,086)	(6,565)
Defined benefit post-retirement plan:		
Unrealized loss due to fair value adjustments	(408)	–
Other comprehensive loss	(7,494)	(6,565)
Comprehensive loss	(38,922)	(65,711)
Earnings attributable to noncontrolling interests	(20,971)	(21,902)
Comprehensive loss attributable to Successor Company	$ (59,893)	
Comprehensive loss attributable to Predecessor Company		$ (87,613)

See accompanying notes to the consolidated financial statements.

KINDRED HEALTHCARE, LLC
CONSOLIDATED BALANCE SHEET
(In thousands)

	Successor Company December 31, 2018
ASSETS	
Current assets:	
Cash and cash equivalents	$ 84,213
Insurance subsidiary investments	6,951
Accounts receivable less allowance for loss of $56,492	693,339
Inventories	20,486
Income taxes	2,299
Assets held for sale	53,054
Other (Note 14)	47,956
	908,298
Property and equipment, at cost:	
Land	56,044
Buildings	205,750
Equipment	159,854
Construction in progress	47,530
	469,178
Accumulated depreciation	(28,415)
	440,763
Goodwill	320,963
Intangible assets less accumulated amortization of $15,469	199,905
Insurance subsidiary investments	24,662
Other (Note 14)	238,580
Total assets (a)	$ 2,133,171
LIABILITIES AND MEMBERS' EQUITY	
Current liabilities:	
Accounts payable	$ 114,458
Salaries, wages and other compensation	232,934
Due to third party payors	42,309
Professional liability risks	41,205
Accrued lease termination fees	8,081
Other accrued liabilities (Note 14)	230,341
Long-term debt due within one year	4,433
	673,761
Long-term debt	455,760
Professional liability risks	233,732
Deferred credits and other liabilities (Note 14)	410,430
Commitments and contingencies (Note 11)	
Members' equity:	
Members' investment	224,201
Accumulated other comprehensive loss	(7,494)
Accumulated deficit	(52,399)
	164,308
Noncontrolling interests	195,180
Total members' equity	359,488
Total liabilities (a) and members' equity	$ 2,133,171

(a) The Company's consolidated assets as of December 31, 2018 include total assets of variable interest entities of $375.2 million, which can only be used to settle the obligations of the variable interest entities. The Company's consolidated liabilities as of December 31, 2018 include total liabilities of variable interest entities of $46.4 million. See note 1 of the notes to consolidated financial statements.

See accompanying notes to the consolidated financial statements.

KINDRED HEALTHCARE, LLC
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
(In thousands)

	Shares of common stock	Par value common stock	Members' investment	Accumulated other comprehensive income (loss)	Accumulated deficit	Noncontrolling interests	Total
Predecessor Company:							
Balances, December 31, 2017	91,454	$ 22,864	$ (158,859)	$ 6,179	$ (1,892,097)	$ 220,766	$ (1,801,147)
Adoption of new revenue standard					(5,268)		(5,268)
Comprehensive loss:							
Net income (loss)					(81,048)	21,902	(59,146)
Other				(6,565)			(6,565)
Comprehensive loss							(65,711)
Cancellation of non-vested restricted stock	(67)	(17)	17				–
Issuance of common stock in connection with employee benefit plans	203	51	(51)				–
Shares tendered by employees for statutory tax withholdings upon issuance of common stock	(479)	(120)	(4,166)		(64)		(4,350)
Stock-based compensation amortization			6,612				6,612
Contributions made by noncontrolling interests						11,001	11,001
Distributions to noncontrolling interests						(42,841)	(42,841)
Transfers from Kindred at Home, net			102,887				102,887
Balances, July 1, 2018	91,111	22,778	(53,560)	(386)	(1,978,477)	210,828	(1,798,817)
Successor Company:							
Balances, July 2, 2018	91,111	$ 22,778	$ (53,560)	$ (386)	$ (1,978,477)	$ 210,828	$ (1,798,817)
Split of company to private investors	(91,111)	(22,778)	53,560	386	1,978,477	(15,768)	1,993,877
Proceeds from parent investors			219,896				219,896
Comprehensive loss:							
Net income (loss)					(52,399)	20,971	(31,428)
Other				(7,494)			(7,494)
Comprehensive loss							(38,922)
Equity unit buy-in program			3,780				3,780
Service-vested profit units compensation amortization			525				525
Contributions made by noncontrolling interests						2,190	2,190
Distributions to noncontrolling interests						(22,783)	(22,783)
Purchase of noncontrolling interests						(258)	(258)
Balances, December 31, 2018	–	$ –	$ 224,201	$ (7,494)	$ (52,399)	$ 195,180	$ 359,488

See accompanying notes to the consolidated financial statements.

KINDRED HEALTHCARE, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Successor Company	Predecessor Company
	July 2 – December 31, 2018	January 1 – July 1, 2018
Cash flows from operating activities:		
Net loss	$ (31,428)	$ (59,146)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	28,415	39,841
Amortization of intangible assets	4,340	4,292
Amortization of leasehold interest assets and liabilities, net	(9,495)	549
Amortization of deferred compensation costs	525	6,612
Amortization of deferred financing costs	1,636	8,511
Provision for doubtful accounts	(1,323)	(2,072)
Deferred income taxes	89	654
Loss on divestiture of discontinued operations	5,830	7,893
Other	(843)	747
Change in operating assets and liabilities:		
Accounts receivable	44,759	2,046
Inventories and other assets	175,268	(124,816)
Accounts payable	(16,338)	(41,584)
Income taxes	358	(1,104)
Due to third party payors	23,939	(7,594)
Other accrued liabilities	(255,471)	52,099
Net cash used in operating activities	(29,739)	(113,072)
Cash flows from investing activities:		
Routine capital expenditures	(31,580)	(23,701)
Development capital expenditures	(7,546)	(11,615)
Sale of assets	11,771	21,217
Net change in other investments	(1,782)	(4,329)
Other	343	(417)
Net cash used in investing activities	(28,794)	(18,845)
Cash flows from financing activities:		
Proceeds from borrowings under revolving credit	507,000	757,000
Repayment of borrowings from revolving credit	(442,700)	(744,900)
Proceeds from issuance of term loan, net of discount	405,900	–
Repayment of term loan	(1,025)	(7,017)
Repayment of other long-term debt	(217)	(384)
Payment of deferred financing costs	(18,561)	(119)
Distribution to Kindred equity holders	(754,249)	–
Net transfers from Kindred at Home	166,441	103,587
Proceeds from parent investors	219,896	–
Equity unit buy-in program	3,780	–
Tax payments for equity awards issuance	–	(4,350)
Contributions made by noncontrolling interests	2,190	626
Distributions to noncontrolling interests	(22,783)	(42,841)
Purchase of noncontrolling interests	(258)	–
Net cash provided by financing activities	65,414	61,602
Change in cash, cash equivalents and restricted cash	6,881	(70,315)
Cash, cash equivalents and restricted cash at beginning of period	126,275	196,590
Cash, cash equivalents and restricted cash at end of period	$ 133,156	$ 126,275
Supplemental information:		
Interest payments	$ 19,766	$ 110,708
Income tax payments	404	514
Rental payments to Ventas, Inc.	61,658	60,747
Non-cash contributions made by noncontrolling interests	–	10,375

See accompanying notes to the consolidated financial statements.

NOTE 1 – BASIS OF PRESENTATION

Reporting entity

Kindred Healthcare, LLC is a healthcare services company that through its subsidiaries operates transitional care ("TC") hospitals (certified as long-term acute care ("LTAC") hospitals under the Medicare program), inpatient rehabilitation hospitals ("IRFs"), and a contract rehabilitation services business across the United States (collectively, the "Company" or the "Successor Company"). For purposes of these statements and related notes, the successor period is being presented on a consolidated basis for the Company and the predecessor period is being presented on a combined basis for Kindred Hospital Company (a carve-out business of Kindred Healthcare, Inc.) (the "Predecessor Company").

The accompanying financial statements present the consolidated (for successor period) and combined (for predecessor period) changes in members' equity, revenues, expenses and cash flows of the Successor Company and Predecessor Company, respectively, excluding Gentiva Health Services, Inc. (d/b/a Kindred at Home) ("KAH"). Through July 1, 2018, KAH was an operating division of Kindred Healthcare, Inc. ("Kindred") and primarily provided home health, hospice and community care services for patients in a variety of settings, including their homes, nursing centers and other residential settings. KAH has been excluded from the Predecessor Company accompanying combined financial statements and was considered a related party.

Reorganization of Kindred

On July 2, 2018, Kindred was acquired by a consortium of three companies: TPG Capital ("TPG"), Welsh, Carson, Anderson & Stowe ("WCAS") and Humana Inc. ("Humana") for approximately $4.3 billion in cash including the assumption or repayment of net debt (the "Kindred Reorganization"). Under the terms of the Merger Agreement (as defined herein), stockholders of Kindred received $9.00 in cash for each share of Kindred common stock they held.

Immediately following the acquisition of Kindred, KAH (formerly an operating division of Kindred) was separated from Kindred and now operates as a stand-alone company owned 40% by Humana, with the remaining 60% of KAH owned by TPG and WCAS. The Company now operates as a separate specialty hospital company owned primarily by TPG and WCAS. See Note 2.

As used in these financial statements, the term "Predecessor Company" refers to the Company and its operations for the period January 1, 2018 through July 1, 2018, while the term "Successor Company" is used to describe the Company and its operations for the period July 2, 2018 through December 31, 2018.

In connection with the Kindred Reorganization, the Company revalued all assets and liabilities. For accounting purposes, these adjustments have been recorded in the consolidated financial statements as of July 2, 2018. Since the Kindred Reorganization materially changed the amounts previously recorded in the Company's consolidated financial statements, a black line separates the Successor Company from the Predecessor Company to signify the difference in the basis of presentation of the financial statements for each respective entity.

Basis of presentation

The Predecessor Company has not historically constituted a separate legal entity and stand-alone financial statements had not previously been prepared for the Predecessor Company. The accompanying combined financial statements of the Predecessor Company have been prepared on a stand-alone basis derived from the financial statements and related accounting records of Kindred and reflect the historical results of operations, financial position, and cash flows of the Predecessor Company as they were historically managed for the period January 1, 2018 through July 1, 2018.

The accompanying consolidated financial statements of the Successor Company and the accompanying combined financial statements of the Predecessor Company include all subsidiaries that the Company controls, including variable interest entities ("VIEs") for which the Company is the primary beneficiary. All intercompany transactions have been eliminated.

The Company has completed several transactions related to the divestiture of unprofitable hospitals and nursing centers to improve its future operating results. Kindred has completed the SNF Divestiture (as defined and described more fully in Note 3). For accounting purposes, the operating results of these businesses and the losses associated with these transactions have been classified as discontinued operations in the accompanying consolidated statement of operations and accompanying combined statement of operations for all periods presented.

The accompanying consolidated financial statements and accompanying combined financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") and include amounts based upon the estimates and judgments of management. Actual amounts may differ from those estimates.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Principles of combination

The Predecessor Company financial statements reflect allocations of direct and indirect expenses to KAH related to certain support functions provided by Kindred. Management believes the assumptions underlying the Predecessor Company financial statements, including the assumptions regarding allocation of expenses, are reasonable. Nevertheless, the Predecessor Company financial statements may not include all of the actual expenses that would have been incurred by the Company and may not reflect the Company's financial position, results of operations and cash flows that would have been reported if the Company had been a stand-alone entity during the period presented. See Note 17.

Recently issued accounting requirements

In November 2018, the Financial Accounting Standards Board (the "FASB") issued a clarification of existing authoritative guidance stating that elements of collaborative arrangements could qualify as transactions with customers in the scope of the New Revenue Standard (as defined herein). The guidance precludes an entity from presenting consideration from a transaction in a collaborative arrangement as revenue from contracts with customers if the counterparty is not a customer for that transaction. For nonpublic entities, the amendment is effective for fiscal years beginning after December 15, 2020, and early adoption is permitted. The Company will not elect to early adopt and the adoption of the amendment is not expected to have a material impact on the Company's business, financial position, results of operations or liquidity.

In October 2018, the FASB amended authoritative guidance of derivatives and hedging to allow the Overnight Index Swap rate based on the Secured Overnight Financing Rate as a benchmark rate for hedge accounting purposes should the London Interbank Offered Rate ("LIBOR") no longer be sustainable. Since the Company has not already adopted the 2017 amendment Targeted Improvements to Accounting for Hedging Activities, the amendments will be required to be adopted concurrently with the 2017 amendment, or for annual periods beginning after December 15, 2019. The adoption of these amendments are not expected to have an impact on the Company's business, financial position, results of operations or liquidity.

In August 2018, the FASB issued amended authoritative guidance which changes the fair value measurement disclosure requirements. The amendment removes disclosure requirements for timing of transfers between hierarchy levels, Level 3 valuation processes, and changes in unrealized gains and losses for recurring Level 3 fair value measurements held at the end of the reporting period. The amendment modifies existing requirements to disclose purchases, issuances, and transfers into and out of Level 3 assets and liabilities. The amendment is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendment should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. The Company will not elect to early adopt and the adoption of the amendment is not expected to have a material impact on the Company's business, financial position, results of operations or liquidity.

In August 2018, the FASB issued amended authoritative guidance which aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The capitalized implementation costs are to be expensed over the term of the hosted arrangement to the same line item as the fees associated with the hosting element. The new guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption of the amendment is permitted, including adoption in any interim period, for all entities. The amendment should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company will early adopt the amended guidance in 2019 on a prospective basis and does not expect a material impact to its business, financial position, results of operations, or liquidity.

In August 2017, the FASB issued amended authoritative guidance with the objective of improving the financial reporting of hedging relationships under GAAP to better portray economic results and to simplify the application of the current hedge accounting guidance. The new guidance is effective for annual periods beginning after December 15, 2019, interim periods within annual periods beginning after December 15, 2020, and early adoption is permitted. The Company will not elect to early adopt and the adoption of the amendment is not expected to have a material impact on the Company's business, financial position, results of operations or liquidity.

In June 2016, the FASB issued amended authoritative guidance for accounting for credit losses on financial instruments. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The new guidance is effective for annual periods beginning after December 15, 2021 and early adoption is permitted. The Company will not elect to early adopt and the adoption of the amendment is not expected to have a material impact on the Company's business, financial position, results of operations, and liquidity.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Recently issued accounting requirements (Continued)

In February 2016, the FASB issued amended authoritative guidance on accounting for leases. The new provisions require that a lessee of operating leases recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The lease liability will be equal to the present value of lease payments, with the right-of-use asset based upon the lease liability. The classification criteria for distinguishing between finance (or capital) leases and operating leases are substantially similar to the previous lease guidance, but with no explicit bright lines. As such, operating leases will result in straight-line rent expense similar to current practice. For short term leases (term of 12 months or less), a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities, which would generally result in lease expense being recognized on a straight-line basis over the lease term. The guidance is effective for annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020.

The Company will not elect early adoption and will apply the modified retrospective approach with the election of the practical expedients, therefore not electing the use of hindsight. The adoption of this standard is expected to have a material impact on the Company's financial position. Management continues to evaluate the effect on the Company's consolidated financial statements. The Company does not expect that this authoritative guidance will have a material impact on its business, results of operations or liquidity.

Revenues

On January 1, 2018, the Predecessor Company adopted Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*, and all of the related amendments (the "New Revenue Standard"). The New Revenue Standard requires entities to recognize the amount of revenue it expects for the transfer of goods or services to customers. The adoption of this standard had an immaterial impact on the Predecessor Company's reported total revenues as compared to what reported amounts would have been under the prior standard, and the Company expects the impact of adoption in future periods will be immaterial. The Company's accounting policies under the New Revenue Standard were applied prospectively and are noted below.

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

The transaction price for the Company's contracts represents its best estimate of the consideration the Company expects to receive and includes assumptions regarding variable consideration as applicable. These variable considerations include estimated amounts due from patients and third party payors for healthcare services provided, including anticipated settlements under reimbursement agreements with Medicare, Medicaid, Medicare Advantage, Medicaid Managed, and other third party payors. Revenues under third party agreements are subject to examination and retroactive adjustment. Provisions for estimated third party adjustments are provided in the period the related services are rendered to the extent it is probable that a significant reversal of cumulative revenue will not occur. Any remaining differences between the amounts accrued and subsequent settlements are recorded in the periods in which the interim or final settlements are determined.

A summary of revenues by payor type follows (in thousands):

	Successor Company	Predecessor Company
	July 2 – December 31, 2018	January 1 – July 1, 2018
Medicare	$ 575,527	$ 629,814
Medicaid	55,017	50,715
Medicare Advantage	169,077	180,889
Medicaid Managed	110,309	112,622
Other	738,809	773,798
	1,648,739	1,747,838
Eliminations	(35,477)	(41,094)
	$ 1,613,262	$ 1,706,744

NOTE 1 – BASIS OF PRESENTATION (Continued)

ASC 606 adoption impact

On January 1, 2018, the Predecessor Company adopted the New Revenue Standard using the modified retrospective transition method. The Predecessor Company recognized the cumulative effect of initially applying the New Revenue Standard to all contracts not completed as of the date of adoption, resulting in a $5.3 million adjustment, net of taxes, on January 1, 2018 to accounts receivable and accumulated deficit. The impact of adoption of the New Revenue Standard was primarily related to recognizing contractual revenues earlier due to variable considerations arising from the historical collectability of the Predecessor Company's hospital division's private payor portfolio (included within the other payor type).

The Company reclassified approximately $0.4 million and $0.7 million of other operating expenses to contractual revenues for the Successor Company for the period July 2, 2018 through December 31, 2018 and for the Predecessor Company for the period January 1, 2018 through July 1, 2018, respectively, as a result of the New Revenue Standard. The reclassified bad debts mentioned above were considered implicit price concessions or contractual revenues under the New Revenue Standard. Remaining bad debts recorded in other operating expenses are related to credit risk or limitations on a customer's ability to pay.

Cash, cash equivalents and restricted cash

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less when purchased. The Company reclassifies outstanding checks in excess of funds on deposit. As of December 31, 2018, $20.2 million was reclassified to accounts payable and $1.5 million was reclassified to salaries, wages and other compensation.

Beginning in 2018, the Company adopted the authoritative guidance that simplifies the disclosure of restricted cash within the statements of cash flows. The following table provides a reconciliation of cash and cash equivalents, as reported in the accompanying consolidated balance sheet, to cash, cash equivalents and restricted cash, as reported in the accompanying consolidated statement of cash flows (in thousands):

	December 31, 2018
Cash and cash equivalents	$ 84,213
Restricted cash:	
Insurance subsidiary investments (current)	6,951
Other assets (current)	172
Insurance subsidiary investments (long-term)	24,662
Funds in escrow (long-term)	17,158
Cash, cash equivalents and restricted cash	$ 133,156

Insurance subsidiary investments

The Company maintains a portfolio of insurance subsidiary investments, consisting principally of cash and cash equivalents, for the payment of claims and expenses related to professional liability and workers compensation risks maintained by its limited purpose insurance subsidiary, Cornerstone Insurance Company ("Cornerstone"). These investments are reported at fair value. Since the Company's insurance subsidiary investments are restricted for a limited purpose, they are classified in the accompanying consolidated balance sheet based upon the expected current and long-term cash requirements of Cornerstone. See Note 8.

Accounts receivable

Accounts receivable consist primarily of amounts due from the Medicare and Medicaid programs, other government programs, managed care health plans, commercial insurance companies, skilled nursing and hospital customers, individual patients and other customers. Estimated provisions for doubtful accounts are recorded to the extent it is probable that a portion or all of a particular account will not be collected.

In evaluating the collectibility of accounts receivable, the Company considers a number of factors, including the age of the accounts, changes in collection patterns, the composition of patient accounts by payor type, the status of ongoing disputes with third party payors and general industry conditions. Actual collections of accounts receivable in subsequent periods may require changes in the estimated provision for loss. Changes in these estimates are charged or credited to the results of operations in the period of change.

The provision for doubtful accounts totaled $1.2 million for the Successor Company and $2.1 million for the Predecessor Company.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Due to third party payors

The Company's TC hospitals and IRFs are required to submit cost reports at least annually to various state and federal agencies administering the respective reimbursement programs. In many instances, interim cash payments to the Company are only an estimate of the amount due for services provided. Any overpayment to the Company arising from the completion of a cost report is recorded as a liability in the accompanying consolidated balance sheet.

Kindred entered into a five-year corporate integrity agreement with the United States Department of Health and Human Services Office of Inspector General (the "OIG") on January 11, 2016 (the "RehabCare CIA"). The RehabCare CIA imposes monitoring, auditing (including by an independent review organization), reporting, certification, oversight, screening, and training obligations with which the Company must comply. These obligations include retention of an independent review organization to perform duties under the RehabCare CIA, which include reviewing compliance by RehabCare Group, Inc. and its subsidiaries ("RehabCare"), a therapy services company acquired by Kindred on June 1, 2011, with federal program requirements and accepted medical practices, and annual reporting obligations to the OIG regarding RehabCare's compliance with the RehabCare CIA (including corresponding certification by senior management and the board of directors or a committee thereof). In the event of a breach of the RehabCare CIA, the Company could become liable for payment of certain stipulated penalties, or RehabCare's subsidiaries could be excluded from participation in federal healthcare programs. The costs associated with compliance with the RehabCare CIA could be substantial and may be greater than the Company currently anticipates.

Any breach or failure to comply with the RehabCare CIA, the imposition of substantial monetary penalties, or any suspension or exclusion from participation in federal healthcare programs, could have a material adverse effect on the Company's business, financial position, results of operations, and liquidity.

Inventories

Inventories consist primarily of pharmaceutical and medical supplies and are stated at the lower of cost (first-in, first-out) or market.

Property and equipment

Property and equipment is carried at cost less accumulated depreciation. Depreciation expense, computed by the straight-line method, was $28.4 million for the Successor Company and $36.4 million for the Predecessor Company. These amounts include amortization of assets recorded under capital leases. Depreciation rates for buildings range generally from 20 to 40 years. Leasehold improvements are depreciated over their estimated useful lives or the remaining lease term, whichever is shorter. Estimated useful lives of equipment vary from five to 15 years. Depreciation expense is not recorded for property and equipment classified as held for sale. Repairs and maintenance are expensed as incurred.

The Company separates capital expenditures into two categories, routine and development, in the accompanying consolidated statements of cash flows. Purchases of routine property and equipment include expenditures at existing facilities that generally do not result in increased capacity or the expansion of services. Development capital expenditures include expenditures for the development of new facilities or the expansion of services or capacity at existing facilities.

Long-lived assets

The Company reviews the carrying value of certain long-lived assets and finite lived intangible assets with respect to any events or circumstances that indicate an impairment or an adjustment to the amortization period is necessary. If circumstances suggest that the recorded amounts cannot be recovered based upon estimated future undiscounted cash flows, the carrying values of such assets are reduced to fair value.

In assessing the carrying values of long-lived assets, the Company estimates future cash flows at the lowest level for which there are independent, identifiable cash flows. For this purpose, these cash flows are aggregated based upon the contractual agreements underlying the operation of the facility or group of facilities. Generally, an individual facility for hospitals or IRFs, skilled nursing rehabilitation services reporting unit, or hospital rehabilitation services reporting unit are considered the lowest level for which there are independent, identifiable cash flows. However, to the extent that groups of facilities are leased under a master lease agreement in which the operations of a facility and compliance with the lease terms are interdependent upon other facilities in the agreement (including the Company's ability to renew the lease or divest a particular property), the Company defines the group of facilities under a master lease agreement, or a renewal bundle in a master lease, as the lowest level for which there are independent, identifiable cash flows. Accordingly, the estimated cash flows of all facilities within a master lease agreement, or within a renewal bundle in a master lease, are aggregated for purposes of evaluating the carrying values of long-lived assets.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Goodwill and intangible assets

Goodwill and indefinite-lived intangible assets primarily originated from business combinations accounted for as purchase transactions or from the Kindred Reorganization.

A summary of goodwill by reporting unit follows (in thousands):

	Hospitals	Accountable Care Organization	Hospital rehabilitation services	IRFs	RehabCare	Total
Balances, December 31, 2017	$ 125,045	$ 983	$ 173,618	$ 326,335	$ –	$ 625,981
Acquisitions	–	–	–	10,375	–	10,375
Balances, July 1, 2018	125,045	983	173,618	336,710	–	636,356
Balances, July 2, 2018	125,045	983	173,618	336,710	–	636,356
Kindred Reorganization purchase accounting adjustments	(125,045)	(983)	(58,681)	(130,684)	–	(315,393)
Balances, December 31, 2018	$ –	$ –	$ 114,937	$ 206,026	$ –	$ 320,963

Accumulated goodwill impairment charges as of July 1, 2018 (the Predecessor Company) were $651.3 million. There were no accumulated goodwill impairment charges as of December 31, 2018 (the Successor Company).

In accordance with the authoritative guidance for goodwill and other intangible assets, the Company is required to perform an impairment test for goodwill and indefinite-lived intangible assets at least annually or more frequently if adverse events or changes in circumstances indicate that the asset may be impaired. The Company performs its annual goodwill impairment test on October 1 each fiscal year for each of its reporting units.

A reporting unit is either an operating segment or one level below the operating segment, referred to as a component. When the components within the Company's operating segments have similar economic characteristics, the Company aggregates the components of its operating segments into one reporting unit. Accordingly, the Company has determined that its reporting units are hospitals, the Accountable Care Organization, hospital rehabilitation services, IRFs, and RehabCare.

Accounting guidance allows the Company to perform a qualitative assessment about the likelihood of the carrying value of a reporting unit exceeding its fair value, referred to as the step zero assessment. The step zero assessment requires the evaluation of certain qualitative factors, including macroeconomic conditions, industry and market considerations, cost factors and overall financial performance, as well as company and reporting unit factors. If the Company's step zero assessment indicates that it is more likely than not that the fair value of a reporting unit is less than the carrying value amount, then the Company would perform a quantitative impairment test. The Company applied the step zero assessment to its two reporting units with goodwill as of October 1. The Company's step zero assessment concluded that it is not more likely than not that the fair value of the reporting unit is less than its carrying value amount. Therefore, a quantitative goodwill impairment test for these reporting units was not required.

Adverse changes in the operating environment and related key assumptions used to determine the fair value of the Company's reporting units and indefinite-lived intangible assets may result in future impairment charges for a portion or all of these assets. Specifically, if the rate of growth of government and commercial revenues earned by the Company's reporting units were to be less than projected, if healthcare reforms were to negatively impact the Company's business, or if recent increases in labor costs materially exceed the Company's projections in its reporting units or business segments, an impairment charge of a portion or all of these assets may be required. An impairment charge could have a material adverse effect on the Company's business, financial position and results of operations, but would not be expected to have an impact on the Company's cash flows or liquidity.

The Company's indefinite-lived intangible assets consist of a trade name, Medicare certifications, and certificates of need. The fair values of the Company's indefinite-lived intangible assets are derived from current market data such as royalty rates and projections at a facility or reporting unit, which include management's best estimates of economic and market conditions over the projected period. Significant assumptions include projected revenues, operating costs, rent expense, capital expenditures, terminal value growth rates, changes in working capital requirements, weighted average cost of capital and opportunity costs.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Goodwill and intangible assets (Continued)

The Company performs its annual indefinite-lived intangible asset impairment tests on October 1 each fiscal year. The Company elected a step zero assessment for the October 1, 2018 impairment review. Based upon the results of the annual impairment test for indefinite-lived intangible assets discussed above for the year ended December 31, 2018, no impairment charges were recorded.

The Company's intangible assets include both finite and indefinite-lived intangible assets. The Company's intangible assets with finite lives are amortized in accordance with the authoritative guidance for goodwill and other intangible assets, such as leasehold interest assets and non-compete agreements, using the straight-line method over their estimated useful lives ranging from one to 38 years.

The amortization of leasehold interests is recorded as a component of building rent expense..

Amortization expense computed by the straight-line method totaled $4.4 million for the Successor Company and $4.3 million for the Predecessor Company.

The estimated annual amortization expense for the next five years for intangible assets at December 31, 2018 follows (in thousands):

2019	$ 5,579
2020	$ 1,240
2021	$ –
2022	$ –
2023	$ –

A summary of intangible assets at December 31, 2018 follows (in thousands):

	Cost	Accumulated amortization	Carrying value	Weighted average life
Non-current:				
Certificates of need (indefinite life)	$ 38,000	$ –	$ 38,000	
Medicare certifications (indefinite life)	29,100	–	29,100	
Trade name (indefinite life)	28,000	–	28,000	
Leasehold interest assets	109,115	(11,129)	97,986	8 years
Non-compete agreements	11,159	(4,340)	6,819	1 year
	$ 215,374	$ (15,469)	$ 199,905	

Cost-method investments

The aggregate carrying amount of all cost-method investments was $15.0 million as of December 31, 2018. Each investment was evaluated for impairment as of December 31, 2018 and no impairment charges were recorded.

Insurance risks

Provisions for loss for professional liability and workers compensation risks are based upon management's best available information, including actuarially determined estimates of loss. To the extent that expected ultimate claims costs vary from historical provisions for loss, future earnings will be charged or credited. See Note 7.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Derivative financial instruments

The Company accounts for derivative financial instruments in accordance with the authoritative guidance for derivatives and hedging. These derivative financial instruments are recognized as assets or liabilities in the accompanying consolidated balance sheet and are measured at fair value. The Company's derivatives are designated as cash flow hedges. The Company entered into an interest rate swap agreement in October 2018 to hedge its floating interest rate risk. Kindred previously had three interest rate swap agreements that were settled in June 2018.

The interest rate swap was assessed for hedge effectiveness for accounting purposes and the Company determined the interest rate swap qualifies for cash flow hedge accounting treatment at December 31, 2018. The Company uses the private company simplified hedge accounting standard and records the effective portion of the gain or loss on derivative financial instruments in accumulated other comprehensive income (loss) as a component of members' equity and records the ineffective portion of the gain or loss on derivative financial instruments as interest expense. There was no ineffectiveness related to the interest rate swap for the Successor Company. See Note 10.

Variable interest entities

The Company follows the provisions of the authoritative guidance for determining whether an entity is a VIE. In order to determine if the Company is a primary beneficiary of a VIE for financial reporting purposes, it must consider whether it has the power to direct activities of the VIE that most significantly impact the performance of the VIE and whether the Company has the obligation to absorb losses or the right to receive returns that would be significant to the VIE. The Company consolidates a VIE when it is the primary beneficiary.

Of the Company's 22 operating IRFs as of December 31, 2018, 20 are partnerships subject to an operating and management services agreement. Under GAAP, the Company determined that 17 of these 20 partnerships qualify as VIEs and concluded that the Company is the primary beneficiary in all but one partnership. The Company holds an ownership interest and acts as manager in each of the partnerships. Through the management services agreement, the Company is delegated necessary responsibilities to provide management services, administrative services and direction of the day-to-day operations. Based upon the Company's assessment of the most significant activities of the IRFs, the manager has the ability to direct the majority of those activities in 16 of these partnerships.

The analysis upon which the consolidation determination rests can be complex, can involve uncertainties, and requires judgment on various matters, some of which could be subject to different interpretations.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Variable interest entities (Continued)

The carrying amounts and classifications of the assets and liabilities of the consolidated VIEs are as follows (in thousands):

	Successor Company
	December 31, 2018
Assets:	
Current assets:	
Cash and cash equivalents	$ 49,139
Accounts receivable, net	47,201
Inventories	1,862
Other	3,534
	101,736
Property and equipment, net	21,570
Goodwill	177,274
Intangible assets, net	74,614
Other	6
Total assets	$ 375,200
Liabilities:	
Current liabilities:	
Accounts payable	$ 25,457
Salaries, wages and other compensation	4,477
Other accrued liabilities	5,578
Long-term debt due within one year	359
	35,871
Long-term debt	21
Deferred credits and other liabilities	10,541
Total liabilities	$ 46,433

Allocated expense

Amounts were allocated from the Predecessor Company for costs attributable to the operations of KAH. The expenses incurred by the Predecessor Company include costs from certain support center and shared service functions provided by the Predecessor Company to KAH.

All support center costs of the Predecessor Company that were specifically identifiable to KAH have been allocated to KAH. Where specific identification of charges to KAH was not practicable, a percentage of revenues method was applied to all remaining general support center overhead costs. These costs include overhead expenses such as accounting, cash management, cost reimbursement reporting, human resources, legal, executive management, marketing and software and information technology.

In the opinion of management, the cost allocations have been determined on a reasonable basis and include all the costs of doing business. The amounts that would have been or will be incurred on a stand-alone basis could differ from the amounts allocated due to economies of scale, management judgment, or other factors. See Note 17 for additional information regarding related party transactions.

Other information

The Successor Company and the Predecessor Company both performed evaluations of subsequent events through the date on which the accompanying consolidated financial statements were issued.

NOTE 2 – ACQUISITION OF KINDRED

Merger Agreement

On July 2, 2018, Kindred was acquired by a consortium of TPG, WCAS and Humana. Subject to the terms and conditions of an Agreement and Plan of Merger (the "Merger Agreement") among Kindred, Kentucky Hospital Holdings, LLC ("HospitalCo Parent"), Kentucky Homecare Holdings, Inc. ("Parent") and Kentucky Homecare Merger Sub, Inc. ("Merger Sub"), Merger Sub was merged with and into Kindred (the "Merger"), with Kindred continuing as the surviving company in the Merger.

NOTE 2 – ACQUISITION OF KINDRED (Continued)

Merger Agreement (Continued)

At the effective time of the Merger, each share of Kindred common stock, par value $0.25 per share ("Common Stock") issued and outstanding immediately prior to the effective time of the Merger (other than shares held by Parent, HospitalCo Parent, Merger Sub or Kindred and their respective wholly owned subsidiaries (which were cancelled) and shares that are owned by stockholders who properly exercised and perfected a demand for appraisal rights under Delaware law), were cancelled and converted into the right to receive $9.00 in cash, without interest (the "Merger Consideration"). See Note 16.

Separation Agreement

Concurrently with the execution and delivery of the Merger Agreement, on December 19, 2017, Kindred, Parent, HospitalCo Parent, and Kentucky Hospital Merger Sub, Inc., entered into a Separation Agreement (the "Separation Agreement"), pursuant to which, promptly following the effective time of the Merger, Kindred was separated from its former home health, hospice and community care services business and acquired by HospitalCo Parent.

The Separation Agreement relates to, among other things (i) certain restructuring transactions that took place with respect to Kindred and its subsidiaries, (ii) procedures concerning the transfer of certain assets and employees used or employed in Kindred's respective businesses and (iii) the allocation of costs and expenses related to the separation of Kindred from KAH.

Purchase price allocation

The Merger purchase price of $219.9 million was allocated on a preliminary basis based upon the estimated fair value of the tangible and intangible assets, and goodwill.

The following is the preliminary Merger purchase price allocation (in thousands):

Cash and cash equivalents		$ 141,030
Accounts receivable		737,972
Inventories		20,922
Income taxes		2,657
Assets held for sale		9,546
Other current assets		224,213
Property and equipment		582,113
Identifiable intangible assets:		
Certificates of need (indefinite life)	$ 38,000	
Medicare certifications (indefinite life)	29,100	
Trade name (indefinite life)	28,000	
Leasehold interest assets	109,115	
Non-compete agreements	11,159	
Total identifiable intangible assets		215,374
Insurance subsidiary investments		22,308
Other long-term assets		228,827
Accounts payable		(132,229)
Salaries, wages and other compensation		(210,085)
Due to third party payors		(18,369)
Professional liability risks, current portion		(43,898)
Other accrued liabilities		(368,650)
Current portion of long-term debt		(3,390)
Long-term debt, less current portion		(493,026)
Professional liability risks, long-term portion		(238,992)
Leasehold interest liabilities		(268,800)
Other long-term liabilities		(313,530)
Noncontrolling interests		(195,060)
Total identifiable net assets		(101,067)
Goodwill		320,963
Net assets		$ 219,896

The fair value allocation was measured primarily using a discounted cash flows methodology, which is considered a Level 3 input (as described in Note 15).

NOTE 3 – DIVESTITURES

Discontinued operations

Skilled nursing facility business exit

On June 30, 2017, Kindred entered into a definitive agreement with BM Eagle Holdings, LLC, a joint venture led by affiliates of BlueMountain Capital Management, LLC ("BlueMountain"), under which Kindred agreed to sell its skilled nursing facility business for $700 million in cash (the "SNF Divestiture"). The SNF Divestiture included 89 nursing centers with 11,308 licensed beds and seven assisted living facilities with 380 licensed beds in 18 states. Through July 1, 2018, the Predecessor Company completed the sale or closed 86 of the skilled nursing facilities and all seven of the assisted living facilities on various dates. The Successor Company completed the sale of the remaining three skilled nursing facilities between July 2, 2018 and December 31, 2018.

In accordance with authoritative guidance for assets held for sale and discontinued operations accounting, the skilled nursing facility business is reported as assets held for sale and was moved to discontinued operations for all periods presented.

In connection with the SNF Divestiture, Kindred entered into an interim management agreement in the third quarter of 2017 with certain affiliates of BlueMountain in the state of California whereby Kindred would lease its license of certain operations to such affiliates until licensure approval is obtained. Because the Company has continuing involvement in the business through purveying certain rights of ownership of the assets while under the interim management agreement and license sublease, the Company did not meet the requirements for a sale-leaseback transaction as described in ASC 840-40, *Leases - Sale-Leaseback Transactions*. Under the failed-sale-leaseback accounting model, the Company is deemed under GAAP to still own certain real estate assets sold to BlueMountain, which the Company must continue to reflect in its consolidated balance sheet as assets held for sale. The Company also must treat a portion of the pretax cash proceeds from the SNF Divestiture as though it were the result of a $53.1 million other current liability financing obligation in the Company's accompanying consolidated balance sheet until continuing involvement ceases. The lease will terminate upon licensure approval, at which time the Company will cease to recognize the remaining other current liability financing obligation, as well as the remaining net book value of the real estate assets.

During 2018, the Successor Company recorded $5.8 million of pretax charges related to the SNF Divestiture consisting of transaction and other costs. During 2018, the Predecessor Company recorded $7.9 million of pretax charges related to the SNF Divestiture, including $5.2 million of transaction and other costs and $2.7 million of retention costs.

NOTE 4 – DISCONTINUED OPERATIONS

In accordance with the authoritative guidance for the impairment or disposal of long-lived assets, the divestiture of unprofitable businesses has been accounted for as discontinued operations. Accordingly, the results of operations of these businesses for all periods presented and the losses related to these divestitures have been classified as discontinued operations, net of income taxes, in the accompanying consolidated statement of operations and accompanying combined statement of operations.

The following table summarizes (in thousands) the SNF Divestiture liability activity (included in current liabilities):

	Retention	Transaction and other costs	Total
Liability balance at December 31, 2017	$ 5,436	$ 5,600	$ 11,036
Expense	2,686	1,303	3,989
Payments	(4,400)	(4,468)	(8,868)
Liability balance at July 1, 2018	3,722	2,435	6,157
Liability balance at July 2, 2018	3,722	2,435	6,157
Expense	–	6,042	6,042
Payments	(2,199)	(3,064)	(5,263)
Liability balance at December 31, 2018	$ 1,523	$ 5,413	$ 6,936

NOTE 4 – DISCONTINUED OPERATIONS (Continued)

A summary of discontinued operations follows (in thousands):

	Successor Company	Predecessor Company
	July 2 – December 31, 2018	January 1 – July 1, 2018
Revenues	$ 4,482	$ 13,378
Salaries, wages and benefits	1,250	9,358
Supplies	23	521
Building rent	1,066	2,435
Equipment rent	16	41
Other income	(5,041)	(2,560)
Depreciation and amortization	–	3,397
Interest expense	–	2
Investment income	(49)	(61)
	(2,735)	13,133
Income from operations before income taxes	7,217	245
Provision for income taxes	–	–
Income from operations	7,217	245
Loss on divestiture of operations	(5,830)	(7,893)
Income (loss) from discontinued operations	1,387	(7,648)
Earnings attributable to noncontrolling interests	(80)	(700)
Income (loss) attributable to Kindred	$ 1,307	$ (8,348)

Net assets held for sale at December 31, 2018 consists of $53.1 million in net book value of real estate assets related to five sale-leaseback transactions. See Note 3.

NOTE 5 – RESTRUCTURING CHARGES

The Company has initiated various restructuring activities whereby it has incurred costs associated with reorganizing its operations, including the divestiture, closure of facilities, reduced headcount and realigned operations in order to improve operations, cost efficiencies and capital structure in response to changes in the healthcare industry, increasing leverage and to partially mitigate reductions in reimbursement rates from third party payors. The costs associated with these activities are reported as restructuring charges in the accompanying consolidated statement of operations and accompanying combined statement of operations and would have been recorded as salaries, wages and benefits, other operating expenses or rent expense if not classified as restructuring charges.

The following table sets forth the restructuring charges incurred by restructuring activities (in thousands):

	Successor Company	Predecessor Company
	July 2 – December 31, 2018	January 1 – July 1, 2018
Acquisition of Kindred	$ 52,645	$ 9,484
LTAC Hospital Portfolio Repositioning 2017 Plan	880	1,089
LTAC Hospital Portfolio Repositioning 2016 Plan	1,536	1,251
Other various	290	–
	$ 55,351	$ 11,824

Restructuring Activities

Acquisition of Kindred

During 2017, Kindred announced that the board had approved the Merger Agreement as described in Note 2. The costs incurred in 2018 related to the Merger Agreement include retention, severance and merger costs and are expected to be substantially completed in 2019.

NOTE 5 – RESTRUCTURING CHARGES (Continued)

Restructuring Activities (Continued)

Acquisition of Kindred (Continued)

The composition of the restructuring costs that the Company has incurred for these restructuring initiatives is as follows (in thousands):

	Successor Company	Predecessor Company
	July 2 – December 31, 2018	January 1 – July 1, 2018
Retention and severance costs	$ 45,118	$ 2,422
Merger costs	7,527	7,062
	$ 52,645	$ 9,484

The following table (in thousands) summarizes the Merger restructuring liability activity (included in other accrued liabilities):

	Retention and severance costs	Merger costs	Total
Liability balance at December 31, 2017	$ –	$ 7,907	$ 7,907
Expense	2,422	7,062	9,484
Payments	(406)	(6,043)	(6,449)
Liability balance at July 1, 2018	2,016	8,926	10,942
Liability balance at July 2, 2018	2,016	8,926	10,942
Expense	45,118	7,527	52,645
Payments	(37,757)	(15,026)	(52,783)
Liability balance at December 31, 2018	$ 9,377	$ 1,427	$ 10,804

LTAC Hospital Portfolio Repositioning 2017 Plan

During 2017, Kindred approved phase two of the LTAC hospital portfolio repositioning plan that incorporated the closure and conversion of certain LTAC hospitals as part of its mitigation strategies in response to new patient criteria for LTAC hospitals. The activities related to the LTAC hospital portfolio repositioning 2017 plan were substantially completed by the end of 2018, except for the lease termination liability and related costs which will extend through 2025.

The composition of the restructuring charges that the Company has incurred for these activities is as follows (in thousands):

	Successor Company	Predecessor Company
	July 2 – December 31, 2018	January 1 – July 1, 2018
Lease termination costs	$ 844	$ 938
(Gain) loss on disposal	36	(424)
Asset write-offs	–	418
Severance	–	157
	$ 880	$ 1,089

NOTE 5 – RESTRUCTURING CHARGES (Continued)

Restructuring Activities (Continued)

LTAC Hospital Portfolio Repositioning 2017 Plan (Continued)

The following table (in thousands) summarizes the Company's LTAC hospital portfolio repositioning 2017 plan liability activity (included in current liabilities and deferred credits and other liabilities) during the year ended December 31, 2018:

	Lease termination costs
Liability balance at December 31, 2017	$ 31,645
Expense	938
Payments	(2,519)
Liability balance at July 1, 2018	30,064
Liability balance at July 2, 2018	30,064
Expense	844
Payments	(2,567)
Liability balance at December 31, 2018	$ 28,341

LTAC Hospital Portfolio Repositioning 2016 Plan

During 2016, Kindred approved the LTAC hospital portfolio repositioning 2016 plan that incorporated the divestiture, swap or closure of certain LTAC hospitals as part of its mitigation strategies to prepare for new patient criteria for LTAC hospitals. The activities related to the LTAC hospital portfolio repositioning 2016 plan were substantially completed during 2016, except for the lease termination liability and related costs which will extend through 2025.

The composition of the restructuring charges that the Company has incurred for these activities is as follows (in thousands):

	Successor Company	Predecessor Company
	July 2 – December 31, 2018	January 1 – July 1, 2018
Lease termination costs	$ 1,536	$ 1,251

The following table (in thousands) summarizes the Company's LTAC hospital portfolio repositioning 2016 plan liability activity (included in current liabilities and deferred credits and other liabilities) during the year ended December 31, 2018:

	Lease termination costs
Liability balance at December 31, 2017	$ 33,945
Expense	1,251
Payments	(5,236)
Liability balance at July 1, 2018	29,960
Liability balance at July 2, 2018	29,960
Expense	1,536
Payments	(6,212)
Liability balance at December 31, 2018	$ 25,284

NOTE 6 – INCOME TAXES

Provision for income taxes consists of the following (in thousands):

	Successor Company	Predecessor Company
	July 2 – December 31, 2018	January 1 – July 1, 2018
Current:		
Federal	$ 427	$ –
State	81	1,112
	508	1,112
Deferred	58	654
	$ 566	$ 1,766

Reconciliation of federal statutory tax expense (income) to the provision for income taxes follows (in thousands):

	Successor Company	Predecessor Company
	July 2 – December 31, 2018	January 1 – July 1, 2018
Income tax expense (benefit) at federal rate	$ 480	$ (10,444)
State income tax expense (benefit), net of federal income tax benefit	86	(1,989)
Gain on sale of partnership interest	–	6,164
Valuation allowance	–	(11,842)
Noncontrolling interests	–	(5,476)
Interest expense disallowance	–	20,037
Federal and state tax credits	–	(320)
Transaction costs	–	4,517
Other items, net	–	1,119
	$ 566	$ 1,766

Other items consist of meals, entertainment, lobbying, and other permanent differences, which individually are deemed immaterial.

Predecessor Company

The Tax Cuts and Jobs Act of 2017, which was enacted on December 22, 2017, was generally effective in 2018 and made broad and significantly complex changes to the federal corporate tax system, including the reduction in the U.S. federal corporate income tax rate from 35% to 21% and the limitation on the deductibility of interest expense.

At each balance sheet date, management assesses all available positive and negative evidence to determine whether a valuation allowance is needed against its deferred tax assets. The authoritative guidance requires evidence related to events that have actually happened to be weighted more significantly than evidence that is projected or expected to happen. A significant piece of negative evidence according to this weighting standard is if there are cumulative losses in the two most recent years and the current year, which was the case for Kindred at July 1, 2018. Accordingly, a full valuation allowance was recorded at July 1, 2018. The amount of deferred tax asset considered realizable, however, could be adjusted if the weighting of the positive and negative evidence changes.

The Predecessor Company followed the provisions of the authoritative guidance for accounting for uncertainty in income taxes which clarified the accounting for uncertain income tax issues recognized in an entity's financial statements. The guidance prescribed a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in an income tax return.

The Predecessor Company recorded accrued interest and penalties associated with uncertain tax positions as income tax expense in the accompanying combined statement of operations. The Predecessor Company did not have any reserves for uncertain income taxes at July 1, 2018.

NOTE 6 – INCOME TAXES (Continued)

Predecessor Company (Continued)

The federal statute of limitations remains open for tax years 2015 through 2017 for the Predecessor Company . During 2018, the Company resolved the federal income tax audits for the 2016 tax year for the Predecessor Company . The Company is currently under examination by the Internal Revenue Service for the Predecessor Company for the 2017 tax year and for the tax year ending July 1, 2018.

State jurisdictions generally have statutes of limitations for tax returns ranging from three to five years. The state impact of federal income tax changes remains subject to examination by various states for a period of up to one year after formal notification to the states. Currently, the Company has various state income tax returns under examination for the Predecessor Company.

Successor Company

Following the Kindred Reorganization and separation, Kindred Healthcare, LLC was a disregarded entity of HospitalCo Parent. HospitalCo Parent was taxed as a C Corporation from the separation date through August 1, 2018. On August 1, 2018, HospitalCo Parent was converted to a single member limited liability company (the "Conversion") wholly owned by Kentucky Hospital Holdings JV, L.P., ("Hospital JV"), an entity taxed as a partnership for U.S. federal income tax purposes. There was no tax due or refundable on the HospitalCo Parent C Corporation return and the net operating loss generated in that one month was eliminated following the Conversion. Immediately following the Conversion, Kindred Healthcare, LLC became a disregarded entity of Hospital JV so it is effectively treated as a partnership for federal income tax purposes from August 2, 2018 through December 31, 2018. As such, federal and state taxable income or loss generally passes through to the individual partners for inclusion in their respective income tax returns.

The federal current tax expense from the Successor Company shown above was mainly generated by Cornerstone, which is a wholly owned C Corporation required to file a separate federal income tax return.

NOTE 7 – INSURANCE RISKS

On a per-claim basis, the Company maintains a self-insured retention and Cornerstone insures all losses in excess of this retention. Cornerstone maintains commercial reinsurance through unaffiliated commercial reinsurers for these losses in excess of the Company's retention. On a per-claim basis, the Company maintains a deductible under commercial insurance policies for workers compensation which provide coverage up to statutory limits in each state. The provisions for loss for professional liability and workers compensation risks are based upon management's best available information, including actuarially determined estimates of loss.

The allowance for professional liability risks includes an estimate of the expected cost to settle reported claims and an amount, based upon past experiences, for losses incurred but not reported including claims related to the nursing centers prior to the SNF Divestiture. These liabilities are necessarily based upon estimates and, while management believes that the provision for loss is adequate, the ultimate liability may be in excess of, or less than, the amounts recorded. To the extent that expected ultimate claims costs vary from historical provisions for loss, future earnings will be charged or credited.

The provision for loss for insurance risks, including the cost of coverage maintained with unaffiliated commercial reinsurance and insurance carriers, follows (in thousands):

	Successor Company	Predecessor Company
	July 2 – December 31, 2018	January 1 – July 1, 2018
Professional liability:		
Continuing operations	$ 16,118	$ 16,999
Discontinued operations	(3,626)	(5,191)
Workers compensation:		
Continuing operations	$ 4,067	$ 4,174
Discontinued operations	(622)	(1,875)

NOTE 7 – INSURANCE RISKS (Continued)

A summary of the assets and liabilities related to insurance risks included in the accompanying consolidated balance sheet at December 31, 2018 follows (in thousands):

	Successor Company		
	December 31, 2018		
	Professional liability	Workers compensation	Total
Assets:			
Current:			
Insurance subsidiary investments	$ 6,511	$ 440	$ 6,951
Reinsurance and other recoverables	286	1,447	1,733
Other	–	50	50
	6,797	1,937	8,734
Non-current:			
Insurance subsidiary investments	9,791	14,871	24,662
Reinsurance and other recoverables	97,515	51,208	148,723
Deposits	–	1,514	1,514
	107,306	67,593	174,899
	$ 114,103	$ 69,530	$ 183,633
Liabilities:			
Allowance for insurance risks:			
Current	$ 41,205	$ 13,475	$ 54,680
Non-current	233,732	78,418	312,150
	$ 274,937	$ 91,893	$ 366,830

The provision for loss for professional liability risks is not funded to Cornerstone. The Company does not fund the portion of professional liability risks related to estimated claims that have been incurred but not reported.

The provision for loss for workers compensation risks is not funded to Cornerstone.

NOTE 8 – INSURANCE SUBSIDIARY INVESTMENTS

The Company maintains a portfolio of insurance subsidiary investments, consisting principally of cash and cash equivalents, for the payment of claims and expenses related to professional liability and workers compensation risks maintained by Cornerstone. These investments are reported at fair value. Since the Company's insurance subsidiary investments are restricted for a limited purpose, they are classified in the accompanying consolidated balance sheet based upon the expected current and long-term cash requirements of Cornerstone.

The Company's insurance subsidiary cash and cash equivalents were $31.6 million at December 31, 2018.

Investment income earned by Cornerstone approximated $0.1 million for both the Successor Company and the Predecessor Company.

NOTE 9 – LEASES

Various facility leases include contingent annual rent escalators based upon a change in the Consumer Price Index or other agreed upon terms such as a patient revenue test. These contingent rents are included in building rent expense in the time period incurred. The Successor Company recorded contingent rent of $1.0 million and the Predecessor Company recorded contingent rent of $0.3 million, including both continuing operations and discontinued operations.

NOTE 9 – LEASES (Continued)

Future minimum payments under non-cancelable operating leases are as follows (in thousands):

	Minimum payments		
	Ventas	Other	Total
2019	$ 112,857	$ 89,650	$ 202,507
2020	113,761	83,792	197,553
2021	114,687	78,551	193,238
2022	115,637	71,128	186,765
2023	99,354	70,338	169,692
Thereafter	122,410	295,097	417,507

Ventas master lease agreements

At December 31, 2018, the Company leased from Ventas, Inc. ("Ventas") and its affiliates 29 TC hospitals under one master lease agreement (the "Master Lease Agreement"). The Master Lease Agreement includes land, buildings, structures, and other improvements on the land, easements, and similar appurtenances to the land and improvements, and permanently affixed equipment, machinery, and other fixtures relating to the operation of the leased properties. There are two bundles of leased properties under the Master Lease Agreement, with each bundle containing several TC hospitals.

Recent master lease amendments

On March 27, 2018, Kindred and Ventas entered into an Amendment No. 3 to the Master Lease Agreement pursuant to which rents were reallocated among the 29 Ventas properties.

Rental amounts and escalators

The Master Lease Agreement is commonly known as a triple-net lease or an absolute-net lease. Accordingly, in addition to rent, the Company is required to pay the following: (1) all insurance required in connection with the leased properties and the business conducted on the leased properties, (2) certain taxes levied on or with respect to the leased properties (other than taxes on the income of Ventas), and (3) all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties.

The Successor Company and the Predecessor Company paid rents to Ventas (including amounts classified within discontinued operations) of approximately $61.7 million and $60.7 million, respectively, in 2018.

The Master Lease Agreement provides for rent escalations each May 1. All annual rent escalators are payable in cash. The contingent annual rent escalator for the Master Lease Agreement is based upon annual increases in the Consumer Price Index, subject to a ceiling of 4%. In 2018, the contingent annual rent escalator was 2.21% for the Master Lease Agreement.

NOTE 10 – LONG-TERM DEBT

Capitalization

A summary of long-term debt at December 31, 2018 follows (in thousands):

	2018
Term Loan Facility, net of unamortized original issue discount of $3.8 million	$ 405,168
ABL Facility	64,300
Other	380
Debt issuance costs, net of accumulated amortization	(9,655)
Total debt, average life of 6 years (weighted average rate 7.8%)	460,193
Amounts due within one year	(4,433)
Long-term debt	$ 455,760

NOTE 10 – LONG-TERM DEBT (Continued)

Capitalization (Continued)

The following table summarizes scheduled maturities of long-term debt (in thousands):

	Term Loan Facility	ABL Facility	Other	Total
2019	$ 4,074	$ –	$ 359	$ 4,433
2020	4,034	–	21	4,055
2021	3,994	–	–	3,994
2022	3,954	–	–	3,954
2023	3,914	64,300	–	68,214
Thereafter	389,005	–	–	389,005
	$ 408,975	$ 64,300	$ 380	$ 473,655

The estimated fair value of the Company's long-term debt approximated $444.9 million at December 31, 2018. See Note 15.

Credit Facilities

As used herein, the "Credit Facilities" refers collectively to the Term Loan Facility and the ABL Facility, in each case as defined and described below.

Term Loan Facility

The "Term Loan Facility" refers to the Company's $410 million term loan credit facility provided pursuant to the terms and provisions of that certain Term Loan Credit Agreement dated as of July 2, 2018 (the "Term Loan Credit Agreement"), among the Company, the lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as administrative agent and collateral agent. All obligations under the Term Loan Facility are fully and unconditionally guaranteed, subject to certain customary release provisions, by substantially all of the Company's wholly owned, domestic material subsidiaries (subject to certain designated exceptions), as well as the Company's immediate parent entity, plus any foreign or non-wholly owned domestic subsidiaries that the Company may determine from time to time in its sole discretion (collectively, the "Guarantors"). The obligations under the Term Loan Facility are secured by substantially all of the assets of the Company and the Guarantors.

The Term Loan Facility (1) matures on July 2, 2025, (2) amortizes annually at 1.00%, payable in quarterly installments commending on December 31, 2018, (3) imposes a variety of restrictions including restrictions on the Company's ability to incur debt and liens and make acquisitions, investments and payments on equity and junior debt, and (4) provides for interest rate margins of 5.00% for LIBOR borrowings and 4.00% for base rate borrowings. The Term Loan Facility contains no financial maintenance covenants.

ABL Facility

The "ABL Facility" refers to the Company's $450 million asset-based loan revolving credit facility provided pursuant to the terms and provisions of that certain ABL Credit Agreement dated as of July 2, 2018 (the "ABL Credit Agreement") among the Company, the lenders party thereto from time to time, and JPMorgan Chase Bank, N.A., as administrative agent and collateral agent. All obligations under the ABL Facility are fully and unconditionally guaranteed, subject to certain customary release provisions, by substantially all of the Company's wholly owned, domestic material subsidiaries (subject to certain designated exceptions), as well as the Company's immediate parent entity, plus any foreign or non-wholly owned domestic subsidiaries that the Company may determine from time to time in its sole discretion. The obligations under the ABL Facility are secured by substantially the same collateral as the obligations under the Term Loan Facility. As of December 31, 2018, $61.2 million of letters of credit were outstanding under the ABL Facility.

The ABL Facility (1) matures on July 2, 2023, (2) contains a financial maintenance covenant in the form of a springing minimum fixed charge coverage ratio, (3) imposes a variety of restrictions including restrictions on the Company's ability to incur debt and liens and make acquisitions, investments and payments on equity and junior debt, particularly if the payment condition is not satisfied and (4) provides for interest rate margins of 2.00% to 2.50% for LIBOR borrowings and 1.00% to 1.50% for base rate borrowings (in each case depending on average daily excess availability), and (5) employs a borrowing base calculation to determine total available capacity thereunder.

The Company was in compliance with the terms of the Credit Facilities at December 31, 2018.

NOTE 10 – LONG-TERM DEBT (Continued)

Interest rate swap

In October 2018, the Company entered into an interest rate swap agreement to hedge its floating interest rate on $250 million of outstanding Term Loan Facility debt. The interest rate swap has an effective date of September 30, 2018, and expires on September 30, 2023. The Company is required to make payments based upon a fixed interest rate of 3.1079% calculated on the notional amount of $250 million. In exchange, the Company will receive interest on $250 million at a variable interest rate that is based upon the one-month LIBOR rate.

In January 2016, Kindred entered into three interest rate swap agreements to hedge its floating interest rate on an aggregate of $325 million of debt outstanding. The interest rate swaps had an effective date of January 11, 2016, and were set to expire on January 9, 2021. Kindred was required to make payments based upon a fixed interest rate of 1.862% and 1.855% calculated on the notional amount of $175 million and $150 million, respectively. In exchange, Kindred received interest on $325 million at a variable interest rate that was based upon the three-month LIBOR, subject to a minimum rate of 1.0%. In connection with the Kindred Reorganization, these interest rate swap agreements were settled in June 2018 by the Predecessor Company resulting in a pretax gain of $9.9 million.

The interest rate swap was assessed for hedge effectiveness for accounting purposes and the Company determined the interest rate swap qualifies for cash flow hedge accounting treatment at December 31, 2018. The Company uses the private company simplified hedge accounting standard and records the effective portion of the gain or loss on derivative financial instruments in accumulated other comprehensive income (loss) as a component of members' equity and records the ineffective portion of the gain or loss on derivative financial instruments as interest expense. There was no ineffectiveness related to the interest rate swap for the Successor Company.

At December 31, 2018, the fair value of the interest rate swap was recorded in other current liabilities for $7.1 million. The fair value was determined by reference to a third party valuation and is considered a Level 2 input within the fair value hierarchy (as described in Note 15).

NOTE 11 – CONTINGENCIES

Management continually evaluates contingencies based upon the best available information. In addition, allowances for losses are provided currently for disputed items that have continuing significance, such as certain third party reimbursements and deductions that continue to be claimed in current cost reports and tax returns.

Management believes that allowances for losses have been provided to the extent necessary and that its assessment of contingencies is reasonable.

Principal contingencies are described below:

Revenues – Certain third party payments are subject to examination by agencies administering the various reimbursement programs. The Company is contesting certain issues raised in audits of prior year cost reports and the denial of payment by third parties to the Company's customers.

Professional liability risks – The Company has provided for losses for professional liability risks based upon management's best available information including actuarially determined estimates. Ultimate claims costs may differ from the provisions for loss. See Note 7.

Legal and regulatory proceedings – The Company is a party to various legal actions and regulatory and other governmental and internal audits and investigations in the ordinary course of business (including investigations resulting from the Company's obligation to self-report suspected violations of law). The Company cannot predict the ultimate outcome of pending litigation and regulatory and other governmental and internal audits and investigations. The U.S. Department of Justice (the "DOJ"), the Centers for Medicare and Medicaid Services ("CMS") or other federal and state enforcement and regulatory agencies may conduct additional investigations related to the Company's businesses in the future. These matters could potentially subject the Company to sanctions, damages, recoupments, fines, and other penalties (some of which may not be covered by insurance), which may, either individually or in the aggregate, have a material adverse effect on the Company's business, financial position, results of operations, and liquidity. See Note 16.

NOTE 11 – CONTINGENCIES (Continued)

Other indemnifications – In the ordinary course of business, the Company enters into contracts containing standard indemnification provisions and indemnifications specific to a transaction, such as a disposal of an operating facility. These indemnifications may cover claims related to employment-related matters, governmental regulations, environmental issues and tax matters, as well as patient, third party payor, supplier and contractual relationships. The Company also is subject to indemnity claims under contracts with its Kindred Rehabilitation Services division customers related to the provision of its services. Obligations under these indemnities generally are initiated by a breach of the terms of a contract or by a third party claim or event. These indemnifications could potentially subject the Company to damages and other payments which may, either individually or in the aggregate, have a material adverse effect on the Company's business, financial position, results of operations or liquidity.

Income taxes – The Company is subject to various federal and state income tax audits in the ordinary course of business. Such audits could result in increased tax payments, interest and penalties.

NOTE 12 – CAPITAL STOCK AND SHARE-BASED COMPENSATION

Capital stock

As part of the Kindred Reorganization, the majority of the shares of Kindred Common Stock, unvested service-based restricted shares and unvested performance-based restricted shares were paid out in cash at $9.00 per share. The unearned compensation expense for unvested service-based restricted shares and unvested performance-based restricted shares totaling $10.5 million as of June 30, 2018 were written off as a restructuring charge in the Successor Company statement of operations.

Former shareholders owning 6.9 million shares of Kindred Common Stock have not been paid due to pending litigation. See Note 16. The Company has an accrual related to these pending payments totaling $62.0 million as of December 31, 2018 in other accrued liabilities in the accompanying consolidated balance sheet. In addition, certain Kindred employees owning 0.6 million shares of Kindred Common Stock have not been paid out at $9.00 per share. The payouts will occur under the original vesting of the unvested service-based restricted shares and unvested performance-based restricted shares programs. The Company has an accrual totaling $5.5 million as of December 31, 2018 in other accrued liabilities in the accompanying consolidated balance sheet related to these pending employee payouts.

The Predecessor Company financial statements reflect compensation expense related to unvested service-based restricted shares and unvested performance-based restricted shares totaling $5.2 million and $1.4 million, respectively.

Service-vesting profit units

The Successor Company implemented a service-vesting profit unit plan in 2018. Service-vesting profit units primarily vest ratably over a five-year period.

At December 31, 2018, unearned compensation costs related to non-vested service-vesting profit units aggregated $5.0 million and are reported in the accompanying consolidated balance sheet as a component of members' investment. These costs will be expensed over the remaining weighted average vesting period of 4 years. Compensation expense for the Successor Company related to these awards approximated $0.5 million in 2018.

A summary of non-vested service-vesting profit units follows:

	Non-vested service-vesting profit units	Weighted average fair value at date of grant
Balances, July 2, 2018	–	$ –
Granted	15,430,588	0.36
Balances, December 31, 2018	15,430,588	$ 0.36

NOTE 12 – CAPITAL STOCK AND SHARE-BASED COMPENSATION (Continued)

Service-vesting profit units (Continued)

The following is a summary of the significant assumptions used in estimating the fair value of service-vesting profit units granted in 2018:

	2018
Assumptions:	
Risk-free interest rate	2.83%
Expected volatility	35.46%
Expected term	7 years

The risk-free interest rate is based upon published data on U.S. Treasuries that match the term of the award. Expected volatility was estimated using the average volatility of the Successor Company's peers. Expected term is based on a typical option expected life.

MOIC-vesting profit units

The Successor Company implemented a multiple of invested capital ("MOIC) vesting profit unit plan in 2018. Compensation expense will not be recognized by the Successor Company until it is probable that a covered transaction (a performance condition) will occur.

A summary of non-vested MOIC-vesting profit units follows:

	Non-vested MOIC-vesting profit units
Balances, July 2, 2018	–
Granted	10,654,056
Balances, December 31, 2018	10,654,056

NOTE 13 – EMPLOYEE BENEFIT PLANS

The Company maintains defined contribution retirement plans covering employees who meet certain minimum eligibility requirements. Benefits are determined as a percentage of a participant's contributions and generally are vested based upon length of service. Retirement plan expense for employees of the Company was $1.5 million for both the Successor Company and the Predecessor Company. Amounts equal to retirement plan expense are funded annually.

NOTE 14 – BALANCE SHEET INFORMATION

Supplemental information related to the accompanying consolidated balance sheet at December 31 follows (in thousands):

	Successor Company 2018
Other current assets:	
Prepaid assets	$ 27,721
KAH receivable – malpractice and workers compensation	8,958
KAH receivable – TSA and other miscellaneous (see Note 17)	5,737
Receivable from sale of equipment	4,167
Other	1,373
	$ 47,956
Other long-term assets:	
Reinsurance and other recoverables	$ 148,723
Funds in escrow	17,158
KAH receivable – malpractice and workers compensation	15,699
Cost-method investments	15,000
Receivable from sale of equipment	12,153
Other	29,847
	$ 238,580
Other accrued liabilities:	
Dissenting shares (see Note 12)	$ 62,033
Sale-leaseback financing obligation related to the SNF Divestiture (see Note 3)	53,054
Patient accounts	52,173
Taxes other than income	22,902
Accrued acquisition and divestiture costs	12,529
Other	27,650
	$ 230,341
Deferred credits and other liabilities:	
Leasehold interest liabilities	$ 248,175
Accrued workers compensation	78,418
Accrued lease termination fees	44,813
Other	39,024
	$ 410,430

NOTE 15 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The Company follows the provisions of the authoritative guidance for fair value measurements, which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under GAAP.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance related to fair value measures establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency asset backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Company's assets and liabilities measured at fair value on a recurring basis and any associated losses for the year ended December 31, 2018 are summarized below (in thousands):

	Fair value measurements				
	Level 1	Level 2	Level 3	Assets/liabilities at fair value	Total losses
December 31, 2018					
Recurring:					
Assets:					
Money market funds	$ 1,050	$ –	$ –	$ 1050	$ –
Deposits held in money market funds	110	–	–	110	–
	$ 1,160	$ –	$ –	$ 1,160	$ –
Liabilities:					
Interest rate swap	$ –	$ 7,086	$ –	$ 7,086	$ –

Recurring measurements

The Company's insurance subsidiary's cash and cash equivalents of $31.6 million as of December 31, 2018, classified as insurance subsidiary investments, is maintained for the payment of claims and expenses related to professional liability and workers compensation risks.

The Company had money market funds totaling $1.1 million as of December 31, 2018 related to a deferred compensation plan that is maintained for certain of the Company's current and former employees.

The Company's deposits held in money market funds consist primarily of cash and cash equivalents for the Company's general corporate purposes.

The fair value of the derivative asset or liability associated with the interest rate swap is estimated using industry-standard valuation models, which are Level 2 measurements. Such models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rate curves. See Note 10.

NOTE 15 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Recurring measurements (Continued)

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments. The carrying value is equal to fair value for financial instruments that are based upon quoted market prices or current market rates. The Company's long-term debt is based upon Level 2 inputs.

	December 31, 2018	
(In thousands)	Carrying value	Fair value
Cash and cash equivalents	$ 84,213	$ 84,213
Insurance subsidiary investments	31,613	31,613
Long-term debt, including amounts due within one year (excluding capital lease obligations totaling $0.1 million at December 31, 2018)	460,090	444,924

NOTE 16 – LEGAL AND REGULATORY PROCEEDINGS

The Company provides services in a highly regulated industry and is subject to various legal actions and regulatory and other governmental and internal audits and investigations in the ordinary course of business (including investigations resulting from the Company's obligation to self-report suspected violations of law). These matters could (1) require the Company to pay substantial damages, fines, penalties or amounts in judgments or settlements, which individually or in the aggregate could exceed amounts, if any, that may be recovered under the Company's insurance policies where coverage applies and is available; (2) cause the Company to incur substantial expenses; (3) require significant time and attention from the Company's management; (4) subject the Company to sanctions, including possible exclusions from the Medicare and Medicaid programs; and (5) cause the Company to close or sell one or more facilities or otherwise modify the way the Company conducts business. The ultimate resolution of these matters, whether as a result of litigation or settlement, could have a material adverse effect on the Company's business, financial position, results of operations, and liquidity.

In accordance with authoritative accounting guidance related to loss contingencies, the Company records an accrued liability for litigation and regulatory matters that are both probable and reasonably estimable. Additional losses in excess of amounts accrued may be reasonably possible. The Company reviews loss contingencies that are reasonably possible and determines whether an estimate of the possible loss or range of loss, individually or in aggregate, can be disclosed in the Company's consolidated financial statements. These estimates are based upon currently available information for those legal and regulatory proceedings in which the Company is involved, taking into account the Company's best estimate of losses for those matters for which such estimate can be made. The Company's estimates involve significant judgment and a variety of assumptions, given that (1) these legal and regulatory proceedings may be in early stages; (2) discovery may not be completed; (3) damages sought in these legal and regulatory proceedings can be unsubstantiated or indeterminate; (4) the matters often involve legal uncertainties or evolving areas of law; (5) there are often significant facts in dispute; and/or (6) there is a wide range of possible outcomes. Accordingly, the Company's estimated loss or range of loss may change from time to time, and actual losses may be more or less than the current estimate. At this time, except as otherwise specifically noted, no estimate of the possible loss or range of loss, individually or in the aggregate, in excess of the amounts accrued, if any, can be made regarding the matters described below.

Set forth below are descriptions of the Company's significant legal proceedings.

Medicare and Medicaid payment reviews, audits, and investigations—As a result of the Company's participation in the Medicare and Medicaid programs, the Company faces and is currently subject to various governmental and internal reviews, audits, and investigations to verify the Company's compliance with these programs and applicable laws and regulations. The Company is routinely subject to audits under various government programs, such as the CMS Recovery Audit Contractor program, in which third party firms engaged by CMS conduct extensive reviews of claims data and medical and other records to identify potential improper payments to healthcare providers under the Medicare program. In addition, the Company, like other healthcare providers, is subject to ongoing investigations by the OIG, the DOJ and state attorneys general into the billing of services provided to Medicare and Medicaid patients, including whether such services were properly documented and billed, whether services provided were medically necessary, and general compliance with conditions of participation in the Medicare and Medicaid programs. Private pay sources such as third party insurance and managed care entities also often reserve the right to conduct audits. The Company's costs to respond to and defend any such reviews, audits, and investigations are significant and are likely to increase in the current enforcement environment. These audits and investigations may require the Company to refund or retroactively adjust amounts that have been paid under the relevant government program or by other payors. Further, an adverse review, audit, or investigation also could result in other adverse consequences, particularly if the underlying conduct is found to be pervasive or systemic. These consequences include (1) state or federal agencies imposing fines, penalties, and

NOTE 16 – LEGAL AND REGULATORY PROCEEDINGS (Continued)

other sanctions on the Company; (2) loss of the Company's right to participate in the Medicare or Medicaid programs or one or more third party payor networks; (3) indemnity claims asserted by customers and others for which the Company provides services; and (4) damage to the Company's reputation in various markets, which could adversely affect the Company's ability to attract patients, customers and employees.

Whistleblower lawsuits—The Company is also subject to *qui tam* or "whistleblower" lawsuits under the federal False Claims Act and comparable state laws for allegedly submitting fraudulent bills for services to the Medicare and Medicaid programs. These lawsuits can result in monetary damages, fines, attorneys' fees, and the award of bounties to private *qui tam* plaintiffs who successfully bring these lawsuits and to the respective government programs. The Company also could be subject to civil penalties (including the loss of the Company's licenses to operate one or more facilities or healthcare activities), criminal penalties (for violations of certain laws and regulations), and exclusion of one or more facilities or healthcare activities from participation in the Medicare, Medicaid, and other federal and state healthcare programs. The lawsuits are in various stages of adjudication or investigation and involve a wide variety of claims and potential outcomes.

Employment-related lawsuits—The Company's operations are subject to a variety of federal and state employment-related laws and regulations, including but not limited to the U.S. Fair Labor Standards Act, Equal Employment Opportunity laws, and enforcement policies of the Equal Employment Opportunity Commission, the Office of Civil Rights and state attorneys general, federal and state wage and hour laws, and a variety of laws enacted by the federal and state governments that govern these and other employment-related matters. Accordingly, the Company is currently subject to employee-related claims, class actions and other lawsuits and proceedings in connection with the Company's operations, including but not limited to those related to alleged wrongful discharge, illegal discrimination, and violations of equal employment and federal and state wage and hour laws. Because labor represents such a large portion of the Company's operating costs, noncompliance with these evolving federal and state laws and regulations could subject the Company to significant back pay awards, fines, and additional lawsuits and proceedings. These claims, lawsuits, and proceedings are in various stages of adjudication or investigation and involve a wide variety of claims and potential outcomes.

Shareholder actions— Six purported class action complaints related to the Merger were filed on behalf of putative classes of Kindred's public stockholders (the "Merger Complaints"). Four of these complaints were filed in the United States District Court for the District of Delaware: *Sehrgosha v. Kindred Healthcare, Inc.*, *et al.*, filed on February 8, 2018; *Carter v. Kindred Healthcare, Inc.*, *et al.*, filed on February 14, 2018; *Rosenfeld v. Kindred Healthcare, Inc.*, *et al.*, filed on February 15, 2018; and *Einhorn v. Kindred Healthcare, Inc.*, *et al.*, filed on February 21, 2018. The remaining two complaints were filed in the United States District Court for the Western District of Kentucky: *Tompkins v. Kindred Healthcare, Inc.*, *et al.*, filed on February 9, 2018; and *Buskirk v. Kindred Healthcare, Inc.*, *et al.,* filed on February 13, 2018. Kindred and individual members of the board of directors are named as defendants in each of the actions. The *Tompkins* action also names as defendants TPG, WCAS, Humana, Parent, HospitalCo Parent and Merger Sub. The Merger Complaints generally allege that the defendants violated the Securities Exchange Act of 1934, as amended, by failing to disclose material information in Kindred's preliminary proxy statement filed on February 5, 2018. The Merger Complaints seek, among other things, injunctive relief prohibiting the stockholder vote to approve the Merger and unspecified compensatory damages and attorneys' fees. On March 5, 2018, the plaintiffs jointly agreed to voluntarily dismiss the Merger Complaints in exchange for Kindred's agreement to file supplemental disclosures with the Securities and Exchange Commission. The supplemental disclosures were filed on March 6, 2018. The issue of an associated award of legal fees has fully briefed to the court. The parties have reached a tentative settlement of $0.4 million on the award of legal fees.

During March 2018, Kindred received notices from 21 of its former shareholders, holding 8,120,003 shares of Common Stock in the aggregate, indicating their election to seek statutory appraisal of their shares of Common Stock instead of accepting the Merger Consideration of $9 per share. Seventeen of the 21 former shareholders, holding 1,227,401 shares in the aggregate, subsequently elected to accept the Merger Consideration and forego appraisal of their respective shares. On July 31, 2018, the remaining former shareholders, including Brigade Leveraged Capital Structures Fund Ltd., Brigade Calvary Fund Ltd. and Brigade Distressed Value Master Fund Ltd., filed a complaint in the Court of Chancery of the State of Delaware seeking appraisal rights for 6,892,602 shares of Common Stock. The Company disputes the allegations in the complaint and will defend this lawsuit vigorously.

NOTE 16 – LEGAL AND REGULATORY PROCEEDINGS (Continued)

Ordinary course matters—In addition to the matters described above, the Company is subject to investigations, claims, and lawsuits in the ordinary course of business, including investigations resulting from the Company's obligation to self-report suspected violations of law and professional liability claims, particularly in the Company's hospital operations and former nursing center operations. In many of these claims, plaintiffs' attorneys are seeking significant fines and compensatory and punitive damages in addition to attorneys' fees. The Company maintains professional and general liability insurance in amounts and coverage that management believes are sufficient for the Company's operations. However, the Company's insurance may not cover all claims against the Company or the full extent of its liability.

NOTE 17 – RELATED PARTY TRANSACTIONS

Support center allocations

The Predecessor Company provided certain support functions to KAH on a centralized basis, including cash management, accounts receivable processing, property and equipment record keeping, accounts payable processing, payroll and general bookkeeping. The Predecessor Company also managed general business functions on behalf of KAH, including cost reimbursement reporting, human resources, financial reporting and legal services. The Predecessor Company referred to these expenses as support center allocations and have been allocated between the Predecessor Company and KAH based upon a percentage of net revenues. The Predecessor Company allocated expenses of $53.7 million for January 1, 2018 through July 1, 2018 were charged to KAH, which are presented as a reduction of other operating expenses in the accompanying combined statement of operations of the Predecessor Company.

Intercompany services

The Predecessor Company provided services to KAH mainly related to rehabilitation and hospital services totaling $1.2 million. The income is recorded in revenues in the accompanying combined statement of operations.

Transition services agreement

As part of the Merger, the Company entered into a transition services agreement with KAH to provide information system services and various transition services such as payroll, marketing, government affairs and income taxes. The Company recorded $24.6 million in other income in the Successor Company accompanying consolidated statement of operations.

Sponsor fees and value capture initiatives

As part of the Merger, the Company entered into management services agreements with TPG and WCAS. As part of these agreements, the Company is required to pay each a monthly fee. These fees totaled $1.9 million in the Successor Company accompanying consolidated statement of operations.

The Company is also required to pay third party consultants and vendors related to various value capture initiatives which are expected to generate future cost savings. The expense for these third party consultants and vendors totaled $6.2 million in the Successor Company accompanying consolidated statement of operations.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2017

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 001-14057

KINDRED HEALTHCARE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**61-1323993**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
680 South Fourth Street Louisville, Kentucky	**40202-2412**
(Address of principal executive offices)	**(Zip Code)**

(502) 596-7300
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on which Registered**
Common Stock, par value $0.25 per share	**New York Stock Exchange**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Annual Report on Form 10-K or any amendment of this Annual Report on Form 10-K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of the shares of the registrant held by non-affiliates of the registrant, based on the closing price of such stock on the New York Stock Exchange on June 30, 2017, was approximately $974,300,000. For purposes of the foregoing calculation only, all directors and executive officers of the registrant have been deemed affiliates.

As of January 31, 2018, there were 91,413,775 shares of the registrant's common stock, $0.25 par value, outstanding.

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(a) All other schedules have been omitted because the required information is not present or not present in material amounts.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of Kindred Healthcare, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Kindred Healthcare, Inc. and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive loss, equity and cash flows for each of the three years in the period ended December 31, 2017, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - *Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016**,** and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017 based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

Louisville, Kentucky
February 28, 2018

We have served as the Company's auditor since 1999.

KINDRED HEALTHCARE, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands, except per share amounts)

	Year ended December 31,		
	2017	**2016**	**2015**
Revenues	$ 6,034,123	$ 6,292,529	$ 6,119,218
Salaries, wages and benefits	3,318,885	3,392,263	3,233,047
Supplies	303,923	343,065	342,075
Building rent	257,516	264,306	257,221
Equipment rent	34,856	39,929	38,590
Other operating expenses	640,764	656,792	639,608
General and administrative expenses (exclusive of depreciation and amortization expense included below)	1,069,764	1,107,648	1,210,787
Other income	(3,460)	(5,066)	(2,358)
Litigation contingency expense	7,435	2,840	138,648
Impairment charges	381,179	314,729	24,757
Restructuring charges	84,861	96,126	12,618
Depreciation and amortization	104,805	131,819	129,246
Interest expense	241,411	234,612	232,351
Investment income	(3,499)	(3,108)	(2,756)
	6,438,440	6,575,955	6,253,834
Loss from continuing operations before income taxes	(404,317)	(283,426)	(134,616)
Provision (benefit) for income taxes	(157,116)	314,262	(51,714)
Loss from continuing operations	(247,201)	(597,688)	(82,902)
Discontinued operations, net of income taxes:			
Income (loss) from operations	(16,854)	(6,192)	30,804
Gain (loss) on divestiture of operations	(379,260)	(6,744)	1,244
Income (loss) from discontinued operations	(396,114)	(12,936)	32,048
Net loss	(643,315)	(610,624)	(50,854)
Earnings attributable to noncontrolling interests:			
Continuing operations	(42,176)	(34,847)	(26,044)
Discontinued operations	(12,861)	(18,759)	(16,486)
	(55,037)	(53,606)	(42,530)
Loss attributable to Kindred	$ (698,352)	$ (664,230)	$ (93,384)
Amounts attributable to Kindred stockholders:			
Loss from continuing operations	$ (289,377)	$ (632,535)	$ (108,946)
Income (loss) from discontinued operations	(408,975)	(31,695)	15,562
Net loss	$ (698,352)	$ (664,230)	$ (93,384)
Loss per common share:			
Basic:			
Loss from continuing operations	$ (3.31)	$ (7.29)	$ (1.29)
Discontinued operations:			
Income (loss) from operations	(0.34)	(0.28)	0.17
Gain (loss) on divestiture of operations	(4.33)	(0.08)	0.01
Income (loss) from discontinued operations	(4.67)	(0.36)	0.18
Net loss	$ (7.98)	$ (7.65)	$ (1.11)
Diluted:			
Loss from continuing operations	$ (3.31)	$ (7.29)	$ (1.29)
Discontinued operations:			
Income (loss) from operations	(0.34)	(0.28)	0.17
Gain (loss) on divestiture of operations	(4.33)	(0.08)	0.01
Income (loss) from discontinued operations	(4.67)	(0.36)	0.18
Net loss	$ (7.98)	$ (7.65)	$ (1.11)
Shares used in computing loss per common share:			
Basic	87,525	86,800	84,558
Diluted	87,525	86,800	84,558
Cash dividends declared and paid per common share	$ 0.12	$ 0.48	$ 0.48

See accompanying notes.

KINDRED HEALTHCARE, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
(In thousands)

	Year ended December 31,		
	2017	2016	2015
Net loss	$ (643,315)	$ (610,624)	$ (50,854)
Other comprehensive income (loss):			
Available-for-sale securities (Note 13):			
Change in unrealized investment gains (losses)	1,399	1,636	(133)
Reclassification of gains realized in net loss	(1,451)	(1,206)	(173)
Net change	(52)	430	(306)
Interest rate swaps (Notes 1 and 15):			
Change in unrealized gains (losses)	5,225	1,755	(799)
Reclassification of ineffectiveness realized in net loss	-	-	146
Reclassification of (gains) losses realized in net loss, net of payments	(609)	411	-
Net change	4,616	2,166	(653)
Defined benefit post-retirement plan:			
Unrealized gain due to fair value adjustments	42	220	753
Income tax benefit related to items of other comprehensive income (loss)	-	1,389	125
Other comprehensive income (loss)	4,606	4,205	(81)
Comprehensive loss	(638,709)	(606,419)	(50,935)
Earnings attributable to noncontrolling interests	(55,037)	(53,606)	(42,530)
Comprehensive loss attributable to Kindred	$ (693,746)	$ (660,025)	$ (93,465)

See accompanying notes.

KINDRED HEALTHCARE, INC.
CONSOLIDATED BALANCE SHEET
(In thousands, except per share amounts)

	December 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 160,254	$ 137,061
Insurance subsidiary investments	22,546	108,966
Accounts receivable less allowance for loss of $96,899 — 2017 and $71,070 — 2016	1,122,532	1,172,078
Inventories	21,716	22,438
Income taxes	4,546	10,067
Assets held for sale	17,335	289,450
Other (Note 20)	60,610	63,693
	1,409,539	1,803,753
Property and equipment, at cost:		
Land	55,731	54,726
Buildings	788,879	624,021
Equipment	814,011	813,070
Construction in progress	24,344	39,781
	1,682,965	1,531,598
Accumulated depreciation	(946,986)	(912,978)
	735,979	618,620
Goodwill	2,188,566	2,427,074
Intangible assets less accumulated amortization of $77,603 — 2017 and $101,612 — 2016	604,338	770,108
Insurance subsidiary investments	28,988	204,929
Other (Note 20)	265,307	288,240
Total assets (a)	$ 5,232,717	$ 6,112,724
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 191,827	$ 203,925
Salaries, wages and other compensation	352,179	397,486
Due to third party payors	35,321	41,320
Professional liability risks	60,767	65,284
Accrued lease termination fees	7,610	5,224
Other accrued liabilities (Note 20)	263,977	264,512
Long-term debt due within one year	14,638	27,977
	926,319	1,005,728
Long-term debt	3,146,972	3,215,062
Professional liability risks	276,829	295,311
Deferred tax liabilities	36,881	201,808
Deferred credits and other liabilities (Note 20)	497,954	353,294
Commitments and contingencies (Note 17)		
Equity:		
Stockholder's equity:		
Common stock, $0.25 par value; authorized 175,000 shares; issued 91,454 shares — 2017 and 85,166 shares — 2016	22,864	21,291
Capital in excess of par value	1,713,179	1,710,231
Accumulated other comprehensive income	6,179	1,573
Accumulated deficit	(1,618,896)	(920,544)
	123,326	812,551
Noncontrolling interests	224,436	228,970
Total equity	347,762	1,041,521
Total liabilities (a) and equity	$ 5,232,717	$ 6,112,724

(a) The Company's consolidated assets as of December 31, 2017 and 2016 include total assets of variable interest entities of $405.8 million and $394.1 million, respectively, which can only be used to settle the obligations of the variable interest entities. The Company's consolidated liabilities as of December 31, 2017 and 2016 include total liabilities of variable interest entities of $43.9 million and $38.9 million, respectively. See note 1 of the notes to consolidated financial statements.

See accompanying notes.

KINDRED HEALTHCARE, INC.
CONSOLIDATED STATEMENT OF EQUITY
(In thousands)

	Attributable to Kindred stockholders						
	Shares of common stock	Par value common stock	Capital in excess of par value	Accumulated other comprehensive income (loss)	Accumulated deficit	Noncontrolling interests	Total
Balances, December 31, 2014	69,977	$ 17,494	$ 1,586,692	$ (2,551)	$ (159,768)	$ 44,105	$ 1,485,972
Comprehensive loss:							
Net income (loss)					(93,384)	42,530	(50,854)
Net unrealized investment losses, net of income taxes				(199)			(199)
Other				118			118
Comprehensive loss							(50,935)
Grant of non-vested restricted stock	672	168	(168)				-
Issuance of common stock in connection with employee benefit plans	216	54	482		(2)		534
Shares tendered by employees for statutory tax withholdings upon issuance of common stock	(481)	(120)	(7,050)		(3,055)		(10,225)
Stock-based compensation amortization			20,636				20,636
Income tax benefit in connection with the issuance of common stock under employee benefit plans			3,170				3,170
Exchange of tangible equity units, net of costs	3,668	917	(917)				-
Contributions made by noncontrolling interests						8,132	8,132
Distributions to noncontrolling interests						(42,458)	(42,458)
Purchase of noncontrolling interests						153,884	153,884
Dividends paid			(40,119)				(40,119)
Issuance of common stock in Gentiva Merger (see Note 3)	9,740	2,435	175,021				177,456
Balances, December 31, 2015	83,792	20,948	1,737,747	(2,632)	(256,209)	206,193	1,706,047
Comprehensive loss:							
Net income (loss)					(664,230)	53,606	(610,624)
Net unrealized investment gains, net of income taxes				339			339
Other				3,866			3,866
Comprehensive loss							(606,419)
Grant of non-vested restricted stock	1,384	346	(346)				-
Issuance of common stock in connection with employee benefit plans	292	73	(73)				-
Shares tendered by employees for statutory tax withholdings upon issuance of common stock	(302)	(76)	(2,985)		(105)		(3,166)
Stock-based compensation amortization			16,425				16,425
Income tax benefit in connection with the issuance of common stock under employee benefit plans			435				435
Contributions made by noncontrolling interests						17,314	17,314
Distributions to noncontrolling interests						(45,985)	(45,985)
Purchase of noncontrolling interests			(234)			(2,158)	(2,392)
Dividends paid			(40,738)				(40,738)
Balances, December 31, 2016	85,166	21,291	1,710,231	1,573	(920,544)	228,970	1,041,521
Comprehensive loss:							
Net income (loss)					(698,352)	55,037	(643,315)
Net unrealized investment losses, net of income taxes				(52)			(52)
Other				4,658			4,658
Comprehensive loss							(638,709)
Grant of non-vested restricted stock	2,023	506	(506)				-
Issuance of common stock in connection with employee benefit plans	151	38	(6)				32
Shares tendered by employees for statutory tax withholdings upon issuance of common stock	(310)	(77)	(2,455)				(2,532)
Stock-based compensation amortization			17,249				17,249
Contributions made by noncontrolling interests						1,655	1,655
Distributions to noncontrolling interests						(61,226)	(61,226)
Settlements of tangible equity units	4,424	1,106	(1,106)				-
Dividends paid			(10,228)				(10,228)
Balances, December 31, 2017	91,454	$ 22,864	$ 1,713,179	$ 6,179	$ (1,618,896)	$ 224,436	$ 347,762

See accompanying notes.

KINDRED HEALTHCARE, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)

	Year ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net loss	$ (643,315)	$ (610,624)	$ (50,854)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation expense	102,481	135,966	128,533
Amortization of intangible assets	14,637	23,673	29,841
Amortization of stock-based compensation costs	17,249	16,425	20,636
Amortization of deferred financing costs	17,189	15,267	13,721
Payment of capitalized lender fees related to debt amendments	(5,403)	(7,375)	(28,012)
Provision for doubtful accounts	68,284	40,804	52,460
Deferred income taxes	(164,694)	310,338	(46,632)
Impairment charges	382,447	342,559	24,757
(Gain) loss on divestiture of discontinued operations	379,260	6,744	(1,244)
Other	17,935	12,414	13,537
Change in operating assets and liabilities:			
Accounts receivable	(20,896)	(59,031)	(8,577)
Inventories and other assets	22,854	(24,226)	54,493
Accounts payable	(12,267)	26,215	(10,380)
Income taxes	10,242	4,350	30,155
Due to third party payors	(5,999)	3,692	(30,882)
Other accrued liabilities	(104,309)	(48,955)	(15,302)
Net cash provided by operating activities	75,695	188,236	176,250
Cash flows from investing activities:			
Routine capital expenditures	(69,806)	(96,052)	(121,931)
Development capital expenditures	(25,895)	(34,825)	(19,931)
Acquisitions, net of cash acquired	(9,650)	(78,840)	(673,547)
Acquisition deposits	-	18,489	176,511
Sale of assets, net of lease termination charges	(71,555)	25,987	8,735
Proceeds from senior unsecured notes offering held in escrow	-	-	1,350,000
Interest in escrow for senior unsecured notes	-	-	23,438
Purchase of insurance subsidiary investments	(113,661)	(97,740)	(85,222)
Sale of insurance subsidiary investments	243,616	95,488	75,075
Net change in insurance subsidiary cash and cash equivalents	133,618	877	(12,271)
Proceeds from note receivable	-	-	25,000
Net change in other investments	24,637	(32,770)	(4,620)
Other	7	(255)	10,972
Net cash provided by (used in) investing activities	111,311	(199,641)	752,209
Cash flows from financing activities:			
Proceeds from borrowings under revolving credit	1,369,700	1,643,300	1,740,450
Repayment of borrowings under revolving credit	(1,432,200)	(1,689,400)	(1,631,850)
Proceeds from issuance of term loan, net of discount	-	198,100	199,000
Proceeds from other long-term debt	-	750	-
Repayment of Gentiva debt	-	-	(1,177,363)
Repayment of term loan	(14,034)	(13,527)	(12,010)
Repayment of other long-term debt	(1,045)	(1,104)	(6,752)
Payment of deferred financing costs	(413)	(522)	(3,446)
Issuance of common stock in connection with employee benefit plans	32	-	534
Payment of costs associated with issuance of common stock and tangible equity units	-	-	(915)
Payment of dividend for mandatory redeemable preferred stock	(12,372)	(11,514)	(10,887)
Dividends paid	(10,228)	(40,738)	(40,119)
Contributions made by noncontrolling interests	505	14,514	2,152
Distributions to noncontrolling interests	(61,226)	(45,985)	(42,458)
Purchase of noncontrolling interests	-	(1,000)	-
Payroll tax payments for equity awards issuance	(2,532)	(3,166)	(10,225)
Net cash provided by (used in) financing activities	(163,813)	49,708	(993,889)
Change in cash and cash equivalents	23,193	38,303	(65,430)
Cash and cash equivalents at beginning of period	137,061	98,758	164,188
Cash and cash equivalents at end of period	$ 160,254	$ 137,061	$ 98,758
Supplemental information:			
Interest payments	$ 221,177	$ 216,062	$ 180,266
Income tax refunds	2,054	253	26,473
Rental payments to Ventas, Inc.	154,374	167,743	171,829
Issuance of common stock in Gentiva Merger (see Note 3)	-	-	177,456
Non-cash contributions made by noncontrolling interests	1,150	2,800	5,980

See accompanying notes.

NOTE 1 – BASIS OF PRESENTATION

Reporting entity

Kindred Healthcare, Inc. is a healthcare services company that through its subsidiaries operates a home health, hospice, and community care business, transitional care ("TC") hospitals (certified as long-term acute care ("LTAC") hospitals under the Medicare program), inpatient rehabilitation hospitals ("IRFs"), and a contract rehabilitation services business across the United States (collectively, the "Company" or "Kindred").

Basis of presentation

The consolidated financial statements include all subsidiaries that the Company controls, including variable interest entities ("VIEs") for which the Company is the primary beneficiary. All intercompany transactions have been eliminated.

The Company has completed several transactions related to the divestiture of unprofitable hospitals and nursing centers to improve its future operating results. The Company is also currently in the process of completing the SNF Divestiture (as defined and described more fully in Note 6). For accounting purposes, the operating results of these businesses and the gains, losses or impairments associated with these transactions have been classified as discontinued operations in the accompanying consolidated statement of operations for all periods presented in accordance with the authoritative guidance in effect through December 31, 2014. Effective January 1, 2015, the authoritative guidance modified the requirements for reporting discontinued operations. A disposal is now required to be reported in discontinued operations only if the disposal represents a strategic shift that has (or will have) a major effect on the Company's operations and financial results.

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") and include amounts based upon the estimates and judgments of management. Actual amounts may differ from those estimates.

Recently issued accounting requirements

In February 2018, the Financial Accounting Standards Board (the "FASB") issued authoritative guidance which permits a company to reclassify the income tax effects of the Tax Cuts and Jobs Act of 2017 (the "Tax Reform Act") on items within accumulated other comprehensive income to retained earnings. The new guidance is effective for annual and interim periods beginning after December 15, 2018 and early adoption is permitted. The Company will not elect to early adopt and the adoption of this standard is not expected to have a material impact on the Company's business, financial position, results of operations or liquidity.

In August 2017, the FASB issued authoritative guidance with the objective of improving the financial reporting of hedging relationships under GAAP to better portray economic results and to simplify the application of the current hedge accounting guidance. The new guidance is effective for annual and interim periods beginning after December 15, 2018 and early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's business, financial position, results of operations or liquidity.

In May 2017, the FASB issued authoritative guidance to provide clarity and reduce diversity in practice when accounting for changes to terms or conditions of a share-based payment award. The new guidance is effective for annual and interim periods beginning after December 15, 2017. The adoption of this standard is not expected to have a material impact on the Company's business, financial position, results of operations or liquidity.

In January 2017, the FASB issued authoritative guidance that simplifies the measurement of goodwill impairment to a single-step test. The guidance removes step two of the goodwill impairment test, which required a hypothetical purchase price allocation. The measurement of goodwill impairment is now the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Under the revised guidance, failing step one will always result in goodwill impairment. The new guidance is effective for annual and interim periods beginning after December 15, 2019 and early adoption is permitted. The Company adopted the new guidance on January 1, 2017 on a prospective basis. If the Company fails step one of the goodwill impairment test under the new guidance, the results could materially impact the Company's financial position and results of operations but not its business or liquidity.

In January 2017, the FASB issued authoritative guidance that revises the definition of a business, which affects accounting for acquisitions, disposals, goodwill impairment, and consolidation. The guidance is intended to help entities evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The revision provides a more robust framework to use in determining when a set of assets and activities is a business. The new guidance is effective for annual and interim periods beginning after December 15, 2017. The adoption of this standard is not expected to have a material impact on the Company's business, financial position, results of operations or liquidity.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Recently issued accounting requirements (Continued)

In November 2016, the FASB issued authoritative guidance that simplifies the disclosure of restricted cash within the statement of cash flows. The guidance is intended to reduce diversity when reporting restricted cash and requires entities to explain changes in the combined total of restricted and unrestricted balances in the statement of cash flows. The Company's restricted cash totaled $53.2 million as of December 31, 2017, comprised of $1.7 million in other current assets, $22.5 million in current insurance subsidiary investments and $29.0 million in long-term insurance subsidiary investments. The Company's restricted cash totaled $187.1 million as of December 31, 2016, comprised of $1.9 million in other current assets, $109.0 million in current insurance subsidiary investments and $76.2 million in long-term insurance subsidiary investments. The new guidance should be applied using a retrospective transition method and is effective for annual and interim periods beginning after December 15, 2017. The adoption of this standard is expected to have a material impact on the presentation of the Company's consolidated statement of cash flows, but will not have an impact on the Company's financial position or liquidity.

In August 2016, the FASB issued authoritative guidance to eliminate diversity in practice related to the cash flow statement classification of eight specific cash flow issues, which include debt prepayment or extinguishment costs, maturity of a zero coupon bond, settlement of contingent consideration liabilities after a business combination, proceeds from insurance settlements and distribution from certain equity method investees. The new guidance is effective for annual and interim periods beginning after December 15, 2017. The adoption of this standard is not expected to have a material impact on the Company's consolidated statement of cash flows.

In June 2016, the FASB issued authoritative guidance for accounting for credit losses on financial instruments. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The new guidance is effective for annual periods beginning after December 15, 2019 and early adoption is permitted beginning after December 15, 2018. The adoption of this standard is not expected to have a material impact on the Company's business, financial position, results of operations, and liquidity.

In February 2016, the FASB issued amended authoritative guidance on accounting for leases. The new provisions require that a lessee of operating leases recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The lease liability will be equal to the present value of lease payments, with the right-of-use asset based upon the lease liability. The classification criteria for distinguishing between finance (or capital) leases and operating leases are substantially similar to the previous lease guidance, but with no explicit bright lines. As such, operating leases will result in straight-line rent expense similar to current practice. For short term leases (term of 12 months or less), a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities, which would generally result in lease expense being recognized on a straight-line basis over the lease term. The guidance is effective for annual and interim periods beginning after December 15, 2018, and will require application of the new guidance at the beginning of the earliest comparable period presented. The Company will not elect early adoption and will apply the modified retrospective approach as required. The adoption of this standard is expected to have a material impact on the Company's financial position. The Company does not expect an impact on its business, results of operations or liquidity.

In January 2016, the FASB issued amended authoritative guidance which makes targeted improvements for financial instruments. The new provisions impact certain aspects of recognition, measurement, presentation and disclosure requirements of financial instruments. Specifically, the guidance will (1) require equity investments to be measured at fair value with changes in fair value recognized in net income, (2) simplify the impairment assessment of equity investments without readily determinable fair values, (3) eliminate the requirement to disclose the method and assumptions used to estimate fair value for financial instruments measured at amortized cost, and (4) require separate presentation of financial assets and financial liabilities by measurement category. The guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted. The adoption of this standard is not expected to have a material impact on the Company's business, financial position, results of operations or liquidity.

NOTE 1 – BASIS OF PRESENTATION

Recently issued accounting requirements (Continued)

In May 2014, the FASB issued authoritative guidance which changes the requirements for recognizing revenue when entities enter into contracts with customers. Under these provisions, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. It also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

- In July 2015, the FASB finalized a one year deferral of the new revenue standard with an updated effective date for interim and annual periods beginning on or after December 15, 2017. Entities were not permitted to adopt the standard earlier than the original effective date, which was on or after December 15, 2016.
- In March 2016, the FASB finalized its amendments to the guidance in the new revenue standard on assessing whether an entity is a principal or an agent in a revenue transaction. Under these amendments, the FASB confirmed that a principal in an arrangement controls a good or service before it is transferred to a customer but revised the structure of indicators when an entity is the principal. The amendments have the same effective date and transition requirements as the new revenue standard.
- In May 2016, the FASB finalized its amendments to the guidance in the new revenue standard on contracts with customers and specifically, collectability, non-cash consideration, presentation of sales taxes, and completed contracts. The amendments are intended to reduce the risk of diversity in practice and the cost and complexity of applying certain aspects of the revenue standard. The amendments have the same effective date and transition requirements as the new revenue standard, which is effective for interim and annual periods beginning on or after December 15, 2017, with early adoption permitted on or after December 15, 2016.

The Company will adopt the guidance as of January 1, 2018 using the modified retrospective transition method, and will disclose the cumulative-effect adjustment to retained earnings in the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2018. Based upon the Company's assessment of the new guidance, it anticipates a pretax cumulative-effect adjustment to 2017 retained earnings in the range of $12 million to $14 million, which primarily relates to recognizing contractual revenues earlier due to variable considerations arising from the historical collectability of its private payor portfolio and other elements of revenue subject to estimation during the period of service.

In addition, the Company anticipates a reclassification of other operating expenses or general and administrative expenses to revenue in the range of $15 million to $20 million as a result of the provisions of the new standard in 2018. The Company estimates between $5 million to $8 million of these reclassifications relates to bad debt expense, while the remaining impact results from the performance obligations under the new standard.

The Company's remaining implementation efforts are focused primarily on refining the disclosure process and internal controls.

Revenues

Revenues are recorded based upon estimated amounts due from patients and third party payors for healthcare services provided, including anticipated settlements under reimbursement agreements with Medicare, Medicaid, Medicare Advantage and other third party payors. Revenues under third party agreements are subject to examination and retroactive adjustment. Provisions for estimated third party adjustments are provided in the period the related services are rendered. Differences between the amounts accrued and subsequent settlements are recorded in the periods the interim or final settlements are determined.

A summary of revenues by payor type follows (in thousands):

	Year ended December 31,		
	2017	2016	2015
Medicare	$ 3,171,176	$ 3,432,456	$ 3,283,460
Medicaid	423,359	426,102	407,754
Medicare Advantage	488,115	474,597	444,695
Medicaid Managed	203,014	163,691	141,378
Other	1,835,893	1,893,486	1,962,985
	6,121,557	6,390,332	6,240,272
Eliminations	(87,434)	(97,803)	(121,054)
	$ 6,034,123	$ 6,292,529	$ 6,119,218

NOTE 1 – BASIS OF PRESENTATION (Continued)

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less when purchased. The Company reclassifies outstanding checks in excess of funds on deposit. As of December 31, 2017, $41.2 million was reclassified to accounts payable and $4.1 million was reclassified to salaries, wages and other compensation. As of December 31, 2016, $44.0 million was reclassified to accounts payable and $4.9 million was reclassified to salaries, wages and other compensation.

Insurance subsidiary investments

The Company maintains investments for the payment of claims and expenses related to professional liability and workers compensation risks. These investments have been categorized as available-for-sale and are reported at fair value. The fair value of publicly traded debt and equity securities and money market funds are based upon quoted market prices or observable inputs such as interest rates using either a market or income valuation approach. Since the Company's insurance subsidiary investments are restricted for a limited purpose, they are classified in the accompanying consolidated balance sheet based upon the expected current and long-term cash requirements of the limited purpose insurance subsidiary.

The Company follows the authoritative guidance related to the meaning of other-than-temporary impairment and its application to certain investments to assess whether the Company's investments with unrealized loss positions are other-than-temporarily impaired. Unrealized gains and losses, net of deferred income taxes, are reported as a component of accumulated other comprehensive income (loss). Realized gains and losses and declines in value judged to be other-than-temporary are determined using the specific identification method and are reported in the Company's accompanying consolidated statement of operations. See Note 13.

Accounts receivable

Accounts receivable consist primarily of amounts due from the Medicare and Medicaid programs, other government programs, managed care health plans, commercial insurance companies, hospital customers, individual patients and other customers. Estimated provisions for doubtful accounts are recorded to the extent it is probable that a portion or all of a particular account will not be collected.

In evaluating the collectibility of accounts receivable, the Company considers a number of factors, including the age of the accounts, changes in collection patterns, the composition of patient accounts by payor type, the status of ongoing disputes with third party payors and general industry conditions. Actual collections of accounts receivable in subsequent periods may require changes in the estimated provision for loss. Changes in these estimates are charged or credited to the results of operations in the period of change. Based upon the termination of RehabCare (as defined below) customers and litigation associated with the collection of past due accounts, the Company recorded a provision for doubtful accounts of $23.1 million and $12.9 million for the years ended December 31, 2017 and 2015, respectively.

The provision for doubtful accounts totaled $45.8 million for 2017, $19.3 million for 2016 and $33.5 million for 2015.

Due to third party payors

The Company's TC hospitals, IRFs, home health services and hospice services are required to submit cost reports at least annually to various state and federal agencies administering the respective reimbursement programs. In many instances, interim cash payments to the Company are only an estimate of the amount due for services provided. Any overpayment to the Company arising from the completion of a cost report is recorded as a liability in the accompanying consolidated balance sheet.

Gentiva Health Services, Inc. ("Gentiva") entered into a five-year Corporate Integrity Agreement with the United States Department of Health and Human Services Office of Inspector General (the "OIG") (the "Gentiva CIA"), which became effective on February 15, 2012 and expired in February 2017. The Gentiva CIA imposed monitoring, reporting, certification, oversight and training obligations which the Company, as a result of the Gentiva Merger (as defined in Note 3), had to comply. In the event of a breach of the Gentiva CIA, the Company could have become liable for payment of certain stipulated penalties, or its Gentiva subsidiaries could have been excluded from participation in federal healthcare programs. During 2016, the Company paid stipulated penalties of $3.1 million for the failure to fully and adequately adhere to the requirements to implement the corrective actions called for in the Gentiva CIA.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Due to third party payors (Continued)

The Company entered into a five-year corporate integrity agreement with the OIG on January 11, 2016 (the "RehabCare CIA"). The RehabCare CIA imposes monitoring, auditing (including by an independent review organization), reporting, certification, oversight, screening, and training obligations with which the Company must comply. These obligations include retention of an independent review organization to perform duties under the RehabCare CIA, which include reviewing compliance by RehabCare Group, Inc. and its subsidiaries ("RehabCare"), a therapy services company acquired by the Company on June 1, 2011, with federal program requirements and accepted medical practices, and annual reporting obligations to the OIG regarding RehabCare's compliance with the RehabCare CIA (including corresponding certification by senior management and the Board of Directors or a committee thereof). In the event of a breach of the RehabCare CIA, the Company could become liable for payment of certain stipulated penalties, or RehabCare's subsidiaries could be excluded from participation in federal healthcare programs. The costs associated with compliance with the RehabCare CIA could be substantial and may be greater than the Company currently anticipates.

Any breach or failure to comply with the RehabCare CIA, the imposition of substantial monetary penalties, or any suspension or exclusion from participation in federal healthcare programs, could have a material adverse effect on the Company's business, financial position, results of operations, and liquidity.

Inventories

Inventories consist primarily of pharmaceutical and medical supplies and are stated at the lower of cost (first-in, first-out) or market.

Property and equipment

Beginning April 1, 2017, the Company changed the estimated useful life of certain information technology equipment and software based upon a detailed review of actual utilization. Following the Gentiva Merger (as defined in Note 3), the Company made significant investments in information technology and software. The actual usage and longevity of these assets supports longer lives than previously estimated. The change in estimate extended the expected useful life by one to two years depending on the asset category and has been accounted for prospectively. The impact from this change in accounting estimate was a decrease to loss from continuing operations before income taxes of approximately $10.6 million for the year ended December 31, 2017.

Property and equipment is carried at cost less accumulated depreciation. Depreciation expense, computed by the straight-line method, was $90.2 million for 2017, $108.3 million for 2016 and $99.5 million for 2015. These amounts include amortization of assets recorded under capital leases. Depreciation rates for buildings range generally from 20 to 45 years. Leasehold improvements are depreciated over their estimated useful lives or the remaining lease term, whichever is shorter. Estimated useful lives of equipment vary from five to 15 years. Depreciation expense is not recorded for property and equipment classified as held for sale. Repairs and maintenance are expensed as incurred.

The Company separates capital expenditures into two categories, routine and development, in the accompanying consolidated statement of cash flows. Purchases of routine property and equipment include expenditures at existing facilities that generally do not result in increased capacity or the expansion of services. Development capital expenditures include expenditures for the development of new facilities or the expansion of services or capacity at existing facilities.

Long-lived assets

The Company reviews the carrying value of certain long-lived assets and finite lived intangible assets with respect to any events or circumstances that indicate an impairment or an adjustment to the amortization period is necessary. If circumstances suggest that the recorded amounts cannot be recovered based upon estimated future undiscounted cash flows, the carrying values of such assets are reduced to fair value.

In assessing the carrying values of long-lived assets, the Company estimates future cash flows at the lowest level for which there are independent, identifiable cash flows. For this purpose, these cash flows are aggregated based upon the contractual agreements underlying the operation of the facility or group of facilities. Generally, an individual facility for hospitals or IRFs, skilled nursing rehabilitation services reporting unit, hospital rehabilitation services reporting unit or sites of service at a geographical location level within the Kindred at Home division are considered the lowest level for which there are independent, identifiable cash flows. However, to the extent that groups of facilities are leased under a master lease agreement in which the operations of a facility and compliance with the lease terms are interdependent upon other facilities in the agreement (including the Company's ability to renew the lease or divest a particular property), the Company defines the group of facilities under a master lease agreement, or a renewal

NOTE 1 – BASIS OF PRESENTATION (Continued)

Long-lived assets (Continued)

bundle in a master lease, as the lowest level for which there are independent, identifiable cash flows. Accordingly, the estimated cash flows of all facilities within a master lease agreement, or within a renewal bundle in a master lease, are aggregated for purposes of evaluating the carrying values of long-lived assets.

Impairment charges recorded for the three years ended December 31, 2017 associated with long-lived assets are discussed in Note 5. Losses associated with the disposition or planned disposition of long-lived assets for the three years ended December 31, 2017 are discussed in Note 6.

Goodwill and intangible assets

Goodwill and indefinite-lived intangible assets primarily originated from business combinations accounted for as purchase transactions. Indefinite-lived intangible assets consist of trade names, Medicare certifications and certificates of need.

A summary of goodwill by reporting unit follows (in thousands):

	Home health	Hospice	Community care	Hospitals	Hospital rehabilitation services (2)	IRFs	RehabCare	Total
Balances, December 31, 2015	$ 739,677	$ 639,006	$ 166,312	$ 628,519	$ 173,618	$ 322,678	$ -	$ 2,669,810
Acquisitions	6,989	6,627	7,365	23,751	-	2,800	-	47,532
Dispositions	-	-	-	(29,831)	-	-	-	(29,831)
Impairment charges	-	-	-	(261,129)	-	-	-	(261,129)
Other (1)	(647)	696	(214)	-	-	857	-	692
Balances, December 31, 2016	746,019	646,329	173,463	361,310	173,618	326,335	-	2,427,074
Acquisitions	594	-	-	-	-	-	-	594
Dispositions	-	-	(2,837)	-	-	-	-	(2,837)
Impairment charges	-	-	-	(236,265)	-	-	-	(236,265)
Balances, December 31, 2017	$ 746,613	$ 646,329	$ 170,626	$ 125,045	$ 173,618	$ 326,335	$ -	$ 2,188,566
Accumulated impairment charges:								
December 31, 2016	$ (76,082)	$ -	$ -	$ (261,129)	$ -	$ -	$ (153,898)	$ (491,109)
December 31, 2017	$ (76,082)	$ -	$ -	$ (497,394)	$ -	$ -	$ (153,898)	$ (727,374)

(1) Other consists primarily of non-cash adjustments related to acquisitions within the measurement period.
(2) This reporting unit has a negative carrying value.

In accordance with the authoritative guidance for goodwill and other intangible assets, the Company is required to perform an impairment test for goodwill and indefinite-lived intangible assets at least annually or more frequently if adverse events or changes in circumstances indicate that the asset may be impaired. The Company performs its annual goodwill impairment test on October 1 each fiscal year for each of its reporting units.

A reporting unit is either an operating segment or one level below the operating segment, referred to as a component. When the components within the Company's operating segments have similar economic characteristics, the Company aggregates the components of its operating segments into one reporting unit. Accordingly, the Company has determined that its reporting units are home health, hospice, community care, hospitals, hospital rehabilitation services, IRFs, and RehabCare. The community care reporting unit is included in the home health operating segment of the Kindred at Home division. The hospital rehabilitation services and IRFs reporting units are both included in the Kindred Hospital Rehabilitation Services operating segment of the Kindred Rehabilitation Services division.

In January 2017, the FASB issued authoritative guidance that simplifies the measurement of goodwill impairment to a single-step test. The guidance removes step two of the goodwill impairment test, which required a hypothetical purchase price allocation. The measurement of goodwill impairment is now the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Under the revised guidance, failing step one will always result in goodwill impairment. The Company adopted the new guidance on January 1, 2017 on a prospective basis. Based upon the results of the annual impairment test for goodwill for each of the Company's reporting units at October 1, 2017, an impairment charge of $236.3 million was recorded. See Note 5 for a discussion of goodwill impairment charges.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Goodwill and intangible assets (Continued)

The goodwill impairment test involved a two-step process at October 1, 2016. The first step was a comparison of each reporting unit's fair value to its carrying value. If the carrying value of the reporting unit is greater than its fair value, there is an indication that impairment may exist and the second step must be performed to measure the amount of impairment loss, if any. Based upon the results of the step one annual impairment test for goodwill for each of the Company's reporting units at October 1, 2016, no impairment charges were recorded in connection with the Company's annual impairment test. See Note 5 for a discussion of goodwill impairment triggering events.

Since quoted market prices for the Company's reporting units are not available, the Company applies judgment in determining the fair value of these reporting units for purposes of performing the goodwill impairment test. The Company relies on widely accepted valuation techniques, including discounted cash flow and market multiple analyses approaches, which capture both the future income potential of the reporting unit and the market behaviors and actions of market participants in the industry that includes the reporting unit. These types of analyses require the Company to make assumptions and estimates regarding future cash flows, industry-specific economic factors and the profitability of future business strategies. The discounted cash flow approach uses a projection of estimated operating results and cash flows that are discounted using a weighted average cost of capital. Under the discounted cash flow approach, the projection uses management's best estimates of economic and market conditions over the projected period for each reporting unit including growth rates in the number of admissions, patient days, reimbursement rates, operating costs, rent expense, and capital expenditures. Other significant estimates and assumptions include terminal value growth rates, changes in working capital requirements and weighted average cost of capital. The market multiple analysis estimates fair value by applying cash flow multiples to the reporting unit's operating results. The multiples are derived from comparable publicly traded companies with similar operating and investment characteristics to the reporting units.

Adverse changes in the operating environment and related key assumptions used to determine the fair value of the Company's reporting units and indefinite-lived intangible assets or declines in the value of the Company's Common Stock (as defined below) may result in future impairment charges for a portion or all of these assets. Specifically, if the rate of growth of government and commercial revenues earned by the Company's reporting units were to be less than projected, if healthcare reforms were to negatively impact the Company's business, or if recent increases in labor costs materially exceed the Company's projections in its reporting units or business segments, an impairment charge of a portion or all of these assets may be required. An impairment charge could have a material adverse effect on the Company's business, financial position and results of operations, but would not be expected to have an impact on the Company's cash flows or liquidity.

The Company's indefinite-lived intangible assets consist of trade names, Medicare certifications, and certificates of need. The fair values of the Company's indefinite-lived intangible assets are derived from current market data, including comparable sales or royalty rates, and projections at a facility, geographical location level or reporting unit, which include management's best estimates of economic and market conditions over the projected period. Significant assumptions include growth rates in the number of admissions, patient days, reimbursement rates, operating costs, rent expense, capital expenditures, terminal value growth rates, changes in working capital requirements, weighted average cost of capital and opportunity costs.

The Company performs its annual indefinite-lived intangible asset impairment tests on May 1 and October 1 each fiscal year depending on the indefinite-lived intangible asset. See Note 5 for a discussion of indefinite-lived intangible asset impairment charges recorded during the years ended December 31, 2017 and 2016 as a result of these impairment tests and other triggering events. Based upon the results of the annual impairment test for indefinite-lived intangible assets discussed above for the year ended December 31, 2015, no impairment charges were recorded.

Losses associated with the disposition or planned disposition of goodwill and indefinite-lived intangible assets for the three years ended December 31, 2017 are discussed in Note 6.

The Company's intangible assets include both finite and indefinite-lived intangible assets. The Company's intangible assets with finite lives are amortized in accordance with the authoritative guidance for goodwill and other intangible assets, such as customer relationship assets, trade names, leasehold interests and non-compete agreements, primarily using the straight-line method over their estimated useful lives ranging from two to 15 years.

Amortization expense computed by the straight-line method totaled $14.6 million for 2017, $23.5 million for 2016 and $29.7 million for 2015.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Goodwill and intangible assets (Continued)

The estimated annual amortization expense for the next five years for intangible assets at December 31, 2017 follows (in thousands):

2018	$ 9,368
2019	$ 8,852
2020	$ 8,702
2021	$ 8,585
2022	$ 8,585

A summary of intangible assets at December 31 follows (in thousands):

	2017				2016			
	Cost	Accumulated amortization	Carrying value	Weighted average life	Cost	Accumulated amortization	Carrying value	Weighted average life
Non-current:								
Certificates of need (indefinite life)	$ 314,323	$ -	$ 314,323		$ 313,816	$ -	$ 313,816	
Medicare certifications (indefinite life)	190,306	-	190,306		202,749	-	202,749	
Trade names (indefinite life)	21,200	-	21,200		118,569	-	118,569	
Non-compete agreements	210	(84)	126	5 years	2,335	(2,130)	205	2 years
Leasehold interests	11,032	(4,212)	6,820	9 years	14,682	(3,162)	11,520	8 years
Trade names	18,580	(17,536)	1,044	4 years	18,580	(15,374)	3,206	4 years
Customer relationship assets	126,290	(55,771)	70,519	15 years	200,989	(80,946)	120,043	14 years
	$ 681,941	$ (77,603)	$ 604,338		$ 871,720	$ (101,612)	$ 770,108	

Insurance risks

In connection with the Insurance Restructuring in October 2017 (as defined in Note 12), the provision for loss for professional liability risks is no longer funded to the Company's wholly owned limited purpose insurance subsidiary, Cornerstone Insurance Company ("Cornerstone") and as such, according to policy, the risks are no longer discounted. Likewise, the provision for loss for workers compensation risks is no longer funded to Cornerstone. Provisions for loss for these professional liability and workers compensation risks are based upon management's best available information, including actuarially determined estimates of loss. To the extent that expected ultimate claims costs vary from historical provisions for loss, future earnings will be charged or credited. See Notes 7 and 12.

Earnings per common share

Earnings per common share are based upon the weighted average number of common shares outstanding during the respective periods. The diluted calculation of earnings per common share includes the dilutive effect of stock options, performance-based restricted shares and tangible equity units. The Company follows the provisions of the authoritative guidance for determining whether instruments granted in share-based payment transactions are participating securities for purposes of calculating earnings per common share. See Note 9.

Derivative financial instruments

The Company accounts for derivative financial instruments in accordance with the authoritative guidance for derivatives and hedging. These derivative financial instruments are recognized as assets or liabilities in the accompanying consolidated balance sheet and are measured at fair value. The Company's derivatives are designated as cash flow hedges. The Company entered into interest rate swap agreements in January 2016 and March 2014 to hedge its floating interest rate risk.

The interest rate swaps were assessed for hedge effectiveness for accounting purposes and the Company determined the interest rate swaps qualify for cash flow hedge accounting treatment at December 31, 2017 and 2016. The Company records the effective portion of the gain or loss on the derivative financial instruments in accumulated other comprehensive income (loss) as a component of stockholders' equity and records the ineffective portion of the gain or loss on the derivative financial instruments as interest expense. There was no ineffectiveness related to the interest rate swaps for the years ended December 31, 2017 and 2016. The ineffectiveness related to the interest rate swaps for the year ended December 31, 2015 was immaterial. See Note 15.

NOTE 1 – BASIS OF PRESENTATION (Continued)

Variable interest entities

The Company follows the provisions of the authoritative guidance for determining whether an entity is a VIE. In order to determine if the Company is a primary beneficiary of a VIE for financial reporting purposes, it must consider whether it has the power to direct activities of the VIE that most significantly impact the performance of the VIE and whether the Company has the obligation to absorb losses or the right to receive returns that would be significant to the VIE. The Company consolidates a VIE when it is the primary beneficiary.

Of the Company's 19 operating IRFs, 17 are partnerships subject to an operating and management services agreement. Under GAAP, the Company determined that 14 of these 17 partnerships qualify as VIEs and concluded that the Company is the primary beneficiary in all but one partnership. The Company holds an ownership interest and acts as manager in each of the partnerships. Through the management services agreement, the Company is delegated necessary responsibilities to provide management services, administrative services and direction of the day-to-day operations. Based upon the Company's assessment of the most significant activities of the IRFs, the manager has the ability to direct the majority of those activities in 13 of these partnerships.

The analysis upon which the consolidation determination rests can be complex, can involve uncertainties, and requires judgment on various matters, some of which could be subject to different interpretations.

The carrying amounts and classifications of the assets and liabilities of the consolidated VIEs at December 31 follow (in thousands):

	2017	2016
Assets:		
Current assets:		
Cash and cash equivalents	$ 43,734	$ 41,681
Accounts receivable, net	47,034	33,996
Inventories	1,541	1,641
Other	2,899	2,824
	95,208	80,142
Property and equipment, net	14,160	16,736
Goodwill	275,375	275,375
Intangible assets, net	21,002	21,839
Other	6	15
Total assets	$ 405,751	$ 394,107
Liabilities:		
Current liabilities:		
Accounts payable	$ 26,533	$ 23,345
Salaries, wages and other compensation	3,092	3,160
Other accrued liabilities	4,066	3,046
Long-term debt due within one year	604	1,571
	34,295	31,122
Long-term debt	378	455
Deferred credits and other liabilities	9,235	7,357
Total liabilities	$ 43,908	$ 38,934

Stock option accounting

The Company recognizes compensation expense in its consolidated financial statements using a Black-Scholes option valuation model for non-vested stock options. See Note 18.

Other information

The Company has performed an evaluation of subsequent events through the date on which the financial statements were issued.

Reclassifications

Certain prior period amounts have been reclassified to conform with the current period presentation.

NOTE 2 – PLANNED ACQUISITION OF KINDRED

Merger Agreement

On December 19, 2017, the Company announced that its Board of Directors (the "Board") had approved a definitive agreement under which the Company will be acquired by a consortium of three companies: TPG Capital ("TPG"), Welsh, Carson, Anderson & Stowe ("WCAS") and Humana Inc. ("Humana"). Subject to the terms and conditions of an Agreement and Plan of Merger (the "Merger Agreement") among the Company, Kentucky Hospital Holdings, LLC ("HospitalCo Parent"), Kentucky Homecare Holdings, Inc. ("Parent") and Kentucky Homecare Merger Sub, Inc. ("Merger Sub"), Merger Sub will be merged with and into Kindred (the "Merger"), with Kindred continuing as the surviving company in the Merger (the "Surviving Entity").

At the effective time of the Merger, each share of the Company's common stock, par value $0.25 per share ("Common Stock") issued and outstanding immediately prior to the effective time of the Merger (other than shares held by Parent, HospitalCo Parent, Merger Sub or Kindred and their respective wholly owned subsidiaries (which will be cancelled) and shares that are owned by stockholders who have properly exercised and perfected a demand for appraisal rights under Delaware law), will be cancelled and converted into the right to receive $9.00 in cash, without interest (the "Merger Consideration").

The Merger Agreement contains customary representations, warranties and covenants for a transaction of this nature. The Merger Agreement also contains customary covenants, including, among others, covenants (i) providing for the Company and its respective subsidiaries to conduct business in all material respects in the ordinary course and not to take certain actions without Merger Sub's consent and (ii) for each of the parties to use reasonable best efforts to cause the transactions contemplated by the Merger Agreement to be consummated. Additionally, the Merger Agreement provides for customary pre-closing covenants, including covenants not to solicit proposals relating to alternative transactions or, subject to certain exceptions, enter into discussions concerning or provide information in connection with alternative transactions, covenants to call and hold a meeting of the Company's stockholders and a covenant to recommend that its stockholders adopt the Merger Agreement, subject to certain exceptions to permit the Company's directors to satisfy their applicable fiduciary duties.

Consummation of the Merger is subject to various conditions, including, among others, adoption of the Merger Agreement by the requisite vote of the Company's stockholders, the receipt of certain licensure and regulatory approvals, the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended (this condition was satisfied on February 20, 2018), the consummation of the purchase of the two remaining skilled nursing facilities from Ventas, Inc. ("Ventas") and payment of corresponding expense reimbursement to Ventas (this condition was satisfied on December 21, 2017), the satisfaction of the closing conditions to the Separation Agreement (as defined below) and certain related entity conversions, the absence of any material adverse effect on each of the Company, its home health, hospice and community care business, and its TC hospitals, IRFs and contract rehabilitation services business, and certain other customary closing conditions.

The Merger Agreement also contains certain termination rights for the Company and Merger Sub (including if the Merger is not consummated by August 17, 2018 (the "End Date")) and provides that upon termination of the Merger Agreement under specified circumstances, including, among others, following a change in recommendation of the Board or its termination of the Merger Agreement to enter into a written definitive agreement for a "superior proposal," the Company will be required to pay Merger Sub a termination fee of $29 million and reimburse the documented out-of-pocket expenses of Parent, HospitalCo Parent and certain of their affiliates in connection with the Merger Agreement (the "Parent Expenses") up to $10 million.

If the Merger Agreement is submitted to a vote of the Company's stockholders and approval of the Merger Agreement is not obtained, the Company will be required to reimburse Merger Sub for the amount of the Parent Expenses, up to $7.5 million.

Parent will be required to pay the Company a reverse termination fee of $61.5 million, and to reimburse certain of the Company's expenses, including the reasonable and documented out-of-pocket expenses the Company incurred in connection with the implementation of the Separation Transactions (as defined in the Separation Agreement), up to $13.5 million, in the event the Merger Agreement is terminated (i) by the Company, subject to certain limitations set forth in the Merger Agreement, if (A) there has been a breach of a representation, warranty or covenant of Parent or Merger Sub that would cause the related closing condition to be incapable of being satisfied or cured by the End Date or, if curable, is not cured by Parent or Merger Sub by the earlier of 30 days after receipt of written notice of such breach and the End Date, (B) the conditions to Parent, HospitalCo Parent and Merger Sub's obligations to consummate the closing have been satisfied (other than those conditions that by their terms are to be satisfied at or immediately prior to the closing, provided that such conditions are then capable of being satisfied at the closing), the Company has irrevocably confirmed to Parent in writing that the Company is prepared and able to consummate the closing, and Parent and Merger Sub fail to consummate the Merger by the later of the date the closing should have occurred and three business days following the date

NOTE 2 – PLANNED ACQUISITION OF KINDRED (Continued)

Merger Agreement (Continued)

of the notice from the Company described above, or (ii) by the Company or Parent if the Merger has not occurred by the End Date and at the time of termination all of the conditions to Parent, HospitalCo Parent and Merger Sub's obligations to consummate the closing have been satisfied (other than those conditions that by their terms are to be satisfied by actions taken at the closing, provided that such conditions are then capable of being satisfied at the closing) other than those relating to obtaining specified licensure and regulatory approvals and/or there being any injunction or other order by a governmental entity charged with jurisdiction over the granting of such approvals.

In connection with the Merger Agreement, Parent and HospitalCo Parent have obtained equity and debt financing commitments for the transactions contemplated by the Merger Agreement and the Separation Agreement, the aggregate proceeds of which will be sufficient to consummate the transactions contemplated by the Merger Agreement and the Separation Agreement on the closing date, including the payment of any amounts required to be paid by Parent pursuant to the Merger Agreement on the closing date, the repayment of the Company's existing indebtedness, and the payment of all fees and expenses reasonably expected to be incurred in connection therewith. Pursuant to equity commitment letters executed and delivered concurrently with the Merger Agreement, subject to the terms and conditions set forth therein, Humana, TPG, WCAS and Port-aux-Choix Private Investments Inc. ("PSP"), have committed, severally but not jointly, to capitalize Parent, and TPG, WCAS and PSP have committed, severally but not jointly, to capitalize HospitalCo Parent, with the aggregate amount of the equity financing. In addition, each of Humana, TPG, WCAS and PSP have provided us limited guarantees, guaranteeing Parent's obligation to pay the reverse termination fee and certain other reimbursement obligations of the Parent and Merger Sub pursuant to the Merger Agreement.

Separation Agreement

Concurrently with the execution and delivery of the Merger Agreement, on December 19, 2017, Kindred, Parent, HospitalCo Parent, and Kentucky Hospital Merger Sub, Inc., entered into a Separation Agreement (the "Separation Agreement"), pursuant to which, promptly following the effective time of the Merger, the Surviving Entity will be separated from the Company's home health, hospice and community care services business and acquired by HospitalCo Parent.

The Separation Agreement relates to, among other things (i) certain restructuring transactions that are to take place with respect to the Company and its subsidiaries, (ii) procedures concerning the transfer of certain assets and employees used or employed in the Company's respective businesses and (iii) the allocation of costs and expenses related to the separation of the Surviving Entity from the Homecare Business (as defined in the Separation Agreement). The Separation Agreement requires, among other things, the Company to take certain actions and expend certain efforts prior to the closing of the Merger in preparation for such separation transactions.

NOTE 3 – GENTIVA MERGER

On October 9, 2014, the Company entered into an Agreement and Plan of Merger with Gentiva, providing for the Company's acquisition of Gentiva. On February 2, 2015, the Company consummated the acquisition with one of its subsidiaries merging with and into Gentiva (the "Gentiva Merger"), with Gentiva continuing as the surviving company and the Company's wholly owned subsidiary.

At the effective time of the Gentiva Merger, each share of common stock, par value $0.10 per share, of Gentiva ("Gentiva Common Stock") issued and outstanding immediately prior to the effective time of the Gentiva Merger (other than shares held by Kindred, Gentiva and any wholly owned subsidiaries (which were cancelled) and shares owned by stockholders who properly exercised and perfected a demand for appraisal rights under Delaware law), including each deferred share unit, were converted into the right to receive (i) $14.50 in cash (the "Gentiva Cash Consideration"), without interest, and (ii) 0.257 of a validly issued, fully paid and nonassessable share of Common Stock (the "Gentiva Stock Consideration"). The purchase price totaled $722.3 million and was comprised of $544.8 million of Cash Consideration and $177.5 million of Gentiva Stock Consideration. The Company also assumed $1.2 billion of long-term debt, which was paid off upon consummation of the Gentiva Merger.

The Company used the net proceeds from the Gentiva Financing Transactions (as defined in Note 15), to fund the Gentiva Cash Consideration, repay Gentiva's existing debt and pay related transaction fees and expenses.

NOTE 3 – GENTIVA MERGER (Continued)

Operating results for the year ended December 31, 2016 included transaction and integration costs totaling $5.6 million, retention and severance totaling $0.7 million, and a lease termination charge of $0.3 million related to the Gentiva Merger. Operating results for the year ended December 31, 2015 included transaction and integration costs totaling $37.9 million, retention and severance costs totaling $60.3 million, a lease termination charge of $0.8 million and financing costs totaling $23.4 million related to the Gentiva Merger. Transaction, integration, retention and severance costs were recorded as general and administrative expenses, and the lease termination charge was recorded as building rent expense for 2016. Transaction, integration, retention and severance costs were recorded as general and administrative expenses, the lease termination charge was recorded as building rent expense and financing costs were recorded as general and administrative expenses ($6.0 million) and as interest expense ($17.4 million) for 2015.

A note receivable totaling $25 million was acquired in the Gentiva Merger. The note receivable was collected in full during the third quarter of 2015 and the Company received all of the cash proceeds.

Purchase price allocation

The Gentiva Merger purchase price of $722.3 million was allocated based upon the estimated fair value of the tangible and intangible assets, and goodwill.

The following is the Gentiva Merger purchase price allocation (in thousands):

Cash and cash equivalents	$	64,695
Accounts receivable		265,034
Other current assets		123,428
Property and equipment		46,732
Identifiable intangible assets:		
Certificates of need (indefinite life)		256,921
Medicare certifications (indefinite life)		94,500
Trade names (indefinite life)		22,200
Trade name		15,600
Non-compete agreements		1,820
Leasehold interests		1,439
Total identifiable intangible assets		392,480
Deferred tax assets		37,429
Other assets		74,407
Current portion of long-term debt		(53,075)
Accounts payable and other current liabilities		(319,004)
Long-term debt, less current portion		(1,124,288)
Deferred tax liabilities		(47,748)
Other liabilities		(126,088)
Noncontrolling interests		(3,992)
Total identifiable net assets		(669,990)
Goodwill		1,392,271
Net assets	$	722,281

The fair value allocation was measured primarily using a discounted cash flows methodology, which is considered a Level 3 input (as described in Note 21).

The value of gross contractual accounts receivable before determining uncollectable amounts totaled $278.9 million. Accounts estimated to be uncollectable totaled $13.9 million.

The weighted average life of the definite lived intangible assets consisting primarily of a trade name was three years.

The aggregate goodwill arising from the Gentiva Merger is based upon the expected future cash flows of the Gentiva operations, which reflect both growth expectations and cost savings from combining the operations of the Company and Gentiva. Goodwill is not amortized and is not deductible for income tax purposes. Goodwill was assigned to the Company's home health reporting unit ($612.2 million), hospice reporting unit ($614.0 million) and community care reporting unit ($166.1 million).

NOTE 4 – OTHER ACQUISITIONS

The following is a summary of the Company's other acquisition activities. The operating results of the acquired businesses have been included in the accompanying consolidated financial statements of the Company from the respective acquisition dates. The purchase price of acquired businesses and acquired leased facilities resulted from negotiations with each of the sellers that were based upon both the historical and expected future cash flows of the respective businesses and real estate values. The majority of these acquisitions were financed through operating cash flows and borrowings under the Company's ABL Facility (as defined in Note 15). Unaudited pro forma financial data related to the acquired businesses have not been presented because the acquisitions are not material, either individually or in the aggregate, to the Company's consolidated financial statements.

	Allocation of purchase price						
Acquisitions	Accounts receivable	Property and equipment	Goodwill	Identifiable intangible assets	Other assets	Deferred income taxes and other liabilities	Total purchase price, net of cash received
Year ended December 31, 2017:							
Home health acquisitions	$ -	$ -	$ 594	$ 6,056	$ -	$ -	$ 6,650
Acquisition of previously leased real estate	-	3,000	-	-	-	-	3,000
	$ -	$ 3,000	$ 594	$ 6,056	$ -	$ -	$ 9,650
Year ended December 31, 2016:							
Home health and hospice acquisitions (a)	$ 989	$ -	$ 19,557	$ 56,993	$ -	$ -	$ 77,539
Acquisition of TC hospitals from Select (defined below)	-	10,191	23,751	17,731	749	5,850	46,572
Home-based primary care acquisition	-	-	1,424	376	-	-	1,800
IRF acquisitions	-	-	2,800	1,129	-	2,800	1,129
Other	(3,287)	-	692	-	21	(2,574)	-
	$ (2,298)	$ 10,191	$ 48,224	$ 76,229	$ 770	$ 6,076	$ 127,040
Year ended December 31, 2015:							
Acquisition of Centerre (defined below)	$ 28,525	$ 15,122	$ 265,737	$ 23,512	$ 21,135	$ 174,766	$ 179,265
Home-based primary care acquisitions	1,410	47	9,991	2,112	-	1,408	12,152
Home health acquisition	-	-	155	1,845	-	-	2,000
Other	-	-	5,980	-	-	5,980	-
	$ 29,935	$ 15,169	$ 281,863	$ 27,469	$ 21,135	$ 182,154	$ 193,417

(a) Outstanding accounts receivable owed to the Company totaling $9.0 million was used as consideration for acquiring a hospice business.

The fair value of each of the acquisitions noted above was measured primarily using discounted cash flow methodologies which are considered Level 3 inputs (as described in Note 21).

During the year ended December 31, 2017, the Company acquired a TC hospital building formerly leased from Ventas. The Company is currently marketing the building for sale and the net book value, which approximates fair value, is reported in other long-term assets as of December 31, 2017.

In 2016, the Company acquired five TC hospitals (233 licensed beds) operated by Select Medical Holdings Corporation ("Select") and sold three of its TC hospitals (255 licensed beds) to Select. The Company paid Select $7.4 million, of which $6.0 million was in lieu of selling another TC hospital to Select. See Note 6.

On January 1, 2015, the Company completed the acquisition of Centerre Healthcare Corporation ("Centerre") for a purchase price of approximately $195 million in cash. The Company paid approximately $4 million in cash for a working capital settlement. Centerre operated 11 IRFs with 614 beds through partnerships.

For the years ended December 31, 2016 and 2015, the Company incurred $8.7 million and $109.1 million, respectively, in transaction costs. Transaction costs related to the Gentiva Merger incurred for the years ended December 31, 2016, and 2015 totaled $6.3 million and $104.2 million, respectively. These costs were charged to general and administrative expenses for the periods incurred.

NOTE 5 – IMPAIRMENT CHARGES

During the fourth quarter of 2017, the Company recorded a hospital division reporting unit goodwill impairment charge of $236.3 million in connection with its annual impairment test performed as of October 1, 2017. The impairment was required after cash flow projections and related mitigation strategies were refined after completing the first full year of operations under LTAC Legislation (as defined below). The refinement of the projections and mitigation strategies were finalized over the last three months of 2017 in connection with the preparation of the Company's annual budget for 2018. The Company also tested the carrying value of its hospital division intangible assets and property and equipment and determined impairment charges of $3.2 million for a Medicare license and $0.8 million for property and equipment were also necessary. The fair value of the assets was measured using Level 3 inputs, such as operating cash flows, market data and replacement cost factoring in depreciation, economic obsolescence and inflation trends.

During the fourth quarter of 2017, the Company also recorded an asset impairment charge of $3.5 million related to previously acquired home health and hospice certificates of need as part of the annual indefinite-lived intangible assets impairment review at October 1, 2017. The fair value of the certificates of need was measured using Level 3 inputs, such as operating cash flows.

During the fourth quarter of 2017, the Company also recorded asset impairment charges of $1.1 million related to property and equipment of the planned sale of two hospitals. The fair value of the property and equipment was measured using Level 3 inputs, primarily replacement cost and a pending offer.

During the year ended December 31, 2017, the Company recorded asset impairment charges of $134.6 million related to the previously acquired RehabCare trade name ($97.4 million) and customer relationship intangible asset ($37.2 million) due to the expected loss of affiliated contracts related to the SNF Divestiture and cancellation of non-affiliated contracts. The fair value of the trade name was measured using Level 3 inputs, such as projected revenues and royalty rate. The fair value of the customer relationship intangible asset was measured using Level 3 inputs, such as discounted projected future operating cash flows.

During the year ended December 31, 2017, the Company also recorded asset impairment charges of $1.3 million related to a hospital certificate of need ($0.7 million) and a Medicare certification for an IRF ($0.6 million) after completing the annual indefinite-lived intangible assets impairment review at May 1, 2017. The fair value of the certificate of need was measured using Level 3 inputs, such as operating cash flows. The fair value of the Medicare certification was measured using a pending offer, a Level 3 input.

On October 1, 2016, the Company completed the sale of 12 TC hospitals (the "Hospitals") to a group of entities operating under the name "Curahealth", which are affiliates of a private investment fund sponsored by Nautic Partners, LLC (the "Curahealth Disposal"). In connection with (1) the Curahealth Disposal, (2) the closure of three TC hospitals in the third quarter of 2016, (3) a reduction in revenues associated with revenue rate reductions announced by the Centers for Medicare and Medicaid Services ("CMS") on August 2, 2016, (4) continued increases in labor costs during 2016, and (5) a refinement of the impact of LTAC Legislation that became effective for the majority of the Company's TC hospitals on September 1, 2016 (collectively, the "Hospital Division Triggering Event"), the Company was required to assess the recoverability of the hospital division reporting unit goodwill in the third quarter of 2016.

This goodwill impairment test involved a two-step process at October 1, 2016. The first step was a comparison of the reporting unit's fair value to its carrying value. To determine the fair value of the hospital division reporting unit, the Company used a combination of an income approach and a market approach to calculate the fair value of the reporting unit. The discounted cash flow that served as the primary basis for the income approach was based upon the hospital division's financial forecast of revenue, gross profit margins, operating costs and cash flows. As a result of the Hospital Division Triggering Event, the Company concluded that the carrying value of the hospital division reporting unit exceeded its estimated fair value. The second step of the test was then performed to measure the impairment loss, a process which compares the implied fair value of goodwill to the implied fair value for the reporting unit. The Company determined that a goodwill impairment charge aggregating $261.1 million was necessary for the three months ended September 30, 2016. The Company also assessed the recoverability of the hospital division intangible assets and property and equipment and concluded a property and equipment impairment charge of $3.2 million was necessary. The fair value of the assets was measured using Level 3 inputs such as operating cash flows, market data and replacement cost factoring in depreciation, economic obsolescence and inflation trends.

NOTE 5 – IMPAIRMENT CHARGES (Continued)

During the year ended December 31, 2016, the Hospitals met assets held for sale criteria and were subsequently sold to Curahealth on October 1, 2016. The Company recorded impairment charges in connection with the sale aggregating $33.0 million, of which $19.7 million was related to property and equipment, and $13.3 million was related to goodwill and other intangible assets. The fair value of the assets was measured using a Level 3 input of the then pending offer. In addition, in the first quarter of 2016, the Company also recorded a property and equipment impairment charge of $7.8 million under the held and used accounting model related to the planned Curahealth Disposal. The fair value of property and equipment in the first quarter of 2016 was measured using Level 3 inputs, primarily replacement costs.

During the year ended December 31, 2016, the Company recorded an asset impairment charge of $2.6 million related to the sale of a hospital division medical office building. The fair value of the property was measured using a Level 3 input of the offer pending at June 30, 2016. The property was subsequently sold during the third quarter of 2016.

The Company determined that the sale of three TC hospitals to Select during the second quarter of 2016 was an impairment triggering event in the hospital reporting unit. The Company tested the recoverability of the hospital reporting unit goodwill and determined that goodwill was not impaired.

As part of the annual indefinite-lived intangible assets impairment review at October 1, 2016, an impairment charge of $3.6 million was recorded related to previously acquired home health and hospice Medicare certifications, certificates of need and a trade name. The fair value of the assets was measured using Level 3 inputs, such as projected revenues and operating cash flows. As part of the impairment review at May 1, 2016, an impairment charge of $3.5 million was recorded related to certificates of need for two hospitals. The fair value of the certificates of need was measured using Level 3 inputs, such as operating cash flows.

In connection with the preparation of the Company's operating results for the third quarter of 2015, the Company determined that the impact of the regulatory changes announced on July 31, 2015 as part of the Pathway for SGR Reform Act of 2013 (the "SGR Reform Act") related to the Company's hospital reporting unit was an impairment triggering event. As part of the SGR Reform Act, Congress adopted various legislative changes impacting LTAC hospitals (the "LTAC Legislation"). The LTAC Legislation created new Medicare patient criteria and payment rules for LTAC hospitals. The Company tested the recoverability of its hospital reporting unit goodwill and determined that goodwill was not impaired.

During the fourth quarter of 2015, the Company recorded an asset impairment charge of $18.0 million related to the previously acquired RehabCare trade name due to the cancellation of contracts associated with one large customer in the fourth quarter of 2015 and a reduction in projected revenues in 2016. The fair value of the trade name was measured using Level 3 inputs such as projected revenues and the industry specific royalty rate.

During the year ended December 31, 2015, the Company recorded an asset impairment charge of $6.7 million related to previously acquired home health and hospice trade names after the decision in the first quarter of 2015 to rebrand to the Kindred at Home trade name. The fair value of the trade names was measured using Level 3 unobservable inputs, primarily economic obsolescence.

Each of the impairment charges discussed above reflects the amount by which the carrying value of the assets exceeded its estimated fair value at each impairment date.

All of the previously mentioned charges were recorded as impairment charges in the accompanying consolidated statement of operations for all periods. None of the impairment charges impacted the Company's cash flows or liquidity.

NOTE 6 – DIVESTITURES

Continuing operations

During 2017, the Company closed seven TC hospitals and 16 home health and hospice locations and recorded write-offs of property and equipment of $2.9 million, indefinite-lived intangible assets of $12.2 million, leasehold assets of $2.4 million and lease termination charges of $33.4 million.

During 2017, the Company sold four community care facilities for $3.6 million in cash and sold a building within the Kindred at Home division for $0.8 million in cash.

During 2016, the Company closed three TC hospitals and seven home health and hospice locations and recorded write-offs of property and equipment of $7.1 million, indefinite-lived intangible assets of $8.7 million and leasehold liabilities of $5.2 million.

During 2015, the Company either sold or closed 22 home health and hospice locations and recorded write-offs of property and equipment of $1.4 million, indefinite-lived intangible assets of $8.9 million and goodwill of $2.6 million, which was based upon the relative fair value of the sold home health and hospice locations.

All of the previously mentioned charges were recorded as restructuring charges in the accompanying consolidated statement of operations for all periods. See Note 8.

During 2016, the Company also completed the Curahealth Disposal for $21.0 million in net cash proceeds, the facility swap with Select and sold a hospital division medical office building for $3.7 million. See Notes 4 and 5.

Discontinued operations

Skilled nursing facility business exit

On June 30, 2017, the Company entered into a definitive agreement with BM Eagle Holdings, LLC, a joint venture led by affiliates of BlueMountain Capital Management, LLC ("BlueMountain"), under which the Company agreed to sell its skilled nursing facility business for $700 million in cash (the "SNF Divestiture"). The SNF Divestiture included 89 nursing centers with 11,308 licensed beds and seven assisted living facilities with 380 licensed beds in 18 states. During 2017, the Company completed the sale of 81 skilled nursing facilities and five assisted living facilities on various dates for gross sales proceeds of $664.2 million.

As previously disclosed, 36 of the skilled nursing facilities were previously leased from Ventas (the "Ventas Properties"). The Company had an option to acquire the real estate of the Ventas Properties for aggregate consideration of $700 million, which the Company exercised as it closed on the sale of the Ventas Properties in connection with the SNF Divestiture during 2017. On each respective closing date, the Company paid Ventas the allocable portion of the $700 million purchase price for the Ventas Properties and Ventas conveyed the real estate for the applicable Ventas Property to BlueMountain or its designee. The Company, through an escrow agent, paid Ventas $647.4 million for 34 of the Ventas Properties in connection with the closings that occurred during 2017. Additionally, the Company paid $52.6 million to an escrow agent, who paid Ventas, for two facilities to be sold in 2018. The $76.0 million difference between the $640.9 million net cash proceeds and $716.9 million paid to Ventas and another landlord is included in the sale of assets in investing activities in the accompanying consolidated statement of cash flows.

The Company has previously announced that it has reached an agreement with BlueMountain and the relevant landlord to close five leased facilities in Massachusetts. None of the original purchase price with BlueMountain was allocated to these five facilities. The Company has transferred the day-to-day operations of these facilities to a third party and expects the closing of these facilities will be completed in the second quarter of 2018.

The completion of the remainder of the sales is subject to customary conditions to closing, including the receipt of all licensure, regulatory and other approvals. The Company expects that the remainder of the sales will occur in phases as regulatory and other approvals are received. The Company expects that all of the closings will be completed during 2018.

NOTE 6 – DIVESTITURES (Continued)

Discontinued operations (Continued)

Skilled nursing facility business exit (Continued)

In accordance with authoritative guidance for assets held for sale and discontinued operations accounting, the skilled nursing facility business is reported as assets held for sale and was moved to discontinued operations for all periods presented.

During 2017, the Company recorded $379.4 million of pretax charges related to the SNF Divestiture, including a $265.5 million lease termination charge, $76.3 million of transaction and other costs, a $17.9 million loss on sale-leaseback transaction, and $19.7 million of retention costs. During 2016, the Company recorded $7.0 million of pretax charges related to the SNF Divestiture, including $3.0 million of transaction costs and $4.0 million of retention costs.

In connection with the SNF Divestiture, the Company entered into an interim management agreement in the third quarter of 2017 with certain affiliates of BlueMountain in the state of California whereby the Company would lease its license of certain operations to such affiliates until licensure approval is obtained. Because the Company has continuing involvement in the business through purveying certain rights of ownership of the assets while under the interim management agreement and license sublease, the Company does not meet the requirements for a sale-leaseback transaction as described in ASC 840-40, *Leases - Sale-Leaseback Transactions*. Under the failed-sale-leaseback accounting model, the Company is deemed under GAAP to still own certain real estate assets sold to BlueMountain, which the Company must continue to reflect in its consolidated balance sheet and depreciate over the assets' remaining useful life. The Company also must treat a portion of the pretax cash proceeds from the SNF Divestiture as though it were the result of a $140.8 million other long-term liability financing obligation in its accompanying consolidated balance sheet, and also must defer a $17.9 million gain associated with some of these assets until continuing involvement ceases. The lease will terminate upon licensure approval, at which time the Company will cease to recognize the remaining other long-term liability financing obligation, as well as the remaining net book value of the real estate assets and will recognize the gain.

Other discontinued operations

The Company recorded a loss on divestiture of $4.6 million for the year ended December 31, 2017, related to the sale of 15 non-strategic hospitals and one nursing center to an affiliate of Vibra Healthcare, LLC in 2013. The loss on divestiture related to an allowance for the settlement of disposed working capital under the terms of the sale agreement.

On December 27, 2014, the Company entered into an agreement with Ventas to transition the operations under the leases for nine non-strategic nursing centers (the "2014 Expiring Facilities"). Each lease terminated when the operation of such nursing center was transferred to a new operator. During 2015, the Company transferred the operations of seven of the 2014 Expiring Facilities and recorded a gain on divestiture of $2.0 million. The two remaining facilities were transferred during 2016 and the Company recorded a gain on divestiture of $0.3 million. For accounting purposes, the 2014 Expiring Facilities qualified as assets held for sale. Under the terms of the agreement to transition operations of the 2014 Expiring Facilities, the Company incurred a $40 million termination fee in exchange for early termination of the leases, which was paid to Ventas in January 2015. The early termination fee was accrued as rent expense in discontinued operations in 2014.

NOTE 7 – DISCONTINUED OPERATIONS

In accordance with the authoritative guidance for the impairment or disposal of long-lived assets, the divestiture of unprofitable businesses discussed in Notes 1 and 6 have been accounted for as discontinued operations. Accordingly, the results of operations of these businesses for all periods presented and the gains, losses or impairments related to these divestitures have been classified as discontinued operations, net of income taxes, in the accompanying consolidated statement of operations based upon the authoritative guidance which was in effect through December 31, 2014. Effective January 1, 2015, the authoritative guidance modified the requirements for reporting discontinued operations. A disposal is now required to be reported in discontinued operations only if the disposal represents a strategic shift that has (or will have) a major effect on the Company's operations and financial results. At December 31, 2017, the Company had five nursing centers held for sale classified as discontinued operations.

In June 2017, the Company entered into a definitive agreement regarding the SNF Divestiture. In connection with the SNF Divestiture, the results of operations of the skilled nursing facility business, which previously were reported in the nursing center division, and the gains or losses associated with the SNF Divestiture, have been classified as discontinued operations for all periods presented. In addition, direct overhead and the profits from applicable RehabCare contracts servicing the Company's skilled nursing facility business that were not retained with new operators were moved to discontinued operations for all periods presented. The

NOTE 7 – DISCONTINUED OPERATIONS (Continued)

Company has reclassified certain retained businesses and expenses previously reported in the nursing center division to other business segments, including hospital-based sub-acute units and a skilled nursing facility to the hospital division and a small therapy business to the Kindred Hospital Rehabilitation Services operating segment for all periods presented. See Note 6.

The following table summarizes (in thousands) the SNF Divestiture liability activity (included in current liabilities) during the two years ended December 31, 2017, which does not include non-cash charges of $14.9 million related to other costs for the year ended December 31, 2017:

	Retention	Transaction and other costs	Lease Termination costs	Total
Liability balance at December 31, 2015	$ -	$ -	$ -	$ -
Expense	4,042	2,997	12,777	19,816
Payments	(122)	(2,577)	-	(2,699)
Other	-	-	-	-
Liability balance at December 31, 2016	3,920	420	12,777	17,117
Expense	19,698	61,345	265,539	346,582
Payments	(18,182)	(56,165)	(278,316)	(352,663)
Other	-	-	-	-
Liability balance at December 31, 2017	$ 5,436	$ 5,600	$ -	$ 11,036

A summary of discontinued operations follows (in thousands):

	Year ended December 31,		
	2017	2016	2015
Revenues	$ 733,504	$ 1,038,770	$ 1,087,423
Salaries, wages and benefits	287,641	383,526	391,898
Supplies	31,496	43,374	45,938
Building rent	62,819	80,881	83,630
Equipment rent	6,203	7,575	7,816
Other operating expenses	218,555	288,856	297,115
General and administrative expenses	130,543	181,634	192,677
Other income	(709)	(606)	(683)
Impairment charges	1,268	27,830	-
Restructuring charges	-	4,010	352
Depreciation and amortization	12,313	27,820	29,128
Interest expense	21	50	48
Investment income	(63)	(57)	(64)
	750,087	1,044,893	1,047,855
Income (loss) from operations before income taxes	(16,583)	(6,123)	39,568
Provision for income taxes	271	69	8,764
Income (loss) from operations	(16,854)	(6,192)	30,804
Gain (loss) on divestiture of operations	(379,260)	(6,744)	1,244
Income (loss) from discontinued operations	(396,114)	(12,936)	32,048
Earnings attributable to noncontrolling interests	(12,861)	(18,759)	(16,486)
Income (loss) attributable to Kindred	$ (408,975)	$ (31,695)	$ 15,562

NOTE 7 – DISCONTINUED OPERATIONS (Continued)

The following table sets forth certain discontinued operations data by business segment (in thousands):

	Year ended December 31,		
	2017	2016	2015
Revenues:			
Nursing center division	$ 731,609	$ 1,036,066	$ 1,085,055
Hospital division	1,895	2,704	2,368
	$ 733,504	$ 1,038,770	$ 1,087,423
Segment adjusted operating income:			
Nursing center division	$ 63,143	$ 139,840	$ 159,558
Hospital division	2,835	2,146	920
	$ 65,978	$ 141,986	$ 160,478
Rent:			
Nursing center division:			
Building rent	$ 60,942	$ 79,018	$ 81,653
Equipment rent	6,203	7,575	7,804
	$ 67,145	$ 86,593	$ 89,457
Hospital division:			
Building rent	$ 1,877	$ 1,863	$ 1,977
Equipment rent	-	-	12
	$ 1,877	$ 1,863	$ 1,989
Totals:			
Building rent	$ 62,819	$ 80,881	$ 83,630
Equipment rent	6,203	7,575	7,816
	$ 69,022	$ 88,456	$ 91,446
Depreciation and amortization:			
Nursing center division	$ 12,313	$ 27,820	$ 29,128
Hospital division	-	-	-
	$ 12,313	$ 27,820	$ 29,128

A summary of the net assets held for sale follows (in thousands):

	December 31, 2017	December 31, 2016
Long-term assets:		
Property and equipment, net	$ 15,711	$ 259,966
Intangible assets, net	-	20,127
Other	1,624	9,357
	17,335	289,450
Current liabilities (included in other accrued liabilities)	(417)	-
	$ 16,918	$ 289,450

NOTE 8 – RESTRUCTURING CHARGES

The Company has initiated various restructuring activities whereby it has incurred costs associated with reorganizing its operations, including the divestiture, swap, closure and consolidation of facilities and branches, reduced headcount and realigned operations in order to improve operations, cost efficiencies and capital structure in response to changes in the healthcare industry, increasing leverage and to partially mitigate reductions in reimbursement rates from third party payors. The costs associated with these activities are reported as restructuring charges in the accompanying consolidated statement of operations and would have been recorded as general and administrative expense or rent expense if not classified as restructuring charges.

The following table sets forth the restructuring charges incurred by business segment (in thousands):

	Year ended December 31,		
	2017	2016	2015
Kindred at Home:			
Home health	$ 8,036	$ 4,947	$ 7,335
Hospice	4,713	2,822	4,386
	12,749	7,769	11,721
Hospital division	53,423	81,779	897
Kindred Rehabilitation Services:			
Kindred Hospital Rehabilitation Services	-	128	-
RehabCare	-	586	-
	-	714	-
Support center	18,689	5,864	-
	$ 84,861	$ 96,126	$ 12,618

Restructuring Activities

Planned Acquisition of Kindred

During the fourth quarter of 2017, the Company announced that the Board had approved the Merger Agreement as described in Note 2. The costs incurred in 2017 related to the Merger Agreement include merger costs and a lease amendment fee and are expected to be substantially completed in 2018.

The composition of the restructuring costs that the Company has incurred for these restructuring initiatives is as follows (in thousands):

	Year ended December 31,		
	2017	2016	2015
Merger costs	$ 9,989	-	-
Lease amendment fee paid to Ventas	5,000	-	-
	$ 14,989	$ -	$ -

The following table (in thousands) summarizes the Merger restructuring liability activity (included in other accrued liabilities):

	Merger costs	Lease amendment fee	Total
Liability balance at December 31, 2016	$ -	$ -	$ -
Expense	9,989	5,000	14,989
Payments	(2,082)	(5,000)	(7,082)
Liability balance at December 31, 2017	$ 7,907	$ -	$ 7,907

NOTE 8 – RESTRUCTURING CHARGES (Continued)

Restructuring Activities (Continued)

LTAC Hospital Portfolio Repositioning 2017 Plan

During the third quarter of 2017, the Company approved phase two of the LTAC hospital portfolio repositioning plan that incorporated the closure and conversion of certain LTAC hospitals as part of its mitigation strategies in response to new patient criteria for LTAC hospitals under the LTAC Legislation. The activities related to the LTAC hospital portfolio repositioning 2017 plan are expected to be substantially completed by the end of 2018.

The composition of the restructuring charges that the Company has incurred for these activities is as follows (in thousands):

	Year ended December 31,		
	2017	2016	2015
Lease termination costs	$ 32,171	$ -	$ -
Facility closure costs	244	-	-
Severance	4,892	-	-
Asset write-offs	10,230	-	-
	$ 47,537	$ -	$ -

The following table (in thousands) summarizes the Company's LTAC hospital portfolio repositioning 2017 plan liability activity (included in current liabilities and deferred credits and other liabilities) during the year ended December 31, 2017, which does not include non-cash charges of $10.2 million related to asset write-offs:

	Lease termination costs	Severance	Total
Liability balance at December 31, 2016	$ -	$ -	$ -
Expense	32,171	4,892	37,063
Payments	(526)	(4,892)	(5,418)
Liability balance at December 31, 2017	$ 31,645	$ -	$ 31,645

LTAC Hospital Portfolio Repositioning 2016 Plan

During the first quarter of 2016, the Company approved LTAC hospital portfolio repositioning 2016 plan that incorporated the divestiture, swap or closure of certain LTAC hospitals as part of its mitigation strategies to prepare for new patient criteria for LTAC hospitals under the LTAC Legislation. The activities related to the LTAC hospital portfolio repositioning 2016 plan were substantially completed during 2016.

The composition of the restructuring charges that the Company has incurred for these activities is as follows (in thousands):

	Year ended December 31,		
	2017	2016	2015
Lease termination costs	$ 4,599	$ 57,833	$ 207
Facility closure costs and gain on disposal	232	(148)	-
Asset write-offs	1,055	20,867	167
Severance	-	3,227	523
Transaction costs	-	2,414	-
	$ 5,886	$ 84,193	$ 897

The following table (in thousands) summarizes the Company's LTAC hospital portfolio repositioning 2016 plan liability activity (included in current liabilities and deferred credits and other liabilities) for the two years ended December 31, 2017, which does not include non-cash charges of $1.1 million and $20.9 million related to asset write-offs in 2017 and 2016, respectively:

	Lease termination costs	Severance and transaction costs	Total
Liability balance at December 31, 2015	$ -	$ -	$ -
Expense	50,377	5,641	56,018
Payments	(9,728)	(5,626)	(15,354)
Liability balance at December 31, 2016	40,649	15	40,664
Expense	4,599	-	4,599
Payments	(11,303)	(15)	(11,318)
Liability balance at December 31, 2017	$ 33,945	$ -	$ 33,945

NOTE 8 – RESTRUCTURING CHARGES (Continued)

Restructuring Activities (Continued)

Kindred at Home 2017 Efficiency Initiative

During the first quarter of 2017, the Kindred at Home division approved and initiated a cost and operations efficiency initiative to address increases in labor costs associated with competitive labor markets and the integration of pay practices from acquisitions across the Kindred at Home portfolio. This initiative included the consolidation and closure of under-performing branches and a reduction in force associated with the restructuring of divisional and regional support teams. These activities were substantially completed during 2017.

The composition of the restructuring costs that the Company has incurred for these consolidations is as follows (in thousands):

	Year ended December 31,		
	2017	2016	2015
Asset write-offs	$ 4,616	$ -	$ -
Severance	2,423	-	-
Lease termination costs	1,524	-	-
Branch closure costs and gain on disposal	(245)		
	$ 8,318	$ -	$ -

The following table (in thousands) summarizes the related restructuring liability activity (included in current liabilities) during the year ended December 31, 2017, which does not include non-cash charges of $4.6 million related to asset write-offs:

	Lease termination costs	Severance	Total
Liability balance at December 31, 2016	$ -	$ -	$ -
Expense	1,524	2,423	3,947
Payments	(564)	(2,420)	(2,984)
Other	-	39	39
Liability balance at December 31, 2017	$ 960	$ 42	$ 1,002

Kindred at Home Branch Consolidations and Closures

During the first quarter of 2015, the Company approved and initiated branch consolidations and closures in specific markets to improve operations and cost efficiencies in the Kindred at Home division. The branch consolidations and closures included branches that served both the home health and hospice business segment operations. Gentiva initiated similar branch consolidations and closures prior to the Gentiva Merger and these activities and acquired liabilities are included herein. These activities were substantially completed during 2016.

The composition of the restructuring costs that the Company has incurred for these consolidations is as follows (in thousands):

	Year ended December 31,		
	2017	2016	2015
Lease termination costs	$ 1,224	$ 3,559	$ 2,161
Asset write-offs	2,599	2,476	9,304
Branch closure and other costs	-	344	256
Severance	608	1,390	-
	$ 4,431	$ 7,769	$ 11,721

NOTE 8 – RESTRUCTURING CHARGES (Continued)

Restructuring Activities (Continued)

Kindred at Home Branch Consolidations and Closures (Continued)

The following table (in thousands) summarizes the Company's Kindred at Home branch consolidation restructuring liability activity (included in current liabilities) for the two years ended December 31, 2017, which does not include non-cash charges of $2.6 million and $2.5 million related to asset write-offs in 2017 and 2016, respectively:

	Lease termination costs	Severance	Total
Liability balance at December 31, 2015	$ 1,863	$ -	$ 1,863
Expense	3,559	1,390	4,949
Payments	(2,427)	(47)	(2,474)
Other	65	-	65
Liability balance at December 31, 2016	3,060	1,343	4,403
Expense	1,224	608	1,832
Payments	(3,295)	(2,175)	(5,470)
Other	(104)	224	120
Liability balance at December 31, 2017	$ 885	$ -	$ 885

Division and Support Center Reorganizations

As a result of the Company's plan to exit the skilled nursing facility business, the Company plans to optimize its overhead structure by eliminating certain corporate and shared services overhead above the facility level. The activities related to the skilled nursing facility business exit are expected to be substantially complete in 2018.

During the year ended December 31, 2016, the Company initiated a restructuring plan to improve operations and cost efficiencies in the Kindred Rehabilitation Services division and support center. Actions related to these plans were completed during 2016.

The composition of the restructuring costs that the Company has incurred for these division reorganizations is as follows (in thousands):

	Year ended December 31,		
	2017	2016	2015
Severance, retention and other costs	$ 3,700	$ 4,164	$ -

The following table summarizes the Company's skilled nursing facility business exit plan liability activity (included in current liabilities) (in thousands):

	Severance, retention and other costs
Liability balance at December 31, 2015	$ -
Expense	4,164
Payments	(1,938)
Liability balance at December 31, 2016	2,226
Expense	3,700
Payments	(4,300)
Liability balance at December 31, 2017	$ 1,626

NOTE 9 – LOSS PER SHARE

Loss per common share is based upon the weighted average number of common shares outstanding during the respective periods. Because the Company is reporting a loss from continuing operations attributable to the Company for the three years ended December 31, 2017, the diluted calculation of earnings per common share excludes the dilutive impact of stock options, performance-based restricted shares and tangible equity units of 1.4 million, 1.7 million and 2.6 million for 2017, 2016 and 2015, respectively. The Company follows the provisions of the authoritative guidance for determining whether instruments granted in share-based payment transactions are participating securities, which requires that unvested restricted stock that entitles the holder to receive nonforfeitable dividends before vesting be included as a participating security in the basic and diluted earnings per common share calculation pursuant to the two-class method. However, because the Company reported a loss from continuing operations attributable to the Company, there was no allocation to participating unvested restricted stockholders for all periods presented.

NOTE 10 – BUSINESS SEGMENT DATA

The Company is organized into three operating divisions: the Kindred at Home division, the hospital division, and the Kindred Rehabilitation Services division. Based upon the authoritative guidance for business segments, the Company's operating divisions represent five reportable operating segments, including (1) home health services, (2) hospice services, (3) hospitals, (4) Kindred Hospital Rehabilitation Services, and (5) RehabCare. These reportable operating segments are consistent with information used by the Company's President and Chief Executive Officer and its Chief Operating Officer to assess performance and allocate resources. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The Company has reclassified certain retained businesses and expenses previously reported in the nursing center division, including hospital-based sub-acute units and a skilled nursing facility to the hospital division and a small therapy business to the Kindred Hospital Rehabilitation Services operating segment for all periods presented.

For segment purposes, the Company defines segment adjusted operating income as earnings before interest, income taxes, depreciation, amortization, and total rent reported for each of the Company's operating segments excluding litigation contingency expense, impairment charges, restructuring charges, transaction costs, and the allocation of support center overhead.

NOTE 10 – BUSINESS SEGMENT DATA (Continued)

The following tables set forth certain data by business segment (in thousands):

	Year ended December 31,		
	2017	2016	2015
Revenues:			
Kindred at Home:			
Home health	$ 1,822,357	$ 1,762,622	$ 1,578,500
Hospice	743,443	736,803	656,527
	2,565,800	2,499,425	2,235,027
Hospital division	2,106,375	2,434,311	2,483,376
Kindred Rehabilitation Services:			
Kindred Hospital Rehabilitation Services	703,915	679,800	614,321
RehabCare	745,467	776,796	907,548
	1,449,382	1,456,596	1,521,869
	6,121,557	6,390,332	6,240,272
Eliminations:			
Kindred Hospital Rehabilitation Services	(77,398)	(89,724)	(91,301)
RehabCare	(7,533)	(5,803)	(29,477)
Hospitals	(2,503)	(2,276)	(276)
	(87,434)	(97,803)	(121,054)
	$ 6,034,123	$ 6,292,529	$ 6,119,218
Loss from continuing operations:			
Segment adjusted operating income:			
Kindred at Home:			
Home health	$ 276,218	$ 279,531	$ 256,173
Hospice	129,273	116,326	109,120
	405,491	395,857	365,293
Hospital division	337,487	441,644	486,213
Kindred Rehabilitation Services:			
Kindred Hospital Rehabilitation Services	203,392	198,335	177,340
RehabCare	6,884	32,586	35,876
	210,276	230,921	213,216
Support center expenses	(249,007)	(261,916)	(259,532)
Litigation contingency expense	(7,435)	(2,840)	(138,648)
Impairment charges	(381,179)	(314,729)	(24,757)
Restructuring charges	(40,343)	(34,734)	(10,250)
Transaction costs	-	(8,679)	(109,131)
Building rent	(257,516)	(264,306)	(257,221)
Equipment rent	(34,856)	(39,929)	(38,590)
Restructuring charges - rent	(44,518)	(61,392)	(2,368)
Depreciation and amortization	(104,805)	(131,819)	(129,246)
Interest, net	(237,912)	(231,504)	(229,595)
Loss from continuing operations before income taxes	(404,317)	(283,426)	(134,616)
Provision (benefit) for income taxes	(157,116)	314,262	(51,714)
	$ (247,201)	$ (597,688)	$ (82,902)

NOTE 10 – BUSINESS SEGMENT DATA (Continued)

	Year ended December 31,		
	2017	2016	2015
Rent:			
Kindred at Home:			
Home health:			
Building	$ 32,469	$ 33,026	$ 31,315
Equipment	1,028	1,302	1,607
	33,497	34,328	32,922
Hospice:			
Building	16,725	17,105	16,219
Equipment	331	334	420
	17,056	17,439	16,639
Hospital division:			
Building	172,040	177,381	175,795
Equipment	29,370	34,239	32,497
	201,410	211,620	208,292
Kindred Rehabilitation Services:			
Kindred Hospital Rehabilitation Services:			
Building	34,086	33,710	29,423
Equipment	1,685	1,567	1,357
	35,771	35,277	30,780
RehabCare:			
Building	1,281	1,276	1,236
Equipment	2,332	2,361	2,589
	3,613	3,637	3,825
Support center:			
Building	915	1,808	3,233
Equipment	110	126	120
	1,025	1,934	3,353
Totals:			
Building	257,516	264,306	257,221
Equipment	34,856	39,929	38,590
	$ 292,372	$ 304,235	$ 295,811
Depreciation and amortization:			
Kindred at Home:			
Home health	$ 10,759	$ 15,721	$ 17,279
Hospice	4,360	6,364	6,581
	15,119	22,085	23,860
Hospital division	41,827	50,618	54,049
Kindred Rehabilitation Services:			
Kindred Hospital Rehabilitation Services	14,881	14,538	13,523
RehabCare	4,161	7,961	7,780
	19,042	22,499	21,303
Support center	28,817	36,617	30,034
	$ 104,805	$ 131,819	$ 129,246

NOTE 10 – BUSINESS SEGMENT DATA (Continued)

	Year ended December 31,		
	2017	2016	2015
Capital expenditures, excluding acquisitions (including discontinued operations):			
Kindred at Home:			
Home health:			
Routine	$ 4,323	$ 6,401	$ 4,201
Development	-	-	-
	4,323	6,401	4,201
Hospice:			
Routine	2,379	2,342	1,215
Development	-	-	-
	2,379	2,342	1,215
Hospital division:			
Routine	18,304	23,858	28,935
Development	-	-	-
	18,304	23,858	28,935
Kindred Rehabilitation Services:			
Kindred Hospital Rehabilitation Services:			
Routine	2,743	1,389	948
Development	547	20,773	4,701
	3,290	22,162	5,649
RehabCare:			
Routine	1,820	1,867	1,449
Development	-	-	-
	1,820	1,867	1,449
Support center:			
Routine:			
Information systems	33,064	38,123	64,813
Other	1,525	4,695	1,589
Development	25,083	8,117	3,484
	59,672	50,935	69,886
Discontinued operations - nursing centers:			
Routine	5,648	17,377	18,781
Development	265	5,935	11,746
	5,913	23,312	30,527
Totals:			
Routine	69,806	96,052	121,931
Development	25,895	34,825	19,931
	$ 95,701	$ 130,877	$ 141,862

NOTE 10 – BUSINESS SEGMENT DATA (Continued)

	December 31, 2017	December 31, 2016
Assets at end of period:		
Kindred at Home:		
Home health	$ 1,540,010	$ 1,540,370
Hospice	913,230	929,774
	2,453,240	2,470,144
Hospital division	990,011	1,232,541
Kindred Rehabilitation Services:		
Kindred Hospital Rehabilitation Services	828,310	815,804
RehabCare	189,469	329,516
	1,017,779	1,145,320
Support center	522,677	795,415
Discontinued operations - nursing centers	249,010	469,304
	$ 5,232,717	$ 6,112,724
Goodwill:		
Kindred at Home:		
Home health	$ 917,239	$ 919,482
Hospice	646,329	646,329
	1,563,568	1,565,811
Hospital division	125,045	361,310
Kindred Rehabilitation Services:		
Kindred Hospital Rehabilitation Services	499,953	499,953
RehabCare	-	-
	499,953	499,953
	$ 2,188,566	$ 2,427,074

NOTE 11 – INCOME TAXES

The Tax Reform Act, which was enacted on December 22, 2017, is generally effective in 2018 and makes broad and significantly complex changes to the federal corporate tax system, including the reduction in the U.S. federal corporate income tax rate from 35% to 21% and the limitation on the deductibility of interest expense. The Company estimated the impact of the Tax Reform Act to deferred income taxes on its December 31, 2017 balance sheet in accordance with its understanding of the Tax Reform Act and guidance available as of the date of this filing. As a result, the Company has recorded an estimated $130.5 million income tax benefit related to reducing certain deferred income tax liabilities in the fourth quarter of 2017.

In December 2017, the FASB issued authoritative guidance to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. In accordance with this authoritative guidance, the Company has determined that the $130.5 million income tax benefit recorded in connection with the assessment of the valuation allowance is a provisional amount and a reasonable estimate that may change. Additional work is necessary to complete a more detailed analysis of the Tax Reform Act.

The estimated impact of $130.5 million from the Tax Reform Act resulted from both the reassessment of the deferred income tax valuation allowance and the change in the income tax rate. The removal of the carryforward period for federal net operating losses (“NOLs”) under the Tax Reform Act resulted in a portion of the remaining deferred tax liability becoming available as a source-of-income that can be used to offset certain deferred tax assets. This change resulted in the Company releasing $118.4 million of its deferred income tax valuation allowance. The change in the income tax rate from 35% to 21% resulted in the Company’s deferred liability being reduced by $12.1 million.

NOTE 11 – INCOME TAXES (Continued)

At each balance sheet date, management assesses all available positive and negative evidence to determine whether a valuation allowance is needed against its deferred tax assets. The authoritative guidance requires evidence related to events that have actually happened to be weighted more significantly than evidence that is projected or expected to happen. A significant piece of negative evidence according to this weighting standard is if there are cumulative losses in the two most recent years and the current year, which was the case for the Company at December 31, 2017 and December 31, 2016. The Company's outlook of taxable income for 2016 changed after the Company recorded $286.8 million of goodwill and property and equipment impairment charges and announced the planned SNF Divestiture and related expected loss on divestiture for tax purposes. Accordingly, a full valuation allowance was recorded at both December 31, 2017 and December 31, 2016. The amount of deferred tax asset considered realizable, however, could be adjusted if the weighting of the positive and negative evidence changes.

The Company's valuation allowance was reduced to $378.8 million at December 31, 2017 from $423.1 million at December 31, 2016. The Company recorded an increase to the valuation allowance of $ 246.4 million before the impact of the Tax Reform Act, which required a reduction in the valuation allowance of $290.7 million, comprised of both the $130.5 million decrease in deferred tax liabilities discussed above and a $160.2 million decrease to deferred tax assets and related valuation allowance based upon the change in the U.S. corporate income tax rate from 35% to 21%.

The Company has deferred tax liabilities related to tax amortization of acquired indefinite-lived intangible assets because these assets are not amortized for financial reporting purposes. The tax amortization in current and future years created a deferred tax liability which will reverse at the time of ultimate sale or book impairment. Prior to the Tax Reform Act, the uncertain timing of this reversal and the temporary difference associated with certain indefinite lived intangible assets could not be considered a source of future taxable income for purposes of determining the valuation allowance. As such, certain deferred tax liabilities could not be used to offset deferred tax assets. As a result of the Tax Reform Act, a portion of the Company's federal indefinite-lived intangible assets can be used as a source of income. As a result of this change and other activity in 2017, the Company's net deferred tax liability was reduced to $36.9 million at December 31, 2017 from $201.8 million at December 31, 2016. The deferred tax liability at December 31, 2017 is comprised of the entire state portion of indefinite-lived intangible assets and a portion of the Company's federal indefinite-lived intangible assets that could not be used as a source of income. The deferred tax liability at December 31, 2016 is comprised entirely of both federal and state indefinite-lived intangible assets that could not be used as a source of income. This change in deferred tax liabilities available as a source of income relates to changes in carryforward periods and limitations that no longer exist. The new 80% limitation on NOLs creates a new limitation for federal purposes that must be considered.

Provision (benefit) for income taxes consists of the following (in thousands):

	Year ended December 31,		
	2017	2016	2015
Current:			
Federal	$ -	$ -	$ -
State	3,992	3,992	3,683
	3,992	3,992	3,683
Deferred	(161,108)	310,270	(55,397)
	$ (157,116)	$ 314,262	$ (51,714)

Reconciliation of federal statutory tax benefit to the provision (benefit) for income taxes follows (in thousands):

	Year ended December 31,		
	2017	2016	2015
Income tax benefit at federal rate	$ (141,511)	$ (99,199)	$ (47,116)
State income tax benefit, net of federal income tax benefit	(17,588)	(12,424)	(4,951)
Transaction costs	3,380	-	4,832
Impairment charges	54,644	66,357	890
Valuation allowance (prior to the Tax Reform Act)	88,398	368,664	-
Prior year contingencies	232	-	426
Noncontrolling interests	(17,391)	(14,384)	(10,424)
Compensation related charges	1,381	1,204	3,055
Federal and state tax credits	(1,541)	(1,698)	(3,033)
Impact of the Tax Reform Act	(130,453)	-	-
Other items, net	3,333	5,742	4,607
	$ (157,116)	$ 314,262	$ (51,714)

Other items consist of meals, entertainment, lobbying, and other permanent differences, which individually are deemed immaterial.

NOTE 11 – INCOME TAXES (Continued)

A summary of net deferred income tax assets (liabilities) by source included in the accompanying consolidated balance sheet at December 31 follows (in thousands):

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Property and equipment	$ -	$ 11,572	$ -	$ 18,457
Insurance	80,800	-	50,901	-
Account receivable allowances	31,809	-	39,739	-
Compensation	34,252	-	56,746	-
Net operating losses	244,424	-	222,828	-
Assets held for sale	-	1,847	-	-
Litigation	-	-	-	-
Goodwill and intangibles	-	98,048	-	226,490
Lease amendments	14,991	-	17,426	-
Jobs tax and other credits	22,795	-	28,310	-
Other	24,347	-	50,343	-
	453,418	$ 111,467	466,293	$ 244,947
Reclassification of deferred tax liabilities	(111,467)		(244,947)	
Net deferred tax assets	341,951		221,346	
Valuation allowance	(378,832)		(423,154)	
	$ (36,881)		$ (201,808)	

Net deferred income tax liabilities totaling $36.9 million and $201.8 million at December 31, 2017 and 2016, respectively, were classified as noncurrent liabilities.

The Company identified deferred tax assets for federal income tax NOLs of $162.2 million (tax effected at 21%) and $162.4 million (tax effected at 35%) at December 31, 2017 and December 31, 2016, respectively, with corresponding deferred income tax valuation allowances of $162.2 million and $162.4 million at December 31, 2017 and December 31, 2016, respectively. The federal income tax NOLs expire in various amounts through 2037. The Company had deferred income tax assets for state income tax NOLs of $82.2 million and $60.4 million at December 31, 2017 and December 31, 2016, respectively, and corresponding deferred income tax valuation allowances of $82.0 million and $60.0 million at December 31, 2017 and December 31, 2016, respectively, for that portion of the net deferred income tax assets that the Company will likely not realize in the future.

The Company follows the provisions of the authoritative guidance for accounting for uncertainty in income taxes which clarifies the accounting for uncertain income tax issues recognized in an entity's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in an income tax return.

A reconciliation of unrecognized tax benefits follows (in thousands):

Balance, December 31, 2014	$ -
Acquisition	6,814
Balance, December 31, 2015	6,814
Reductions due to the conclusion of income tax examinations	(1,001)
Balance, December 31, 2016	5,813
Reductions due to the conclusion of income tax examinations	-
Balance, December 31, 2017	$ 5,813

The Company records accrued interest and penalties associated with uncertain tax positions as income tax expense in the consolidated statement of operations. Accrued interest related to uncertain tax provisions totaled $3.5 million as of December 31, 2017 and $3.3 million as of December 31, 2016.

The federal statute of limitations remains open for tax years 2014 through 2016. During 2017, the Company resolved federal income tax audits for the 2015 tax year. During 2017, Gentiva and its subsidiaries also resolved federal tax audits for the February 1, 2015 short-period tax return. The Company is currently under examination by the Internal Revenue Service (the "IRS") for the 2016 and 2017 tax years. The Company has been accepted into the IRS Compliance Assurance Process ("CAP") program for the 2016 through 2018 tax years. The CAP program is an enhanced, real-time review of a company's tax positions and compliance. The Company expects participation in the CAP program will improve the timeliness of its federal tax examinations.

NOTE 11 – INCOME TAXES (Continued)

State jurisdictions generally have statutes of limitations for tax returns ranging from three to five years. The state impact of federal income tax changes remains subject to examination by various states for a period of up to one year after formal notification to the states. Currently, the Company has various state income tax returns under examination.

NOTE 12 – INSURANCE RISKS

In October 2017, in connection with the review of the Company's insurance programs as part of the SNF Divestiture, the Company restructured the funding and retention mechanisms of recent policy years of its professional liability and workers compensation insurance programs (the "Insurance Restructuring"). With respect to professional liability, certain funding mechanisms and reinsurance agreements were modified such that approximately $106 million of cash deposits maintained by Cornerstone and $4 million of other cash deposits were released to the parent company. In addition, approximately $115 million of workers compensation restricted cash collateral deposits were replaced with letters of credit (see Note 15) and approximately $21 million of other workers compensation cash deposits were released to the parent company. In aggregate, the Company used the approximately $246 million generated from the Insurance Restructuring and $35 million of the distributions received from Cornerstone as a result of improved underwriting results during the last two quarters of 2017 to repay in its entirety the Company's ABL Facility (as defined in Note 15) balance and to increase cash reserves. The Company incurred $10.4 million of contract cancellation costs and professional fees during 2017 in connection with the Insurance Restructuring.

As a result of the Insurance Restructuring, on a per-claim basis the Company maintains a self-insured retention and Cornerstone insures all losses in excess of this retention. Cornerstone maintains commercial reinsurance through unaffiliated commercial reinsurers for these losses in excess of our retention. The Insurance Restructuring had no impact upon the financial risk transfer aspect of Cornerstone's reinsurance agreements with its third party reinsurers. As a result of the Insurance Restructuring, on a per-claim basis the Company maintains a deductible under commercial insurance policies for workers compensation which provide coverage up to statutory limits in each state. The Insurance Restructuring had no impact upon the financial risk transfer aspect of these third party insurance agreements. The provisions for loss for these professional liability and workers compensation risks are based upon management's best available information, including actuarially determined estimates of loss.

The allowance for professional liability risks includes an estimate of the expected cost to settle reported claims and an amount, based upon past experiences, for losses incurred but not reported. These liabilities are necessarily based upon estimates and, while management believes that the provision for loss is adequate, the ultimate liability may be in excess of, or less than, the amounts recorded. To the extent that expected ultimate claims costs vary from historical provisions for loss, future earnings will be charged or credited.

The provision for loss for insurance risks, including the cost of coverage maintained with unaffiliated commercial reinsurance and insurance carriers, follows (in thousands):

	Year ended December 31,		
	2017	2016	2015
Professional liability:			
Continuing operations	$ 41,715	$ 53,451	$ 49,452
Discontinued operations	22,836	23,903	17,190
Workers compensation:			
Continuing operations	$ 33,626	$ 48,331	$ 44,796
Discontinued operations	3,603	5,487	2,700

NOTE 12 – INSURANCE RISKS (Continued)

Changes in the allowance for professional liability risks and workers compensation risks for the years ended December 31 follow (including discontinued operations) (in thousands):

	2017			2016		
	Professional liability	Workers compensation	Total	Professional liability	Workers compensation	Total
Allowance for insurance risks at beginning of year	$ 360,595	$ 265,208	$ 625,803	$ 327,372	$ 254,849	$ 582,221
Provision for loss for retained insurance risks:						
Current year	64,649	49,143	113,792	66,750	52,754	119,504
Prior years	(12,764)	(28,445)	(41,209)	(2,310)	(14,018)	(16,328)
	51,885	20,698	72,583	64,440	38,736	103,176
Provision for reinsurance and insurance, administrative and overhead costs	12,666	16,531	29,197	12,914	15,082	27,996
Discount accretion	1,110	-	1,110	953	-	953
Contributions from managed facilities	508	349	857	273	496	769
Payments for insurance risks:						
Current year	(3,937)	(10,584)	(14,521)	(3,884)	(12,026)	(15,910)
Prior years	(97,478)	(28,642)	(126,120)	(66,639)	(32,606)	(99,245)
	(101,415)	(39,226)	(140,641)	(70,523)	(44,632)	(115,155)
Payments for reinsurance and insurance, administrative and overhead costs	(12,666)	(16,531)	(29,197)	(12,914)	(15,082)	(27,996)
Change in reinsurance and other recoverables	24,913	(3,633)	21,280	38,080	15,759	53,839
Allowance for insurance risks at end of year	$ 337,596	$ 243,396	$ 580,992	$ 360,595	$ 265,208	$ 625,803

	2015		
	Professional liability	Workers compensation	Total
Allowance for insurance risks at beginning of year	$ 307,751	$ 189,259	$ 497,010
Provision for loss for retained insurance risks:			
Current year	55,498	55,172	110,670
Prior years	(1,173)	(18,151)	(19,324)
	54,325	37,021	91,346
Provision for reinsurance and insurance, administrative and overhead costs	12,317	10,475	22,792
Discount accretion	1,190	-	1,190
Contributions from managed facilities	220	344	564
Acquisitions	13,948	64,223	78,171
Payments for insurance risks:			
Current year	(6,158)	(11,483)	(17,641)
Prior years	(68,611)	(36,842)	(105,453)
	(74,769)	(48,325)	(123,094)
Payments for reinsurance and insurance, administrative and overhead costs	(12,317)	(10,475)	(22,792)
Change in reinsurance and other recoverables	24,707	12,327	37,034
Allowance for insurance risks at end of year	$ 327,372	$ 254,849	$ 582,221

NOTE 12 – INSURANCE RISKS (Continued)

A summary of the assets and liabilities related to insurance risks included in the accompanying consolidated balance sheet at December 31 follows (in thousands):

	2017			2016		
	Professional liability	Workers compensation	Total	Professional liability	Workers compensation	Total
Assets:						
Current:						
Insurance subsidiary investments	$ 17,577	$ 4,969	$ 22,546	$ 64,622	$ 44,344	$ 108,966
Reinsurance and other recoverables	3,331	969	4,300	7,912	1,488	9,400
Other	-	50	50	-	50	50
	20,908	5,988	26,896	72,534	45,882	118,416
Non-current:						
Insurance subsidiary investments	9,576	19,412	28,988	97,223	107,706	204,929
Reinsurance and other recoverables	103,058	97,624	200,682	111,596	101,984	213,580
Deposits	27	1,949	1,976	4,202	22,979	27,181
	112,661	118,985	231,646	213,021	232,669	445,690
	$ 133,569	$ 124,973	$ 258,542	$ 285,555	$ 278,551	$ 564,106
Liabilities:						
Allowance for insurance risks:						
Current	$ 60,767	$ 42,394	$ 103,161	$ 65,284	$ 48,237	$ 113,521
Non-current	276,829	201,002	477,831	295,311	216,971	512,282
	$ 337,596	$ 243,396	$ 580,992	$ 360,595	$ 265,208	$ 625,803

In connection with the Insurance Restructuring, the provision for loss for professional liability risks is no longer discounted and no longer funded to Cornerstone. Prior to the Insurance Restructuring, provisions for loss for professional liability risks retained by Cornerstone were discounted based upon actuarial estimates of claim payment patterns using a discount rate of 1%. The discount rate was based upon the risk-free interest rate for the respective year. Amounts equal to the discounted loss provision were funded annually. The Company does not fund the portion of professional liability risks related to estimated claims that have been incurred but not reported. Accordingly, these liabilities were not discounted. If the Company had not discounted any of the allowances for professional liability risks, these balances would have approximated $363.2 million at December 31, 2016.

In connection with the Insurance Restructuring, the provision for loss for workers compensation risks is no longer funded to Cornerstone.

NOTE 13 – INSURANCE SUBSIDIARY INVESTMENTS

In connection with the Insurance Restructuring, the Company liquidated a significant portion of its insurance subsidiary investments and released that cash back to the parent to repay debt and increase cash reserves. The Company maintains a portfolio of insurance subsidiary investments, consisting of cash and cash equivalents at December 31, 2017, for the payment of claims and expenses related to professional liability and workers compensation risks maintained by its limited purpose insurance subsidiary. These investments have been categorized as available-for-sale and are reported at fair value.

NOTE 13 – INSURANCE SUBSIDIARY INVESTMENTS (Continued)

The cost for equities, amortized cost for debt securities and estimated fair value of the Company's insurance subsidiary investments at December 31 follows (in thousands):

	2017				2016			
	Cost	Unrealized gains	Unrealized losses	Fair value	Cost	Unrealized gains	Unrealized losses	Fair value
Cash and cash equivalents (a)	$ 51,534	$ -	$ -	$ 51,534	$ 185,152	$ -	$ -	$ 185,152
Debt securities:								
Corporate bonds	-	-	-	-	55,239	37	(100)	55,176
U.S. Treasury notes	-	-	-	-	24,763	6	(42)	24,727
Debt securities issued by U.S. government agencies	-	-	-	-	18,344	7	(63)	18,288
	-	-	-	-	98,346	50	(205)	98,191
Equities by industry:								
Consumer	-	-	-	-	2,596	66	(150)	2,512
Technology	-	-	-	-	2,105	120	(23)	2,202
Financial services	-	-	-	-	1,641	213	(24)	1,830
Industrials	-	-	-	-	1,291	57	(19)	1,329
Healthcare	-	-	-	-	1,332	-	(86)	1,246
Other	-	-	-	-	6,530	109	(70)	6,569
	-	-	-	-	15,495	565	(372)	15,688
Certificates of deposit	-	-	-	-	14,850	14	-	14,864
	$ 51,534	$ -	$ -	$ 51,534	$ 313,843	$ 629	$ (577)	$ 313,895

(a) Includes $4.9 million and $14.8 million of money market funds at December 31, 2017 and 2016, respectively.

At December 31, 2017, all of the available-for-sale investments of the Company's insurance subsidiary have maturity dates within one year.

Since the Company's insurance subsidiary investments are restricted for a limited purpose, they are classified in the accompanying consolidated balance sheet based upon the expected current and long-term cash requirements of the limited purpose insurance subsidiary.

Net investment income earned by the Company's insurance subsidiary investments follows (in thousands):

	Year ended December 31,		
	2017	2016	2015
Interest income	$ 1,973	$ 1,850	$ 1,461
Net amortization of premium and accretion of discount	(187)	(252)	(348)
Gains on sale of investments	2,039	1,539	646
Losses on sale of investments	(588)	(173)	(33)
Other-than-temporary impairments	-	(160)	(440)
Investment expenses	(177)	(221)	(215)
	$ 3,060	$ 2,583	$ 1,071

NOTE 13 – INSURANCE SUBSIDIARY INVESTMENTS (Continued)

The available-for-sale investments of the Company's insurance subsidiary which have unrealized losses at December 31, 2016 are shown below. The investments are categorized by the length of time that individual securities have been in a continuous unrealized loss position at December 31, 2016.

December 31, 2016	Less than one year		One year or greater		Total	
(In thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Debt securities:						
Corporate bonds	$ 27,406	$ 100	$ -	$ -	$ 27,406	$ 100
U.S. Treasury notes	11,120	42	-	-	11,120	42
Debt securities issued by U.S. government agencies	10,712	63	-	-	10,712	63
	49,238	205	-	-	49,238	205
Equities by industry:						
Consumer	1,294	150	-	-	1,294	150
Technology	459	23	-	-	459	23
Financial services	-	-	152	24	152	24
Industrials	-	-	422	19	422	19
Healthcare	1,246	86	-	-	1,246	86
Other	2,267	70	-	-	2,267	70
	5,266	329	574	43	5,840	372
	$ 54,504	$ 534	$ 574	$ 43	$ 55,078	$ 577

The unrealized losses on equities totaling $0.4 million at December 31, 2016 were due generally to market fluctuations. Accordingly, the Company believes these unrealized losses are temporary in nature.

The Company's investment policy governing insurance subsidiary investments precludes the investment portfolio managers from selling any security at a loss without prior authorization from the Company. The investment managers also limit the exposure to any one issue, issuer or type of investment. The Company intends, and has the ability, to hold insurance subsidiary investments for a long duration without the necessity of selling securities to fund the underwriting needs of its insurance subsidiary. This ability to hold securities allows sufficient time for recovery of temporary declines in the market value of equity securities and the par value of debt securities as of their stated maturity date.

The Company considered the severity and duration of its unrealized losses at December 31, 2016 and recognized pretax other-than-temporary impairments of $0.2 million for various investments held in its insurance subsidiary investment portfolio. These investments were determined to be impaired after considering the duration of the declines in value and the likelihood of near term price recovery of each investment. Because the Company considered the remaining unrealized losses at December 31, 2016 to be temporary, the Company did not record any additional impairment losses related to these investments.

NOTE 14 – LEASES

The Company leases real estate and equipment under cancelable and non-cancelable arrangements. The following table sets forth rent expense by business segment (in thousands):

	Year ended December 31,		
	2017	2016	2015
Kindred at Home:			
Home health:			
Buildings	$ 32,469	$ 33,026	$ 31,315
Equipment	1,028	1,302	1,607
	33,497	34,328	32,922
Hospice:			
Buildings	16,725	17,105	16,219
Equipment	331	334	420
	17,056	17,439	16,639
Hospital division:			
Buildings:			
Ventas	114,161	118,053	118,511
Other landlords	57,879	59,328	57,284
Equipment	29,370	34,239	32,497
	201,410	211,620	208,292
Kindred Rehabilitation Services:			
Kindred Hospital Rehabilitation Services:			
Buildings	34,086	33,710	29,423
Equipment	1,685	1,567	1,357
	35,771	35,277	30,780
RehabCare:			
Buildings	1,281	1,276	1,236
Equipment	2,332	2,361	2,589
	3,613	3,637	3,825
Support center:			
Buildings	915	1,808	3,233
Equipment	110	126	120
	1,025	1,934	3,353
Totals:			
Buildings:			
Ventas	114,161	118,053	118,511
Other landlords	143,355	146,253	138,710
Equipment	34,856	39,929	38,590
	$ 292,372	$ 304,235	$ 295,811

Various facility leases include contingent annual rent escalators based upon a change in the Consumer Price Index or other agreed upon terms such as a patient revenue test. These contingent rents are included in rent expense in the year incurred. The Company recorded contingent rent of $1.9 million, $0.8 million and $0.5 million for the years ended December 31, 2017, 2016 and 2015, respectively, including both continuing operations and discontinued operations.

NOTE 14 – LEASES (Continued)

Future minimum payments under non-cancelable operating leases are as follows (in thousands):

	Minimum payments		
	Ventas	Other	Total
2018	$ 110,319	$ 128,494	$ 238,813
2019	111,201	112,606	223,807
2020	112,231	96,762	208,993
2021	113,225	84,968	198,193
2022	114,179	69,687	183,866
Thereafter	219,505	306,920	526,425

Ventas master lease agreement

At December 31, 2017, the Company leased from Ventas and its affiliates 29 TC hospitals under one master lease agreement (the "Master Lease Agreement"). The Master Lease Agreement includes land, buildings, structures, and other improvements on the land, easements, and similar appurtenances to the land and improvements, and permanently affixed equipment, machinery, and other fixtures relating to the operation of the leased properties. There are one or more bundles of leased properties under the Master Lease Agreement, with each bundle containing several TC hospitals.

As part of the SNF Divestiture, the Company entered into an agreement with Ventas in 2016 which provided the Company with the option to acquire the real estate for all 36 skilled nursing facilities (previously defined as the "Ventas Properties") that were leased from Ventas for an aggregate consideration of $700 million. As of December 31, 2017, the Company had acquired all of the Ventas Properties from Ventas, and all but two of such Ventas Properties were sold to third parties in the SNF Divestiture.

Recent master lease amendments

On November 7, 2017, the Company and Ventas amended the Master Lease Agreement in connection with its purchase and closure of one of the TC hospitals leased thereunder. As part of such amendment, the Company paid Ventas $3 million for the real estate of such TC hospital, with the annual rent otherwise payable for such TC hospital of $5.0 million reallocated among the remaining facilities leased under the Master Lease Agreement. For accounting purposes, the reallocated rent is treated as a one-time non-cash lease termination charge. The Company recorded a $32.3 million lease termination charge in the fourth quarter of 2017 in connection with this transaction. The lease termination fee was recorded as a long-term liability discounted at the Company's credit-adjusted risk-free rate through the end of 2025, which is the original lease term of the TC hospital. This lease termination fee was recorded as a restructuring charge in the accompanying consolidated statement of operations.

Concurrently with the execution and delivery of the Merger Agreement, on December 19, 2017, the Company and Ventas entered into an Amendment No. 2 (the "Ventas Lease Amendment") to the Master Lease Agreement pursuant to which, among other things, (i) Ventas agreed that the transactions contemplated by the Merger Agreement and the Separation Agreement comply with the Master Lease Agreement, subject to the satisfaction of the remaining requirements in the Master Lease Agreement related thereto, including payment to Ventas of a transaction fee equal to 10% of annual base rent under the Master Lease Agreement upon closing of the transactions, (ii) the Company agreed to pay to Ventas an additional $5 million fee within one business day of the signing of the Merger Agreement in exchange for Ventas' approval of and agreement not to challenge the transaction structure (this condition was satisfied on December 20, 2017), (iii) the Company agreed to complete the purchase of the two remaining skilled nursing facilities under the Master Lease Agreement and our former Second Amended and Restated Master Lease No. 2 from Ventas, and pay corresponding expense reimbursements to Ventas, on or before December 31, 2017 (this condition was satisfied on December 21, 2017), and (iv) the Company agreed to make certain minimum expenditures for the leased facilities remaining under the Master Lease Agreement going forward.

In connection with the Curahealth Disposal, the Company entered into amendments to certain of its master lease agreements on April 3, 2016 to transition the operations for seven TC hospitals (the "Leased Hospitals"). The Leased Hospitals were leased under the applicable master lease agreement until the closing of the Curahealth Disposal on October 1, 2016. The Company paid a fee to Ventas of $3.5 million upon signing of the amendments and paid an additional $3 million upon the closing of the sale of the Leased Hospitals. Ventas paid the Company 50% of the sales proceeds for the real estate (after deduction of its closing costs) attributed to the Leased Hospitals in the sale, which was immaterial. Under separate lease amendments, the annual rent on the Leased Hospitals, which had annual rent of $7.7 million, was reallocated to the remaining facilities the Company leases from Ventas under the various master lease agreements. As required under GAAP, the reallocated rents were recorded as a lease termination fee by the Company upon the cease use date of the Leased Hospitals.

NOTE 14 – LEASES (Continued)

Recent master lease amendments (Continued)

In connection with these transactions, the Company incurred a pretax lease termination fee of $52.3 million comprised of the $6.5 million of fees paid to Ventas in conjunction with execution of the amendments and $45.8 million of aggregate reallocated rents attributable to the Leased Hospitals, which was recorded upon the cease use date of the Leased Hospitals. The lease termination fee was recorded as a long-term liability discounted at the Company's credit-adjusted risk-free rate through the end of the original lease term of the Leased Hospitals, or through 2025. These lease termination fees were recorded as restructuring charges in the accompanying consolidated statement of operations.

Rental amounts and escalators

The Master Lease Agreement is commonly known as a triple-net lease or an absolute-net lease. Accordingly, in addition to rent, the Company is required to pay the following: (1) all insurance required in connection with the leased properties and the business conducted on the leased properties, (2) certain taxes levied on or with respect to the leased properties (other than taxes on the income of Ventas), and (3) all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties.

The Company paid rents to Ventas (including amounts classified within discontinued operations) approximating $154.4 million for the year ended December 31, 2017, $167.7 million for the year ended December 31, 2016, and $171.8 million for the year ended December 31, 2015.

The Master Lease Agreement provides for rent escalations each May 1. All annual rent escalators are payable in cash. The contingent annual rent escalator for the Master Lease Agreement is based upon annual increases in the Consumer Price Index, subject to a ceiling of 4%. In 2017, the contingent annual rent escalator was 2.74% for the Master Lease Agreement.

NOTE 15 – LONG-TERM DEBT

Capitalization

A summary of long-term debt at December 31 follows (in thousands):

	2017	2016
Term Loan Facility due 2021, net of unamortized original issue discount of $5.1 million at December 31, 2017 and $6.7 million at December 31, 2016	$ 1,350,312	$ 1,362,772
8.00% Notes due 2020	750,000	750,000
8.75% Notes due 2023	600,000	600,000
6.375% Notes due 2022	500,000	500,000
ABL Facility	-	62,500
Mandatory Redeemable Preferred Stock (see Note 16)	-	12,372
Capital lease obligations	312	580
Other	669	1,446
Debt issuance costs, net of accumulated amortization	(39,683)	(46,631)
Total debt, average life of 4 years (weighted average rate 6.7% for 2017 and 6.5% for 2016)	3,161,610	3,243,039
Amounts due within one year	(14,638)	(27,977)
Long-term debt	$ 3,146,972	$ 3,215,062

The following table summarizes scheduled maturities of long-term debt (in thousands):

	Term Loan Facility due 2021	8.00% Notes due 2020	8.75% Notes due 2023	6.375% Notes due 2022	Capital lease obligations	Other	Total
2018	$ 14,034	$ -	$ -	$ -	$ 210	$ 394	$ 14,638
2019	14,034	-	-	-	102	257	14,393
2020	14,034	750,000	-	-	-	18	764,052
2021	1,313,326	-	-	-	-	-	1,313,326
2022	-	-	-	500,000	-	-	500,000
Thereafter	-	-	600,000	-	-	-	600,000
	$ 1,355,428	$ 750,000	$ 600,000	$ 500,000	$ 312	$ 669	$ 3,206,409

The estimated fair value of the Company's long-term debt approximated $3.3 billion and $3.2 billion at December 31, 2017 and December 31, 2016, respectively. See Note 21.

NOTE 15 – LONG-TERM DEBT (Continued)

Credit Facilities

As used herein, the "Credit Facilities" refers collectively to the Term Loan Facility and the ABL Facility, in each case as defined and described below.

Term Loan Facility

The "Term Loan Facility" refers to the Company's $1.36 billion term loan credit facility provided pursuant to the terms and provisions of that certain Sixth Amended and Restated Term Loan Credit Agreement dated as of March 14, 2017 (the "Term Loan Credit Agreement"), among the Company, the lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as administrative agent and collateral agent. All obligations under the Term Loan Facility are fully and unconditionally guaranteed, subject to certain customary release provisions, by substantially all of the Company's wholly owned, domestic material subsidiaries, as well as certain non-wholly owned domestic subsidiaries as the Company may determine from time to time in its sole discretion.

The Term Loan Facility (1) matures on April 9, 2021, (2) contains financial maintenance covenants in the form of a maximum total leverage ratio, a minimum fixed charge coverage ratio and a maximum amount of annual capital expenditures, (3) imposes restrictions on the Company's ability to incur debt and liens and make acquisitions, investments and payments on equity and junior debt, and (4) provides for interest rate margins of 3.50% for the London Interbank Offered Rate ("LIBOR") borrowings (subject to a floor of 1.00%) and 2.50% for base rate borrowings.

A summary of the amendments to the Term Loan Facility since January 1, 2015 is set forth below.

On March 14, 2017, the Company entered into the Term Loan Credit Agreement that amended and restated the Term Loan Facility to, among other things, (1) make adjustments to certain covenants and definitions to better accommodate the SNF Divestiture, (2) provide the Company with increased leverage covenant flexibility for an interim period, (3) increase the applicable margin on the outstanding borrowings from 3.25% to 3.50% for LIBOR borrowings and from 2.25% to 2.50% for base rate borrowings, (4) require a maximum leverage ratio of no more than 5.00 to 1.00 for use of the $50 million annual dividend basket, and (5) provide for a prepayment premium of 1.00% in connection with any repricing transaction within six months of the closing date. In accordance with the authoritative guidance on debt, the Company accounted for the amendment as a debt modification.

On June 14, 2016, the Company amended and restated the Term Loan Facility to provide for, among other things, (1) additional joint venture flexibility, including an increased ability to enter into and make investments in joint ventures that are non-guarantor restricted subsidiaries and to incur debt and liens of such joint ventures and other non-guarantor restricted subsidiaries, (2) an increase in the size of a basket for asset sales from 15% to 25% of consolidated total assets, (3) maintaining a maximum total leverage ratio of 6.00:1.00 for each quarterly measurement date after the date of such amendment, and (4) an incremental term loan in an aggregate principal amount of $200 million. The incremental term loan was issued with 95 basis points of original issue discount ("OID") and has the same terms as, and is fungible with, the $1.18 billion in aggregate principal amount of term loans that were then outstanding under the Term Loan Facility. The net proceeds from the incremental term loan were used to repay a portion of the outstanding borrowings under the ABL Facility.

On March 10, 2015, the Company entered into an incremental amendment agreement to the Term Loan Facility that provided for an incremental term loan in an aggregate principal amount of $200 million under the Term Loan Facility. The Company used the net proceeds of the incremental term loan to repay outstanding borrowings under its ABL Facility. The incremental term loan was issued with 50 basis points of OID and has the same terms as, and is fungible with, the other term loans outstanding under the Term Loan Facility.

ABL Facility

The "ABL Facility" refers to the Company's $900 million asset-based loan revolving credit facility provided pursuant to the terms and provisions of that certain Fourth Amended and Restated ABL Credit Agreement dated as of June 14, 2016 (the "ABL Credit Agreement") among the Company, the lenders party thereto from time to time, and JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, as amended on September 27, 2017. All obligations under the ABL Facility are fully and unconditionally guaranteed, subject to certain customary release provisions, by substantially all of the Company's wholly owned, domestic material subsidiaries, as well as certain other subsidiaries as the Company may determine from time to time in its sole discretion. As of December 31, 2017, $156.0 million of letters of credit were outstanding under the ABL Facility.

The ABL Facility (1) matures on April 9, 2019, (2) contains financial maintenance covenants in the form of a minimum fixed charge coverage ratio and a maximum amount of annual capital expenditures, (3) imposes restrictions on the Company's ability to incur debt and liens and make acquisitions, investments and payments on equity and junior debt, and (4) provides for interest rate

NOTE 15 – LONG-TERM DEBT (Continued)

Credit Facilities (Continued)

ABL Facility (Continued)

margins of 2.00% to 2.50% for LIBOR borrowings and 1.00% to 1.50% for base rate borrowings (in each case depending on average daily excess availability), and (5) employs a borrowing base calculation to determine total available capacity thereunder.

A summary of the amendments to the ABL Facility since January 1, 2015 is set forth below.

On September 27, 2017, the Company entered into an amendment to the ABL Facility to update the provisions pertaining to letters of credit issued thereunder.

On June 14, 2016, the Company entered into the ABL Credit Agreement that amended and restated the ABL facility to provide for, among other things, (1) additional joint venture flexibility, including an increased ability to enter into and make investments in joint ventures that are non-guarantor restricted subsidiaries and to incur debt and liens of such joint ventures and other non-guarantor restricted subsidiaries, and (2) an increase in the size of a basket for asset sales from 15% to 25% of consolidated total assets.

On June 3, 2015, the Company entered into an amendment agreement to the ABL Facility that among other items, modified the restrictions on the amount of cash and temporary cash investments that may be held outside of certain deposit accounts subject to control agreements.

Gentiva Merger – Gentiva Financing Transactions

The following transactions (collectively, the "Gentiva Financing Transactions") occurred in connection with the Gentiva Merger:

- the Company issued $1.35 billion aggregate principal amount of the Notes (as defined below);
- the Company issued approximately 15 million shares of its Common Stock through two common stock offerings and issued 9.7 million shares of its Common Stock through the Stock Consideration (see Note 3);
- the Company issued 172,500 tangible equity units (see Note 16); and
- the Company amended its ABL Facility in October 2014 and Term Loan Facility in November 2014.

Notes due 2020 and Notes due 2023 Offerings

On December 18, 2014, Kindred Escrow Corp. II (the "Escrow Issuer"), one of the Company's subsidiaries, completed a private placement of $750 million aggregate principal amount of 8.00% Senior Notes due 2020 (the "Notes due 2020") and $600 million aggregate principal amount of 8.75% Senior Notes due 2023 (the "Notes due 2023", and, together with the Notes due 2020, the "Notes"). The Notes due 2020 were issued pursuant to the indenture, dated as of December 18, 2014 (the "2020 Indenture"), between the Escrow Issuer and Wells Fargo Bank, National Association, as trustee. The Notes due 2023 were issued pursuant to the indenture, dated as of December 18, 2014 (the "2023 Indenture" and, together with the 2020 Indenture, the "Indentures"), between the Escrow Issuer and Wells Fargo Bank, National Association.

The Notes were assumed by the Company and fully and unconditionally guaranteed on a senior unsecured basis by substantially all of the Company's wholly owned, domestic material subsidiaries, including substantially all of the Company's and Gentiva's wholly owned, domestic material subsidiaries (the "Guarantors"), ranking *pari passu* with all of the Company's respective existing and future senior unsubordinated indebtedness. On October 30, 2015, the Company completed a registered exchange offer to exchange the Notes for registered notes with substantially identical terms.

The Indentures contain certain restrictive covenants that limit the Company and its restricted subsidiaries' ability to, among other things, incur, assume or guarantee additional indebtedness; pay dividends, make distributions or redeem or repurchase capital stock; effect dividends, loans or asset transfers from its subsidiaries; sell or otherwise dispose of assets; and enter into transactions with affiliates. These covenants are subject to a number of limitations and exceptions. The Indentures also contain customary events of default.

Under the terms of the Indentures, the Company may pay dividends pursuant to specified exceptions, including if its consolidated coverage ratio (as defined therein) is at least 2.0 to 1.0, it may also pay dividends in an amount equal to 50% of its consolidated net income (as defined therein) and 100% of the net cash proceeds from the issuance of capital stock, in each case since January 1, 2014. The making of certain other restricted payments or investments by the Company or its restricted subsidiaries would reduce the amount available for the payment of dividends pursuant to the foregoing exception.

NOTE 15 – LONG-TERM DEBT (Continued)

Notes due 2022

On April 9, 2014, the Company completed a private placement of $500 million aggregate principal amount of 6.375% senior notes due 2022 (the "Notes due 2022"). The Notes due 2022 were issued pursuant to the indenture dated April 9, 2014 (the "2022 Indenture") among the Company, the guarantors party thereto (the "2022 Guarantors") and Wells Fargo Bank, National Association, as trustee.

The Notes due 2022 bear interest at an annual rate of 6.375% and are senior unsecured obligations of the Company and the 2022 Guarantors. The 2022 Indenture contains certain restrictive covenants that, among other things, limits the Company and its restricted subsidiaries' ability to incur, assume or guarantee additional indebtedness; pay dividends, make distributions or redeem or repurchase capital stock; effect dividends, loans or asset transfers from the Company's subsidiaries; sell or otherwise dispose of assets; and enter into transactions with affiliates. These covenants are subject to a number of limitations and exceptions. The 2022 Indenture also contains customary events of default. The Notes due 2022 are fully and unconditionally guaranteed, subject to customary release provisions, by substantially all of the Company's wholly owned, domestic material subsidiaries. On January 28, 2015, the Company completed a registered exchange offer to exchange each of the Notes due 2022 for registered notes with substantially identical terms.

Under the terms of the Notes due 2022, the Company may pay dividends pursuant to specified exceptions, including if its consolidated coverage ratio (as defined therein) is at least 2.0 to 1.0, the Company may pay dividends in an amount equal to 50% of its consolidated net income (as defined therein) and 100% of the net cash proceeds from the issuance of capital stock. The making of certain other restricted payments or investments by the Company or its restricted subsidiaries would reduce the amount available for the payment of dividends pursuant to the foregoing exception.

On January 30, 2015, following the receipt of sufficient consents to approve the proposed amendments, the Company, the 2022 Guarantors and Wells Fargo Bank, National Association, as trustee, entered into the first supplemental indenture (the "2022 Supplemental Indenture") to the 2022 Indenture. The 2022 Supplemental Indenture conforms certain covenants, definitions and other terms in the 2022 Indenture to the covenants, definitions and terms contained in the Indentures governing the Notes. The 2022 Supplemental Indenture became operative following the consummation of the Gentiva Merger.

Interest rate swaps

In January 2016, the Company entered into three interest rate swap agreements to hedge its floating interest rate on an aggregate of $325 million of outstanding Term Loan Facility debt, which replaced the previous $225 million aggregate swap that expired on January 11, 2016. The interest rate swaps have an effective date of January 11, 2016, and expire on January 9, 2021. The Company is required to make payments based upon a fixed interest rate of 1.862% and 1.855% calculated on the notional amount of $175 million and $150 million, respectively. In exchange, the Company will receive interest on $325 million at a variable interest rate that is based upon the three-month LIBOR rate, subject to a minimum rate of 1.0%.

In March 2014, the Company entered into an interest rate swap agreement to hedge its floating interest rate on an aggregate of $400 million of outstanding Term Loan Facility debt. On April 8, 2014, the Company completed a novation of a portion of its $400 million swap agreement to two new counterparties, each in the amount of $125 million. The original swap contract was not amended, terminated or otherwise modified. The interest rate swap had an effective date of April 9, 2014 and will expire on April 9, 2018 and continues to apply to the Term Loan Facility. The Company is required to make payments based upon a fixed interest rate of 1.867% calculated on the notional amount of $400 million. In exchange, the Company will receive interest on $400 million at a variable interest rate that was based upon the three-month LIBOR, subject to a minimum rate of 1.0%.

The interest rate swaps were assessed for hedge effectiveness for accounting purposes and the Company determined the interest rate swaps qualify for cash flow hedge accounting treatment at December 31, 2017 and 2016. The Company records the effective portion of the gain or loss on these derivative financial instruments in accumulated other comprehensive income (loss) as a component of stockholders' equity and records the ineffective portion of the gain or loss on these derivative financial instruments as interest expense. There was no ineffectiveness related to the interest rate swaps for the years ended December 31, 2017 and 2016. The ineffectiveness related to the interest rate swaps for the year ended December 31, 2015 was immaterial.

At December 31, 2017 and 2016, the aggregate fair value of the interest rate swaps was recorded in other current assets for $2.5 million and in other accrued liabilities for $2.7 million, respectively. The fair value was determined by reference to a third party valuation and is considered a Level 2 input within the fair value hierarchy.

NOTE 16 – TANGIBLE EQUITY UNITS

To finance the Gentiva Merger, the Company issued 172,500 tangible equity units (the "Units"). Each Unit was composed of a prepaid stock purchase contract (a "Purchase Contract") and one share of 7.25% Mandatory Redeemable Preferred Stock, Series A (the "Mandatory Redeemable Preferred Stock") having a final preferred stock installment payment date of December 1, 2017 and an initial liquidation preference of $201.58 per share of Mandatory Redeemable Preferred Stock. On December 1, 2017, the remaining holders of 87,379 Purchase Contracts were mandatorily redeemed. As a result, holders thereof received 50.6329 shares of Common Stock per Purchase Contract, resulting in approximately 4.4 million shares of Common Stock being issued on such date. Holders of the Mandatory Redeemable Preferred Stock were previously entitled to receive a quarterly "preferred stock installment payment," in cash, shares of Common Stock, or a combination thereof. The final preferred stock installment payment date was December 1, 2017, the same date that all shares of Mandatorily Redeemable Preferred Stock were redeemed as planned pursuant to their terms.

The Purchase Contracts were recorded as capital in excess of par value, net of issuance costs, and the Mandatory Redeemable Preferred Stock was recorded as long-term debt. Issuance costs associated with the Mandatory Redeemable Preferred Stock were recorded as deferred financing costs within long-term debt on the consolidated balance sheet and were amortized using the effective interest method as interest expense over the term of the instrument. On the issuance date, the Company allocated the proceeds of the Units to equity and debt based on the relative fair values of the respective components of each Unit. The aggregate values assigned upon issuance of each component of the Units were as follows (amounts in thousands except price per Unit):

	Purchase Contracts (equity component)	Mandatory Redeemable Preferred Stock (debt component)	Total
Price per Unit	$ 798.42	$ 201.58	$ 1,000.00
Gross proceeds	$ 137,727	$ 34,773	$ 172,500
Issuance costs	(4,938)	(1,247)	(6,185)
	$ 132,789	$ 33,526	$ 166,315
Balance sheet impact at issuance:			
Long-term debt (deferred financing fees)	$ -	$ 1,247	$ 1,247
Current portion of long-term debt	-	10,887	10,887
Long-term debt	-	23,886	23,886
Capital in excess of par value	132,789	-	132,789

Dividends on each share of Mandatory Redeemable Preferred Stock accumulated on the outstanding liquidation preference at a rate of 7.25% per annum. On March 1, June 1, September 1 and December 1 of each year, commencing on March 1, 2015, the Company paid equal quarterly cash installments of $18.75 per share of Mandatory Redeemable Preferred Stock (except for the March 1, 2015 and June 1, 2016 installment payments, which were $20.00 and $18.76 per share of Mandatory Redeemable Preferred Stock, respectively). Each installment payment constituted a payment of dividends (recorded as interest expense) and a payment of consideration for the partial reduction in liquidation preference of the Mandatory Redeemable Preferred Stock.

Following the Gentiva Merger, the Company included the minimum number of shares to be issued under the Purchase Contracts in the denominator of the calculation of basic earnings per share. Diluted earnings per share, when applicable, included the weighted average number of common shares used in the basic denominator adjusted for the assumed number of shares that would be issued on the balance sheet date.

NOTE 17 – CONTINGENCIES

Management continually evaluates contingencies based upon the best available information. In addition, allowances for losses are provided currently for disputed items that have continuing significance, such as certain third party reimbursements and deductions that continue to be claimed in current cost reports and tax returns.

Management believes that allowances for losses have been provided to the extent necessary and that its assessment of contingencies is reasonable.

Principal contingencies are described below:

Revenues – Certain third party payments are subject to examination by agencies administering the various reimbursement programs. The Company is contesting certain issues raised in audits of prior year cost reports and the denial of payment by third parties to the Company's customers.

Professional liability risks – The Company has provided for losses for professional liability risks based upon management's best available information including actuarially determined estimates. Ultimate claims costs may differ from the provisions for loss. See Notes 7 and 12.

Legal and regulatory proceedings – The Company is a party to various legal actions and regulatory and other governmental and internal audits and investigations in the ordinary course of business (including investigations resulting from the Company's obligation to self-report suspected violations of law). The Company cannot predict the ultimate outcome of pending litigation and regulatory and other governmental and internal audits and investigations. The U.S. Department of Justice (the "DOJ"), CMS or other federal and state enforcement and regulatory agencies may conduct additional investigations related to the Company's businesses in the future. These matters could potentially subject the Company to sanctions, damages, recoupments, fines, and other penalties (some of which may not be covered by insurance), which may, either individually or in the aggregate, have a material adverse effect on the Company's business, financial position, results of operations, and liquidity. See Note 24.

Other indemnifications – In the ordinary course of business, the Company enters into contracts containing standard indemnification provisions and indemnifications specific to a transaction, such as a disposal of an operating facility. These indemnifications may cover claims related to employment-related matters, governmental regulations, environmental issues and tax matters, as well as patient, third party payor, supplier and contractual relationships. The Company also is subject to indemnity claims under contracts with its Kindred Rehabilitation Services division customers related to the provision of its services. Obligations under these indemnities generally are initiated by a breach of the terms of a contract or by a third party claim or event. These indemnifications could potentially subject the Company to damages and other payments which may, either individually or in the aggregate, have a material adverse effect on the Company's business, financial position, results of operations or liquidity.

Income taxes – The Company is subject to various federal and state income tax audits in the ordinary course of business. Such audits could result in increased tax payments, interest and penalties.

NOTE 18 – CAPITAL STOCK

Gentiva Merger – Stock Consideration

In connection with the Gentiva Merger, Kindred issued 9.7 million shares of Common Stock as part of the Gentiva Stock Consideration. See Note 3.

Units Offering

As of December 31, 2016, holders of 85,121 Purchase Contracts had elected early settlement. As a result, holders thereof received 43.0918 shares of Common Stock per Purchase Contract, resulting in approximately 3.7 million shares of Common Stock being issued by the Company. On December 1, 2017, the remaining holders of the 87,379 Purchase Contracts were mandatorily redeemed. As a result, holders thereof received 50.6329 shares of Common Stock per Purchase Contract, resulting in approximately 4.4 million shares of Common Stock being issued on such date. See Note 16.

Dividends and other payments

During 2017, the Company paid a cash dividend of $0.12 per share of Common Stock on March 31, 2017 to shareholders of record as of the close of business on March 13, 2017. The Board elected to discontinue paying dividends on the Company's Common Stock following the March 31, 2017 payment and instead redirected funds to repay debt and invest in growth.

NOTE 18 – CAPITAL STOCK (Continued)

Dividends and other payments (Continued)

During 2016, the Company paid cash dividends of $0.12 per share of Common Stock on each of the following dates: December 9, 2016, September 2, 2016, June 10, 2016 and April 1, 2016.

During 2015, the Company paid cash dividends of $0.12 per share of Common Stock on each of the following dates: December 11, 2015, September 4, 2015, June 10, 2015 and April 1, 2015.

The Company made quarterly installment payments on the Units of $18.75 per Unit on December 1, 2017 (to holders of record as of close of business on November 15, 2017), September 1, 2017, June 1, 2017 and March 1, 2017. The Company made installment payments on the Units of $18.75 per Unit on December 1, 2016, September 1, 2016, March 1, 2016, December 1, 2015, September 1, 2015, June 1, 2015 and March 2, 2015 and of $18.76 per Unit on June 1, 2016.

Equity compensation plans

In May 2011, the shareholders of the Company approved an additional three million shares of Common Stock issuable under the Company's incentive compensation plans to Company employees. In May 2014, the shareholders of the Company approved an additional 2.7 million shares of Common Stock issuable under the Company's incentive compensation plans to Company employees, and in February 2015, pursuant to an exception for shareholder approval under the exchange listing standards, the Company assumed an additional 1.4 million shares of Common Stock in connection with the Gentiva Merger, which shares are only issuable to legacy Gentiva employees or employees of the Company hired after February 2, 2015. In May 2017, the shareholders of the Company approved an additional five million shares of Common Stock issuable under the Company's incentive compensation plans to Company employees. In May 2012 and again in May 2015, the shareholders of the Company approved an additional 200,000 shares of Common Stock issuable under the Company's equity compensation plan to the Company's non-employee directors. In May 2017, the shareholders of the Company approved an additional 800,000 shares of Common Stock issuable under the Company's equity compensation plan to the Company's non-employee directors.

Plan descriptions

The Company maintains plans under which approximately 13 million service-based restricted shares, performance-based restricted shares, service-based restricted stock units and options to purchase Common Stock may be granted to directors, officers and other key employees. Exercise provisions vary, but most stock options are exercisable in whole or in part beginning one to four years after grant and ending seven to ten years after grant. Shares of Common Stock available for future grants were 4,901,301, 1,410,752 and 3,262,892 at December 31, 2017, 2016 and 2015, respectively.

Stock options

In conjunction with the Gentiva Merger, 1,075,965 stock options were assumed in 2015. There were no other stock option grants during 2017, 2016, and 2015.

Compensation expense related to stock options was immaterial for the year ended December 31, 2017, and approximated $0.2 million ($0.1 million net of income taxes) for the year ended December 31, 2016 and $0.4 million ($0.3 million net of income taxes) for the year ended December 31, 2015.

Activity in the various plans is summarized below:

	Shares under option	Option price per share	Weighted average exercise price
Balances, December 31, 2016	1,054,081	$10.75 to $27.79	$ 23.58
Exercised	(2,973)	10.75 to 10.75	10.75
Canceled	(344,392)	10.75 to 27.18	21.89
Balances, December 31, 2017	706,716	$10.75 to $27.79	$ 24.45

At December 31, 2017 the intrinsic value of the stock options exercised during 2017 and cash received from stock option exercises in 2017 was immaterial. No stock options were exercised during 2016. The intrinsic value of the stock options exercised during 2015 approximated $0.3 million. Cash received from stock option exercises in 2015 totaled $0.5 million.

NOTE 18 – CAPITAL STOCK (Continued)

Stock options (Continued)

A summary of stock options outstanding at December 31, 2017 follows:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at December 31, 2017	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at December 31, 2017	Weighted average exercise price
$10.75 to $15.06	80,276	2 years	$ 11.92	80,276	$ 11.92
$19.62	30,413	0.5 year	19.62	30,413	19.62
$26.08 to $27.79	596,027	0.8 year	26.39	596,027	26.39
	706,716	0.9 year	$ 24.45	706,716	$ 24.45

The intrinsic value of the stock options outstanding and stock options that are exercisable as of December 31, 2017 was zero.

Service-based restricted shares

At December 31, 2017, unearned compensation costs related to non-vested service-based restricted shares aggregated $14.7 million. These costs will be expensed over the remaining weighted average vesting period of approximately two years. Compensation expense related to these awards approximated $15.2 million ($9.2 million net of income taxes) for the year ended December 31, 2017, $14.2 million ($8.6 million net of income taxes) for the year ended December 31, 2016 and $13.6 million ($8.2 million net of income taxes) for the year ended December 31, 2015.

A summary of non-vested service-based restricted shares follows:

	Non-vested service-based restricted shares	Weighted average fair value at date of grant
Balances, December 31, 2016	2,015,624	$ 14.31
Granted	2,287,697	9.38
Vested	(894,086)	14.94
Canceled	(265,193)	12.07
Balances, December 31, 2017	3,144,042	$ 10.73

The fair value of restricted shares vested during 2017, 2016 and 2015 was $7.6 million, $6.9 million and $22.7 million, respectively.

Performance-based restricted shares

Performance-based restricted share awards vest over a three-year period based upon the attainment of various performance measures in each performance period. Compensation expense related to these awards approximated $1.6 million ($1.0 million net of income taxes) for the year ended December 31, 2017, $1.0 million ($0.6 million net of income taxes) for the year ended December 31, 2016 and $5.8 million ($3.5 million net of income taxes) for the year ended December 31, 2015.

A summary of non-vested performance-based restricted shares follows:

	Non-vested performance-based restricted shares	Weighted average fair value at date of grant
Balances, December 31, 2016	1,012,725	
Granted	938,401	$ 8.55
Vested	(88,940)	11.67
Canceled	(440,096)	$ 11.30
Balances, December 31, 2017	1,422,090	

The performance measures and fair value for each vesting period of a performance-based restricted share award are established annually. The performance measures and fair value for the non-vested performance-based restricted shares have not been established for vesting periods with performance measures determined after December 31, 2017.

NOTE 18 – CAPITAL STOCK (Continued)

Service-based restricted stock units

At December 31, 2017, unearned compensation related to non-vested service-based restricted stock units was immaterial. Compensation expense related to these awards approximated $0.4 million ($0.2 million net of income taxes) for the year ended December 31, 2017, $1.0 million ($0.6 million net of income taxes) for the year ended December 31, 2016 and $0.8 million ($0.5 million net of income taxes) for the year ended December 31, 2015.

A summary of non-vested service-based restricted stock units follows:

	Non-vested service-based restricted stock units	Weighted average fair value at date of grant
Balances, December 31, 2016	77,124	$ 18.22
Vested	(59,432)	18.22
Balances, December 31, 2017	17,692	$ 18.22

NOTE 19 – EMPLOYEE BENEFIT PLANS

The Company maintains defined contribution retirement plans covering employees who meet certain minimum eligibility requirements. Benefits are determined as a percentage of a participant's contributions and generally are vested based upon length of service. Retirement plan expense was $4.4 million for 2017, $5.1 million for 2016 and $8.6 million for 2015. Amounts equal to retirement plan expense are funded annually.

NOTE 20 – BALANCE SHEET INFORMATION

Supplemental information related to the balance sheets at December 31 follows (in thousands):

	2017	2016
Other current assets:		
Prepaid assets	$ 36,377	$ 38,841
Other	24,233	24,852
	60,610	63,693
Other long-term assets:		
Reinsurance and other recoverables	$ 200,682	$ 213,580
Other	64,625	74,660
	265,307	288,240
Other accrued liabilities:		
Patient accounts	$ 74,244	$ 74,780
Accrued interest	73,839	71,919
Taxes other than income	26,375	32,359
Accrued acquisition and divestiture costs	24,872	2,569
Accrued room and board	16,064	15,888
Accrued litigation contingency	11,504	18,757
Other	37,079	48,240
	263,977	264,512
Deferred credits and other liabilities:		
Accrued workers compensation	$ 201,002	$ 216,971
Sale-leaseback financing obligation related to the SNF Divestiture (see Note 6)	140,790	-
Accrued lease termination fees	52,354	39,059
Straight line rent accruals	51,222	57,528
Other	52,586	39,736
	$ 497,954	$ 353,294

NOTE 21 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The Company follows the provisions of the authoritative guidance for fair value measurements, which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under GAAP.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance related to fair value measures establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency asset backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

NOTE 21 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The Company's assets and liabilities measured at fair value on a recurring and non-recurring basis and any associated losses for the years ended December 31, 2017 and 2016 are summarized below (in thousands):

	Fair value measurements				
	Level 1	Level 2	Level 3	Assets/liabilities at fair value	Total losses
December 31, 2017					
Recurring:					
Assets:					
Deposits held in money market funds	$ 17,012	$ -	$ -	$ 17,012	$ -
Money market funds	6,354	-	-	6,354	-
Interest rate swaps	-	2,508	-	2,508	-
	$ 23,366	$ 2,508	$ -	$ 25,874	$ -
Liabilities:					
Contingent consideration liability	$ -	$ -	$ (3,375)	$ (3,375)	$ -
Non-recurring:					
Assets:					
Property and equipment	$ -	$ -	$ 327,400	$ 327,400	$ (2,062)
Goodwill	-	-	125,045	125,045	(236,265)
Intangible assets - Kindred at Home	-	-	19,795	19,795	(3,501)
Intangible assets - Hospitals	-	-	-	-	(3,804)
Intangible assets - Kindred Rehabilitation Services	-	-	500	500	(135,188)
Kindred at Home building available for sale	-	-	-	-	(474)
Hospitals available for sale	-	-	15,430	15,430	(1,153)
	$ -	$ -	$ 488,170	$ 488,170	$ (382,447)
Liabilities	$ -	$ -	$ -	$ -	$ -
December 31, 2016					
Recurring:					
Assets:					
Available-for-sale debt securities:					
Corporate bonds	$ -	$ 55,176	$ -	$ 55,176	$ -
Debt securities issued by U.S. government agencies	-	18,288	-	18,288	-
U.S. Treasury notes	24,727	-	-	24,727	-
	24,727	73,464	-	98,191	-
Available-for-sale equity securities	15,688	-	-	15,688	-
Money market funds	16,472	-	-	16,472	-
Certificates of deposit	-	14,864	-	14,864	-
Total available-for-sale investments	56,887	88,328	-	145,215	-
Deposits held in money market funds	100	4,126	-	4,226	-
	$ 56,987	$ 92,454	$ -	$ 149,441	$ -
Liabilities:					
Contingent consideration liability	$ -	$ -	$ (4,943)	$ (4,943)	$ -
Interest rate swaps	-	(2,718)	-	(2,718)	-
	$ -	$ (2,718)	$ (4,943)	$ (7,661)	$ -
Non-recurring:					
Assets:					
Property and equipment	$ -	$ -	$ 650,222	$ 650,222	$ (31,029)
Goodwill	-	-	361,310	361,310	(261,129)
Intangible assets - Kindred at Home	-	-	19,010	19,010	(3,534)
Intangible assets - Hospitals	-	-	641	641	(3,559)
Hospitals available for sale	-	-	-	-	(43,308)
	$ -	$ -	$ 1,031,183	$ 1,031,183	$ (342,559)
Liabilities	$ -	$ -	$ -	$ -	$ -

NOTE 21 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Recurring measurements

The Company's available-for-sale investments held by Cornerstone consist of debt securities, money market funds and certificates of deposit. These available-for-sale investments and the insurance subsidiary's cash and cash equivalents of $46.6 million as of December 31, 2017 and $170.3 million as of December 31, 2016, classified as insurance subsidiary investments, are maintained for the payment of claims and expenses related to professional liability and workers compensation risks. In connection with the Insurance Restructuring, the Company liquidated a significant portion of its insurance subsidiary investments and released cash back to the parent company to repay debt and increase cash reserves.

The Company also has available-for-sale investments totaling $1.4 million as of December 31, 2017 and $1.7 million as of December 31, 2016 related to a deferred compensation plan that is maintained for certain of the Company's current and former employees.

The fair value of actively traded debt and money market funds is based upon quoted market prices and are generally classified as Level 1. The fair value of inactively traded debt securities and certificates of deposit is based upon either quoted market prices of similar securities or observable inputs such as interest rates using either a market or income valuation approach and are generally classified as Level 2. The Company's investment advisors obtain and review pricing for each security. The Company is responsible for the determination of fair value and as such the Company reviews the pricing information from its advisors in determining reasonable estimates of fair value. Based upon the Company's internal review procedures, there were no adjustments to the prices during 2017 or 2016.

The Company's deposits held in money market funds consist primarily of cash and cash equivalents for the Company's general corporate purposes.

The Company acquired a contingent consideration liability in the Gentiva Merger from a prior acquisition by Gentiva with an initial estimated fair value of $7.9 million. The fair value is determined using a discounted cash flow approach utilizing Level 2 and Level 3 inputs which includes observable market discount rates, fixed payment schedules, and assumptions based on achieving certain predefined performance criteria. As of December 31, 2017, the fair value of the contingent consideration liability was $3.4 million. The change in fair value for the year ended December 31, 2017 consists of $1.8 million in payments and $0.2 million in accrued interest included in interest expense in the accompanying consolidated statement of operations. A one percent change in the discount rate used to calculate the accretion of the present value of the contingent consideration liability would have an impact on the fair value of approximately $0.1 million.

The fair value of the derivative asset or liability associated with the interest rate swaps is estimated using industry-standard valuation models, which are Level 2 measurements. Such models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rate curves. See Note 15.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments. The carrying value is equal to fair value for financial instruments that are based upon quoted market prices or current market rates. The Company's long-term debt is based upon Level 2 inputs.

	December 31, 2017		December 31, 2016	
(In thousands)	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	$ 160,254	$ 160,254	$ 137,061	$ 137,061
Insurance subsidiary investments	51,534	51,534	313,895	313,895
Long-term debt, including amounts due within one year (excluding capital lease obligations totaling $0.3 million and $0.6 million at December 31, 2017 and December 31, 2016, respectively)	3,161,298	3,316,136	3,242,459	3,220,291

Non-recurring measurements

During the fourth quarter of 2017, the Company recorded a hospital division reporting unit goodwill impairment charge of $236.3 million in connection with its annual impairment test performed as of October 1, 2017. The impairment was required after cash flow projections and related mitigation strategies were refined after completing the first full year of operations under the LTAC Legislation. The refinement of the projections and mitigation strategies were finalized over the last three months of 2017 in connection with the preparation of the Company's annual budget for 2018. The Company also tested the carrying value of its hospital division intangible assets and property and equipment and determined impairment charges of $3.2 million for a Medicare license and $0.8 million for property and equipment were also necessary. The fair value of the assets was measured using Level 3 inputs, such as operating cash flows, market data and replacement cost factoring in depreciation, economic obsolescence and inflation trends.

NOTE 21 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Non-recurring measurements (Continued)

During the fourth quarter of 2017, the Company also recorded an asset impairment charge of $3.5 million related to previously acquired home health and hospice certificates of need as part of the annual indefinite-lived intangible assets impairment review at October 1, 2017. The fair value of the certificates of need was measured using Level 3 inputs, such as operating cash flows.

During the fourth quarter of 2017, the Company also recorded asset impairment charges of $1.1 million related to property and equipment of the planned sale of two hospitals. The fair value of the property and equipment was measured using Level 3 inputs, primarily replacement cost and a pending offer.

During the year ended December 31, 2017, the Company recorded asset impairment charges of $134.6 million related to the previously acquired RehabCare trade name ($97.4 million) and customer relationship intangible asset ($37.2 million) due to the expected loss of affiliated contracts related to the SNF Divestiture and cancellation of non-affiliated contracts. The fair value of the trade name was measured using Level 3 inputs, such as projected revenues and royalty rate. The fair value of the customer relationship intangible asset was measured using Level 3 inputs, such as discounted projected future operating cash flows.

During the year ended December 31, 2017, the Company also recorded asset impairment charges of $1.3 million related to a hospital certificate of need ($0.7 million) and a Medicare certification for an IRF ($0.6 million) as part of the annual indefinite-lived intangible assets impairment review at May 1, 2017. The fair value of the certificate of need was measured using Level 3 inputs, such as operating cash flows. The fair value of the Medicare certification was measured using a pending offer, a Level 3 input.

During the year ended December 31, 2017, the Company recorded an asset impairment charge of $0.4 million related to a valuation adjustment for a building within the Kindred at Home division. The fair value of the building was measured using Level 3 inputs, primarily replacement cost.

During the year ended December 31, 2017, the Company recorded an asset impairment charge of $1.3 million related to the SNF Divestiture which is recorded in discontinued operations. The fair value of property and equipment was measured using Level 3 inputs, primarily replacement costs.

During the fourth quarter of 2016, the Company recorded an asset impairment charge of $3.6 million related to previously acquired home health and hospice Medicare certifications, certificates of need and a trade name, as part of the annual indefinite-lived intangible assets impairment review at October 1, 2016. The fair value of the assets was measured using Level 3 unobservable inputs, such as projected revenue and operating cash flows.

During the year ended December 31, 2016, the Company recorded a goodwill impairment charge of $261.1 million and a property and equipment impairment charge of $3.2 million related to the Hospital Division Triggering Event. The fair value of the assets was measured using Level 3 inputs such as operating cash flows, market data and replacement cost factoring in depreciation, economic obsolescence and inflation trends.

During the year ended December 31, 2016, the Company recorded impairment charges aggregating $33.0 million, comprised of $19.7 million related to property and equipment, and $13.3 million related to goodwill and other intangible assets related to the Curahealth Disposal. The fair value of the assets was measured using a Level 3 input of the offer pending from Curahealth at September 30, 2016. The properties were subsequently sold during the fourth quarter of 2016. In addition, during the first quarter of 2016, the Company recorded asset impairment charges of $7.8 million under the held and used accounting model related to the planned Curahealth Disposal. The fair value of property and equipment was measured in the first quarter of 2016 using Level 3 inputs, primarily replacement costs.

During the year ended December 31, 2016, the Company reviewed the long-lived assets related to the decline in financial performance of its nursing center division. After determining it was more likely than not that the Company would dispose of its skilled nursing facility business, the Company determined that its property and equipment was impaired. As a result, the Company recorded an impairment charge of $22.5 million which is recorded in discontinued operations. The fair value of the assets was measured using Level 3 inputs, such as operating cash flows and replacement costs.

NOTE 21 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Non-recurring measurements (Continued)

During the year ended December 31, 2016, the Company reviewed the long-lived assets related to the planned divestiture and pending offers for a nursing center held for sale and determined its property and equipment was impaired. As a result, the Company recorded an impairment charge of $5.3 million which is recorded in discontinued operations. The fair value of the assets was measured based upon pending offers, a Level 3 input.

During the year ended December 31, 2016, the Company recorded an asset impairment charge of $2.6 million related to the sale of a hospital division medical office building. The fair value of the property was measured using a Level 3 input of the then pending offer.

During the year ended December 31, 2016, the Company also recorded an impairment charge of $3.5 million related to certificates of need for two hospitals as part of the annual indefinite-lived intangible assets impairment review at May 1, 2016. The fair value of the certificates of need was measured using Level 3 inputs, such as operating cash flows**.**

Each of the impairment charges discussed above reflects the amount by which the carrying value of the assets exceeded its estimated fair value at each impairment date.

NOTE 22 – NONCONTROLLING INTERESTS

As of December 31, 2017, the Company had ownership ranging from 40% to 99% in various partnerships. During 2017 and 2015, the Company did not complete any buyouts of noncontrolling interests. During 2016, the Company completed a full joint venture buyout of a noncontrolling interest as detailed in the table below (in thousands). In accordance with the authoritative guidance of noncontrolling interests, this payment has been accounted for as an equity transaction.

Decrease in carrying value of noncontrolling interests for purchase of noncontrolling interest in subsidiary	$ 766
Decrease in Company's capital in excess of par value for purchase of noncontrolling interest in subsidiary	234
Total cash consideration paid in exchange for purchase of noncontrolling interest	$ 1,000

NOTE 23 – CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The accompanying condensed consolidating financial information has been prepared and presented pursuant to the Securities and Exchange Commission Regulation S-X, Rule 3-10, "Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered." The Company's Notes due 2020, Notes due 2022 and Notes due 2023 are fully and unconditionally guaranteed by substantially all of the Company's domestic 100% owned subsidiaries. The Company's Notes due 2020 and the Notes due 2023, which were issued during 2014, were senior unsecured obligations of the Escrow Issuer, which, prior to the Gentiva Merger, was a non-guarantor subsidiary of the Company. In connection with the Gentiva Merger, the Escrow Issuer was merged with and into the Company, with the Company assuming the Notes due 2020 and Notes due 2023. See Note 15. The equity method has been used with respect to the parent company's investment in subsidiaries.

The following condensed consolidating financial data present the financial position of the parent company/issuer, the guarantor subsidiaries and the non-guarantor subsidiaries as of December 31, 2017 and December 31, 2016, and the respective results of operations and cash flows for the three years ended December 31, 2017.

Condensed Consolidating Statement of Operations and Comprehensive Loss

	Year ended December 31, 2017				
(In thousands)	Parent company/ issuer	Guarantor subsidiaries	Non-guarantor subsidiaries	Consolidating and eliminating adjustments	Consolidated
Revenues	$ -	$ 5,360,982	$ 673,141	$ -	$ 6,034,123
Salaries, wages and benefits	-	3,061,104	257,781	-	3,318,885
Supplies	-	264,294	39,629	-	303,923
Building rent	-	204,358	53,158	-	257,516
Equipment rent	-	29,732	5,124	-	34,856
Other operating expenses	-	585,579	55,185	-	640,764
General and administrative expenses	-	936,899	132,865	-	1,069,764
Other income	-	(478)	(2,982)	-	(3,460)
Litigation contingency expense	-	7,435	-	-	7,435
Impairment charges	-	279,829	101,350	-	381,179
Restructuring charges	-	84,112	749	-	84,861
Depreciation and amortization	-	95,286	9,519	-	104,805
Management fees	-	(8,767)	8,767	-	-
Intercompany interest (income) expense from affiliates	(179,511)	127,459	52,052	-	-
Interest expense (income)	242,398	(1,039)	52	-	241,411
Investment income	-	(368)	(3,131)	-	(3,499)
Equity in net loss of consolidating affiliates	635,465	-	-	(635,465)	-
	698,352	5,665,435	710,118	(635,465)	6,438,440
Loss from continuing operations before income taxes	(698,352)	(304,453)	(36,977)	635,465	(404,317)
Provision (benefit) for income taxes	-	(165,254)	8,138	-	(157,116)
Loss from continuing operations	(698,352)	(139,199)	(45,115)	635,465	(247,201)
Discontinued operations, net of income taxes:					
Income (loss) from operations	-	(29,725)	12,871	-	(16,854)
Loss on divestiture of operations	-	(379,260)	-	-	(379,260)
Income (loss) from discontinued operations	-	(408,985)	12,871	-	(396,114)
Net loss	(698,352)	(548,184)	(32,244)	635,465	(643,315)
Earnings attributable to noncontrolling interests:					
Continuing operations	-	-	(42,176)	-	(42,176)
Discontinued operations	-	-	(12,861)	-	(12,861)
	-	-	(55,037)	-	(55,037)
Loss attributable to Kindred	$ (698,352)	$ (548,184)	$ (87,281)	$ 635,465	$ (698,352)
Comprehensive loss	$ (693,746)	$ (548,142)	$ (32,296)	$ 635,475	$ (638,709)
Comprehensive loss attributable to Kindred	$ (693,746)	$ (548,142)	$ (87,333)	$ 635,475	$ (693,746)

NOTE 23 – CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

Condensed Consolidating Statement of Operations and Comprehensive Loss (Continued)

	Year ended December 31, 2016				
(In thousands)	Parent company/ issuer	Guarantor subsidiaries	Non-guarantor subsidiaries	Consolidating and eliminating adjustments	Consolidated
Revenues	$ -	$ 5,625,662	$ 768,982	$ (102,115)	$ 6,292,529
Salaries, wages and benefits	-	3,143,055	249,208	-	3,392,263
Supplies	-	299,919	43,146	-	343,065
Building rent	-	209,313	54,993	-	264,306
Equipment rent	-	34,372	5,557	-	39,929
Other operating expenses	-	597,226	59,566	-	656,792
General and administrative expenses	-	981,470	228,293	(102,115)	1,107,648
Other income	-	(2,091)	(2,975)	-	(5,066)
Litigation contingency expense	-	2,840	-	-	2,840
Impairment charges	-	193,057	121,672	-	314,729
Restructuring charges	-	94,108	2,018	-	96,126
Depreciation and amortization	-	122,522	9,297	-	131,819
Management fees	-	(8,862)	8,862	-	-
Intercompany interest (income) expense from affiliates	(222,445)	177,578	44,867	-	-
Interest expense (income)	234,630	(129)	111	-	234,612
Investment income	-	(453)	(2,655)	-	(3,108)
Equity in net loss of consolidating affiliates	656,019	-	-	(656,019)	-
	668,204	5,843,925	821,960	(758,134)	6,575,955
Loss from continuing operations before income taxes	(668,204)	(218,263)	(52,978)	656,019	(283,426)
Provision (benefit) for income taxes	(3,974)	308,700	9,536	-	314,262
Loss from continuing operations	(664,230)	(526,963)	(62,514)	656,019	(597,688)
Discontinued operations, net of income taxes:					
Income (loss) from operations	-	(25,111)	18,919	-	(6,192)
Loss on divestiture of operations	-	(6,744)	-	-	(6,744)
Income (loss) from discontinued operations	-	(31,855)	18,919	-	(12,936)
Net loss	(664,230)	(558,818)	(43,595)	656,019	(610,624)
Earnings attributable to noncontrolling interests:					
Continuing operations	-	-	(34,847)	-	(34,847)
Discontinued operations	-	-	(18,759)	-	(18,759)
	-	-	(53,606)	-	(53,606)
Loss attributable to Kindred	$ (664,230)	$ (558,818)	$ (97,201)	$ 656,019	$ (664,230)
Comprehensive loss	$ (660,025)	$ (558,598)	$ (43,255)	$ 655,459	$ (606,419)
Comprehensive loss attributable to Kindred	$ (660,025)	$ (558,598)	$ (96,861)	$ 655,459	$ (660,025)

NOTE 23 – CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

Condensed Consolidating Statement of Operations and Comprehensive Income (Loss) (Continued)

	Year ended December 31, 2015				
(In thousands)	Parent company/ issuer	Guarantor subsidiaries	Non-guarantor subsidiaries	Consolidating and eliminating adjustments	Consolidated
Revenues	$ -	$ 5,507,709	$ 714,383	$ (102,874)	$ 6,119,218
Salaries, wages and benefits	-	3,000,718	232,329	-	3,233,047
Supplies	-	299,846	42,229	-	342,075
Building rent	-	206,717	50,504	-	257,221
Equipment rent	-	33,767	4,823	-	38,590
Other operating expenses	-	585,522	54,086	-	639,608
General and administrative expenses	-	1,092,613	221,048	(102,874)	1,210,787
Other (income) expense	-	744	(3,102)	-	(2,358)
Litigation contingency expense	-	138,648	-	-	138,648
Impairment charges	-	24,757	-	-	24,757
Restructuring charges	-	12,618	-	-	12,618
Depreciation and amortization	-	120,238	9,008	-	129,246
Management fees	-	(19,904)	19,904	-	-
Intercompany interest (income) expense from affiliates	(205,411)	160,201	45,210	-	-
Interest expense	228,826	3,176	349	-	232,351
Investment income	-	(1,609)	(1,147)	-	(2,756)
Equity in net loss of consolidating affiliates	79,183	-	-	(79,183)	-
	102,598	5,658,052	675,241	(182,057)	6,253,834
Income (loss) from continuing operations before income taxes	(102,598)	(150,343)	39,142	79,183	(134,616)
Provision (benefit) for income taxes	(9,214)	(50,084)	7,584	-	(51,714)
Income (loss) from continuing operations	(93,384)	(100,259)	31,558	79,183	(82,902)
Discontinued operations, net of income taxes:					
Income from operations	-	15,273	15,531	-	30,804
Gain on divestiture of operations	-	1,244	-	-	1,244
Income from discontinued operations	-	16,517	15,531	-	32,048
Net income (loss)	(93,384)	(83,742)	47,089	79,183	(50,854)
Earnings attributable to noncontrolling interests:					
Continuing operations	-	-	(26,044)	-	(26,044)
Discontinued operations	-	-	(16,486)	-	(16,486)
	-	-	(42,530)	-	(42,530)
Income (loss) attributable to Kindred	$ (93,384)	$ (83,742)	$ 4,559	$ 79,183	$ (93,384)
Comprehensive income (loss)	$ (93,465)	$ (83,286)	$ 46,890	$ 78,926	$ (50,935)
Comprehensive income (loss) attributable to Kindred	$ (93,465)	$ (83,286)	$ 4,360	$ 78,926	$ (93,465)

NOTE 23 – CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

Condensed Consolidating Balance Sheet

	As of December 31, 2017				
(In thousands)	Parent company/ issuer	Guarantor subsidiaries	Non-guarantor subsidiaries	Consolidating and eliminating adjustments	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ 40,893	$ 119,361	$ -	$ 160,254
Insurance subsidiary investments	-	-	22,546	-	22,546
Accounts receivable, net	-	993,907	128,625	-	1,122,532
Inventories	-	17,714	4,002	-	21,716
Income taxes	-	3,467	1,079	-	4,546
Assets held for sale	-	16,555	780	-	17,335
Other	2,508	51,980	6,122	-	60,610
	2,508	1,124,516	282,515	-	1,409,539
Property and equipment, net	-	682,276	53,703	-	735,979
Goodwill	-	1,839,845	348,721	-	2,188,566
Intangible assets, net	-	558,827	45,511	-	604,338
Insurance subsidiary investments	-	-	28,988	-	28,988
Investment in subsidiaries	3,405,029	-	-	(3,405,029)	-
Intercompany receivable	-	691,980	-	(691,980)	-
Deferred tax assets	-	-	1,036	(1,036)	-
Other	5,699	112,808	146,800	-	265,307
	$ 3,413,236	$ 5,010,252	$ 907,274	$ (4,098,045)	$ 5,232,717
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	$ -	$ 133,031	$ 58,796	$ -	$ 191,827
Salaries, wages and other compensation	-	334,729	17,450	-	352,179
Due to third party payors	-	35,269	52	-	35,321
Professional liability risks	-	46,274	14,493	-	60,767
Accrued lease termination fees	-	7,610	-	-	7,610
Other accrued liabilities	73,840	172,402	17,735	-	263,977
Long-term debt due within one year	14,034	-	604	-	14,638
	87,874	729,315	109,130	-	926,319
Long-term debt	3,146,594	-	378	-	3,146,972
Intercompany payable	55,442	-	636,538	(691,980)	-
Professional liability risks	-	142,479	134,350	-	276,829
Deferred tax liabilities	-	37,917	-	(1,036)	36,881
Deferred credits and other liabilities	-	434,105	63,849	-	497,954
Commitments and contingencies					
Equity (deficit):					
Stockholder's equity (deficit)	123,326	3,666,436	(261,407)	(3,405,029)	123,326
Noncontrolling interests	-	-	224,436	-	224,436
	123,326	3,666,436	(36,971)	(3,405,029)	347,762
	$ 3,413,236	$ 5,010,252	$ 907,274	$ (4,098,045)	$ 5,232,717

NOTE 23 – CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

Condensed Consolidating Balance Sheet (Continued)

	As of December 31, 2016				
(In thousands)	Parent company/ issuer	Guarantor subsidiaries	Non-guarantor subsidiaries	Consolidating and eliminating adjustments	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ 25,767	$ 111,294	$ -	$ 137,061
Insurance subsidiary investments	-	-	108,966	-	108,966
Accounts receivable, net	-	1,022,850	149,228	-	1,172,078
Inventories	-	18,290	4,148	-	22,438
Income taxes	-	9,023	1,044	-	10,067
Assets held for sale	-	278,689	10,761	-	289,450
Other	-	56,054	7,639	-	63,693
	-	1,410,673	393,080	-	1,803,753
Property and equipment, net	-	557,761	60,859	-	618,620
Goodwill	-	1,977,003	450,071	-	2,427,074
Intangible assets, net	-	723,760	46,348	-	770,108
Insurance subsidiary investments	-	-	204,929	-	204,929
Intercompany	4,850,517	-	-	(4,850,517)	-
Deferred tax assets	-	-	7,224	(7,224)	-
Other	10,123	116,305	161,812	-	288,240
	$ 4,860,640	$ 4,785,502	$ 1,324,323	$ (4,857,741)	$ 6,112,724
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	$ -	$ 112,286	$ 91,639	$ -	$ 203,925
Salaries, wages and other compensation	-	339,600	57,886	-	397,486
Due to third party payors	-	41,320	-	-	41,320
Professional liability risks	-	3,401	61,883	-	65,284
Accrued lease termination fees	-	5,224	-	-	5,224
Other accrued liabilities	74,634	170,476	19,402	-	264,512
Long-term debt due within one year	26,406	-	1,571	-	27,977
	101,040	672,307	232,381	-	1,005,728
Long-term debt	3,214,607	-	455	-	3,215,062
Intercompany/deficiency in earnings of consolidated subsidiaries	732,442	4,281,685	568,832	(5,582,959)	-
Professional liability risks	-	78,124	217,187	-	295,311
Deferred tax liabilities	-	209,032	-	(7,224)	201,808
Deferred credits and other liabilities	-	219,701	133,593	-	353,294
Commitments and contingencies					
Equity (deficit):					
Stockholder's equity (deficit)	812,551	(675,347)	(57,095)	732,442	812,551
Noncontrolling interests	-	-	228,970	-	228,970
	812,551	(675,347)	171,875	732,442	1,041,521
	$ 4,860,640	$ 4,785,502	$ 1,324,323	$ (4,857,741)	$ 6,112,724

NOTE 23 – CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

Condensed Consolidating Statement of Cash Flows

	Year ended December 31, 2017				
(In thousands)	**Parent company/ issuer**	**Guarantor subsidiaries**	**Non-guarantor subsidiaries**	**Consolidating and eliminating adjustments**	**Consolidated**
Net cash provided by (used in) operating activities	$ (50,748)	$ 268,325	$ (141,882)	$ -	$ 75,695
Cash flows from investing activities:					
Routine capital expenditures	-	(67,222)	(2,584)	-	(69,806)
Development capital expenditures	-	(25,895)	-	-	(25,895)
Acquisitions, net of cash acquired	-	(9,650)	-	-	(9,650)
Sale of assets, net of lease termination charges	-	(71,555)	-	-	(71,555)
Purchase of insurance subsidiary investments	-	-	(113,661)	-	(113,661)
Sale of insurance subsidiary investments	-	-	243,616	-	243,616
Net change in insurance subsidiary cash and cash equivalents	-	-	133,618	-	133,618
Net change in other investments	-	24,637	-	-	24,637
Return of contributed surplus from Cornerstone	-	43,000	-	(43,000)	-
Other	-	7	-	-	7
Net cash provided by (used in) investing activities	-	(106,678)	260,989	(43,000)	111,311
Cash flows from financing activities:					
Proceeds from borrowings under revolving credit	1,369,700	-	-	-	1,369,700
Repayment of borrowings under revolving credit	(1,432,200)	-	-	-	(1,432,200)
Repayment of term loan	(14,034)	-	-	-	(14,034)
Repayment of other long-term debt	-	-	(1,045)	-	(1,045)
Payment of deferred financing costs	(413)	-	-	-	(413)
Issuance of Common Stock in connection with employee benefit plans	32	-	-	-	32
Payment of dividend for Mandatory Redeemable Preferred Stock	(12,372)	-	-	-	(12,372)
Dividends paid	(10,228)	-	-	-	(10,228)
Contributions made by noncontrolling interests	-	-	505	-	505
Distributions to noncontrolling interests	-	-	(61,226)	-	(61,226)
Payroll tax payments for equity awards issuance	-	(2,532)	-	-	(2,532)
Return of contributed surplus from Cornerstone	-	-	(43,000)	43,000	-
Net change in intercompany accounts	150,263	(143,989)	(6,274)	-	-
Net cash provided by (used in) financing activities	50,748	(146,521)	(111,040)	43,000	(163,813)
Change in cash and cash equivalents	-	15,126	8,067	-	23,193
Cash and cash equivalents at beginning of period	-	25,767	111,294	-	137,061
Cash and cash equivalents at end of period	$ -	$ 40,893	$ 119,361	$ -	$ 160,254

NOTE 23 – CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

Condensed Consolidating Statement of Cash Flows (Continued)

	Year ended December 31, 2016				
(In thousands)	**Parent company/ issuer**	**Guarantor subsidiaries**	**Non-guarantor subsidiaries**	**Consolidating and eliminating adjustments**	**Consolidated**
Net cash provided by (used in) operating activities	$ (630)	$ 93,641	$ 95,225	$ -	$ 188,236
Cash flows from investing activities:					
Routine capital expenditures	-	(88,875)	(7,177)	-	(96,052)
Development capital expenditures	-	(14,060)	(20,765)	-	(34,825)
Acquisitions, net of cash acquired	-	(78,840)	-	-	(78,840)
Acquisition deposits	-	18,489	-	-	18,489
Sale of assets	-	25,987	-	-	25,987
Purchase of insurance subsidiary investments	-	-	(97,740)	-	(97,740)
Sale of insurance subsidiary investments	-	-	95,488	-	95,488
Net change in insurance subsidiary cash and cash equivalents	-	-	877	-	877
Net change in other investments	-	(34,521)	1,751	-	(32,770)
Other	-	(255)	-	-	(255)
Net cash used in investing activities	-	(172,075)	(27,566)	-	(199,641)
Cash flows from financing activities:					
Proceeds from borrowings under revolving credit	1,643,300	-	-	-	1,643,300
Repayment of borrowings under revolving credit	(1,689,400)	-	-	-	(1,689,400)
Proceeds from issuance of term loan, net of discount	198,100	-	-	-	198,100
Proceeds from other long-term debt	-	-	750	-	750
Repayment of term loan	(13,527)	-	-	-	(13,527)
Repayment of other long-term debt	-	-	(1,104)	-	(1,104)
Payment of deferred financing costs	(522)	-	-	-	(522)
Payment of dividend for Mandatory Redeemable Preferred Stock	(11,514)	-	-	-	(11,514)
Dividends paid	(40,738)	-	-	-	(40,738)
Contributions made by noncontrolling interests	-	-	14,514	-	14,514
Distributions to noncontrolling interests	-	-	(45,985)	-	(45,985)
Purchase of noncontrolling interests	-	-	(1,000)	-	(1,000)
Payroll tax payments for equity awards issuance	-	(3,166)	-	-	(3,166)
Net change in intercompany accounts	(85,069)	89,135	(4,066)	-	-
Net cash provided by (used in) financing activities	630	85,969	(36,891)	-	49,708
Change in cash and cash equivalents	-	7,535	30,768	-	38,303
Cash and cash equivalents at beginning of period	-	18,232	80,526	-	98,758
Cash and cash equivalents at end of period	$ -	$ 25,767	$ 111,294	$ -	$ 137,061

NOTE 23 – CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

Condensed Consolidating Statement of Cash Flows (Continued)

	Year ended December 31, 2015				
(In thousands)	Parent company/ issuer	Guarantor subsidiaries	Non-guarantor subsidiaries	Consolidating and eliminating adjustments	Consolidated
Net cash provided by operating activities	$ 21,963	$ 84,605	$ 69,682	$ -	$ 176,250
Cash flows from investing activities:					
Routine capital expenditures	-	(110,776)	(11,155)	-	(121,931)
Development capital expenditures	-	(19,931)	-	-	(19,931)
Acquisitions, net of cash acquired	-	(511,683)	(161,864)	-	(673,547)
Acquisition deposits	-	176,511	-	-	176,511
Sale of assets	-	8,735	-	-	8,735
Proceeds from senior unsecured notes offering held in escrow	-	-	1,350,000	-	1,350,000
Interest in escrow for senior unsecured notes	-	-	23,438	-	23,438
Purchase of insurance subsidiary investments	-	-	(85,222)	-	(85,222)
Sale of insurance subsidiary investments	-	-	75,075	-	75,075
Net change in insurance subsidiary cash and cash equivalents	-	-	(12,271)	-	(12,271)
Proceeds from note receivable	-	25,000	-	-	25,000
Net change in other investments	-	(4,620)	-	-	(4,620)
Other	-	10,972	-	-	10,972
Net cash provided by (used in) investing activities	-	(425,792)	1,178,001	-	752,209
Cash flows from financing activities:					
Proceeds from borrowings under revolving credit	1,740,450	-	-	-	1,740,450
Repayment of borrowings under revolving credit	(1,631,850)	-	-	-	(1,631,850)
Proceeds from issuance of senior unsecured notes due 2020 and 2023	1,350,000	-	(1,350,000)	-	-
Proceeds from issuance of term loan, net of discount	199,000	-	-	-	199,000
Repayment of Gentiva debt	-	(1,177,363)	-	-	(1,177,363)
Repayment of term loan	(12,010)	-	-	-	(12,010)
Repayment of other long-term debt	-	-	(6,752)	-	(6,752)
Payment of deferred financing costs	(3,446)	-	-	-	(3,446)
Issuance of Common Stock in connection with employee benefit plans	534	-	-	-	534
Payment of costs associated with issuance of common stock and tangible equity units	(915)	-	-	-	(915)
Payment of dividend for Mandatory Redeemable Preferred Stock	(10,887)	-	-	-	(10,887)
Dividends paid	(40,119)	-	-	-	(40,119)
Contributions made by noncontrolling interests	-	-	2,152	-	2,152
Distributions to noncontrolling interests	-	-	(42,458)	-	(42,458)
Change in intercompany accounts	(1,612,720)	1,417,599	195,121	-	-
Payroll tax payments for equity awards issuance	-	(10,225)	-	-	(10,225)
Net cash provided by (used in) financing activities	(21,963)	230,011	(1,201,937)	-	(993,889)
Change in cash and cash equivalents	-	(111,176)	45,746	-	(65,430)
Cash and cash equivalents at beginning of period	-	129,408	34,780	-	164,188
Cash and cash equivalents at end of period	$ -	$ 18,232	$ 80,526	$ -	$ 98,758

NOTE 24 – LEGAL AND REGULATORY PROCEEDINGS

The Company provides services in a highly regulated industry and is subject to various legal actions and regulatory and other governmental and internal audits and investigations in the ordinary course of business (including investigations resulting from the Company's obligation to self-report suspected violations of law). These matters could (1) require the Company to pay substantial damages, fines, penalties or amounts in judgments or settlements, which individually or in the aggregate could exceed amounts, if any, that may be recovered under the Company's insurance policies where coverage applies and is available; (2) cause the Company to incur substantial expenses; (3) require significant time and attention from the Company's management; (4) subject the Company to sanctions, including possible exclusions from the Medicare and Medicaid programs; and (5) cause the Company to close or sell one or more facilities or otherwise modify the way the Company conducts business. The ultimate resolution of these matters, whether as a result of litigation or settlement, could have a material adverse effect on the Company's business, financial position, results of operations, and liquidity.

In accordance with authoritative accounting guidance related to loss contingencies, the Company records an accrued liability for litigation and regulatory matters that are both probable and reasonably estimable. Additional losses in excess of amounts accrued may be reasonably possible. The Company reviews loss contingencies that are reasonably possible and determines whether an estimate of the possible loss or range of loss, individually or in aggregate, can be disclosed in the Company's consolidated financial statements. These estimates are based upon currently available information for those legal and regulatory proceedings in which the Company is involved, taking into account the Company's best estimate of losses for those matters for which such estimate can be made. The Company's estimates involve significant judgment and a variety of assumptions, given that (1) these legal and regulatory proceedings may be in early stages; (2) discovery may not be completed; (3) damages sought in these legal and regulatory proceedings can be unsubstantiated or indeterminate; (4) the matters often involve legal uncertainties or evolving areas of law; (5) there are often significant facts in dispute; and/or (6) there is a wide range of possible outcomes. Accordingly, the Company's estimated loss or range of loss may change from time to time, and actual losses may be more or less than the current estimate. At this time, except as otherwise specifically noted, no estimate of the possible loss or range of loss, individually or in the aggregate, in excess of the amounts accrued, if any, can be made regarding the matters described below.

Set forth below are descriptions of the Company's significant legal proceedings.

Medicare and Medicaid payment reviews, audits, and investigations—As a result of the Company's participation in the Medicare and Medicaid programs, the Company faces and is currently subject to various governmental and internal reviews, audits, and investigations to verify the Company's compliance with these programs and applicable laws and regulations. The Company is routinely subject to audits under various government programs, such as the CMS Recovery Audit Contractor program, in which third party firms engaged by CMS conduct extensive reviews of claims data and medical and other records to identify potential improper payments to healthcare providers under the Medicare program. In addition, the Company, like other healthcare providers, is subject to ongoing investigations by the OIG, the DOJ and state attorneys general into the billing of services provided to Medicare and Medicaid patients, including whether such services were properly documented and billed, whether services provided were medically necessary, and general compliance with conditions of participation in the Medicare and Medicaid programs. Private pay sources such as third party insurance and managed care entities also often reserve the right to conduct audits. The Company's costs to respond to and defend any such reviews, audits, and investigations are significant and are likely to increase in the current enforcement environment. These audits and investigations may require the Company to refund or retroactively adjust amounts that have been paid under the relevant government program or by other payors. Further, an adverse review, audit, or investigation also could result in other adverse consequences, particularly if the underlying conduct is found to be pervasive or systemic. These consequences include (1) state or federal agencies imposing fines, penalties, and other sanctions on the Company; (2) loss of the Company's right to participate in the Medicare or Medicaid programs or one or more third party payor networks; (3) indemnity claims asserted by customers and others for which the Company provides services; and (4) damage to the Company's reputation in various markets, which could adversely affect the Company's ability to attract patients, customers and employees.

NOTE 24 – LEGAL AND REGULATORY PROCEEDINGS (Continued)

On January 12, 2016, the Company entered into a settlement agreement (the "Settlement Agreement") with the United States of America, acting through the DOJ and on behalf of the OIG (the "United States"), to resolve the pending DOJ investigation concerning the operations of RehabCare, a therapy services company the Company acquired on June 1, 2011. Under the Settlement Agreement, the Company paid $125 million, plus accrued interest from August 31, 2015, at the rate of 1.875% per annum to the United States during the first quarter of 2016. In the first quarter of 2015, the Company recorded a $95 million loss reserve for this matter and disclosed an estimated settlement range of $95 million to $125 million. Based on the progress of continuing settlement discussions through October 2015, the Company recorded an additional $30 million loss provision in the third quarter of 2015. The Company recorded an additional loss reserve of approximately $2 million in the fourth quarter of 2015 related to the Settlement Agreement and associated costs and, in connection with establishing the final terms of the Settlement Agreement, also recorded an income tax benefit of $47 million in the fourth quarter of 2015. In connection with the resolution of this matter, and in exchange for the OIG's agreement not to exclude the Company or its subsidiaries from participating in the federal healthcare programs, on January 11, 2016, the Company entered into the RehabCare CIA.

In connection with the Settlement Agreement, RehabCare has received requests for indemnification from some of its current and former customers related to alleged damages stemming from payments made by these customers to the DOJ and the related legal and other costs. The Company settled indemnification disputes totaling $5.8 million during 2017.

Whistleblower lawsuits—The Company is also subject to *qui tam* or "whistleblower" lawsuits under the federal False Claims Act and comparable state laws for allegedly submitting fraudulent bills for services to the Medicare and Medicaid programs. These lawsuits can result in monetary damages, fines, attorneys' fees, and the award of bounties to private *qui tam* plaintiffs who successfully bring these lawsuits and to the respective government programs. The Company also could be subject to civil penalties (including the loss of the Company's licenses to operate one or more facilities or healthcare activities), criminal penalties (for violations of certain laws and regulations), and exclusion of one or more facilities or healthcare activities from participation in the Medicare, Medicaid, and other federal and state healthcare programs. The lawsuits are in various stages of adjudication or investigation and involve a wide variety of claims and potential outcomes.

Employment-related lawsuits—The Company's operations are subject to a variety of federal and state employment-related laws and regulations, including but not limited to the U.S. Fair Labor Standards Act, Equal Employment Opportunity laws, and enforcement policies of the Equal Employment Opportunity Commission, the Office of Civil Rights and state attorneys general, federal and state wage and hour laws, and a variety of laws enacted by the federal and state governments that govern these and other employment-related matters. Accordingly, the Company is currently subject to employee-related claims, class actions and other lawsuits and proceedings in connection with the Company's operations, including but not limited to those related to alleged wrongful discharge, illegal discrimination, and violations of equal employment and federal and state wage and hour laws. Because labor represents such a large portion of the Company's operating costs, noncompliance with these evolving federal and state laws and regulations could subject the Company to significant back pay awards, fines, and additional lawsuits and proceedings. These claims, lawsuits, and proceedings are in various stages of adjudication or investigation and involve a wide variety of claims and potential outcomes.

A purported wage and hour class action lawsuit is currently pending against the Company in federal district court for the Northern District of California. This lawsuit pertains to alleged errors made by the Company with respect to minimum wage and overtime payments resulting from a piece-rate payment system. The Company tentatively settled this lawsuit in December 2017 for $12 million, subject to final court approval. The Company is responsible for $7.5 million of the tentative settlement amount, as well as legal expenses, with insurance funding the remaining $4.5 million. In connection with this lawsuit, the Company recorded a $2.0 million loss provision in the first quarter of 2017, an additional $3.0 million loss provision in the third quarter of 2017, and an additional $2.5 million in the fourth quarter of 2017, for a total loss reserve of $7.5 million. The Company continues to deny the allegations made in this lawsuit and will defend this action and any related claims vigorously.

NOTE 24 – LEGAL AND REGULATORY PROCEEDINGS (Continued)

Minimum staffing lawsuits—Various states in which the Company operates have established minimum staffing requirements or may establish minimum staffing requirements in the future. While the Company seeks to comply with all applicable staffing requirements, the regulations in this area are complex and the Company may experience compliance issues from time to time. Failure to comply with such minimum staffing requirements may result in one or more facilities failing to meet the conditions of participation under relevant federal and state healthcare programs and the imposition of significant fines, damages, or other sanctions.

Shareholder actions—The Company is also subject to lawsuits and other shareholder actions brought from time to time. A shareholder derivative action (the "Complaint") was previously pending against certain of the Company's current and former officers and directors in circuit court for Jefferson County, Kentucky. The Complaint also named the Company as a nominal defendant. The Complaint alleged that the named current and former officers and directors breached their respective duties of good faith, loyalty, and candor, and other general fiduciary duties owed to the Company and its shareholders by, among other things, failing to exercise reasonable and prudent supervision over the management, policies, and controls of the Company in order to detect practices that existed at RehabCare resulting in the Company having to enter into two separate settlement agreements with the DOJ. The Complaint was settled in January 2018 in exchange for the Company's agreement to pay plaintiff $950,000 in fees and expenses. The Company previously recorded a loss reserve of $1.0 million in the third quarter of 2017 related to this matter. The Company continues to deny the allegations made in the Complaint.

Six purported class action complaints related to the Merger have been filed on behalf of putative classes of the Company's public stockholders (the "Merger Complaints"). Four of these complaints were filed in the United States District Court for the District of Delaware: *Sehrgosha v. Kindred Healthcare, Inc.*, *et al.*, filed on February 8, 2018; *Carter v. Kindred Healthcare, Inc.*, *et al.*, filed on February 14, 2018; *Rosenfeld v. Kindred Healthcare, Inc.*, *et al.*, filed on February 15, 2018; and *Einhorn v. Kindred Healthcare, Inc.*, *et al.*, filed on February 21, 2018. The remaining two complaints were filed in the United States District Court for the Western District of Kentucky: *Tompkins v. Kindred Healthcare, Inc.*, *et al.*, filed on February 9, 2018; and *Buskirk v. Kindred Healthcare, Inc.*, *et al.,* filed on February 13, 2018. The Company and individual members of the Board are named as defendants in each of the actions. The *Tompkins* action also names as defendants TPG, WCAS, Humana, Parent, HospitalCo Parent and Merger Sub. The Merger Complaints generally allege that the defendants violated the Securities Exchange Act of 1934, as amended, by failing to disclose material information in the Company's preliminary proxy statement filed on February 5, 2018. The Merger Complaints seek, among other things, injunctive relief prohibiting the stockholder vote to approve the Merger and unspecified compensatory damages and attorneys' fees. The Company denies the allegations made in the Merger Complaints and will defend these actions and any related claims vigorously.

Ordinary course matters—In addition to the matters described above, the Company is subject to investigations, claims, and lawsuits in the ordinary course of business, including investigations resulting from the Company's obligation to self-report suspected violations of law and professional liability claims, particularly in the Company's hospital and nursing center operations. In many of these claims, plaintiffs' attorneys are seeking significant fines and compensatory and punitive damages in addition to attorneys' fees. The Company maintains professional and general liability insurance in amounts and coverage that management believes are sufficient for the Company's operations. However, the Company's insurance may not cover all claims against the Company or the full extent of its liability.

KINDRED HEALTHCARE, INC.
QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)
(In thousands, except per share amounts)

The following table represents summary quarterly consolidated financial information (unaudited) for the years ended December 31, 2017 and 2016:

	2017 (a)			
	First	Second	Third	Fourth
Revenues	$ 1,539,490	$ 1,535,831	$ 1,477,820	$ 1,480,982
Net income (loss):				
Income (loss) from continuing operations	10,323	(104,395)	(17,710)	(135,419)
Discontinued operations, net of income taxes:				
Income (loss) from operations	5,059	5,061	(14,291)	(12,683)
Loss on divestiture of operations	(6,166)	(294,039)	(49,663)	(29,392)
Loss from discontinued operations	(1,107)	(288,978)	(63,954)	(42,075)
Net income (loss)	9,216	(393,373)	(81,664)	(177,494)
Earnings attributable to noncontrolling interests:				
Continuing operations	(10,483)	(10,791)	(10,960)	(9,942)
Discontinued operations	(4,481)	(4,954)	(3,162)	(264)
	(14,964)	(15,745)	(14,122)	(10,206)
Loss attributable to Kindred	(5,748)	(409,118)	(95,786)	(187,700)
Earnings (loss) per common share:				
Basic:				
Income (loss) from continuing operations	-	(1.32)	(0.32)	(1.65)
Discontinued operations:				
Income (loss) from operations	-	-	(0.20)	(0.15)
Loss on divestiture of operations	(0.07)	(3.36)	(0.57)	(0.33)
Loss from discontinued operations	(0.07)	(3.36)	(0.77)	(0.48)
Net loss	(0.07)	(4.68)	(1.09)	(2.13)
Diluted:				
Income (loss) from continuing operations	-	(1.32)	(0.32)	(1.65)
Discontinued operations:				
Income (loss) from operations	-	-	(0.20)	(0.15)
Loss on divestiture of operations	(0.07)	(3.36)	(0.57)	(0.33)
Loss from discontinued operations	(0.07)	(3.36)	(0.77)	(0.48)
Net loss	(0.07)	(4.68)	(1.09)	(2.13)
Shares used in computing earnings (loss) per common share:				
Basic	87,085	87,506	87,597	87,902
Diluted	87,085	87,506	87,597	87,902
Market prices:				
High	9.90	11.75	11.90	10.15
Low	6.58	7.60	5.50	5.75

(a) See Note 5 for a discussion of impairment charges, Note 6 for a discussion of loss on divestiture of discontinued operations and Note 11 for a discussion on deferred tax asset valuation allowances and deferred tax liability adjustments.

KINDRED HEALTHCARE, INC.
QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) (Continued)
(In thousands, except per share amounts)

	2016 (a)			
	First	Second	Third	Fourth
Revenues	$ 1,604,214	$ 1,609,169	$ 1,564,060	$ 1,515,086
Net income (loss):				
Income (loss) from continuing operations	21,980	30,227	(648,015)	(1,880)
Discontinued operations, net of income taxes:				
Income (loss) from operations	3,275	7,170	(23,292)	6,655
Gain (loss) on divestiture of operations	262	(83)	-	(6,923)
Income (loss) from discontinued operations	3,537	7,087	(23,292)	(268)
Net income (loss)	25,517	37,314	(671,307)	(2,148)
Earnings attributable to noncontrolling interests:				
Continuing operations	(7,851)	(8,847)	(9,574)	(8,575)
Discontinued operations	(4,665)	(4,678)	(4,732)	(4,684)
	(12,516)	(13,525)	(14,306)	(13,259)
Income (loss) attributable to Kindred	13,001	23,789	(685,613)	(15,407)
Earnings (loss) per common share:				
Basic:				
Income (loss) from continuing operations	0.16	0.24	(7.57)	(0.12)
Discontinued operations:				
Income (loss) from operations	(0.01)	0.03	(0.32)	0.02
Gain (loss) on divestiture of operations	-	-	-	(0.08)
Income (loss) from discontinued operations	(0.01)	0.03	(0.32)	(0.06)
Net income (loss)	0.15	0.27	(7.89)	(0.18)
Diluted:				
Income (loss) from continuing operations	0.16	0.23	(7.57)	(0.12)
Discontinued operations:				
Income (loss) from operations	(0.01)	0.03	(0.32)	0.02
Gain (loss) on divestiture of operations	-	-	-	(0.08)
Income (loss) from discontinued operations	(0.01)	0.03	(0.32)	(0.06)
Net income (loss)	0.15	0.26	(7.89)	(0.18)
Shares used in computing earnings (loss) per common share:				
Basic	86,590	86,836	86,869	86,904
Diluted	87,249	87,500	86,869	86,904
Market prices:				
High	12.65	15.66	12.55	10.69
Low	7.96	10.43	9.67	5.65

(a) See Note 5 for a discussion of impairment charges and Note 11 for a discussion on deferred tax asset valuation allowances.

KINDRED HEALTHCARE, INC.
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In thousands)

	Balance at beginning of period	Additions			Deductions or payments	Balance at end of period
		Charged to cost and expenses	Other	Acquisitions		
Allowance for loss on accounts receivable:						
Year ended December 31, 2015	$ 52,855	$ 52,460	$ -	$ -	$ (42,419)	$ 62,896
Year ended December 31, 2016	62,896	40,804	-	-	(32,630)	71,070
Year ended December 31, 2017	71,070	68,284	-	-	(42,455)	96,899
Allowance for deferred taxes (a):						
Year ended December 31, 2015	$ 50,969	$ -	$ -	$ 10,063	$ (14,356)	$ 46,676
Year ended December 31, 2016	46,676	385,752	-	(86)	(9,188)	423,154
Year ended December 31, 2017	423,154	115,921	-	-	(160,243)	378,832

(a) The Company identified deferred income tax assets for federal income tax NOLs of $162.2 million (tax effected at 21%), $162.4 million (tax effected at 35%) and $119.1 million (tax effected at 35%) at December 31, 2017, December 31, 2016 and December 31, 2015, respectively, with corresponding federal deferred income tax valuation allowances of $162.2 million and $162.4 million at December 31, 2017 and December 31, 2016, respectively, after determining that these federal net deferred income tax assets were not realizable. There was no corresponding federal deferred income tax valuation allowances at December 31, 2015. The Company had deferred income tax assets for state income tax NOLs of $82.2 million, $60.4 million and $60.0 million at December 31, 2017, December 31, 2016 and December 31, 2015, respectively, and corresponding state deferred income tax valuation allowances of $82.0 million, $60.0 million and $46.7 million at December 31, 2017, December 31, 2016 and December 31, 2015, respectively, after determining that all or a portion of these state net deferred income tax assets were not realizable. See Note 11 for further discussions related to the deferred tax asset valuation allowance and deferred tax liabilities.

EXHIBIT 10.33

AMENDMENT NO. 1 TO SECOND AMENDED AND RESTATED MASTER LEASE AGREEMENT NO. 5

THIS AMENDMENT NO. 1 TO SECOND AMENDED AND RESTATED MASTER LEASE AGREEMENT NO. 5 (hereinafter, this "**Amendment**") is executed, and effective, as of November 7, 2017 (the "**Amendment Effective Date**") and is by and among VENTAS REALTY, LIMITED PARTNERSHIP, a Delaware limited partnership (together with its successors and assigns, "**Lessor**"), and KINDRED HEALTHCARE, INC., a Delaware corporation formerly known as Vencor, Inc. (" **Kindred**"), and KINDRED HEALTHCARE OPERATING, INC., a Delaware corporation formerly known as Vencor Operating, Inc. ("**Operator**"; Operator, jointly and severally with Kindred and permitted successors and assignees of Operator and Kindred, "**Tenant**").

RECITALS

A. Lessor and Tenant have heretofore entered into that certain Second Amended and Restated Master Lease Agreement No. 5 (such agreement, as heretofore amended, is herein referred to as "**ML5**") dated as of November 11, 2016, and Ventas, Inc. executed a Joinder to such ML5 with respect to Facility No. 4614 (each capitalized term that is used in this Amendment and not otherwise defined shall have the same meaning herein as in ML5).

B. Lessor and Tenant desire to amend ML5 on the terms described in this Amendment.

NOW, THEREFORE, in consideration of the foregoing, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Tenant hereby agree as follows:

1. **Kindred Hospital- Kansas City**. Contemporaneously with the Amendment Effective Date, the Leased Property commonly known as Kindred Hospital- Kansas City (Facility #4612) has been sold by Lessor to Tenant or its affiliate. Lessor and Tenant agree that, simultaneously with such sale, ML5 is, and shall be, terminated as it applies to such Leased Property in accordance with the terms of Section 40.16 and the other provisions of ML5, except that (a) as set forth in Section 2 below (and without limitation of the provisions of such Section 2 that implement a Base Rent increase as of the Amendment Effective Date), (i) the Base Rent under ML5 shall not be reduced on account of such sale and (ii) the Base Rent that was attributable to such Leased Property has been, and shall be, reallocated among the other Leased Properties that remain demised under ML5, (b) in the event of any conflict between the terms of ML5 and the terms of this Amendment, the terms of this Amendment shall govern and control, and (c) in the event of any conflict between the terms of this Section 1 and the terms of Section 2 below, the terms of Section 2 below shall govern and control.

2. **Base Rent and Other Definitions; Exhibit C**. Lessor and Tenant hereby agree to amend ML5 as follows, effective as of the Amendment Effective Date:

2.1. In consideration of the parties' entry into this Amendment, Lessor and Tenant have agreed to revise and reset the Base Rent owing under ML5 by (a) contrary to Section 40.16 of ML5, not decreasing the Base Rent under ML5 on account of the sale referenced in Section 1 above, (b) increasing such Base Rent by $119,744.04 per annum to $124,270,833.00 per annum, effective as of the Amendment Effective Date, and (c) amending and restating in its entirety the definition of "Base Rent" contained in Section 2.1 of ML5 to read as follows:

"Base Rent": (i) For any period ending prior to the First Amendment Effective Date, rent at the aggregate annual rate applicable under this Lease, as in effect from time to time prior to its amendment pursuant to the First Amendment, (ii) for the period from the First Amendment Effective Date through April 30, 2018, rent at an annual rate equal to One Hundred Twenty-Four Million Two Hundred Seventy Thousand Eight Hundred Thirty-Three Dollars ($124,270,833.00) per annum, and (iii) for a particular Rent Calculation Year thereafter, an annual rental amount equal to the sum of:

(a) Number 1 and 4 Portfolio:

(i) intentionally omitted; and

(ii) for each Rent Calculation Year commencing on or after May 1, 2018, (A) the Prior Period Number 1 and 4 Portfolio Base Rent, **plus** (B) the sum of (x)(1) if the CPI Increase, expressed as a percentage, applicable to such Rent Calculation Year is 0.00% or less, zero, (2) if the product of three (3) times the CPI Increase, expressed as a percentage, applicable to such Rent Calculation Year, is greater than 4.00%, the product of 4% times the portion of the Prior Period Number 1 and 4 Portfolio Base Rent that is allocated to Leased Properties that have as their Primary Intended Use use as a nursing center ("SNF Leased Properties"), and (3) in all other cases, the product of three (3) times the CPI Increase, expressed as a percentage, applicable to such Rent Calculation Year times the portion of the Prior Period Number 1 and 4 Portfolio Base Rent that is allocated to SNF Leased Properties, **plus** (y) if the Patient Revenues relative to the Hospital Leased Properties (as defined below) within the Number 1 and 4 Portfolio for the calendar year preceding the commencement of such Rent Calculation Year equaled or exceeded seventy-five percent (75%) of the Adjusted Base Patient Revenues relative to such Leased Properties, the product of two and seven-tenths percent (2.7%) times the portion of the Prior Period Number 1 and 4 Portfolio Base Rent that is allocated to Leased Properties that have as their Primary Intended Use use as a hospital ("Hospital Leased Properties")

(the amount described in this subsection (a) with respect to a particular Rent Calculation Year is herein referred to as the "Number 1 and 4 Portfolio Base Rent Component"); **plus**

(b) Number 2 Portfolio:

(i) intentionally omitted; and

(ii) for each Rent Calculation Year commencing on or after May 1, 2018, (A) the Prior Period Number 2 Portfolio Base Rent, **plus** (B) the sum of (x)(1) if the CPI Increase, expressed as a percentage, applicable to such Rent Calculation Year is 0.00% or less, zero, (2) if the product of three (3) times the CPI Increase, expressed as a percentage, applicable to such Rent Calculation Year, is greater than 4.00%, the product of 4% times the portion of the Prior Period Number 2 Portfolio Base Rent that is allocated to SNF Leased Properties, and (3) in all other cases, the product of three (3) times the CPI Increase, expressed as a percentage, applicable to such Rent Calculation Year times the portion of the Prior Period Number 2 Portfolio Base Rent that is allocated to SNF Leased Properties, **plus** (y) if the Patient Revenues relative to Hospital Leased Properties within the Number 2 Portfolio for the calendar year preceding the commencement of such Rent Calculation Year equaled or exceeded seventy-five percent (75%) of the Adjusted Base Patient Revenues relative to such Leased Properties, the product of (1) the portion of the Prior Period Number 2 Portfolio Base Rent that is allocated to Hospital Leased Properties times (2)(x) two and twenty-five hundredths percent (2.25%), if the CPI Increase, expressed as a percentage, applicable to such Rent Calculation Year is less than 2.25%, (y) four percent (4%), if the CPI Increase, expressed as a percentage, applicable to such Rent Calculation Year is greater than 4%, or (z) the CPI Increase, expressed as a percentage, applicable to such Rent Calculation Year, in all other cases

(the amount described in this subsection (b) with respect to a particular Rent Calculation Year is herein referred to as the "Number 2 Portfolio Base Rent Component"); **plus**

(c) Number 5 Portfolio:

for each Rent Calculation Year, (i) the Prior Period Number 5 Portfolio Base Rent, **plus** (ii)(A) if the CPI Increase, expressed as a percentage, applicable to such Rent Calculation Year is 0.00% or less, zero, (B) if the CPI Increase, expressed as a percentage, applicable to such Rent Calculation Year, is greater than 4.00%, the product of 4% times the Prior Period Number 5 Portfolio Base Rent, and (C) in all other cases, the product of the CPI Increase, expressed as a percentage, applicable to such Rent Calculation Year times the Prior Period Number 5 Portfolio Base Rent

(the amount described in this subsection (c) with respect to a particular Rent Calculation Year is herein referred to as the "Number 5 Portfolio Base Rent Component").

Notwithstanding the foregoing, (I) nothing contained in this definition shall limit the applicability of Section 19.2 and Section 19.3 hereof and (II) the Base Rent amounts referenced above are subject to adjustment as expressly provided in other provisions of this Lease (e.g., due to the termination of this Lease as it relates to Leased Property(ies) due to a casualty, condemnation or an Event of Default, due to a combination of this Lease with another Lease pursuant to Section 40.16 hereof, due to the transfer of Leased

Properties demised under ML1, ML2 and/or ML4 into this Lease as provided in the ML1/2/4 Amendments, ARML No. 3 and Section 1.4 of this Lease or due to a sale of a Leased Property and the termination of this Lease on account thereof as contemplated in ARML No. 3).

2.2. The following new definitions are hereby added to Section 2.1 of ML5:

"First Amendment": That certain Amendment No. 1 to Second Amended and Restated Master Lease Agreement No. 5 dated effective as of the First Amendment Effective Date between Lessor and Tenant.

"First Amendment Effective Date": November 7, 2017.

2.3. Effective as of the Amendment Effective Date, Exhibit C to ML5 is amended and restated in its entirety to read as set forth in **Attachment 1** attached to and made a part of this Amendment.

3. **Certain Lessor Costs**. Tenant shall pay, as Additional Charges, on behalf of Lessor, or reimburse Lessor for, any and all actual, reasonable, and documented third party out-of-pocket costs or expenses paid or incurred by Lessor, including, without limitation, reasonable attorneys' fees, in connection with the negotiation, execution and delivery of this Amendment.

4. **Conflict; Unified Commercial Operating Lease**. In the event of a conflict between ML5 and this Amendment, this Amendment shall control in all events. Except as set forth in this Amendment, ML5 shall remain in full force and effect. It is acknowledged and agreed that, except as otherwise expressly provided herein or in ML5, the inclusion of each of the Leased Properties on a continuing basis in ML5 is an essential element of the leasing transaction described in ML5 for Lessor, and that, except as otherwise expressly provided herein or in ML5, Lessor shall not be obligated and may not be required to lease to Tenant less than all of the Leased Properties demised pursuant to ML5. It is further acknowledged and agreed that ML5 is not a residential lease within the meaning of the U.S. Bankruptcy Code, as amended, and that ML5 is an operating lease, and not a capital lease, for all accounting, tax and legal purposes.

5. **Counterparts; Facsimile**. This Amendment may be executed in one or more counterparts, and signature pages may be delivered by facsimile or electronic mail, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

6. **Integration**. This Amendment and ML5 contain the entire agreement between Lessor and Tenant with respect to the subject matter hereof. No representations, warranties or agreements have been made by Lessor or Tenant except as set forth in this Amendment and ML5.

7. **Severability**. If any term or provision of this Amendment is to be invalid or unenforceable, such term or provision shall be modified as slightly as possible so as to render it valid and enforceable; if such term or provision, as modified, shall be held or deemed invalid or unenforceable, such holding shall not affect the remainder of this Amendment and same shall remain in full force and effect.

8. **Subject to Law**. This Amendment was negotiated in the State of New York, which State the parties agree has a substantial relationship to the parties and to the underlying transaction embodied hereby. In all respects, the law of the State of New York shall govern the validity of and enforceability of the obligations of the parties set forth herein, but the parties hereto will submit to jurisdiction and the laying of venue for any suit on this Amendment in the Commonwealth of Kentucky.

9. **Waivers**. No waiver of any condition or covenant herein contained, or of any breach of any such condition or covenant, shall be held or taken to be a waiver of any subsequent breach of such covenant or condition, or to permit or excuse its continuance or any future breach thereof or of any condition or covenant herein.

10. **Binding Character**. This Amendment shall be binding upon and shall inure to the benefit of the heirs, successors, personal representatives, and permitted assigns of Lessor and Tenant.

11. **Modification**. This Amendment may be only be modified by a writing signed by both Lessor and Tenant.

12. **Forbearance**. No delay or omission by any party hereto to exercise any right or power accruing upon any noncompliance or default by any other party hereto with respect to any of the terms hereof shall impair any such right or power or be construed to be a waiver thereof.

13. **Headings and Captions**. The headings and captions of the sections of this Amendment are for convenience of reference only and shall not affect the meaning or interpretation of this Amendment or any provision hereof.

14. **Gender and Number**. As used in this Amendment, the neuter shall include the feminine and masculine, the singular shall include the plural, and the plural shall include the singular, except where expressly provided to the contrary.

15. **Coordinated Disclosures**. The parties hereto shall cooperate with respect to any disclosures of information concerning this Amendment and the transactions contemporaneous herewith, and shall share such disclosures with the other parties a reasonable period of time prior to making such disclosures in order to facilitate such cooperation.

16. **Authority**. The parties represent and warrant to each other that each of them, respectively, has full power, right and authority to execute and perform this Amendment and all corporate action necessary to do so has been duly taken. In order to induce Lessor to enter into this Amendment, Tenant hereby represents and warrants to Lessor that Tenant's entry into this Amendment does not require that any consent or approval first be obtained from any lender of Tenant or its Affiliates.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the day and year first above written.

TENANT:

KINDRED HEALTHCARE, INC., a Delaware corporation formerly known as Vencor, Inc.

By: /s/ Cristina E. O'Brien
Cristina E. O'Brien,
Vice President, Real Estate Counsel

TENANT:

KINDRED HEALTHCARE OPERATING, INC., a Delaware corporation formerly known as Vencor Operating, Inc.

By: /s/ Cristina E. O'Brien
Cristina E. O'Brien,
Vice President, Real Estate Counsel

LESSOR:

VENTAS REALTY, LIMITED PARTNERSHIP, a Delaware limited partnership

By: Ventas, Inc., a Delaware corporation, its general partner

By: /s/ Nicholas W. Jacoby
Nicholas W. Jacoby,
Senior Vice President

JOINDER

The undersigned, VENTAS, INC., a Delaware corporation, hereby joins in the foregoing Amendment No. 1 to ML5 solely for the purpose of, subject to Section 40.2 of ML5, joining with Ventas Realty, Limited Partnership, on a joint and several basis, as Lessor under ML5, as amended by the foregoing amendment, with respect to, and only with respect to, the Leased Property commonly known as Kindred Hospital – Philadelphia (Facility No. 4614), and for no other purposes. Notwithstanding anything to the contrary contained in ML5, as amended by the foregoing amendment, Tenant acknowledges and agrees, by the acceptance of this Joinder, that Ventas, Inc. shall have no liability or obligations under ML5, as amended by the foregoing amendment, as lessor or otherwise, with respect to any Leased Property other than the aforesaid Kindred Hospital - Philadelphia Leased Property.

VENTAS, INC.

By: /s/ Nicholas W. Jacoby
Nicholas W. Jacoby,
Senior Vice President

ATTACHMENT 1

Exhibit C

Allocation Schedule – Applicable Transferred Property Percentages

			Master Lease Agreement No. 5		
		Facility ID	**Name**	**Base Rent as of First Amendment Effective Date**	**Transferred Property Percentage as of First Amendment Effective Date**
	4	198	Harrington House Nursing and Rehabilitation Center	1,318,540.92	1.06102%
	6	559	Birchwood Terrace Healthcare	1,113,666.12	0.89616%
	7	573	Eagle Pond Rehabilitation and Living Center	1,286,776.56	1.03546%
	12	4602	Kindred Hospital - South Florida - Coral Gables	3,327,797.00	2.67786%
	13	4628	Kindred Hospital - Chattanooga	2,783,567.64	2.23992%
	14	4637	Kindred Hospital - Chicago (North Campus)	8,841,795.84	7.11494%
	15	4652	Kindred Hospital - North Florida	3,281,233.32	2.64039%
	16	4680	Kindred Hospital - St. Louis	1,343,978.64	1.08149%
	17	4690	Kindred Hospital - Chicago (Northlake Campus)	4,489,726.44	3.61286%
	18	4653	Kindred Hospital - Tarrant County (Fort Worth Southwest)	5,744,693.84	4.62272%
	20	4674	Kindred Hospital - Central Tampa	4,634,593.56	3.72943%
	21	4635	Kindred Hospital - San Antonio	2,308,827.60	1.85790%
	22	4647	Kindred Hospital - Las Vegas (Sahara)	2,750,956.92	2.21368%
	23	4660	Kindred Hospital - Mansfield	1,377,411.00	1.10839%
	24	4662	Kindred Hospital - Greensboro	2,713,030.80	2.18316%
	25	4614	Kindred Hospital - Philadelphia	2,366,505.48	1.90431%
	26	4664	Kindred Hospital - Albuquerque	4,806,005.70	3.86736%

	27	4665	Kindred Hospital - Denver	1,730,471.64	1.39250%
	28	4871	Kindred Hospital - Chicago - Lakeshore	3,124,443.72	2.51422%
	29	4611	Kindred Hospital - Bay Area St. Petersburg	4,259,805.48	3.42784%
	30	4633	Kindred Hospital - Louisville	8,604,430.44	6.92393%
	31	4638	Kindred Hospital - Indianapolis	2,287,966.56	1.84111%
	32	4644	Kindred Hospital - Brea	4,702,299.12	3.78391%
	33	4822	Kindred Hospital - San Francisco Bay Area	5,596,501.92	4.50347%
	34	4876	Kindred Hospital - South Florida - Hollywood	3,935,722.20	3.16705%
	35	4842	Kindred Hospital - Westminster	8,466,685.20	6.81309%
	36	4848	Kindred Hospital - San Diego	2,998,841.76	2.41315%
	38	4615	Kindred Hospital - Sycamore	3,619,077.60	2.91225%
	39	4654	Kindred Hospital (Houston Northwest)	3,232,485.36	2.60116%
	40	4807	Kindred Hospital - Ontario	9,937,988.05	7.99706%
	41	4645	Kindred Hospital - South Florida Ft. Lauderdale	2,580,093.36	2.07619%
	42	4685	Kindred Hospital - Houston	4,704,913.21	3.78602%
	Total			**$124,270,833.00**	**100.00000%**

EXHIBIT 21

REGISTRANT'S SUBSIDIARIES

December 31, 2017

Cornerstone Insurance Company, a Cayman Islands corporation

Kindred Healthcare Operating, Inc., a Delaware corporation

- Kindred THC Chicago, LLC an Illinois limited liability company
- KHOI New, LLC, a Delaware limited liability company
- Kindred Development 27, L.L.C., a Delaware limited liability company
- Kindred Hospitals East, L.L.C., a Delaware limited liability company
  - Goddard Nursing, L.L.C., a Delaware limited liability company
  - Kindred Braintree Hospital, L.L.C., a Delaware limited liability company
  - Kindred Hospital Palm Beach, L.L.C., a Delaware limited liability company
  - Kindred Hospital-Pittsburgh-North Shore, L.L.C., a Delaware limited liability company
  - Kindred Development 17, L.L.C., a Delaware limited liability company
  - Springfield Park View Hospital, L.L.C., a Delaware limited liability company
- Kindred Hospitals West, L.L.C., a Delaware limited liability company
- Kindred Nursing Centers East, L.L.C., a Delaware limited liability company
  - Avery Manor Nursing, L.L.C., a Delaware limited liability company
  - Braintree Nursing, L.L.C., a Delaware limited liability company
  - Country Estates Nursing, L.L.C., a Delaware limited liability company
  - Forestview Nursing, L.L.C., a Delaware limited liability company
  - Greens Nursing and Assisted Living, L.L.C., a Delaware limited liability company
  - Harborlights Nursing, L.L.C., a Delaware limited liability company
  - Highgate Nursing, L.L.C., a Delaware limited liability company
  - Highlander Nursing, L.L.C., a Delaware limited liability company
  - Kindred Development Holdings 3, L.L.C., a Delaware limited liability company
  - Kindred Development Holdings 5, L.L.C., a Delaware limited liability company
  - Kindred Development 7, L.L.C., a Delaware limited liability company

Kindred Development 8, L.L.C., a Delaware limited liability company

Physician Housecalls, LLC, a Colorado limited liability company

Kindred Development 9, L.L.C., a Delaware limited liability company

House Call Doctors, Inc., a Texas corporation

National House Call Practitioners, a Texas non-profit corporation

U.S. House Call Practitioners, Inc., a Texas corporation

Kindred Development 10, L.L.C., a Delaware limited liability company

Kindred Development 11, L.L.C., a Delaware limited liability company

Kindred Development 12, L.L.C., a Delaware limited liability company

Kindred Development 13, L.L.C., a Delaware limited liability company

Laurel Lake Health and Rehabilitation, L.L.C., a Delaware limited liability company

Massachusetts Assisted Living, L.L.C., a Delaware limited liability company

Meadows Nursing, L.L.C., a Delaware limited liability company

Tower Hill Nursing, L.L.C., a Delaware limited liability company

KNCE New, LLC, a Delaware limited liability company

Kindred Nursing Centers West, L.L.C., a Delaware limited liability company

Maine Assisted Living, L.L.C., a Delaware limited liability company

California Nursing Centers, L.L.C., a Delaware limited liability company

Bayberry Care Center, L.L.C., a Delaware limited liability company

Care Center of Rossmoor, L.L.C., a Delaware limited liability company

Greenbrae Care Center, L.L.C., a Delaware limited liability company

Medical Hill Rehab Center, L.L.C., a Delaware limited liability company

Pacific Coast Care Center, L.L.C., a Delaware limited liability company

Siena Care Center, L.L.C., a Delaware limited liability company

Smith Ranch Care Center, L.L.C., a Delaware limited liability company

Ygnacio Valley Care Center, L.L.C., a Delaware limited liability company

Kindred Nevada, L.L.C., a Delaware limited liability company

Kindred Systems, Inc., a Delaware corporation

Kindred Healthcare Services, Inc., a Delaware corporation

Lacuna Health, Inc., a Delaware corporation

Kindred Rehab Services, Inc., a Delaware corporation

TherEx, Inc., a Delaware corporation

The Therapy Group, Inc., a Louisiana corporation

People*first* Virginia, L.L.C., a Delaware limited liability company

Kindred Hospice Services, L.L.C., a Delaware limited liability company

Peoplefirst HomeCare & Hospice of Colorado, L.L.C., a Delaware limited liability company

Peoplefirst HomeCare of Colorado, L.L.C., a Delaware limited liability company

Peoplefirst HomeCare & Hospice of Indiana, L.L.C., a Delaware limited liability company

Peoplefirst HomeCare & Hospice of Massachusetts, L.L.C., a Delaware limited liability company

Peoplefirst HomeCare & Hospice of Ohio, L.L.C., a Delaware limited liability company

PF Development 15, L.L.C., a Delaware limited liability company

PF Development 5, L.L.C., a Delaware limited liability company

PF Development 6, L.L.C., a Delaware limited liability company

PF Development 7, L.L.C., a Delaware limited liability company

PF Development 8, L.L.C., a Delaware limited liability company

PF Development 9, L.L.C., a Delaware limited liability company

IntegraCare Holdings, Inc., a Delaware corporation

Aberdeen Holdings, Inc., a Texas corporation

IntegraCare Home Health Services, Inc., a Texas corporation

IntegraCare of Texas, LLC, a Texas limited liability company

GBA Holdings, Inc., a Texas corporation

Focus Care Health Resources, Inc., a Texas corporation

IntegraCare Intermediate Holdings, Inc., a Delaware corporation

Able Home Healthcare, Inc., a Texas corporation

Compass Hospice, Inc., a Texas corporation

GBA West, LLC, a Texas limited liability company

IntegraCare of Olney Home Health, LLC, a Texas limited liability company

IntegraCare of Athens-Home Health, LLC, a Texas limited liability company

IntegraCare of Athens-Hospice, LLC, a Texas limited liability company

IntegraCare of Albany, LLC, a Texas limited liability company

IntegraCare of Granbury, LLC, a Texas limited liability company

Home Health of Rural Texas, Inc., a Texas corporation

Trinity Hospice of Texas, LLC, a Texas limited liability company

IntegraCare of Abilene, LLC, a Texas limited liability company

IntegraCare Hospice of Abilene, LLC, a Texas limited liability company

IntegraCare of Littlefield, LLC, a Texas limited liability company

IntegraCare of Wichita Falls, LLC, a Texas limited liability company

IntegraCare of West Texas Home Health, LLC, a Texas limited liability company

IntegraCare of West Texas-Hospice, LLC, a Texas limited liability company

Texas Health Management Group, LLC, a Texas limited liability company

Vernon Home Health Care Agency, LLC, a Texas limited liability company

Wellstream Health Services, LLC, a Texas limited liability company

West Texas, LLC, a Texas limited liability company

Outreach Health Services of the Panhandle, LLC, a Texas limited liability company

BWB Sunbelt Home Health Services, LLC, a Texas limited liability company

Outreach Health Services of North Texas, LLC, a Texas limited liability company

North West Texas Home Health Services, LLC, a Texas limited liability company

PF Development 10, L.L.C., a Delaware limited liability company

Professional Healthcare, LLC, a Delaware limited liability company

NP Plus, LLC, a Delaware limited liability company

Haven Health, LLC, a Delaware limited liability company

PHH Acquisition Corp., a Delaware corporation

Professional Healthcare at Home, LLC, a California limited liability company

HHS Healthcare Corp., a Delaware corporation

Home Health Services, Inc., a Utah corporation

Southern Utah Home Health, Inc., a Utah corporation

Southern Nevada Home Health Care, Inc., a Nevada corporation

Central Arizona Home Health Care, Inc., an Arizona corporation

KAH Development 16, Inc., a Utah corporation

PF Development 16, L.L.C., a Delaware limited liability company

PF Development 17, L.L.C., a Delaware limited liability company

PF Development 18, L.L.C., a Delaware limited liability company

PF Development 19, L.L.C., a Delaware limited liability company

DH/KND, L.L.C., a Delaware limited liability company

Community Home Health, L.L.C., a Delaware limited liability company

PF Development 20, L.L.C., a Delaware limited liability company

PF Development 21, L.L.C., a Delaware limited liability company

SHC Holding, Inc., a Delaware corporation

SHC Rehab, Inc., a Florida corporation

Senior Home Care, Inc., a Florida corporation

HomeCare Holdings, Inc., a Florida corporation

Med-Tech Services of Dade, Inc., a Florida corporation

Med-Tech Private Care, Inc., a Florida corporation

Advanced Oncology Services, Inc., a Florida corporation

Med. Tech. Services of South Florida, Inc., a Florida corporation

Med- Tech Services of Palm Beach, Inc., a Florida corporation

Synergy, Inc., a Louisiana corporation

Synergy Home Care – Capitol Region, Inc., a Louisiana corporation

Synergy Home Care – Northeastern Region, Inc., a Louisiana corporation

Synergy Home Care – Acadiana Region, Inc., a Louisiana corporation

Synergy Home Care – Southeastern Region, Inc., a Louisiana corporation

Synergy Home Care – Central Region, Inc., a Louisiana corporation

Synergy Home Care – Northwestern Region, Inc., a Louisiana corporation

Synergy Home Care – Northshore Region, Inc., a Louisiana corporation

Synergy Healthcare Group, Inc., a Louisiana corporation

PF Development 22, L.L.C., a Delaware limited liability company

Mills Medical Practices, LLC, an Ohio limited liability company

PF Development 23, L.L.C., a Delaware limited liability company

KAH Development 1, L.L.C., a Delaware limited liability company

KAH Development 2, L.L.C., a Delaware limited liability company

KAH Development 3, L.L.C., a Delaware limited liability company

Silver State ACO, LLC, a Nevada limited liability company

KAH Development 4, L.L.C., a Delaware limited liability company

KAH Development 5, L.L.C., a Delaware limited liability company

KAH Development 6, L.L.C., a Delaware limited liability company

KAH Development 7, L.L.C., a Delaware limited liability company

KAH Development 8, L.L.C., a Delaware limited liability company

KAH Development 9, L.L.C., a Delaware limited liability company

KAH Development 10, L.L.C., a Delaware limited liability company

KAH Development 11, L.L.C., a Delaware limited liability company

KAH Development 12, L.L.C., a Delaware limited liability company

KAH Development 13, L.L.C., a Delaware limited liability company

KAH Development 14, L.L.C., a Delaware limited liability company

KAH Development 15, L.L.C., a Delaware limited liability company

RehabCare Development 2, L.L.C., a Delaware limited liability company

East Valley Rehabilitation Hospital, L.L.C., a Delaware limited liability company

Dignity-Kindred Rehabilitation Hospital East Valley, L.L.C., a Delaware limited liability company

RehabCare Development 3, L.L.C., a Delaware limited liability company

RehabCare Development 4, L.L.C., a Delaware limited liability company

RehabCare Development 5, L.L.C., a Delaware limited liability company

KND Development 50, L.L.C., a Delaware limited liability company

KND Development 51, L.L.C., a Delaware limited liability company

KND Development 52, L.L.C., a Delaware limited liability company

KND Development 53, L.L.C., a Delaware limited liability company

KND Development 54, L.L.C., a Delaware limited liability company

KND Development 55, L.L.C., a Delaware limited liability company

KND Development 56, L.L.C., a Delaware limited liability company

Palomar / Kindred, LLC, a Delaware limited liability company

Palomar Long Term Acute Care Pavilion, LLC, a Delaware limited liability company

Palomar Health Rehabilitation Institute, LLC, a Delaware limited liability company

KND Development 57, L.L.C., a Delaware limited liability company

KND Development 59, L.L.C., a Delaware limited liability company

KND Development 62, L.L.C., a Delaware limited liability company

KND Development 63, L.L.C., a Delaware limited liability company

KND Real Estate Holdings, L.L.C., a Delaware limited liability company

KND Hospital Real Estate Holdings, L.L.C., a Delaware limited liability company

KND Real Estate 8, L.L.C., a Delaware limited liability company

KND Real Estate 9, L.L.C., a Delaware limited liability company

KND Real Estate 14, L.L.C., a Delaware limited liability company

KND Real Estate 20, L.L.C., a Delaware limited liability company

KND Real Estate 21, L.L.C., a Delaware limited liability company

KND Real Estate 22, L.L.C., a Delaware limited liability company

KND Real Estate 23, L.L.C., a Delaware limited liability company

KND Development 64, LLC, a Delaware limited liability company

KND Development 65, LLC, a Delaware limited liability company

KND Real Estate 26, L.L.C., a Delaware limited liability company

KND Development 66, LLC, a Delaware limited liability company

KND Development 67, LLC, a Delaware limited liability company

KND Real Estate 29, L.L.C., a Delaware limited liability company

KND Real Estate 30, L.L.C., a Delaware limited liability company

KND Development 68, LLC, a Delaware limited liability company

KND Real Estate 32, L.L.C., a Delaware limited liability company

KND Real Estate 46, L.L.C., a Delaware limited liability company

KND Development 69, LLC, a Delaware limited liability company

KND SNF Real Estate Holdings, L.L.C., a Delaware limited liability company

KND Real Estate 1, L.L.C., a Delaware limited liability company

KND Real Estate 2, L.L.C., a Delaware limited liability company

KND Real Estate 3, L.L.C., a Delaware limited liability company

KND Real Estate 4, L.L.C., a Delaware limited liability company

KND Real Estate 5, L.L.C., a Delaware limited liability company

KND Real Estate 6, L.L.C., a Delaware limited liability company

KND Real Estate 7, L.L.C., a Delaware limited liability company

KND Real Estate 10, L.L.C., a Delaware limited liability company

KND Real Estate 11, L.L.C., a Delaware limited liability company

KND Real Estate 12, L.L.C., a Delaware limited liability company

KND Real Estate 13, L.L.C., a Delaware limited liability company

KND Real Estate 15, L.L.C., a Delaware limited liability company

KND Real Estate 16, L.L.C., a Delaware limited liability company

KND Real Estate 17, L.L.C., a Delaware limited liability company

KND Real Estate 18, L.L.C., a Delaware limited liability company

KND Real Estate 19, L.L.C., a Delaware limited liability company

KND Real Estate 33, L.L.C., a Delaware limited liability company

KND Real Estate 34, L.L.C., a Delaware limited liability company

KND Real Estate 35, L.L.C., a Delaware limited liability company

KND Real Estate 36, L.L.C., a Delaware limited liability company

KND Real Estate 38, L.L.C., a Delaware limited liability company

KND Real Estate 39, L.L.C., a Delaware limited liability company

KND Real Estate 40, L.L.C., a Delaware limited liability company

KND Real Estate 48, L.L.C., a Delaware limited liability company

KND Real Estate 49, L.L.C., a Delaware limited liability company

KND Rehab Real Estate Holdings, L.L.C., a Delaware limited liability company

KND Real Estate 41, L.L.C., a Delaware limited liability company

KND Real Estate 42, L.L.C., a Delaware limited liability company

KND Real Estate 43, L.L.C., a Delaware limited liability company

KND Real Estate 44, L.L.C., a Delaware limited liability company

KND Real Estate 45, L.L.C., a Delaware limited liability company

KND Real Estate 50, L.L.C., a Delaware limited liability company

KND Real Estate 51, L.L.C., a Delaware limited liability company

Lafayette Health Care Center, Inc., a Georgia corporation

PersonaCare of Connecticut, Inc., a Connecticut corporation

Courtland Gardens Health Center, Inc., a Connecticut corporation

PersonaCare of Ohio, Inc., a Delaware corporation

PersonaCare of Reading, Inc., a Delaware corporation

PF Development 26, L.L.C., a Delaware limited liability company

PF Development 27, L.L.C., a Delaware limited liability company

RehabCare Group, Inc., a Delaware corporation

- RehabCare Group Management Services, Inc., a Delaware corporation
- Salt Lake Physical Therapy Associates, Inc., a Utah corporation
- Centerre Healthcare Corporation, a Delaware corporation
  - CHC Management Services, LLC, a Missouri limited liability company
  - CRH of St. Louis, LLC, a Missouri limited liability company
  - CRH of Lancaster, LLC, a Missouri limited liability company
  - CRH of Dallas, LLC, a Missouri limited liability company
  - CRH of Waukesha, LLC, a Missouri limited liability company
  - CRH of Ft. Worth, LLC, a Delaware limited liability company
  - CRH of Oklahoma City, LLC, a Delaware limited liability company
  - CRH of Cleveland, LLC, a Delaware limited liability company
  - CRH of Indianapolis, LLC, a Delaware limited liability company
  - CRH of Langhorne, LLC, a Delaware limited liability company
  - CRH of Springfield, LLC, a Delaware limited liability company
  - CRH of Memphis, LLC, a Delaware limited liability company
  - CRH of Madison, LLC, a Delaware limited liability company
  - CRH of Arlington, LLC, a Delaware limited liability company
  - CRH of Avon, LLC, a Delaware limited liability company
- RehabCare Group East, Inc., a Delaware corporation
  - RehabCare Group of Texas, LLC, a Texas limited liability company
  - RehabCare Group of California, LLC, a Delaware limited liability company
    - American VitalCare, LLC, a California limited liability company
  - Symphony Health Services, LLC, a Delaware limited liability company

VTA Management Services, LLC, a Delaware limited liability company

VTA Staffing Services, LLC, a Delaware limited liability company

RehabCare Hospital Holdings, LLC, a Delaware limited liability company

Clear Lake Rehabilitation Hospital, LLC, a Delaware limited liability company

Lafayette Specialty Hospital, LLC, a Delaware limited liability company

Tulsa Specialty Hospital, LLC, a Delaware limited liability company

Northland LTACH, LLC, a Delaware limited liability company

CTRH, L.L.C., a Delaware limited liability company

St. Luke's Rehabilitation Hospital, LLC, a Delaware limited liability company

Greater Peoria Specialty Hospital, LLC, a Delaware limited liability company

Rhode Island Specialty Hospital, LLC, a Delaware limited liability company

The Specialty Hospital, LLC, a Georgia limited liability company

Dallas LTACH, LLC, a Delaware limited liability company

Triumph Rehabilitation Hospital Northern Indiana, LLC, an Indiana limited liability company

Triumph Rehabilitation Hospital of Northeast Houston, LLC, a Delaware limited liability company

Triumph Hospital Northwest Indiana, Inc., a Missouri corporation

Triumph Healthcare Holdings, Inc., a Delaware corporation

New Triumph Healthcare of Texas, LLC, a Texas limited liability company

Triumph Healthcare Third Holdings, LLC, a Delaware limited liability company

Triumph Healthcare Second Holdings, LLC, a Delaware limited liability company

New Triumph Healthcare, Inc., a Delaware corporation

SCCI Health Services Corporation, a Delaware corporation

SCCI Hospital Ventures, Inc., a Delaware corporation

SCCI Hospitals of America, Inc., a Delaware corporation

SCCI Hospital-El Paso, Inc., a Delaware corporation

SCCI Hospital-Mansfield, Inc., a Delaware corporation

Tucker Nursing Center, Inc., a Georgia corporation

Specialty Healthcare Services, Inc., a Delaware corporation

Southern California Specialty Care, Inc., a California corporation

Specialty Hospital of Cleveland, Inc., an Ohio corporation

Specialty Hospital of Philadelphia, Inc., a Pennsylvania corporation

Specialty Hospital of South Carolina, Inc., a South Carolina corporation

JB Thomas Hospital, Inc., a Massachusetts corporation

THC - Chicago, Inc., an Illinois corporation

THC - North Shore, Inc., an Illinois corporation

Kindred THC North Shore, LLC an Illinois limited liability company

THC - Houston, Inc., a Texas corporation

THC - Orange County, Inc., a California corporation

THC - Seattle, Inc., a Washington corporation

Transitional Hospitals Corporation of Indiana, Inc., an Indiana corporation

Transitional Hospitals Corporation of Louisiana, Inc., a Louisiana corporation

Transitional Hospitals Corporation of New Mexico, Inc., a New Mexico corporation

Transitional Hospitals Corporation of Nevada, Inc., a Nevada corporation

Transitional Hospitals Corporation of Tampa, Inc., a Florida corporation

Transitional Hospitals Corporation of Texas, Inc., a Texas corporation

Transitional Hospitals Corporation of Wisconsin, Inc., a Wisconsin corporation

Gentiva Health Services, Inc., a Delaware corporation

Odyssey HealthCare Inc., a Delaware corporation

Odyssey HealthCare Holding Company, a Delaware corporation

Odyssey HealthCare GP, LLC, a Delaware limited liability company

Odyssey HealthCare LP, LLC, a Delaware limited liability company

VistaCare, LLC, a Delaware limited liability company

Vista Hospice Care, LLC, a Delaware limited liability company

VistaCare USA, LLC, a Delaware limited liability company

FHI Health Systems, Inc., a Delaware corporation

FHI GP, Inc., a Texas corporation

FHI LP, Inc., a Nevada corporation

Gentiva Health Services Holding Corp., a Delaware corporation

Gentiva Health Services (Certified), Inc., a Delaware corporation

Gentiva Certified Healthcare Corp., a Delaware corporation

PHHC Acquisition Group, a Delaware corporation

Gilbert's Hospice Care, LLC, a Mississippi limited liability company

Gilbert's Hospice Care of Mississippi, LLC, a Mississippi limited liability company

Home Health Care Affiliates of Central Mississippi, LLC, a Mississippi limited liability company

Home Health Care Affiliates of Mississippi, Inc., a Mississippi corporation

Home Health Care Affiliates, Inc., a Mississippi corporation

Gilbert's Home Health Agency, Inc., a Mississippi corporation

Van Winkle Home Health Care, Inc., a Mississippi corporation

Gentiva Health Services (USA) LLC, a Delaware limited liability company

Gentiva Services of New York, Inc., a New York corporation

New York Healthcare Services, Inc., a New York corporation

OHS Service Corp., a Texas corporation

QC-Medi New York, Inc., a New York corporation

Quality Care-USA, Inc., a New York corporation

Gentiva Insurance Corporation, a New York corporation

Healthfield Operating Group, LLC, a Delaware limited liability company

Healthfield, LLC, a Delaware limited liability company

Chattahoochee Valley Home Care Services, LLC, a Georgia limited liability company

Chattachoochee Valley Home Health, LLC, a Georgia limited liability company

CHMG Acquisition LLC, a Georgia limited liability company

Capital Health Management Group, LLC, a Georgia limited liability company

Access Home Health of Florida, LLC, a Delaware limited liability company

Capital Care Resources, LLC, a Georgia limited liability company

Capital Care Resources of South Carolina, LLC, a Georgia limited liability company

CHMG of Atlanta, LLC, a Georgia limited liability company

CHMG of Griffin, LLC, a Georgia limited liability company

Eastern Carolina Home Health Agency, LLC, a North Carolina limited liability company

Home Health Care of Carteret County, LLC, a North Carolina limited liability company

Tar Heel Health Care Services, LLC, a North Carolina limited liability company

Healthfield Home Health, LLC, a Georgia limited liability company

Healthfield Hospice Services, LLC, a Georgia limited liability company

Healthfield of Southwest Georgia, LLC, a Georgia limited liability company

Healthfield of Statesboro, LLC, a Georgia limited liability company

Healthfield of Tennessee, LLC, a Georgia limited liability company

Mid-South Home Health,, LLC, a Georgia limited liability company

Mid-South Home Health of Gadsden, LLC, a Georgia limited liability company

Total Care Home Health of Louisburg, LLC, a Georgia limited liability company

Total Care Home Health of North Carolina, LLC, a Georgia limited liability company

Total Care Home Health of South Carolina, LLC, a Georgia limited liability company

Wiregrass Hospice Care, LLC, a Georgia limited liability company

Horizon Health Network, LLC, an Alabama limited liability company

Mid-South Home Health Agency, LLC, an Alabama limited liability company

Mid-South Home Care Services, LLC, an Alabama limited liability company

Wiregrass Hospice, LLC, an Alabama limited liability company

Wiregrass Hospice of South Carolina, LLC, a Georgia limited liability company

Harden Healthcare Holdings, LLC, a Delaware limited liability company

Harden Healthcare, LLC, a Texas limited liability company

Harden HC Texas Holdco, LLC, a Texas limited liability company

Harden Clinical Services, LLC, a Texas limited liability company

Harden Healthcare Services, LLC, a Texas limited liability company

Harden Home Option, LLC, a Texas limited liability company

The Home Option, LLC, a Texas limited liability company

Lighthouse Hospice Partners, LLC, a Texas limited liability company

Harden Hospice, LLC, a Texas limited liability company

Bethany Hospice, LLC, a Delaware limited liability company

California Hospice, LLC, a Texas limited liability company

Georgia Hospice, LLC, a Texas limited liability company

Lighthouse Hospice-Coastal Bend, LLC, a Texas limited liability company

Lighthouse Hospice Management, LLC, a Texas limited liability company

Lighthouse Hospice-Metroplex, LLC, a Texas limited liability company

ABC Hospice, LLC, a Texas limited liability company

Lighthouse Hospice-San Antonio, LLC, a Texas limited liability company

Harden Home Health, LLC, a Delaware limited liability company

Asian American Home Care, Inc., a California corporation

First Home Health, Inc., a West Virginia corporation

Nursing Care-Home Health Agency Inc., a West Virginia corporation

Faith in Home Services, LLC, a Kansas limited liability company

Faith Home Health and Hospice, LLC, a Kansas limited liability company

Girling Health Care Services of Knoxville, Inc., a Tennessee corporation

Girling Health Care, Inc., a Texas corporation

Hawkeye Health Services, Inc., an Iowa corporation

Horizon Health Care Services, Inc., a Texas corporation

Missouri Home Care of Rolla, Inc., a Missouri corporation

American HomeCare Management Corp., a Delaware corporation

The Home Team of Kansas, LLC, a Kansas limited liability company

Voyager Hospice Care, Inc., a Delaware corporation

Hospice Care of Kansas, LLC, a Kansas limited liability company

Hospice Care of Kansas and Missouri, LLC, a Missouri limited liability company

Hospice Care of the Midwest, LLC, a Missouri limited liability company

Colorado Hospice, LLC, a Colorado limited liability company

The American Heartland Hospice Corp., a Missouri corporation

Iowa Hospice, LLC, an Iowa limited liability company

Lakes Hospice, LLC, an Iowa limited liability company

American Hospice, Inc., a Texas corporation

Chaparral Hospice, Inc., a Texas corporation

Voyager Home Health, Inc., a Delaware corporation

Alpine Home Health Care, LLC, a Colorado limited liability company

Alpine Home Health II, Inc., a Colorado corporation

Alpine Home Health, Inc., a Mississippi corporation

Alpine Resource Group, Inc., a Colorado corporation

Saturday Partners, LLC, a Colorado limited liability company

Isidora's Health Care, Inc., a Texas corporation

Partnerships, Joint Ventures and Non-Profits

KHOI New Limited Partnership, a Delaware limited partnership

Kindred Hospitals Limited Partnership, a Delaware limited partnership

Kindred Nursing Centers Limited Partnership, a Delaware limited partnership

Fox Hill Village Partnership, a Massachusetts general partnership

Starr Farm Partnership, a Vermont general partnership

Hillhaven-MSC Partnership, a California general partnership

New Triumph Healthcare, LLP, a Texas limited partnership

RehabCare Group of Arlington, LP, a Texas limited partnership

RehabCare Group of Amarillo, LP, a Texas limited partnership

Triumph Hospital of North Houston, L.P., a Texas limited partnership

Triumph Hospital of East Houston, L.P., a Texas limited partnership

Triumph Southwest, L.P., a Texas limited partnership

Family Hospice, Ltd., a Texas limited partnership

FHI Management, Ltd., a Texas limited partnership

Odyssey HealthCare Management, LP, a Delaware limited partnership

Odyssey HealthCare Operating A, LP, a Delaware limited partnership

Voyager Acquisition, L.P., a Texas limited partnership

Odyssey HealthCare Operating B, LP, a Delaware limited partnership

Odyssey HealthCare of Augusta, LLC, a Delaware limited liability company

Odyssey HealthCare of Austin, LLC, a Delaware limited liability company

Odyssey HealthCare of Detroit, LLC, a Delaware limited liability company

Odyssey HealthCare of Fort Worth, LLC, a Delaware limited liability company

Odyssey HealthCare of Flint, LLC, a Delaware limited liability company

Odyssey HealthCare of Marion County, LLC, a Delaware limited liability company

Odyssey HealthCare of Savannah, LLC, a Delaware limited liability company

Odyssey HealthCare of St. Louis, LLC, a Delaware limited liability company

VistaCare of Boston, LLC, a Delaware limited liability company

Odyssey HealthCare of Kansas City, LLC, a Delaware limited liability company

Odyssey HealthCare of South Texas, LLC, a Delaware limited liability company

Wake Forest Baptist Health Care at Home, LLC, a North Carolina limited liability company

CTRH, L.L.C., a Delaware limited liability company

Dallas LTACH, LLC, a Delaware limited liability company

Greater Peoria Specialty Hospital, L.L.C., a Delaware limited liability company

Rhode Island Specialty Hospital, LLC, a Delaware limited liability company

St. Luke's Rehabilitation Hospital, LLC, a Delaware limited liability company

The Specialty Hospital, LLC, a Georgia limited liability company

Avon RH, LLC, a Delaware limited liability company

Beachwood RH, LLC, a Delaware limited liability company

Lancaster Rehabilitation Hospital, a Delaware limited liability company

Mercy Rehabilitation Hospital-St. Louis, LLC, a Missouri limited liability company

Mercy Rehabilitation Hospital Springfield, LLC, a Missouri limited liability company

Mercy Rehabilitation Hospital, LLC, an Oklahoma limited liability company

Rehabilitation Hospital of Wisconsin, LLC, a Delaware limited liability company

Texas Rehabilitation Hospital of Arlington, LLC, a Texas limited liability company

Texas Rehabilitation Hospital of Fort Worth, LLC, a Texas limited liability company

Hospice of the Emerald Coast, Inc., a Florida corporation

Saint Thomas Rehabilitation Hospital, LLC, a Tennessee limited liability company

Atlantic Rehabilitation Institute, LLC, a New Jersey limited liability company

Mercy Rehabilitation Hospital, LLC, an Iowa limited liability company

Northwest Washington Rehabilitation Hospital, LLC, a Washington limited liability company

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 333-59598, 333-62022, 333-88086, 333-116755, 333-151580, 333-174615, 333-183269, 333-197755, 333-201830, 333-201831, 333-204550 and 333-218199) of Kindred Healthcare, Inc. of our report dated February 28, 2018 relating to the financial statements, financial statement schedule, and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Louisville, Kentucky
February 28, 2018

Exhibit 31

Certification Required By Rules 13a-14(a) and 15d-14(a)
under the Securities Exchange Act of 1934

I, Benjamin A. Breier, certify that:

1. I have reviewed this annual report on Form 10-K of Kindred Healthcare, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2018

/s/ Benjamin A. Breier
Benjamin A. Breier
President and Chief Executive Officer

Exhibit 31

Certification Required By Rules 13a-14(a) and 15d-14(a)
under the Securities Exchange Act of 1934

I, Stephen D. Farber, certify that:

1. I have reviewed this annual report on Form 10-K of Kindred Healthcare, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2018

/s/ Stephen D. Farber
Stephen D. Farber
Executive Vice President, Chief Financial Officer

Exhibit 32

Section 1350 Certifications
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Kindred Healthcare, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 10-K for the year ended December 31, 2017 (the "Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2018

/s/ Benjamin A. Breier
Benjamin A. Breier
President and Chief Executive Officer

Date: February 28, 2018

/s/ Stephen D. Farber
Stephen D. Farber
Executive Vice President, Chief Financial Officer