

Cobalt Rehabilitation Hospital Louisville, LLC

Financial Statements

December 31, 2023 and 2022

Cobalt Rehabilitation Hospital Louisville, LLC

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Independent Auditors' Report

To the Members of
Cobalt Rehabilitation Hospital Louisville, LLC

Opinion

We have audited the financial statements of Cobalt Rehabilitation Hospital Louisville, LLC (the Company), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations and changes in member's equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations, changes in member's equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the financial statements, accounts payable and member's equity as of December 31, 2022 and cost of services for the year ended December 31, 2022 have been restated to correct a material error. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Baker Tilly US, LLP

Pittston, Pennsylvania
April 30, 2024

Cobalt Rehabilitation Hospital Louisville, LLC

Balance Sheets

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u> (Restated)		<u>2023</u>	<u>2022</u> (Restated)
Assets			Liabilities and Member's Equity		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 42,955	\$ -	Current portion of operating lease obligations	\$ 2,469,515	\$ 2,411,674
Patient accounts receivable	2,696,409	2,679,425	Accounts payable	692,909	729,794
Related party receivable	3,544,258	-	Accrued liabilities	1,004,933	865,688
Inventories of drugs and supplies	29,350	52,236	Related party payable	-	5,287,796
Prepaid expenses	68,275	325,576	Estimated third-party payor settlements	313,519	233,719
	<u>6,381,247</u>	<u>3,057,237</u>	Total current liabilities	4,480,876	9,528,671
Property and Equipment, Net	632,918	540,506	Operating Lease Obligations	35,045,977	36,753,055
Goodwill	9,698,325	9,698,325	Other Long-Term Liabilities	296,410	282,205
Other Long-Term Assets	777,748	657,184	Total liabilities	39,823,263	46,563,931
Operating Lease Right-of-Use Assets	35,726,144	37,702,406	Member's Equity	13,393,119	5,091,727
Total assets	<u>\$ 53,216,382</u>	<u>\$ 51,655,658</u>	Total liabilities and member's equity	<u>\$ 53,216,382</u>	<u>\$ 51,655,658</u>

See notes to financial statements

Cobalt Rehabilitation Hospital Louisville, LLC

Statements of Operations and Changes in Member's Equity
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u> (Restated)
Revenues		
Net patient service revenues	\$ 30,941,145	\$ 24,274,381
Operating revenues	12,199	13,690
Grant revenues	-	25,000
	<u>30,953,344</u>	<u>24,313,071</u>
Expenses		
Cost of services	14,943,309	13,244,870
General and administrative	2,993,467	2,452,245
Rent expense	2,750,566	2,749,359
Corporate services fee, affiliates	1,857,201	1,445,125
Interest expense	11,306	17,901
Depreciation and amortization	96,103	32,352
	<u>22,651,952</u>	<u>19,941,852</u>
Total expenses		
	<u>22,651,952</u>	<u>19,941,852</u>
Net income	8,301,392	4,371,219
Member's Equity, Beginning	<u>5,091,727</u>	<u>720,508</u>
Member's Equity, Ending	<u>\$ 13,393,119</u>	<u>\$ 5,091,727</u>

See notes to financial statements

Cobalt Rehabilitation Hospital Louisville, LLC

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u> (Restated)
Cash Flows From Operating Activities		
Net income	\$ 8,301,392	\$ 4,371,219
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	96,103	32,352
Change in operating lease right-of-use asset and obligations	2,747,475	2,738,686
Payments on operating lease obligations	(2,420,450)	(2,367,255)
Changes in operating assets and liabilities:		
Patient accounts receivable	(16,984)	(787,968)
Other accounts receivable	-	(28,617)
Estimated third-party payor settlements	79,800	274,636
Inventories of drugs and supplies	22,886	(29,007)
Prepaid expenses	257,301	(294,714)
Other long-term assets	(120,564)	22,414
Accounts payable	(36,885)	453,689
Accrued liabilities	139,245	115,035
Related party receivable/payable	(8,832,054)	(4,029,323)
Other long-term liabilities	14,205	(34,114)
Net cash provided by operating activities	<u>231,470</u>	<u>437,033</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	<u>(188,515)</u>	<u>(437,033)</u>
Net cash used in investing activities	<u>(188,515)</u>	<u>(437,033)</u>
Net change in cash and cash equivalents	42,955	-
Cash, Beginning	<u>-</u>	<u>-</u>
Cash, Ending	<u>\$ 42,955</u>	<u>\$ -</u>
Supplemental Disclosure of Noncash Investing and Financing Activities		
Operating lease obligations incurred for right-of-use assets	<u>\$ 6,040</u>	<u>\$ -</u>

See notes to financial statements

Cobalt Rehabilitation Hospital Louisville, LLC

Notes to Financial Statements

December 31, 2023 and 2022

1. Organization, Nature of Operations and Summary of Significant Accounting Policies

Organization and Nature of Operations

Cobalt Rehabilitation Hospital Louisville, LLC (the Company) was formed in 2017 and operates as an inpatient rehabilitation facility (IRF). Curahealth Rehabilitation Holdco, LLC is the sole member of the Company. The Company, a Texas limited liability company, has an infinite life. The member's liability is limited to their capital contributions. The Company provides IRF services to patients that typically suffer from debilitating injuries, including traumatic brain and spinal cord injuries and require rehabilitation care in the form of physical, psychological, social, speech and occupational rehabilitation services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Patient Accounts Receivable

The Company assesses collectability on patient contracts prior to the recognition of net patient service revenues. Patient accounts receivable are recorded at their net realizable value. Accounts are written off through credit loss expense when the Company has exhausted all collection efforts and determines accounts are impaired based on changes in patient credit worthiness.

Inventories of Drugs and Supplies

Inventories of pharmaceuticals, pharmaceutical supplies and medical supplies are stated at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis.

Property and Equipment

Property and equipment items are stated at cost net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Assets acquired as leasehold improvements are amortized over the shorter of the lease term or their respective useful life.

Intangible Assets

Other long-term assets includes intangible assets with indefinite lives related to licenses with a carrying value of \$554,000, respectively, at December 31, 2023 and 2022. Intangible assets with indefinite lives are reviewed annually for impairment, or more frequently if indicators arise. The Company performs a qualitative assessment to determine whether it is more-likely-than-not that its indefinite-lived intangible assets are impaired, and accordingly, need not calculate the fair value of the intangible assets and perform the quantitative impairment test. No impairment loss was recorded in 2023 and 2022.

Goodwill

Goodwill is reviewed annually for impairment or more frequently if indicators arise. The Company performs this assessment by estimating the fair value of its identified reporting unit (entity level) and comparing those estimates against the related carrying values. The estimated fair value is determined using multiples of earnings before interest, income taxes, depreciation, and amortization (EBITDA) from current transaction information. No impairment loss was recorded in 2023 and 2022.

Cobalt Rehabilitation Hospital Louisville, LLC

Notes to Financial Statements

December 31, 2023 and 2022

Lease Obligations and Right-of-Use Assets

The Company evaluates at contract inception whether a lease exists and recognizes a lease obligation and right-of-use (ROU) asset for all leases with a term greater than 12 months. Leases are classified as either finance or operating. The Company has no leases that met the criteria of a finance lease.

All lease liabilities are measured as the present value of the future lease payments using a discount rate. The future lease payments used to measure the lease liability include fixed payments, as well as the exercise price of any options to purchase the underlying asset that have been deemed reasonably certain of being exercised, if applicable. Future lease payments for optional renewal periods that are not reasonably certain of being exercised are excluded from the measurement of the lease liability. For all leases, the ROU asset is initially derived from the measurement of the lease liability and adjusted for certain items, such as initial direct costs and lease incentives received. ROU assets are subject to long-lived impairment testing.

Operating lease expense is recognized on a straight-line basis over the lease term and is included within rent expense in the statements of operations and changes in member's equity. The lease term is determined based on the date the Company acquires control of the leased premises through the end of the lease term. Optional renewal periods are initially not included in the lease term unless they are deemed to be reasonably certain of being exercised at lease commencement.

Insurance Programs

For general and professional liability claims, the Company is liable for a portion of its losses. The Company estimates its liability for losses based on historical trends that will be incurred in a respective accounting period and accrues that estimated liability. These programs are monitored quarterly and estimates are revised as necessary to take into account additional information.

The Company has accrued \$133,982 and \$56,219, respectively, at December 31, 2023 and 2022, which is included in other long-term liabilities in the accompanying balance sheets, related to these programs. The Company has recorded a receivable and related claim liability, for anticipated insurance recoveries of \$89,618 and \$28,617 respectively, at December 31, 2023 and 2022, which is included in other long-term assets in the accompanying balance sheets.

The Company believes it has adequate insurance coverages for all asserted claims and it has no knowledge of unasserted claims which would exceed its insurance coverages.

Revenue Recognition

Net patient service revenues are recognized at the amount that reflects the consideration the Company expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including commercial and governmental programs) and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Company bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. Revenues for performance obligations satisfied over time are recognized based on actual charges incurred in relation to total expected (or actual) charges. The Company believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient post-acute care. The Company measures the performance obligation from admission into the facility to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is generally recognized when goods or services are provided and the Company does not believe they are required to provide additional services to the patient.

Cobalt Rehabilitation Hospital Louisville, LLC

Notes to Financial Statements

December 31, 2023 and 2022

The Company determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured or underinsured patients in accordance with the Company's policies and/or implicit price concessions provided to uninsured or underinsured patients. The Company determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Company determines its estimates of implicit price concessions based on its historical collection experience with a respective class of patient.

The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence with the payor and the Company's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, (that is, new information becomes available) or as years are settled or no longer subject to such audits, reviews, and investigations.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Company also provides services to uninsured patients, and offers those uninsured or underinsured patients a discount, either by policy or law, from standard charges. The Company estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charges by any contractual adjustment, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustment to net patient service revenues in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as credit loss expense.

The Company has determined that the nature, timing and uncertainty of revenues and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, commercial and other insurance and self-pay) have different reimbursement and payment methodologies,
- Length of the patient's service/episode of care,
- Method of reimbursement and
- Line of business that provided the service.

Net patient service revenues recognized in 2023 and 2022 are from goods or services provided over time. The percentage of the Company's patient accounts receivable from Medicare was 79% and 72% at December 31, 2023 and 2022, respectively.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk is patient accounts receivable. The Company grants unsecured credit to its patients, most of whom reside in the service area of the Company's facilities and are insured under third-party payor agreements. Because of the geographic diversity of the Company's facilities and nongovernmental third-party payors, Medicare and Medicaid represent the Company's primary concentration of credit risk.

Cobalt Rehabilitation Hospital Louisville, LLC

Notes to Financial Statements
December 31, 2023 and 2022

Income Taxes

The Company is formed as a limited liability company (LLC) for federal income tax purposes. In lieu of corporate income taxes, the members of an LLC are taxed on their proportionate share of the LLC's taxable income or loss. Therefore, no provision or liability for federal income taxes has been provided for in the balance sheets or statements of operations and changes in member's equity. The Company incurred state income taxes, franchise taxes, and/or hospital fees of \$72,145 in 2023 and \$70,000 in 2022.

The Company accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold in 2023 and 2022.

The Company's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

Reclassifications

Certain 2022 amounts have been reclassified to conform with the 2023 financial statement presentation.

2. Restatement of Previously Reported Financial Statements

Subsequent to the issuance of the December 31, 2022 financial statements, the Company identified an error related to cash disbursements made during 2022. It was determined that \$609,363 of disbursements were paid twice in error during 2022 as a result of an oversight during a system conversion.

This error has resulted in corrections to the Company's balance sheet as of December 31, 2022 and the statements of operations and changes in member's equity and cash flows for the year ended December 31, 2022.

The impact of the prior period corrections on the balance sheet was as follows:

	<u>Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Accounts payable	\$ 1,339,157	\$ (609,363)	\$ 729,794
Member's equity, ending, as restated	4,482,364	609,363	5,091,727

The impact of the prior period corrections on the statement of operations and changes in member's equity was as follows:

	<u>Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Cost of services	\$ 13,854,233	\$ (609,363)	\$ 13,244,870
Total expenses	20,551,215	(609,363)	19,941,852
Net income	3,761,856	609,363	4,371,219
Member's equity, ending, as restated	4,482,364	609,363	5,091,727

Cobalt Rehabilitation Hospital Louisville, LLC

Notes to Financial Statements
December 31, 2023 and 2022

The impact of the prior period corrections on the statement of cash flows was as follows:

	<u>Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Cash flows from operating activities			
Net income	\$ 3,761,856	\$ 609,363	\$ 4,371,219
Accounts payable	1,063,052	(609,363)	453,689

3. Property and Equipment, Net

Property and equipment, net as of December 31 consist of the following:

	<u>2023</u>	<u>2022</u>
Leasehold improvements	\$ 201,423	\$ 67,418
Furniture and equipment	574,927	520,417
	776,350	587,835
Less accumulation depreciation	143,432	47,329
Property and equipment net	<u>\$ 632,918</u>	<u>\$ 540,506</u>

4. Related-Party Transactions

The Company has a corporate support services agreement (the Agreement) with PAM Health Management, LLC, an affiliate of the Company, to provide management, administration, supply chain, insurance coverage and other support needed for the operation of the Company. The initial term of the Agreement is for 20 years through December 1, 2041 and will automatically renew for an additional 20 year period unless prior written notice of termination is provided. The corporate services fee charged is 6% of the Company's net revenues. Corporate services fees incurred were \$1,857,201 and \$1,445,125 respectively, for the year ended December 31, 2023 and 2022.

Post Acute Medical, LLC, PAM Cubed and PAM Squared, LLC (collectively, the Borrowers) have a revolving credit facility for \$150,000,000 with Credit Suisse AG (Credit Suisse) which has a balloon maturity in September 2025. Effective February 23, 2023, Credit Suisse resigned and assigned all interests in the revolving credit facility to MidCap Funding IV Trust. The Company along with other affiliates and subsidiaries of the Borrowers are operating guarantors (collectively, Operating Guarantors). Interest shall be charged at a rate of SOFR (Secured Overnight Financing Rate) plus 3.50%, with a SOFR floor of 1.25% (9.00%, at December 31, 2023). The credit facility is secured by a first position in substantially all personal property of the Borrowers and Operating Guarantors. The Borrowers and Operating Guarantors are subject to various financial and nonfinancial covenants under the credit facility. The underlying agreement requires the establishment of a lockbox account in which all deposits of the Borrowers and Operating Guarantors are transferred daily and applied against the outstanding balance on the facility. The balance of the revolving credit facility was \$75,000,000 at December 31, 2023 and 2022.

As a result of the above arrangement, direct out-of-pocket expenses incurred by the Company are paid by PAM Cubed and charged to the Company. Expenses incurred were \$20,204,821 and \$17,970,472, respectively, in 2023 and 2022. The Company had amounts due from PAM Cubed of \$3,544,258 at December 31, 2023. The Company had amounts due to PAM Cubed of \$5,287,796 at December 31, 2022. There are no stated repayment terms and these amounts are planned to be settled regularly in the normal course of business.

Cobalt Rehabilitation Hospital Louisville, LLC

Notes to Financial Statements
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The Borrowers and Operating Guarantors also have a \$121,000,000 term loan facility with Credit Suisse. Effective February 23, 2023, Credit Suisse resigned and assigned all interests in the term loan facility to MidCap Funding IV Trust. Interest shall be charged at a rate of SOFR plus 5.50%, with a SOFR floor of 1.25% (11.00% at December 31, 2023) per annum. Payments of principal and interest are due quarterly through September 2025. The term loan is secured by a first position in substantially all personal property of the Borrowers and Operating Guarantors. The balance of the term loan was \$12,500,000 and \$21,000,000 at December 31, 2023 and 2022, respectively.

Examples of events that would require the Company to provide a cash payment pursuant to the guarantee on the revolving credit and term loan facilities would result from the Borrowers failure to service the debt when due or noncompliance with financial covenants and inadequacy of asset collateral. The fair value of the Borrower's collateral exceeds the amounts of the debt obligations therefore significant losses are not anticipated. There is no recorded liability for potential losses under these guarantees, nor is there any liability for the Company's obligation to "stand ready" to fund such guarantee. The Company believes there is only a remote possibility the Borrowers will not remain current with their debt payments and the Company will be required to perform under the guarantee.

5. Leases

The Company leases its hospital facility and equipment used in operations. For many of these leases, the Company is responsible for paying property taxes, insurance, as well as maintenance and repair costs. The Company's hospital facility lease has an initial lease term of 20 years and includes an option to renew, with renewal terms that generally extend the lease term for two additional periods of five years each. The Company assesses renewal options using a "reasonably certain" threshold, which is understood to be a high threshold, and therefore, the majority of its leases' terms do not include renewal periods for accounting purposes. For leases where the Company is reasonably certain to exercise its renewal option, the option periods are included within the lease term, and therefore, the measurement of the ROU asset and lease liability. The payment structure of the Company's leases generally include annual escalation clauses that are either fixed or variable in nature, some of which are dependent upon published indices. Leases with an initial term of 12 months or less are not recorded on the balance sheets and expenses for these leases are recognized on a straight-line basis over the lease term as an operating expense.

For leases that include an option to purchase the leased assets, the Company assesses the likelihood of exercising the purchase option using a "reasonably certain" threshold, which is understood to be a high threshold, and therefore, purchase options are generally accounted for when a compelling economic reason to exercise the option exists. Certain leases include an option to terminate the lease, the terms and conditions of which vary by contract. These options allow the parties to the contract to terminate their obligations typically in return for an agreed upon financial consideration amount. The Company's lease agreements do not contain material residual value guarantees.

The Company makes certain assumptions and judgements in determining the discount rate, as most leases do not provide an implicit rate. The Company uses a risk-free discount rate based on information available at the commencement date in determining the present value of lease payments.

Subsequent to the lease commencement date, the Company reassesses lease classification when there is a contract modification that is accounted for as a separate contract, a change in the lease term or a change in the assessment of whether the lessee is reasonably certain to exercise an option to purchase the underlying asset or terminate the lease.

Cobalt Rehabilitation Hospital Louisville, LLC

Notes to Financial Statements
December 31, 2023 and 2022

Future minimum payments under operating leases as of December 31, 2023 were as follows:

Years ending December 31:		
2024	\$	2,469,515
2025		2,518,713
2026		2,563,599
2027		2,610,504
2028		2,662,683
Thereafter		<u>30,826,013</u>
Total		43,651,027
Less:		
Amount representing interest		(6,135,535)
Current portion		<u>(2,469,515)</u>
Long-term obligation	\$	<u>35,045,977</u>

Operating lease costs incurred for these leases were \$2,747,475 and \$2,738,686 in 2023 and 2022, respectively, and are included in rent expense in the statements of operations and changes in member's equity. The remaining amounts included in rent expense in the statements of operations and changes in member's equity represents variable costs incurred under the terms of the lease agreements.

The following table presents supplemental information for leases as of December 31:

	<u>2023</u>	<u>2022</u>
Weighted-average remaining lease term:		
Operating leases	15.48 years	16.50 years
Weighted-average discount rate:		
Operating leases	1.94%	1.94%

6. Contingencies

The Company is subject to legal proceedings and claims that have arisen in the ordinary course of its business and have not been finally adjudicated (including claims against the hospitals under prior ownership). In the opinion of management, the outcome of these actions will not have a material effect on the financial statements of the Company.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance, other than the instance noted below.

7. Subsequent Events

The Company evaluated subsequent events for recognition and disclosure through April 30, 2024, which is the date the financial statements were available to be issued.