ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION
This Section must be completed for all projects.

Facility/Project Identification

Facility Name: Encompass Health Rehabilitation Hospital of Libertyville		
Street Address: 1220 American Way		
City and Zip Code: Libertyville, IL 60048		
County: Lake	Health Service Area: 8	Health Planning Area:

Applicant(s) [Provide for each applicant (refer to Part 1130.220)]

Exact Legal Name:	Encompass Health Rehabilitation Hospital of Libertyville, LLC
Street Address:	9001 Liberty Parkway
City and Zip Code:	Birmingham, AL 35242
Name of Registered Agent:	CT Corporation System (Chicago)
Registered Agent Street Address:	208 South LaSalle Street, Suite 814
Registered Agent City and Zip Code:	Chicago, IL 60604
Name of Chief Executive Officer:	Douglas E. Coltharp
CEO Street Address:	9001 Liberty Parkway
CEO City and Zip Code:	Birmingham, AL 35242
CEO Telephone Number:	205.967.7116

Type of Ownership of Applicants

- ☐ Non-profit Corporation
- ☐ For-profit Corporation
- ☒ Limited Liability Company
- ☐ Other
- ☐ Partnership
- ☐ Governmental
- ☐ Sole Proprietorship

- Corporations and limited liability companies must provide an **Illinois certificate of good standing.**
- Partnerships must provide the name of the state in which they are organized and the name and address of each partner specifying whether each is a general or limited partner.

APPEND DOCUMENTATION AS ATTACHMENT 1 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Primary Contact [Person to receive ALL correspondence or inquiries]

Name(s):	Mark J. Silberman and Juan Morado Jr.
Title:	CON Counsel
Company Name:	Benesch Law
Address:	71 S. Wacker, Suite 1600, Chicago IL 60606
Telephone Number:	312.212.4952 and 312.212.4967
E-mail Address:	MSilberman@beneschlaw.com and JMorado@beneschlaw.com
Fax Number:	312.767.9192

Additional Contact [Person who is also authorized to discuss the application for permit]

Name:	Walter Smith
Title:	Director, State Regulatory Affairs
Company Name:	Encompass Health
Address:	9001 Liberty Parkway
Telephone Number:	205.970.7926
E-mail Address:	walter.smith@encompasshealth.com
Fax Number:	(205) 262-7155

Facility/Project Identification

Facility Name: Encompass Health Rehabilitation Hospital of Libertyville		
Street Address: 1220 American Way		
City and Zip Code: Libertyville, IL 60048		
County: Lake	Health Service Area: 8	Health Planning Area:

Co-Applicant(s) [Provide for each applicant (refer to Part 1130.220)]

Exact Legal Name:	Encompass Health Illinois Real Estate, LLC
Street Address:	9001 Liberty Parkway
City and Zip Code:	Birmingham, AL 35242
Name of Registered Agent:	CT Corporation System (Chicago)
Registered Agent Street Address:	208 South LaSalle Street, Suite 814
Registered Agent City and Zip Code:	Chicago, IL 60604
Name of Chief Executive Officer:	Douglas E. Coltharp
CEO Street Address:	9001 Liberty Parkway
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Facility Name: Encompass Health Rehabilitation Hospital of Libertyville		
Street Address: 1220 American Way		
City and Zip Code: Libertyville, IL 60048		
County: Lake	Health Service Area: 8	Health Planning Area:

Co-Applicant(s) [Provide for each applicant (refer to Part 1130.220)]

Exact Legal Name:	Encompass Health Corporation
Street Address:	9001 Liberty Parkway
City and Zip Code:	Birmingham, AL 65242
Name of Registered Agent:	Corporation Trust Center
Registered Agent Street Address:	1209 Orange Street
Registered Agent City and Zip Code:	Wilmington, DE 19801
Name of Chief Executive Officer:	Mark J. Tarr
CEO Street Address:	9001 Liberty Parkway
CEO City and Zip Code:	Birmingham, AL 35242
CEO Telephone Number:	205.967.7116

Type of Ownership of Applicants

- ☐ Non-profit Corporation
- ☒ For-profit Corporation
- ☐ Limited Liability Company
- ☐ Other
- ☐ Partnership
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Primary Contact [Person to receive ALL correspondence or inquiries]

Name(s):	Mark J. Silberman and Juan Morado Jr.
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Additional Contact [Person who is also authorized to discuss the application for permit]

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Company Name:	Encompass Health
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Telephone Number:	205.970.7926
E-mail Address:	walter.smith@encompasshealth.com
Fax Number:	(205) 262-7155

Post Permit Contact

[Person to receive all correspondence subsequent to permit issuance-**THIS PERSON MUST BE EMPLOYED BY THE LICENSED HEALTH CARE FACILITY AS DEFINED AT 20 ILCS 3960]**

Name:	Walter Smith
Title:	Director, State Regulatory Affairs
Company Name:	Encompass Health
Address:	9001 Liberty Parkway
Telephone Number:	205.970.7926
E-mail Address:	walter.smith@encompasshealth.com
Fax Number:	(205) 262-7155

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner:
Encompass Health Illinois Real Estate, LLC

Address of Site Owner: 9001 Liberty Parkway Birmingham, AL 35242

Street Address or Legal Description of the Site:
Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statements, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease, or a lease.

APPEND DOCUMENTATION AS ATTACHMENT 2, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Operating Identity/Licensee

[Provide this information for each applicable facility and insert after this page.]

Exact Legal Name: Encompass Health Rehabilitation Hospital of Libertyville, LLC

Address: 1200 American Way, Libertyville IL 60048

- ☐ Non-profit Corporation
- ☐ For-profit Corporation
- ☒ Limited Liability Company
- ☐ Partnership
- ☐ Governmental
- ☐ Sole Proprietorship
- ☐ Other

- Corporations and limited liability companies must provide an Illinois Certificate of Good Standing.
- Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.
- **Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.**

APPEND DOCUMENTATION AS ATTACHMENT 3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Organizational Relationships

Provide (for each applicant) an organizational chart containing the name and relationship of any person or entity who is related (as defined in Part 1130.140). If the related person or entity is participating in the development or funding of the project, describe the interest and the amount and type of any financial contribution.

APPEND DOCUMENTATION AS ATTACHMENT 4, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Flood Plain Requirements

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2006-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements, please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at **www.FEMA.gov** or **www.illinoisfloodmaps.org**. **This map must be in a readable format**. In addition, please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2006-5 (**http://www.hfsrb.illinois.gov**).

APPEND DOCUMENTATION AS ATTACHMENT 5, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Historic Resources Preservation Act Requirements

[Refer to application instructions.]

Provide documentation regarding compliance with the requirements of the Historic Resources Preservation Act.

APPEND DOCUMENTATION AS ATTACHMENT 6, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

DESCRIPTION OF PROJECT

1. Project Classification

[Check those applicable - refer to Part 1110.20 and Part 1120.20(b)]

Part 1110 Classification:

☒ Substantive

☐ Non-substantive

2. Narrative Description

In the space below, provide a brief narrative description of the project. Explain **WHAT** is to be done in **State Board defined terms, NOT WHY** it is being done. If the project site does NOT have a street address, include a legal description of the site. Include the rationale regarding the project's classification as substantive or non-substantive.

Encompass Health Rehabilitation Hospital of Libertyville, LLC ("Encompass Libertyville") proposes to establish a new 60-bed freestanding comprehensive inpatient physical rehabilitation ("Rehab" or "rehab") hospital to be located in Libertyville, Lake County, HSA8. The proposed project addresses the Illinois Health Facilities and Services Review Board ("HFSRB" or "Review Board") identified need for twenty (20) additional rehab beds in HSA8. This is a 'substantive' project because it proposes the establishment of a healthcare facility, as defined by Board rules.

Encompass Libertyville is a wholly-owned subsidiary of Encompass Health Corporation ("Encompass Health"). Encompass Health is a Delaware corporation. Encompass Health Illinois Real Estate, LLC ("EHIRE") will develop the project and own the real estate, including the hospital building and site improvements. EHIRE is a Delaware corporation. Encompass Libertyville, the Applicant/Licensee, will be the licensed operator of the proposed project and lease the hospital building, land, and site improvements from EHIRE. Encompass Libertyville is a Delaware corporation.

The proposed project will include all private rooms and will be the only freestanding inpatient rehab hospital (non-hospital based unit) in HSA8. The total project cost estimate for the new 60-bed freestanding hospital is $52,184,384. Encompass Health, the parent entity to Encompass Libertyville and EHIRE, will fund the project from available cash on hand and existing internal funds available through Encompass Health Corporation.

Encompass Libertyville will be located on an 8.5 acre unimproved parcel at 1220 American Way, Libertyville, IL 60048. The anticipated completion date of the project is June 2022.

Project Costs and Sources of Funds

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must be equal.

Project Costs and Sources of Funds			
USE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Preplanning Costs			
Site Survey and Soil Investigation	$ 178,560	$ 69,440	$ 248,000
Site Preparation	$ 1,283,148	$ 499,002	$ 1,782,150
Off Site Work			
New Construction Contracts	$ 23,751,360	$ 9,236,640	$ 32,988,000
Modernization Contracts			
Contingencies	$ 1,911,600	$ 743,400	$ 2,655,000
Architectural/Engineering Fees	$ 1,401,840	$ 545,160	$ 1,947,000
Consulting and Other Fees	$ 713,520	$ 277,480	$ 991,000
Movable or Other Equipment (not in construction contracts)	$ 3,983,760	$ 1,549,240	$ 5,533,000
Bond Issuance Expense (project related)			
Net Interest Expense During Construction (project related)	$ 1,249,224	$ 485,810	$ 1,735,034
Fair Market Value of Leased Space or Equipment			
Other Costs To Be Capitalized	$ 3,254,647	$ 1,050,553	$ 4,305,200
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS	**$ 37,727,659**	**$ 14,456,725**	**$ 52,184,384**
SOURCE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Cash and Securities	$ 37,727,659	$ 14,456,725	$ 52,184,384
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	**$ 37,727,659**	**$ 14,456,725**	**$ 52,184,384**

NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT 7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Related Project Costs
Provide the following information, as applicable, with respect to any land related to the project that will be or has been acquired during the last two calendar years:

Land acquisition is related to project ☒ Yes ☐ No
Purchase Price: $ 2,525,000
Fair Market Value: $

The project involves the establishment of a new facility or a new category of service
☒ Yes ☐ No

If yes, provide the dollar amount of all **non-capitalized** operating start-up costs (including operating deficits) through the first full fiscal year when the project achieves or exceeds the target utilization specified in Part 1100.

Estimated start-up costs and operating deficit cost is $ 1,034,239.

Project Status and Completion Schedules

For facilities in which prior permits have been issued please provide the permit numbers.

Indicate the stage of the project's architectural drawings:

☐ None or not applicable ☐ Preliminary
☒ Schematics ☐ Final Working

Anticipated project completion date (refer to Part 1130.140):
June 30, 2022

Indicate the following with respect to project expenditures or to financial commitments (refer to Part 1130.140):

☐ Purchase orders, leases or contracts pertaining to the project have been executed. ☐ Financial commitment is contingent upon permit issuance. Provide a copy of the contingent "certification of financial commitment" document, highlighting any language related to CON Contingencies
☒ Financial Commitment will occur after permit issuance.

APPEND DOCUMENTATION AS ATTACHMENT 8, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

State Agency Submittals [Section 1130.620(c)]

Are the following submittals up to date as applicable: ***Not Applicable***
☐ Cancer Registry
☐ APORS
☐ All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted
☐ All reports regarding outstanding permits
NOTE: Encompass Health Rehabilitation Hospital of Libertyville is not an existing facility, thus these requirements are not applicable to it.
Failure to be up to date with these requirements will result in the application for permit being deemed incomplete.

Cost Space Requirements

Provide in the following format, the **Departmental Gross Square Feet (DGSF)** or the **Building Gross Square Feet (BGSF)** and cost. The type of gross square footage either **DGSF** or **BGSF** must be identified. The sum of the department costs **MUST** equal the total estimated project costs. Indicate if any space is being reallocated for a different purpose. Include outside wall measurements plus the department's or area's portion of the surrounding circulation space. **Explain the use of any vacated space.**

		Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
Dept. / Area	**Cost**	**Existing**	**Proposed**	**New Const.**	**Modernized**	**As Is**	**Vacated Space**
REVIEWABLE							
Comprehensive Rehabilitation	$37,727,659		43,900 BGSF	43,900 BGSF			
Intensive Care							
Diagnostic Radiology							
MRI							
Total Clinical	$ 37,727,659		43,900 BGSF	43,900 BGSF			
NON REVIEWABLE							
Administrative							
Parking							
Gift Shop							
Total Non-clinical	$ 14,456,725		16,830 BGSF	16,830 BGSF			
TOTAL	**$ 52,184,384**		**60,730 BGSF**	**60,730 BGSF**			

APPEND DOCUMENTATION AS ATTACHMENT 9, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Facility Bed Capacity and Utilization

Complete the following chart, as applicable. Complete a separate chart for each facility that is a part of the project and insert the chart after this page. Provide the existing bed capacity and utilization data for the latest **Calendar Year for which data is available. Include observation days in the patient day totals for each bed service.** Any bed capacity discrepancy from the Inventory will result in the application being deemed **incomplete**.

NOT APPLICABLE (PROJECT IS FOR A NEW 60-BED INPATIENT REHAB HOSPITAL)

FACILITY NAME:		**CITY:**			
REPORTING PERIOD DATES:		**From:**		**to:**	
Category of Service	**Authorized Beds**	**Admissions**	**Patient Days**	**Bed Changes**	**Proposed Beds**
Medical/Surgical					
Obstetrics					
Pediatrics					
Intensive Care					
Comprehensive Physical Rehabilitation					
Acute/Chronic Mental Illness					
Neonatal Intensive Care					
General Long Term Care					
Specialized Long Term Care					
Long Term Acute Care					
Other ((identify)					
TOTALS:					

CERTIFICATION

The Application must be signed by the authorized representatives of the applicant entity. Authorized representatives are:

- in the case of a corporation, any two of its officers or members of its Board of Directors;
- in the case of a limited liability company, any two of its managers or members (or the sole manager or member when two or more managers or members do not exist);
- in the case of a partnership, two of its general partners (or the sole general partner, when two or more general partners do not exist);
- in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- in the case of a sole proprietor, the individual that is the proprietor.

This Application is filed on the behalf of Encompass Health Rehabilitation Hospital of Libertyville, LLC in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this Application on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the fee required for this application is sent herewith or will be paid upon request.

Barbara Jacobsmeyer
SIGNATURE

Barbara Jacobsmeyer
PRINTED NAME

Vice President
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 17 day of July, 2019

Karen E. Carlo
Signature of Notary

Seal

Patrick Darby
SIGNATURE

Patrick Darby
PRINTED NAME

Vice President
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 17 day of July, 2019

Karen E. Carlo
Signature of Notary

Seal

*Insert the EXACT legal name of the applicant

CERTIFICATION

The Application must be signed by the authorized representatives of the applicant entity. Authorized representatives are:

- in the case of a corporation, any two of its officers or members of its Board of Directors;
- in the case of a limited liability company, any two of its managers or members (or the sole manager or member when two or more managers or members do not exist);
- in the case of a partnership, two of its general partners (or the sole general partner, when two or more general partners do not exist);
- in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- in the case of a sole proprietor, the individual that is the proprietor.

This Application is filed on the behalf of Encompass Health Illinois Real Estate, LLC in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this Application on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the fee required for this application is sent herewith or will be paid upon request.

Barbara Jacobsmeyer
SIGNATURE

Barbara Jacobsmeyer
PRINTED NAME

Vice President
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 17 day of July, 2019

Karen E. Carlee
Signature of Notary

Seal

Patrick Darby
SIGNATURE

Patrick Darby
PRINTED NAME

Vice President
PRINTED TITLE

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Karen E. Carlee
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*Insert the EXACT legal name of the applicant

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This Application is filed on the behalf of Encompass Health Corporation in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this Application on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the fee required for this application is sent herewith or will be paid upon request.

SIGNATURE

Barbara Jacobsmeyer
PRINTED NAME

Executive Vice President
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 17 day of July, 2019

Karen E. Carla
Signature of Notary

Seal

SIGNATURE

Patrick Darby
PRINTED NAME

Executive Vice President
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 17 day of July, 2019

Karen E. Carla
Signature of Notary

Seal

*Insert the EXACT legal name of the applicant

SECTION II. DISCONTINUATION *NOT APPLICABLE*

This Section is applicable to the discontinuation of a health care facility maintained by a State agency.
NOTE: If the project is solely for discontinuation and if there is no project cost, the remaining Sections of the application are not applicable.

Criterion 1110.290 – Discontinuation (State-Owned Facilities and All Relocations)

READ THE REVIEW CRITERION and provide the following information:

GENERAL INFORMATION REQUIREMENTS

1. Identify the categories of service and the number of beds, if any that is to be discontinued.
2. Identify all of the other clinical services that are to be discontinued.
3. Provide the anticipated date of discontinuation for each identified service or for the entire facility.
4. Provide the anticipated use of the physical plant and equipment after the discontinuation occurs.
5. Provide the anticipated disposition and location of all medical records pertaining to the services being discontinued and the length of time the records will be maintained.
6. For applications involving the discontinuation of an entire facility, certification by an authorized representative that all questionnaires and data required by HFSRB or DPH (e.g., annual questionnaires, capital expenditures surveys, etc.) will be provided through the date of discontinuation, and that the required information will be submitted no later than 90 days following the date of discontinuation.

REASONS FOR DISCONTINUATION

The applicant shall state the reasons for the discontinuation and provide data that verifies the need for the proposed action. See criterion 1110.290(b) for examples.

IMPACT ON ACCESS

1. Document whether or not the discontinuation of each service or of the entire facility will have an adverse effect upon access to care for residents of the facility's market area.
2. Document that a written request for an impact statement was received by all existing or approved health care facilities (that provide the same services as those being discontinued) located within 45 minutes travel time of the applicant facility.

APPEND DOCUMENTATION AS ATTACHMENT 10, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION III. BACKGROUND, PURPOSE OF THE PROJECT, AND ALTERNATIVES - INFORMATION REQUIREMENTS

This Section is applicable to all projects except those that are solely for discontinuation with no project costs.

1110.110(a) – Background of the Applicant

READ THE REVIEW CRITERION and provide the following required information:

BACKGROUND OF APPLICANT

1. A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.

2. A listing of all health care facilities currently owned and/or operated in Illinois, by any corporate officers or directors, LLC members, partners, or owners of at least 5% of the proposed health care facility.

3. For the following questions, please provide information for each applicant, including corporate officers or directors, LLC members, partners and owners of at least 5% of the proposed facility. A health care facility is considered owned or operated by every person or entity that owns, directly or indirectly, an ownership interest.

    a. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant, directly or indirectly, during the three years prior to the filing of the application.

    b. A certified listing of each applicant, identifying those individuals that have been cited, arrested, taken into custody, charged with, indicted, convicted or tried for, or pled guilty to the commission of any felony or misdemeanor or violation of the law, except for minor parking violations; or the subject of any juvenile delinquency or youthful offender proceeding. Unless expunged, provide details about the conviction and submit any police or court records regarding any matters disclosed.

    c. A certified and detailed listing of each applicant or person charged with fraudulent conduct or any act involving moral turpitude.

    d. A certified listing of each applicant with one or more unsatisfied judgements against him or her.

    e. A certified and detailed listing of each applicant who is in default in the performance or discharge of any duty or obligation imposed by a judgment, decree, order or directive of any court or governmental agency.

4. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. **Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.**

5. If, during a given calendar year, an applicant submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest that the information was previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant is able to submit amendments to previously submitted information, as needed, to update and/or clarify data.

APPEND DOCUMENTATION AS ATTACHMENT 11, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-4) MUST BE IDENTIFIED IN ATTACHMENT 11.

Criterion 1110.110(b) & (d)

PURPOSE OF PROJECT

1. Document that the project will provide health services that improve the health care or well-being of the market area population to be served.
2. Define the planning area or market area, or other relevant area, per the applicant's definition.
3. Identify the existing problems or issues that need to be addressed as applicable and appropriate for the project.
4. Cite the sources of the documentation.
5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.
6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals **as appropriate**.

For projects involving modernization, describe the conditions being upgraded, if any. For facility projects, include statements of the age and condition of the project site, as well as regulatory citations, if any. For equipment being replaced, include repair and maintenance records.

NOTE: Information regarding the "Purpose of the Project" will be included in the State Board Staff Report.

APPEND DOCUMENTATION AS ATTACHMENT 12, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-6) MUST BE IDENTIFIED IN ATTACHMENT 12.

ALTERNATIVES

1) Identify **ALL** of the alternatives to the proposed project:

Alternative options **must** include:

A) Proposing a project of greater or lesser scope and cost;

B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;

C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and

D) Provide the reasons why the chosen alternative was selected.

2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of total costs, patient access, quality and financial benefits in both the short-term (within one to three years after project completion) and long-term. This may vary by project or situation. **FOR EVERY ALTERNATIVE IDENTIFIED, THE TOTAL PROJECT COST AND THE REASONS WHY THE ALTERNATIVE WAS REJECTED MUST BE PROVIDED.**

3) The applicant shall provide empirical evidence, including quantified outcome data that verifies improved quality of care, as available.

APPEND DOCUMENTATION AS ATTACHMENT 13, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION IV. PROJECT SCOPE, UTILIZATION, AND UNFINISHED/SHELL SPACE

Criterion 1110.120 - Project Scope, Utilization, and Unfinished/Shell Space

READ THE REVIEW CRITERION and provide the following information:

SIZE OF PROJECT:

1. Document that the amount of physical space proposed for the proposed project is necessary and not excessive. **This must be a narrative and it shall include the basis used for determining the space and the methodology applied.**

2. If the gross square footage exceeds the BGSF/DGSF standards in Appendix B, justify the discrepancy by documenting one of the following:
   a. Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies and certified by the facility's Medical Director.
   b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that delineates the constraints or impediments.
   c. The project involves the conversion of existing space that results in excess square footage.
   d. Additional space is mandated by governmental or certification agency requirements that were not in existence when Appendix B standards were adopted.

Provide a narrative for any discrepancies from the State Standard. A table must be provided in the following format with Attachment 14.

SIZE OF PROJECT				
DEPARTMENT/SERVICE	PROPOSED BGSF/DGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?
Rehab Hospital: Clinical Portions	43,900 BGSF	39,600 BGSF (60-bed facility)	+4,300 BGSF	Yes
Rehab Hospital: Non-Clinical Portions	16,830 BGSF	None	N/A	N/A
Total	60,730 BGSF	None	N/A	N/A

APPEND DOCUMENTATION AS ATTACHMENT 14, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

PROJECT SERVICES UTILIZATION:

This criterion is applicable only to projects or portions of projects that involve services, functions or equipment for which HFSRB has established utilization standards or occupancy targets in 77 Ill. Adm. Code 1100.

Document that in the second year of operation, the annual utilization of the service or equipment shall meet or exceed the utilization standards specified in 1110.Appendix B. **A narrative of the rationale that supports the projections must be provided.**

A table must be provided in the following format with Attachment 15.

UTILIZATION					
	DEPT./ SERVICE	HISTORICAL UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.	PROJECTED UTILIZATION (PATIENT DAYS)	STATE STANDARD	MEET STANDARD?
YEAR 1	Rehab Hospital	N/A	13,338 60.9% Occ.	85%	No
YEAR 2	Rehab Hospital	N/A	18,636 85.1% Occ.	85%	Yes

APPEND DOCUMENTATION AS ATTACHMENT 15, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

UNFINISHED OR SHELL SPACE:

NOT APPLICABLE

Provide the following information:

1. Total gross square footage (GSF) of the proposed shell space.
2. The anticipated use of the shell space, specifying the proposed GSF to be allocated to each department, area or function.
3. Evidence that the shell space is being constructed due to:
   a. Requirements of governmental or certification agencies; or
   b. Experienced increases in the historical occupancy or utilization of those areas proposed to occupy the shell space.
4. Provide:
   a. Historical utilization for the area for the latest five-year period for which data is available; and
   b. Based upon the average annual percentage increase for that period, projections of future utilization of the area through the anticipated date when the shell space will be placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT 16, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

ASSURANCES:

NOT APPLICABLE

Submit the following:

1. Verification that the applicant will submit to HFSRB a CON application to develop and utilize the shell space, regardless of the capital thresholds in effect at the time or the categories of service involved.
2. The estimated date by which the subsequent CON application (to develop and utilize the subject shell space) will be submitted; and
3. The anticipated date when the shell space will be completed and placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT 17, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION V. SERVICE SPECIFIC REVIEW CRITERIA

This Section is applicable to all projects proposing the establishment, expansion or modernization of categories of service that are subject to CON review, as provided in the Illinois Health Facilities Planning Act [20 ILCS 3960]. It is comprised of information requirements for each category of service, as well as charts for each service, indicating the review criteria that must be addressed for each action (establishment, expansion, and modernization). After identifying the applicable review criteria for each category of service involved, read the criteria and provide the required information APPLICABLE TO THE CRITERIA THAT MUST BE ADDRESSED:

A. Criterion 1110.200 - Medical/Surgical, Obstetric, Pediatric and Intensive Care *NOT APPLICABLE*

1. Applicants proposing to establish, expand and/or modernize the Medical/Surgical, Obstetric, Pediatric and/or Intensive Care categories of service must submit the following information:

2. Indicate bed capacity changes by Service: Indicate # of beds changed by action(s):

Category of Service	# Existing Beds	# Proposed Beds
☐ **Medical/Surgical**		
☐ **Obstetric**		
☐ **Pediatric**		
☐ **Intensive Care**		

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

APPLICABLE REVIEW CRITERIA	Establish	Expand	Modernize
1110.200(b)(1) - Planning Area Need - 77 Ill. Adm. Code 1100 (formula calculation)	X		
1110.200(b)(2) - Planning Area Need - Service to Planning Area Residents	X	X	
1110.200(b)(3) - Planning Area Need - Service Demand - Establishment of Category of Service	X		
1110.200(b)(4) - Planning Area Need - Service Demand - Expansion of Existing Category of Service		X	
1110.200(b)(5) - Planning Area Need - Service Accessibility	X		
1110.200(c)(1) - Unnecessary Duplication of Services	X		
1110.200(c)(2) - Maldistribution	X	X	

APPLICABLE REVIEW CRITERIA	Establish	Expand	Modernize
1110.200(c)(3) - Impact of Project on Other Area Providers	X		
1110. 200(d)(1), (2), and (3) - Deteriorated Facilities			X
1110.200(d)(4) - Occupancy			X
1110.200(e) - Staffing Availability	X	X	
1110.200(f) - Performance Requirements	X	X	X
1110.200(g) - Assurances	X	X	
APPEND DOCUMENTATION AS ATTACHMENT 18, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

NOT APPLICABLE

B. Criterion 1110.205 - Comprehensive Physical Rehabilitation

1. Applicants proposing to establish, expand and/or modernize the Comprehensive Physical Rehabilitation category of service must submit the following information:

2. Indicate bed capacity changes by Service: Indicate # of beds changed by action(s):

Category of Service	# Existing Beds	# Proposed Beds
☒ **Comprehensive Physical Rehabilitation**		**60**

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

APPLICABLE REVIEW CRITERIA	Establish	Expand	Modernize
1110.205(b)(1) - Planning Area Need - 77 Ill. Adm. Code 1100 (formula calculation)	X		
1110. 205(b)(2) - Planning Area Need - Service to Planning Area Residents	X	X	
1110.205(b)(3) - Planning Area Need - Service Demand - Establishment of Category of Service	X		
1110.205(b)(4) - Planning Area Need - Service Demand - Expansion of Existing Category of Service		X	
1110.205(b)(5) - Planning Area Need - Service Accessibility	X		
1110.205(c)(1) - Unnecessary Duplication of Services	X		
1110.205(c)(2) - Maldistribution	X		
1110.205(c)(3) - Impact of Project on Other Area Providers	X		
1110.205(d)(1), (2), and (3) - Deteriorated Facilities			X
1110.205(d)(4) - Occupancy			X
1110.205(e)(1) - Staffing Availability	X	X	
1110.205(f) - Performance Requirements	X	X	X
1110.205(g) - Assurances	X	X	

APPEND DOCUMENTATION AS ATTACHMENT 19, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

C. Criterion 1110.210 - Acute Mental Illness and Chronic Mental Illness

NOT APPLICABLE

1. Applicants proposing to establish, expand and/or modernize the Acute Mental Illness and Chronic Mental Illness categories of service must submit the following information:

2. Indicate bed capacity changes by Service: Indicate # of beds changed by action(s):

Category of Service	# Existing Beds	# Proposed Beds
☐ Acute Mental Illness		
☐ Chronic Mental Illness		

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

APPLICABLE REVIEW CRITERIA	Establish	Expand	Modernize
1110.210(b)(1) - Planning Area Need - 77 Ill. Adm. Code 1100 (formula calculation)	X		
1110.210(b)(2) - Planning Area Need - Service to Planning Area Residents	X	X	
1110.210(b)(3) - Planning Area Need - Service Demand - Establishment of Category of Service	X		
1110.210(b)(4) - Planning Area Need - Service Demand - Expansion of Existing Category of Service		X	
1110.210(b)(5) - Planning Area Need - Service Accessibility	X		
1110.210(c)(1) - Unnecessary Duplication of Services	X		
1110.210(c)(2) - Maldistribution	X		
1110.210(c)(3) - Impact of Project on Other Area Providers	X		
1110.210(d)(1), (2), and (3) - Deteriorated Facilities			X
1110.210(d)(4) - Occupancy			X
1110.210(e)(1) - Staffing Availability	X	X	
1110.210(f) - Performance Requirements	X	X	X
1110.210(g) - Assurances	X	X	

APPEND DOCUMENTATION AS ATTACHMENT 20, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

NOT APPLICABLE

D. Criterion 1110.220 - Open Heart Surgery *NOT APPLICABLE*

1. Applicants proposing to establish, expand and/or modernize the Open Heart Surgery category of service must submit the following information.

2. Indicate bed capacity changes by Service: Indicate # of beds changed by action(s):

Category of Service	# Existing Beds	# Proposed Beds
☐ Open Heart Surgery		

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

1. Criterion 1110.220(b)(1), Peer Review

Read the criterion and submit a detailed explanation of your peer review program.

2. Criterion 1110.220(b)(2), Establishment of Open Heart Surgery

Read the criterion and provide the following information:

a. The number of cardiac catheterizations (patients) performed in the latest 12-month period for which data is available.
b. The number of patients referred for open heart surgery following cardiac catheterization at your facility, for each of the last two years.

3. Criterion 1110.220(b)(3), Unnecessary Duplication of Services

Read the criterion and address the following:

a. Contact all existing facilities within 90 minutes travel time of your facility which currently provide or are approved to provide open heart surgery to determine what the impact of the proposed project will be on their facility.
b. Provide a sample copy of the letter written to each of the facilities and include a list of the facilities that were sent letters.
c. Provide a copy of all of the responses received.

4. Criterion 1110.220(b)(4), Support Services

Read the criterion and indicate on a service by service basis which of the services listed in this criterion are available on a 24-hour inpatient basis and explain how any services not available on a 24-hour inpatient basis can be immediately mobilized for emergencies at all times.

5. Criterion 1110.220(b)(5), Staffing

Read the criterion and for those positions described under this criterion provide the following information:

a. The name and qualifications of the person currently filling the job.
b. Application filed for a position.
c. Signed contracts with the required staff.
d. A detailed explanation of how you will fill the positions.

APPEND DOCUMENTATION AS ATTACHMENT 21, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

NOT APPLICABLE

E. Criterion 1110.225 - Cardiac Catheterization ***NOT APPLICABLE***

1. Applicants proposing to establish, expand and/or modernize the Cardiac Catheterization category of service must submit the following information.

2. Indicate bed capacity changes by Service: Indicate # of beds changed by action(s):

Category of Service	# Existing Beds	# Proposed Beds
☐ **Cardiac Catheterization**		

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

1. Criterion 1110.225(a), Peer Review

Read the criterion and submit a detailed explanation of your peer review program.

2. Criterion 1110. 225(b), Establishment or Expansion of Cardiac Catheterization Service

Read the criterion and, if applicable, submit the following information:

a. A map (on 8 1/2" x 11" paper) showing the location of the other hospitals providing cardiac catheterization services within the planning area.

b. The number of cardiac catheterizations performed for the last 12 months at each of the hospitals shown on the map.

c. Provide the number of patients transferred directly from the applicant's hospital to another facility for cardiac catheterization services in each of the last three years.

3. Criterion 1110.225(c), Unnecessary Duplication of Services

Read the criterion and, if applicable, submit the following information.

a. Copies of the letter sent to all facilities within the planning area that currently provide cardiac catheterization. This letter must contain a description of the proposed project and a request that the other facility quantify the impact of the proposal on its program.

b. Copies of the responses received from the facilities to which the letter was sent.

4. Criterion 1110.225(d), Modernization of Existing Cardiac Catheterization Laboratories

Read the criterion and, if applicable, submit the number of cardiac catheterization procedures performed for the latest 12 months.

5. Criterion 1110.225(e), Support Services

Read the criterion and indicate on a service-by-service basis which of the listed services are available on a 24-hour basis and explain how any services not available on a 24-hour basis will be available when needed.

6. Criterion 1110.225(f), Laboratory Location

Read the criterion and, if applicable, submit line drawings showing the location of the proposed laboratories. If the laboratories are not in close proximity, explain why.

7. Criterion 1110.225(g), Staffing

Read the criterion and submit a list of names and qualifications of those who will fill the positions detailed in this criterion. Also, provide staffing schedules to show the coverage required by this criterion.

8. Criterion 1110.225(h), Continuity of Care

Read the criterion and submit a copy of the fully executed written referral agreement(s).

9. Criterion 1110.225(i), Multi-institutional Variance

Read the criterion and, if applicable, submit the following information:

a. A copy of a fully executed affiliation agreement between the two facilities involved.

b. Names and positions of the shared staff at the two facilities.

c. The volume of open heart surgeries performed for the latest 12-month period at the existing operating program.

d. A cost comparison between the proposed project and expansion at the existing operating program.

e. The number of cardiac catheterization procedures performed in the last 12 months at the operating program.

f. The number of catheterization laboratories at the operating program.

g. The projected cardiac catheterization volume at the proposed facility annually for the next 2 years.

h. The basis for the above projection.

APPEND DOCUMENTATION AS ATTACHMENT 22 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

NOT APPLICABLE

F. Criterion 1110.230 - In-Center Hemodialysis ***NOT APPLICABLE***

1. Applicants proposing to establish, expand and/or modernize the In-Center Hemodialysis category of service must submit the following information:

2. Indicate station capacity changes by Service: Indicate # of stations changed by action(s):

Category of Service	# Existing Stations	# Proposed Stations
☐ **In-Center Hemodialysis**		

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

APPLICABLE REVIEW CRITERIA	Establish	Expand	Modernize
1110.230(b)(1) - Planning Area Need - 77 Ill. Adm. Code 1100 (formula calculation)	X		
1110.230(b)(2) - Planning Area Need - Service to Planning Area Residents	X	X	
1110.230(b)(3) - Planning Area Need - Service Demand - Establishment of Category of Service	X		
1110.230(b)(4) - Planning Area Need - Service Demand - Expansion of Existing Category of Service		X	
1110.2300(b)(5) - Planning Area Need - Service Accessibility	X		
1110.230(c)(1) - Unnecessary Duplication of Services	X		
1110.230(c)(2) - Maldistribution	X		
1110.230(c)(3) - Impact of Project on Other Area Providers	X		
1110.230(d)(1), (2), and (3) - Deteriorated Facilities and Documentation			X
1110.230(e) - Staffing	X	X	
1110.230(f) - Support Services	X	X	X
1110.230(g) - Minimum Number of Stations	X		
1110.230(h) - Continuity of Care	X		
1110.230(i) - Relocation (if applicable)	X		
1110.230(j) - Assurances	X	X	

APPEND DOCUMENTATION AS ATTACHMENT 23, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

4. **Projects for relocation** of a facility from one location in a planning area to another in the same planning area must address the requirements listed in subsection (a)(1) for the "Establishment of Services or Facilities", as well as the requirements in Section 1130.525 – "Requirements for Exemptions Involving the Discontinuation of a Health Care Facility or Category of Service" and subsection 1110.230(i) - Relocation of an in-center hemodialysis facility.
NOT APPLICABLE

G. Non-Hospital Based Ambulatory Surgery ***NOT APPLICABLE***

Applicants proposing to establish, expand and/or modernize the Non-Hospital Based Ambulatory Surgery category of service must submit the following information.

ASTC Service
☐ Cardiovascular
☐ Colon and Rectal Surgery
☐ Dermatology
☐ General Dentistry
☐ General Surgery
☐ Gastroenterology
☐ Neurological Surgery
☐ Nuclear Medicine
☐ Obstetrics/Gynecology
☐ Ophthalmology
☐ Oral/Maxillofacial Surgery
☐ Orthopedic Surgery
☐ Otolaryngology
☐ Pain Management
☐ Physical Medicine and Rehabilitation
☐ Plastic Surgery
☐ Podiatric Surgery
☐ Radiology
☐ Thoracic Surgery
☐ Urology
☐ Other

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

APPLICABLE REVIEW CRITERIA	Establish New ASTC or Service	Expand Existing Service
1110.235(c)(2)(B) – Service to GSA Residents	X	X
1110.235(c)(3) – Service Demand – Establishment of an ASTC or Additional ASTC Service	X	
1110.235(c)(4) – Service Demand – Expansion of Existing ASTC Service		X
1110.235(c)(5) – Treatment Room Need Assessment	X	X
1110.235(c)(6) – Service Accessibility	X	
1110.235(c)(7)(A) – Unnecessary Duplication/Maldistribution	X	

1110.235(c)(7)(B) – Maldistribution	X	
1110.235(c)(7)(C) – Impact to Area Providers	X	
1110.235(c)(8) – Staffing	X	X
1110.235(c)(9) – Charge Commitment	X	X
1110.235(c)(10) – Assurances	X	X

APPEND DOCUMENTATION AS ATTACHMENT 24, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

NOT APPLICABLE

H. Criterion 1110.240 - Selected Organ Transplantation *NOT APPLICABLE*

This section is applicable to projects involving the establishment or modernization of the Selected Organ Transplantation service.

1. Applicants proposing to establish or modernize the Selected Organ Transplantation category of service must submit the following information:

2. Indicate changes by Service: Indicate # of rooms changed by action(s):

Transplantation Type	# Existing Beds	# Proposed Beds
☐ _____		
☐ _____		

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

APPLICABLE REVIEW CRITERIA	Establish	Modernize
1110.240(b)(1) – Planning Area Need - 7 Ill. Adm. Code 1100 (formula calculation)	X	
1110.240(b)(2) – Planning Area Need - Service to Planning Area Residents	X	
1110.240(b)(3) – Planning Area Need - Service Demand - Establishment of Category of Service	X	
1110.240(b)(4) – Planning Area Need - Service Accessibility	X	
1110.240(c)(1) – Unnecessary Duplication of Services	X	
1110.240(c)(2) – Maldistribution	X	
1110.240(c)(3) – Impact of Project on Other Area Providers	X	
1110.240(d)(1), (2), and (3) – Deteriorated Facilities		X
1110.240(d)(4) – Utilization		X
1110.240(e) – Staffing Availability	X	
1110.240(f) – Surgical Staff	X	
1110.240(g) – Collaborative Support	X	
1110.240(h) – Support Services	X	
1110.240(i) – Performance Requirements	X	X
1110.240(j) – Assurances	X	X

APPEND DOCUMENTATION AS ATTACHMENT 25, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. *NOT APPLICABLE*

I. Criterion 1110.245 - Kidney Transplantation ***NOT APPLICABLE***

This section is applicable to all projects involving the establishment of the Kidney Transplantation service.

1. Applicants proposing to establish or modernize the Kidney Transplantation category of service must submit the following information:

2. Indicate changes: Indicate # of key rooms by action:

Category of Service	# Existing Beds	# Proposed Beds
☐ **Kidney Transplantation**		

3. READ the applicable review criteria outlined below and **submit required documentation for the criteria printed below in bold:**

APPLICABLE REVIEW CRITERIA	Establish	Modernize
1110.245(b)(1) – Planning Area Need - 7 Ill. Adm. Code 1100 (formula calculation)	X	
1110.245(b)(2) – Planning Area Need - Service to Planning Area Residents	X	
1110.245(b)(3) – Planning Area Need - Service Demand - Establishment of Category of Service	X	
1110.245(b)(4) – Planning Area Need - Service Accessibility	X	
1110.245(c)(1) – Unnecessary Duplication of Services	X	
1110.245(c)(2) – Maldistribution	X	
1110.245(c)(3) – Impact of Project on Other Area Providers	X	
1110.245(d)(1), (2), and (3) – Deteriorated Facilities		X
1110.245(d)(4) – Occupancy		X
1110.245(e) – Staffing Availability	X	
1110.245(f) – Surgical Staff	X	
1110.245(g) – Support Services	X	
1110.245(h) – Performance Requirements	X	X
1110.245(i) – Assurances	X	
APPEND DOCUMENTATION for "Surgical Staff" and "Support Services", AS ATTACHMENT 26 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.		

NOT APPLICABLE

J. Criterion 1110.250 - Subacute Care Hospital Model *NOT APPLICABLE*

Category of Service	# Proposed Beds
☐ Subacute Care Hospital	

This section is applicable to all projects proposing to establish a subacute care hospital model.

b. **Criterion 1110.250(b)(1), Distinct Unit**

c. Provide a copy of the physical layout (an architectural schematic) of the subacute unit (include the room numbers) and describe the travel patterns to support services and patient and visitor access.

d. Provide a summary of shared services and staff and how costs for such will be allocated between the unit and the hospital or long-term care facility.

e. Provide a staffing plan with staff qualifications and explain how non-dedicated staffing services will be provided.

f. **Criterion 1110.250(b)(2), Contractual Relationship**

g. If the applicant is a licensed long-term care facility or a previously licensed general hospital, the applicant must provide a copy of a contractual agreement (transfer agreement) with a general acute care hospital. Provide the travel time to the facility that signed the contract. Explain how the procedures for providing emergency care under this contract will work.

h. If the applicant is a licensed general hospital, the applicant must document that its emergency capabilities continue to exist in accordance with the requirements of hospital licensure.

i. **Rule 1110.250(c)(1), State Board Prioritization of Hospital Applications**

Read this rule, which applies only to hospital applications, and provide the requested information as applicable.

j. Financial Support

Will the subacute care model provide the necessary financial support for the facility to provide continued acute care services? Yes___ No _____

If yes, submit the following information:

k. Two years of projected financial statements that exclude the financial impact of the subacute care hospital model as well as two years of projected financial statements which include the financial impact of the subacute care hospital model;

(2) the assumptions used in developing both sets of financial statements;

(3) a narrative description of the factors within the facility or the area which will prevent the facility from complying with the financial ratios within the next two years without the proposed project;

(4) a narrative explanation as to how the proposed project will allow you to meet the financial ratios;

(5) if the projected financial statements (which include the subacute impact) at the applicant facility fail to meet the Part 1120 financial ratios, provide a copy of a binding agreement with another institution which guarantees the financial viability

Subacute Care Hospital Model (continued)

of the subacute hospital model for a period of five years; and

(6) historical financial statements for each of the last three calendar years.

l. Medically Underserved Area (as designated by the Department of Health and Human Services)

Is the facility located in a medically underserved area? Yes ☐ No ☐

If yes, provide a map showing the location of the medically underserved area and of the applicant facility.

m. Multi-Institutional System

Provide copies of **all** contractual agreements between your facility and any hospitals or long-term care facilities in your planning area which are within 60 minutes travel time of your facility which provide for exclusive best effort arrangements concerning transfer of patients between your two facilities. **Note: Best effort arrangement means the acute care facility will encourage and recommend to its medical staff that patients requiring subacute care will only be transferred to the applicant facility.**

n. Medicare/Medicaid

Provide the Medicare patient days and admissions, the Medicaid patient days and admissions, and the total patient days and admissions for the latest calendar or fiscal year (specify the dates).

e. Casemix and Utilization

Provide the following information:

o. the number of admissions and patient days for each of the last five years for each of the following:

- Ventilator cases
- Head trauma cases
- Rehabilitation cases including spinal cord injuries
- Amputees
- Other orthopedic cases requiring subacute care (Specify diagnosis)
- Other complex diagnosis which included physiological monitoring on a continuous basis

(2) for multi-institutional systems provide the above information from each of the signatory facilities. If more than one signatory is involved, provide separate sheets for each one.

p. HMO/PPO Utilization

Provide the number of patient days at the applicant facility for the last 12 months being reimbursed through contractual relationships with preferred provider organizations or HMOs.

g. Notice of License Revocation/Decertification

Did IDPH issue the applicant facility a notice of license revocation Yes ☐ No ☐

Was the applicant facility decertified from a Federal Title XVIII or XIX program within the past 5 years Yes ☐ No ☐

Subacute Care Hospital Model (continued)

h. Joint Commission on Accreditation of Healthcare Organizations

Is the applicant facility accredited by the Joint Commission? Yes ☐ No ☐
If yes, provide a copy of the latest Joint Commission letter of accreditation.

q. Staffing

Provide documentation that the following staff will be available for the subacute care hospital model. Documentation must consist of letters of interest from individuals for each of the positions. Indicate if any of the individuals who will fill these positions are presently employed at the applicant facility.

- Full-time medical director exclusively for the model
- Two or more full-time (FTEs) physical therapist
- One or more occupational therapists
- One or more speech therapists

j. Audited Financial Reports

Submit audited financial reports of the applicant facility for the latest three fiscal years.

r. **Rule 1110.250(c)(2), State Board Prioritization-Long-Term Care Facilities**

This rule applies only to LTC facility applications. Read the criterion and submit the required information, as applicable.

s. Exceptional Care

Has the applicant facility had an Exceptional Care Contract with the Illinois Department of Public Aid for at least two years in the past four years? Yes ____ No _____

If yes, provide copies of the Exceptional Care Contract with the Illinois Department of Public Aid for each these four years.

t. Medically Underserved Area (as designated by the Department of Health and Human Services)

Is the facility located in a medically underserved area? Yes ☐ No ☐

If yes, provide a map showing the location of the medically underserved area and of the applicant facility.

u. Medicare/Medicaid

Provide the Medicare patient days and admissions, the Medicaid patient days and admissions, and the total patient days and admissions for the latest calendar or fiscal year (specify the dates).

v. Case Mix and Utilization

Provide the following information:

w. the number of admissions and patient days for each of the last five years for each of the following:

- Ventilator cases
- Head trauma cases
- Rehabilitation cases including spinal cord injuries
- Amputees
- Other orthopedic cases requiring subacute care (Specify diagnosis)

Subacute Care Hospital Model (continued)

- Other complex diagnoses which included physiological monitoring on a continuous basis

(2) for multi-institutional systems, provide the same information from each of the signatory facilities. If more than one signatory is involved, provide a separate sheet for each one.

x. HMO/PPO Utilization

Provide the number of patient days at the applicant facility for the last 12 months being reimbursed through contractual relationships with preferred provider organizations or HMO's.

y. Notice of License Revocation/Decertification

Did IDPH issue the applicant facility a notice of license revocation Yes ☐ No ☐

Was the applicant facility decertified from a Federal Title XVIII or XIX program within the past 5 years Yes ☐ No ☐

g. Staffing

Provide documentation that the following staff will be available for the subacute care hospital model. Documentation shall consist of letters of interest from individuals for each of the positions. Indicate if any of the individuals who will fill the positions are currently employed by the applicant facility.

- Full-time medical director exclusively for the model
- Two or more full time (FTEs) physical therapists
- One or more occupational therapists
- One or more speech therapists

h. Financial Reports

Submit copies of the applicant facility's financial reports for the last three fiscal years.

z. Joint Commission on Accreditation of Healthcare Organizations

Is the applicant facility accredited by the Joint Commission? Yes ☐ No ☐
If yes, provide a copy of the latest Joint Commission letter of accreditation.

j. Multi-Institutional Arrangements

Provide copies of all contractual agreements between your facility and any hospitals or long-term care facilities in your planning area which are within 60 minutes travel time of your facility which provide for exclusive best effort arrangements concerning transfer of patients between your two facilities. **Note: Best effort arrangement means the referring facility will encourage and recommend to its medical staff that patients requiring subacute care will only be transferred to the applicant facility.**

aa. **Section 1110.250(c)(3), State Board Prioritization of Previously Licensed Hospitals – Chicago**

This section must be completed only by applicants whose site was previously licensed as a hospital in Chicago. Provide the following information:

bb. letters from health facilities establishing a referral agreement for subacute hospital patients;

cc. letters from physicians indicating that they will refer subacute patients to your proposed facility;

dd. the number of admissions and patient days for each of the last five years for each of the following types of patients (this information must be provided from each referring facility):

- Ventilator cases
- Head trauma cases
- Rehabilitation cases including spinal cord injuries
- Amputees
- Other orthopedic cases requiring subacute care (Specify diagnosis)
- Other complex diagnoses, which included physiological monitoring on a continuous basis.

APPEND DOCUMENTATION AS ATTACHMENT 27, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

NOT APPLICABLE

K. Community-Based Residential Rehabilitation Center *NOT APPLICABLE*

This section is applicable to all projects proposing to establish a Community-based Residential Rehabilitation Center Alternative Health Care Model.

A. Criterion 1110.260(b)(1), Staffing

Read the criterion and provide the following information:

1. A detailed staffing plan that identifies the number and type of staff positions dedicated to the model and the qualifications for each position;
2. How special staffing circumstances will be handled;
3. The staffing patterns for the proposed center; and
4. The manner in which non-dedicated staff services will be provided.

B. Criterion 1110.260(b)(2), Mandated Services

Read the criterion and provide a narrative description documenting how the applicant will provide the minimum range of services required by the Alternative Health Care Delivery Act and specified in 1110.2820(b).

C. Criterion 1110.260(b)(3), Unit Size

Read the criterion and provide a narrative description that identifies the number and location of all beds in the model. Include the total number of beds for each residence and the total number of beds for the model.

D. Criterion 1110.260(b)(4), Utilization

Read the criterion and provide documentation that the target utilization for the model will be achieved by the second year of the model's operation. Include supporting information such as historical utilization trends, population growth, expansion of professional staff or programs, and the provision of new procedures that may increase utilization.

E. Criterion 1110.260(b)(5), Background of Applicant

Read the criterion and provide documentation that demonstrates the applicant's experience in providing the services required by the model. Provide evidence that the programs offered in the model have been accredited by the Commission on Accreditation of Rehabilitation Facilities as a Brain Injury Community-Integrative Program for at least three of the last five years.

APPEND DOCUMENTATION AS ATTACHMENT 28, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

NOT APPLICABLE

L. 1110.265 - Long Term Acute Care Hospital *NOT APPLICABLE*

1. Applicants proposing to establish, expand and/or modernize Long Term Acute Care Hospital Bed projects must submit the following information:

2. Indicate the bed service(s) and capacity changes by Service:
Indicate the # of beds by action(s):

Category of Service	# Existing Beds	# Proposed Beds
☐ LTACH		
☐ Intensive Care		
☐ _____		

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

APPLICABLE REVIEW CRITERIA	Establish	Expand	Modernize
1110.265(b)(1) - Planning Area Need - 77 Ill. Adm. Code 1100 (formula calculation)	X		
1110.265(b)(2) - Planning Area Need - Service to Planning Area Residents	X	X	
1110.265(b)(3) - Planning Area Need - Service Demand - Establishment of Category of Service	X		
1110.265(b)(4) - Planning Area Need - Service Demand - Expansion of Existing Category of Service		X	
1110.265(b)(5) - Planning Area Need - Service Accessibility	X		
1110.265(c)(1) - Unnecessary Duplication of Services	X		
1110.265(c)(2) - Maldistribution	X		
1110.265(c)(3) - Impact of Project on Other Area Providers	X		
1110.265(d)(1), (2), and (3) - Deteriorated Facilities			X
1110.265(d)(4) - Occupancy			X
110.265(e) - Staffing Availability	X	X	
1110.265(f) - Performance Requirements	X	X	X
1110.265(g) - Assurances	X	X	
APPEND DOCUMENTATION AS ATTACHMENT 29, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

NOT APPLICABLE

M. Criterion 1110.270 - Clinical Service Areas Other than Categories of Service

NOT APPLICABLE

1. Applicants proposing to establish, expand and/or modernize Clinical Service Areas Other than categories of service must submit the following information:

2. Indicate changes by Service: Indicate # of key room changes by action(s):

Service	# Existing Key Rooms	# Proposed Key Rooms
☐		
☐		
☐		

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

Project Type	Required Review Criteria
New Services or Facility or Equipment	(b) – Need Determination – Establishment
Service Modernization	(c)(1) – Deteriorated Facilities
	AND/OR
	(c)(2) – Necessary Expansion
	PLUS
	(c)(3)(A) – Utilization – Major Medical Equipment
	OR
	(c)(3)(B) – Utilization – Service or Facility
APPEND DOCUMENTATION AS ATTACHMENT 30, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

NOT APPLICABLE

N. Freestanding Emergency Center Medical Services *NOT APPLICABLE*

These criteria are applicable only to those projects or components of projects involving the freestanding emergency center medical services (FECMS) category of service.

A. Criterion 1110.280 – Establishment of Freestanding Emergency Center Medical Services Read the criterion and provide the following information:

1. Projected Utilization – Provide the projected number of patient visits per day for each treatment station in the FEC based upon 24-hour availability, including an explanation of how the projection was determined. [1110.280(c)(3)(B))]

2. The identification of the municipality of the FEC and FECMS and the municipality's population as reported by the most recently available U.S. Census Bureau data. [1110.280(b)(5)(A)]

3. The identification of the hospital that owns or controls the FEC and the distance of the proposed FEC from that hospital, including an explanation of how that distance was calculated. [1110.280(b)(5)(B)]

4. The identification of the Resource Hospital affiliated with the FEC, the distance of the proposed FEC from that Resource Hospital, (including an explanation of how that distance was calculated), and identification of that Resource Hospital's EMS system, including certification of the hospital's Resource Hospital status. [1110.280(b)(5)(C)]

5. Certification signed by two authorized representative(s) of the applicant entity(s) that they have reviewed, understand and plan to comply with both of the following requirements [1110.280(b)(6)]:
   - A) The requirements of becoming a Medicare provider of freestanding emergency services; and
   - B) The requirements of becoming licensed under the Emergency Medical Services Systems Act [210 ILCS 50/32.5].

6. Area Need; Service to Area Residents - Document the proposed service area and projected patient volume for the proposed FEC [1110.280(c)]:
   - A) Provide a map of the proposed service area, indicating the boundaries of the service area, and the total minutes travel time from the proposed site, indicating how the travel time was calculated.
   - B) Provide a list of the projected patient volume for the proposed FEC, categorized by zip code. Indicate what percentage of this volume represents residents from the proposed FEC's service area.
   - C) Provide either of the following:
     - a) Provide letters from authorized representatives of hospitals, or other FEC facilities, that are part of the Emergency Medical Services System (EMSS) for the defined service area, that contain patient origin information by zip code, (each letter shall contain a certification by the authorized representative that the representations contained in the letter are true and correct. A complete set of the letters with original notarized signatures shall accompany the application for permit), or
     - b) Patient origin information by zip code from independent data sources (e.g., Illinois Health and Hospital Association COMPdata or IDPH hospital discharge data), based upon the patient's legal residence, for patients receiving services in the existing service area's facilities' emergency departments (EDs), verifying that at least 50% of the ED patients served during the last 12-month

Freestanding Emergency Center Medical Services (continued)

period were residents of the service area.

7. Area Need; Service Demand – Historical Utilization [1110.280(c)(3)(A)]
   - A) Provide the annual number of ED patients that have received care at facilities that are located in the FEC's service area for the latest two-year period prior to submission of the application
   - B) Provide the estimated number of patients anticipated to receive services at the proposed FEC, including an explanation of how the projection was determined.

8. Area Need; Service Accessibility - Document one of the following (using supporting documentation as specified in accordance with the requirements of 77 Ill. Adm. Code 1110.280(c)(4)(B) Supporting Documentation) [1110.3230(c)(4)(A)]:
   - i) The absence of the proposed ED service within the service area;
   - ii) The area population and existing care system exhibit indicators of medical care problems,
   - iii) All existing emergency services within the 30-minute normal travel time meet or exceed the utilization standard specified in 77 Ill Adm. Code 1100.

9. Unnecessary Duplication - Document that the project will not result in an unnecessary duplication by providing the following information [1110.280(d)(1)]:
   - A) A list of all zip code areas (in total or in part) that are located within 30 minutes normal travel time of the project's site;
   - B) The total population of the identified zip code areas (based upon the most recent population numbers available for the State of Illinois population); and
   - C) The names and locations of all existing or approved health care facilities located within 30 minutes normal travel time from the project site that provide emergency medical services.

10. Unnecessary Maldistribution - Document that the project will not result in maldistribution of services by documenting the following [1110.280(d)(2)]:
   - A) Historical utilization (for the latest 12-month period prior to submission of the application) for existing ED departments within 30 minutes travel time of the applicant's site; or
   - B) That there is not an insufficient population to provide the volume or caseload necessary to utilize the ED services proposed by the project at or above utilization standards.

11. Impact on Area Providers [1110.280(d)(3)] – Document that, within 24 months after project completion, the proposed project will not lower the utilization of other service area providers below, or further below, the utilization standards specified in 77 Ill. Adm. Code 1100 (using supporting documentation in accordance with the requirements of 77 Ill. Adm. Code 1110.3230(c)(4)).

12. Staffing Availability - Document that a sufficient supply of personnel will be available to staff the service (in accordance with the requirements of 1110.280(f)).

Freestanding Emergency Center Medical Services (continued)

B. Criterion 1110.280 – Expansion of Existing Freestanding Emergency Center Medical Services Read the criterion and provide the following information:

1. The identification of the municipality of the FEC and FECMS and the municipality's population as reported by the most recently available U.S. Census Bureau data. [1110.280(b)(5)(A)]

2. The identification of the hospital that owns or controls the FEC and the distance of the proposed FEC from that hospital, including an explanation of how that distance was calculated. [1110.280(b)(5)(B)]

3. The identification of the Resource Hospital affiliated with the FEC, the distance of the proposed FEC from that Resource Hospital (including an explanation of how that distance was calculated), and identification of that Resource Hospital's EMS system, including certification of the hospital's Resource Hospital status. [1110.280(b)(5)(C)]

4. Provide copies of Medicare and EMS licensure, in addition to certification signed by two authorized representative(s) of the applicant entity(s), indicating that the existing FEC complies with both of the following requirements [1110.280(a)(b)(A) and (B)]:
   A) The requirements of being a Medicare provider of freestanding emergency services; and
   B) The requirements of being licensed under the Emergency Medical Services Systems Act [210 ILCS 50/32.5].

5. Area Need; Service to Area Residents - Document the proposed service area and projected patient volume for the expanded FEC [1110.280(c)(2)]:
   A) Provide a map of the proposed service area, indicating the boundaries of the service area, and the total minutes travel time from the expanded FEC, indicating how the travel time was calculated.
   B) Provide a list of the historical (latest 12-month period) patient volume for the existing FEC, categorized by zip code, based on the patient's legal residence. Indicate what percentage of this volume represents residents from the existing FEC's service area, based on patient's legal residence.

6. Staffing Availability - Document that a sufficient supply of personnel will be available to staff the service (in accordance with the requirements of 1110.280(f)).

C. Criterion 1110.280 – Modernization of Existing Freestanding Emergency Center Medical Services

Read the criterion and provide the following information:

1. The historical number of visits (based on the latest 12-month period) for the existing FEC.

2. The identification of the municipality of the FEC and FECMS and the municipality's population as reported by the most recently available U.S. Census Bureau data. [1110.280(b)(5)(A)]

3. The identification of the hospital that owns or controls the FEC and the distance of the proposed FEC from that hospital, including an explanation of how that distance was calculated.[1110.280(b)(5)(B)]

Freestanding Emergency Center Medical Services
(continued)

4. The identification of the Resource Hospital affiliated with the FEC, the distance of the proposed FEC from that Resource Hospital, (including an explanation of how that distance was calculated), and identification of that Resource Hospital's EMS system, including certification of the hospital's Resource Hospital status. [1110.280.(b)(5)(C)]

5. Provide copies of Medicare and EMS licensure, in addition to certification signed by two authorized representative(s) of the applicant entity(s), indicating that the existing FEC complies with both of the following requirements [1110.280(b)(6)(A) and (B)]:
   A) The requirements of being a Medicare provider of freestanding emergency services; and
   B) The requirements of being licensed under the Emergency Medical Services Systems Act [210 ILCS 50/32.5].

6. Category of Service Modernization - Document that the existing treatment areas to be modernized are deteriorated or functionally obsolete and need to be replaced or modernized due to such factors as, but not limited to high cost of maintenance, non-compliance with licensing or life safety codes, changes in standards of care, or additional space for diagnostic or therapeutic purposes. Documentation shall include the most recent IDPH Centers for Medicare and Medicaid Services (CMMS) Inspection reports, and Joint Commission on Accreditation of Healthcare Organizations reports. Other documentation shall include the following, as applicable to the factors cited in the application, copies of maintenance reports, copies of citations for life safety code violations, and other pertinent reports and data.

APPEND DOCUMENTATION AS ATTACHMENT 31, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

NOT APPLICABLE

O. BIRTH CENTER – REVIEW CRITERIA *NOT APPLICABLE*

These criteria are applicable only to those projects or components of projects involving a birth center.

Criterion 77 IAC 1110.275(b)(1) – "Location"

1. Document that the proposed birth center will be located in one of the geographic areas, as provided in the Alternative Healthcare Delivery Act.

2. Document that the proposed birth center is owned or operated by a hospital; or owned or operated by a federally qualified health center; or owned and operated by a private person or entity.

Criterion 77 IAC 1110.275(b)(2) – "Service Provision to a Health Professional Shortage Area"

Document whether the proposed site is located in or will predominantly serve the residents of a health professional shortage area. If it will not, demonstrate that it will be located in a health planning area with a demonstrated need for obstetrical service beds or that there will be a reduction in the existing number of obstetrical service beds in the planning area so that the birth center will not result in an increase in the total number of obstetrical service beds in the health planning area.

Criterion 77 IAC 1110.275(b)(3) – "Admission Policies"

Provide admission policies that will be in effect at the facility and a signed statement that no restrictions on admissions due to payor source will occur.

Criterion 77 IAC 1110.275(b)(4) – "Bed Capacity"

Document that the proposed birth center will have no more than 10 beds.

Criterion 77 IAC 1110.275(b)(5) – "Staffing Availability"

Document that necessary staffing is available by providing letters of interest from prospective staff members, completed applications for employment, or a narrative explanation of how the proposed staffing will be achieved.

Criterion 77 IAC 1110.275(b)(6) – "Emergency Surgical Backup"

Document that either:

1. The birth center will operate under a hospital license and will be located within 30 minutes ground travel time from the hospital; **OR**

2. A contractual agreement has been signed with a licensed hospital within 30 minutes ground travel time from the licensed hospital for the referral and transfer of patients in need of an emergency caesarian delivery.

Criterion 77 IAC 1110.275(b)(7) – "Education"

A written narrative on the prenatal care and community education services offered by the birth center and how these services are being coordinated with other health services in the community.

Criterion 77 IAC 1110.275(b)(8) – "Inclusion in Perinatal System"

1. Letter of agreement with a hospital designated under the Perinatal System and a copy of the hospital's maternity service; **OR**

2. An applicant that is not a hospital shall identify the regional perinatal center that will provide neonatal intensive care services, as needed to the applicant birth center patients; and a letter of intent, signed by both the administrator of the proposed birth center and the administrator of the regional perinatal center, shall be provided.

Criterion 77 IAC 1110.275(b)(9) – "Medicare/Medicaid Certification"

The applicant shall document that the proposed birth center will be certified to participate in the Medicare and Medicaid programs under titles XVIII and XIX, respectively, of the federal Social Security Act.

Criterion 77 IAC 1110.275(b)(10)- "Charity Care"

The applicant shall provide to HFSRB a copy of the charity care policy that will be adopted by the proposed birth center.

Criterion 77 IAC 1110.275(b)(11) – "Quality Assurance"

The applicant shall provide to HFSRB a copy of the quality assurance program to be adopted by the birth center.

APPEND DOCUMENTATION AS ATTACHMENT-32, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

NOT APPLICABLE

The following Sections DO NOT need to be addressed by the applicants or co-applicants responsible for funding or guaranteeing the funding of the project if the applicant has a bond rating of A- or better from Fitch's or Standard and Poor's rating agencies, or A3 or better from Moody's (the rating shall be affirmed within the latest 18-month period prior to the submittal of the application):

- **Section 1120.120 Availability of Funds – Review Criteria**
- **Section 1120.130 Financial Viability – Review Criteria**
- **Section 1120.140 Economic Feasibility – Review Criteria, subsection (a)**

VI. 1120.120 - AVAILABILITY OF FUNDS

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following sources, as applicable **[Indicate the dollar amount to be provided from the following sources]:**

$52,184,384	a)	Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to: 1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and 2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
_____	b)	Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
_____	c)	Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
_____	d)	Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including: 1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated; 2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate; 3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.; 4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital

	improvements to the property and provision of capital equipment; 5) For any option to lease, a copy of the option, including all terms and conditions. e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent; f) Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt; g) All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
$52,184,384	**TOTAL FUNDS AVAILABLE**

APPEND DOCUMENTATION AS ATTACHMENT 33, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION VII. 1120.130 - FINANCIAL VIABILITY

All the applicants and co-applicants shall be identified, specifying their roles in the project funding or guaranteeing the funding (sole responsibility or shared) and percentage of participation in that funding.

Financial Viability Waiver

NOTE: THE PROJECT WILL BE FUNDED THROUGH INTERNAL SOURCES.

The applicant is not required to submit financial viability ratios if:

1. "A" Bond rating or better
2. All of the projects capital expenditures are completely funded through internal sources
3. The applicant's current debt financing or projected debt financing is insured or anticipated to be insured by MBIA (Municipal Bond Insurance Association Inc.) or equivalent
4. The applicant provides a third party surety bond or performance bond letter of credit from an A rated guarantor.

See Section 1120.130 Financial Waiver for information to be provided

APPEND DOCUMENTATION AS ATTACHMENT 34, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

The applicant or co-applicant that is responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which **audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion.** When the applicant's facility does not have facility specific financial statements and the facility is a member of a health care system that has combined or consolidated financial statements, the system's viability ratios shall be provided. If the health care system includes one or more hospitals, the system's viability ratios shall be evaluated for conformance with the applicable hospital standards.

	Historical*			Projected
Enter Historical and/or Projected Years:	**N/A**	**N/A**	**N/A**	**CON Year 2**
Current Ratio	**N/A**	**N/A**	**N/A**	7.6
Net Margin Percentage	**N/A**	**N/A**	**N/A**	15.5%
Percent Debt to Total Capitalization**	**N/A**	**N/A**	**N/A**	N/A
Projected Debt Service Coverage**	**N/A**	**N/A**	**N/A**	N/A
Days Cash on Hand	**N/A**	**N/A**	**N/A**	108.8
Cushion Ratio**	**N/A**	**N/A**	**N/A**	N/A

*Encompass Health Rehabilitation Hospital of Libertyville, LLC is a new entity; historical data is not applicable.

**Applicant has no long-term debt.

Provide the methodology and worksheets utilized in determining the ratios detailing the calculation and applicable line item amounts from the financial statements. Complete a separate table for each co-applicant and provide worksheets for each.

Variance

Applicants not in compliance with any of the viability ratios shall document that another organization, public or private, shall assume the legal responsibility to meet the debt obligations should the applicant default.

APPEND DOCUMENTATION AS ATTACHMENT 35, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION VIII.1120.140 - ECONOMIC FEASIBILITY

This section is applicable to all projects subject to Part 1120.

A. Reasonableness of Financing Arrangements

The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:

1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or

2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:

A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or

B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

B. Conditions of Debt Financing

This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

1) That the selected form of debt financing for the project will be at the lowest net cost available;

2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;

3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

C. Reasonableness of Project and Related Costs

Read the criterion and provide the following:

1. Identify each department or area impacted by the proposed project and provide a cost and square footage allocation for new construction and/or modernization using the following format (insert after this page).

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE									
Department (list below)	A	B	C	D	E	F	G	H	Total Cost (G + H)
	Cost/Square Foot New Mod.		Gross Sq. Ft. New Circ.*		Gross Sq. Ft. Mod. Circ.*		Const. $ (A x C)	Mod. $ (B x E)	
New Construction	$ 543.19		60,730				$32,988,000		
Contingency	$ 43.72		60,730				$ 2,655,000		
TOTALS	$ 586.91		60,730				$35,643,000		

* Include the percentage (%) of space for circulation

D. Projected Operating Costs

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.

Factor	CON Year 2
Salaries and Wages	$ 11,866,300
Benefits	$ 2,978,500
Supplies	$ 1,269,000
Total Operating Costs	$ 16,113,800
Patient Days	18,636
Cost per Day	$ 864.67

E. Total Effect of the Project on Capital Costs

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

Factor	CON Year 2
Depreciation	$ 2,500,700
Total Capital Costs	$ 2,500,700
Patient Days	18,636
Cost per Day	$ 134.19

APPEND DOCUMENTATION AS ATTACHMENT 36, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION IX. SAFETY NET IMPACT STATEMENT

SAFETY NET IMPACT STATEMENT that describes all of the following must be submitted for ALL SUBSTANTIVE PROJECTS AND PROJECTS TO DISCONTINUE STATE-OWNED HEALTH CARE FACILITIES [20 ILCS 3960/5.4]:

1. The project's material impact, if any, on essential safety net services in the community, to the extent that it is feasible for an applicant to have such knowledge.

2. The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.

3. How the discontinuation of a facility or service might impact the remaining safety net providers in a given community, if reasonably known by the applicant.

Safety Net Impact Statements shall also include all of the following:

1. For the 3 fiscal years prior to the application, a certification describing the amount of charity care provided by the applicant. The amount calculated by hospital applicants shall be in accordance with the reporting requirements for charity care reporting in the Illinois Community Benefits Act. Non-hospital applicants shall report charity care, at cost, in accordance with an appropriate methodology specified by the Board.

2. For the 3 fiscal years prior to the application, a certification of the amount of care provided to Medicaid patients. Hospital and non-hospital applicants shall provide Medicaid information in a manner consistent with the information reported each year to the Illinois Department of Public Health regarding "Inpatients and Outpatients Served by Payor Source" and "Inpatient and Outpatient Net Revenue by Payor Source" as required by the Board under Section 13 of this Act and published in the Annual Hospital Profile.

3. Any information the applicant believes is directly relevant to safety net services, including information regarding teaching, research, and any other service.

A table in the following format must be provided as part of Attachment 38.

Safety Net Information per PA 96-0031		
CHARITY CARE		
Charity (# of patients)	**CON Year 1**	**CON Year 2**
Inpatient	12	17
Outpatient		
Total	12	17
Charity (cost In dollars)		
Inpatient	$238,265	$285,798
Outpatient		
Total	$238,265	$285,798
MEDICAID		
Medicaid (# of patients)	**CON Year 1**	**CON Year 2**
Inpatient	122	170
Outpatient		

Total	122	170
Medicaid (revenue)		
Inpatient	$2,033,442	$2,896,738
Outpatient		
Total	$2,033,442	$2,896,738

APPEND DOCUMENTATION AS ATTACHMENT 37, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Please note: The applicant is a new entity; thus has no history of services. However, the Safety Net Impact of the Applicant's related entity (Van Matre Encompass Health Rehabilitation Hospital) is provided below.

Affiliate's Safety Net Table
Van Matre Encompass Health Rehabilitation Hospital, 2016-2017

Indicator	2016	2017
Charity Care		
# of Patients		
Inpatients	-	-
Outpatients	-	-
Total	-	-
Cost		
Inpatient	$ -	$ -
Outpatient	$ -	$ -
Total	$ -	$ -
Medicaid		
# of Patients		
Inpatient	183	193
Outpatient	6	415
Total	189	608
Net Revenue		
Inpatient	$ 2,526,595	$ 2,357,875
Outpatient	$ 100,547	$ 29,581
Total	$ 2,627,142	$ 2,387,456
Source: IL AHQ Survey Hospital Profiles.		

SECTION X. CHARITY CARE INFORMATION

Charity Care information MUST be furnished for ALL projects [1120.20(c)].

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.
2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.
3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

Charity care" means care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third-party payer (20 ILCS 3960/3). Charity Care must be provided at cost.

A table in the following format must be provided for all facilities as part of Attachment 39.

CHARITY CARE		
	CON Year 1	CON Year 2
Net Patient Revenue	**$21,111,400**	**$30,004,800**
Amount of Charity Care (charges)	$305,523	$434,376
Cost of Charity Care	$238,265	$285,798

APPEND DOCUMENTATION AS ATTACHMENT 38, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Please note: The applicant is a new entity; thus has no history of services. However, the Charity Care of the Applicant's related entity is provided below.

Affiliate's Charity Care Van Matre Encompass Health Rehabilitation Hospital, 2016-2017		
Charity Care Factor	**2016**	**2017**
Net Patient Revenue	$ 28,705,237	$ 29,726,783
Amount of Charity Care (Charges)	$ -	$ -
Cost of Charity Care	$ -	$ -
Charity Care Cost % of Net Pat Rev	0.0%	0.0%
Source: IL AHQ Survey Hospital Profile.		

After paginating the entire completed application indicate, in the chart below, the page numbers for the included attachments:

INDEX OF ATTACHMENTS

Delaware

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF FORMATION OF 'ENCOMPASS HEALTH REHABILITATION HOSPITAL OF LIBERTYVILLE, LLC', FILED IN THIS OFFICE ON THE EIGHTH DAY OF JULY, A.D. 2019, AT 3:43 O' CLOCK P.M.

Jeffrey W. Bullock, Secretary of State

7504744 8100
SR# 20195851295

Authentication: 203177904
Date: 07-09-19

You may verify this certificate online at corp.delaware.gov/authver.shtml

Attachment 1

CERTIFICATE OF FORMATION
OF
ENCOMPASS HEALTH REHABILITATION HOSPITAL OF LIBERTYVILLE, LLC

1. The name of the limited liability company is Encompass Health Rehabilitation Hospital of Libertyville, LLC.

2. The address of its registered office in the State of Delaware is: Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Formation of Encompass Health Rehabilitation Hospital of Libertyville, LLC this 8th day of July, 2019.

Patrick Darby, Authorized Person

State of Delaware
Secretary of State
Division of Corporations
Delivered 03:43 PM 07 08 2019
FILED 03:43 PM 07 08 2019
SR 20195851295 - File Number 7504744

Attachment 1

OFFICE OF THE SECRETARY OF STATE

JESSE WHITE-Secretary of State

07616031

JULY 11, 2019

C T CORPORATION SYSTEM
208 SO LASALLE ST, SUITE 814
CHICAGO, IL 60604-1101

RE ENCOMPASS HEALTH REHABILITATION HOSPITAL OF LIBERTYVILLE, LLC

DEAR SIR OR MADAM:

IT HAS BEEN OUR PLEASURE TO APPROVE YOUR REQUEST TO TRANSACT BUSINESS IN THE STATE OF ILLINOIS. WE EXTEND OUR BEST WISHES FOR SUCCESS WITH YOUR BUSINESS HERE.

PLEASE NOTE! THE LIMITED LIABILITY COMPANY MUST FILE AN ANNUAL REPORT PRIOR TO THE FIRST DAY OF THIS MONTH OF ADMISSION NEXT YEAR. FAILURE TO TIMELY FILE MAY RESULT IN A PENALTY AND REVOCATION. A PRE-PRINTED ANNUAL REPORT WILL BE MAILED TO THE REGISTERED AGENT AT THE REGISTERED OFFICE ADDRESS APPROXIMATELY 45 DAYS BEFORE THE DUE DATE.

A LIMITED LIABILITY COMPANY THAT INTENDS TO PROVIDE A PROFESSIONAL SERVICE REGULATED BY THE ILLINOIS DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION MUST REGISTER WITH THAT AGENCY.

PUBLICATIONS/FORMS AND OTHER SERVICES ARE AVAILABLE ON OUR WEBSITE. VISIT WWW.CYBERDRIVEILLINOIS.COM TO VIEW THE STATUS OF THIS COMPANY, PURCHASE A CERTIFICATE OF GOOD STANDING, OR EVEN FILE THE ANNUAL REPORT REFERRED TO IN THE EARLIER PARAGRAPH.

SINCERELY YOURS,

JESSE WHITE
ILLINOIS SECRETARY OF STATE
DEPARTMENT OF BUSINESS SERVICES
LIMITED LIABILITY DIVISION
(217) 524-8008

Attachment 1

07616031

Form **LLC-45.5**
May 2016
Secretary of State
Department of Business Services
Limited Liability Division
501 S. Second St., Rm. 351
Springfield, IL 62756
217-524-8008
www.cyberdriveillinois.com

Payment must be made by certified check, cashier's check, Illinois attorney's check, C.P.A.'s check or money order payable to Secretary of State. If check is returned for any reason this filing will be void.

Illinois
Limited Liability Company Act
Application for Admission to Transact Business

SUBMIT IN DUPLICATE
Type or print clearly.

Filing Fee: $150
Penalty: $
Approved:

FILE #
This space for use by Secretary of State.

FILED
JUL 11 2019
JESSE WHITE
SECRETARY OF STATE

1. Limited Liability Company name (see Note 1): Encompass Health Rehabilitation Hospital of Libertyville, LLC

2. Assumed name: _____
(This item is only applicable if the company name in item 1 is not available for use in Illinois, in which case form LLC 1.20 must be completed and submitted with this application.)

3. Jurisdiction of organization: Delaware

4. Date of organization: July 8, 2019

5. Period of duration: Perpetual
(Enter perpetual unless there is a date of dissolution provided in the agreement, in which case enter that date.)

6. Address of the principal place of business: (P.O. Box alone or c/o is unacceptable.)

9001 Liberty Parkway
Number Street Suite #

Birmingham Al 35242
City State ZIP

7. Registered agent: C T Corporation System
First Name Middle Name Last Name

Registered office: 208 South LaSalle Street, Suite 814
(P.O. Box alone or c/o is unacceptable.)
Number Street Suite #

Chicago, IL 60604
City ZIP

Note: The registered agent must reside in Illinois. If the agent is a business entity, it must be authorized to act as agent in this state.

8. If applicable, date on which company first conducted business in Illinois: _____

(continued on back)

Printed by authority of the State of Illinois. June 2016 — 1 — LLC 17.21

LLC-45.5

9. Purpose(s) for which the company is organized and proposes to conduct business in Illinois (see Note 2):
Rehabilitation Services

10. The Limited Liability Company: (check one)

☒ is managed by the manager(s) or ☐ has management vested in the member(s):

11. List names and business addresses of all managers and any member with the authority of manager:

Patrick Darby	9001 Liberty Parkway, Birmingham, AL 35242
Douglas E. Coltharp	9001 Liberty Parkway, Birmingham, AL 35242
Barbara A. Jacobsmeyer	9001 Liberty Parkway, Birmingham, AL 35242

12. The Illinois Secretary of State is hereby appointed the agent of the Limited Liability Company for service of process under circumstances set forth in subsection (b) of Section 1-50 of the Illinois Limited Liability Company Act.

13. This application is accompanied by a Certificate of Good Standing or Existence, duly authenticated within the last 60 days, by the officer of the state or country wherein the LLC is formed.

14. The undersigned affirms, under penalties of perjury, having authority to sign hereto, that this application for admission to transact business is to the best of my knowledge and belief, true, correct and complete.

Dated: July 10, 2019
Month, Day, Year

Patrick Darby
Signature

Patrick Darby, Vice President
Name and Title (type or print)

If applicant is signing for a company or other entity, state name of company or entity.

Note 1: The name must contain the term Limited Liability Company, LLC or L.L.C. The name cannot contain any of the following terms: "Corporation," "Corp." "Incorporated," "Inc.," "Ltd.," "Co.," "Limited Partnership" or "L.P." However, a limited liability company that will provide services licensed by the Illinois Department of Financial and Professional Regulation must instead contain the term Professional Limited Liability Company, PLLC or P.L.L.C. in the name.

Note 2: A professional limited liability company must state the specific professional service or related professional services to be rendered by the professional limited liability company.

Attachment 1

Delaware

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF FORMATION OF 'ENCOMPASS HEALTH ILLINOIS REAL ESTATE, LLC', FILED IN THIS OFFICE ON THE EIGHTH DAY OF JULY, A.D. 2019, AT 3:44 O'CLOCK P.M.

Jeffrey W. Bullock Secretary of State

7504748 8100
SR# 20195851296

Authentication: 203177924
Date: 07-09-19

You may verify this certificate online at corp.delaware.gov/authver.shtml

Attachment 1

CERTIFICATE OF FORMATION
OF
ENCOMPASS HEALTH ILLINOIS REAL ESTATE, LLC

1. The name of the limited liability company is Encompass Health Illinois Real Estate, LLC.

2. The address of its registered office in the State of Delaware is: Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Formation of Encompass Health Illinois Real Estate, LLC this 8th day of July, 2019.

Patrick Darby, Authorized Person

State of Delaware
Secretary of State
Division of Corporations
Delivered 03:44 PM 07 08 2019
FILED 03:44 PM 07 08 2019
SR 20195851296 - File Number 7504748

Attachment 1

OFFICE OF THE SECRETARY OF STATE

JESSE WHITE-Secretary of State

07616015

C T CORPORATION SYSTEM
208 SO LASALLE ST, SUITE 814
CHICAGO, IL 60604-1101

JULY 11, 2019

RE ENCOMPASS HEALTH ILLINOIS REAL ESTATE, LLC

DEAR SIR OR MADAM:

IT HAS BEEN OUR PLEASURE TO APPROVE YOUR REQUEST TO TRANSACT BUSINESS IN THE STATE OF ILLINOIS. WE EXTEND OUR BEST WISHES FOR SUCCESS WITH YOUR BUSINESS HERE.

PLEASE NOTE! THE LIMITED LIABILITY COMPANY MUST FILE AN ANNUAL REPORT PRIOR TO THE FIRST DAY OF THIS MONTH OF ADMISSION NEXT YEAR. FAILURE TO TIMELY FILE MAY RESULT IN A PENALTY AND REVOCATION. A PRE-PRINTED ANNUAL REPORT WILL BE MAILED TO THE REGISTERED AGENT AT THE REGISTERED OFFICE ADDRESS APPROXIMATELY 45 DAYS BEFORE THE DUE DATE.

A LIMITED LIABILITY COMPANY THAT INTENDS TO PROVIDE A PROFESSIONAL SERVICE REGULATED BY THE ILLINOIS DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION MUST REGISTER WITH THAT AGENCY.

PUBLICATIONS/FORMS AND OTHER SERVICES ARE AVAILABLE ON OUR WEBSITE. VISIT WWW.CYBERDRIVEILLINOIS.COM TO VIEW THE STATUS OF THIS COMPANY, PURCHASE A CERTIFICATE OF GOOD STANDING, OR EVEN FILE THE ANNUAL REPORT REFERRED TO IN THE EARLIER PARAGRAPH.

SINCERELY YOURS,

JESSE WHITE
ILLINOIS SECRETARY OF STATE
DEPARTMENT OF BUSINESS SERVICES
LIMITED LIABILITY DIVISION
(217) 524-8008

Attachment 1

07616015

Form **LLC-45.5**
May 2018
Secretary of State
Department of Business Services
Limited Liability Division
501 S. Second St., Rm. 351
Springfield, IL 62756
217-524-8008
www.cyberdriveillinois.com

Payment must be made by certified check, cashier's check, Illinois attorney's check, C.P.A.'s check or money order payable to Secretary of State. If check is returned for any reason this filing will be void.

Illinois
Limited Liability Company Act
Application for Admission to Transact Business

SUBMIT IN DUPLICATE
Type or print clearly.

Filing Fee: $150
Penalty: $
Approved:

FILE #

This space for use by Secretary of State.

FILED
JUL 11 2019
JESSE WHITE
SECRETARY OF STATE

1. Limited Liability Company name (see Note 1): Encompass Health Illinois Real Estate, LLC

2. Assumed name: _____
(This item is only applicable if the company name in Item 1 is not available for use in Illinois, in which case form LLC 1.20 must be completed and submitted with this application.)

3. Jurisdiction of organization: Delaware

4. Date of organization: July 8, 2019

5. Period of duration: Perpetual
(Enter perpetual unless there is a date of dissolution provided in the agreement, in which case enter that date.)

6. Address of the principal place of business: (P.O. Box alone or c/o is unacceptable.)

9001 Liberty Parkway
Number Street Suite #

Birmingham Al 35242
City State ZIP

7. Registered agent: C T Corporation System
First Name Middle Name Last Name

Registered office: 208 South LaSalle Street, Suite 814
(P.O. Box alone or c/o is unacceptable.)
Number Street Suite #

Chicago, IL 60604
City ZIP

Note: The registered agent must reside in Illinois. If the agent is a business entity, it must be authorized to act as agent in this state.

8. If applicable, date on which company first conducted business in Illinois: _____

(continued on back)

Attachment 1

LLC-45.5

9. Purpose(s) for which the company is organized and proposes to conduct business in Illinois (see Note 2):
Real Estate Services

10. The Limited Liability Company: (check one)

☒ is managed by the manager(s) or ☐ has management vested in the member(s):

11. List names and business addresses of all managers and any member with the authority of manager:

Patrick Darby	9001 Liberty Parkway, Birmingham, AL 35242
Douglas E. Coltharp	9001 Liberty Parkway, Birmingham, AL 35242
Barbara A. Jacobsmeyer	9001 Liberty Parkway, Birmingham, AL 35242

12. The Illinois Secretary of State is hereby appointed the agent of the Limited Liability Company for service of process under circumstances set forth in subsection (b) of Section 1-60 of the Illinois Limited Liability Company Act.

13. This application is accompanied by a Certificate of Good Standing or Existence, duly authenticated within the last 60 days, by the officer of the state or country wherein the LLC is formed.

14. The undersigned affirms, under penalties of perjury, having authority to sign hereto, that this application for admission to transact business is to the best of my knowledge and belief, true, correct and complete.

Dated: July 10, 2019
Month, Day, Year

Signature

Patrick Darby, Vice President
Name and Title (type or print)

If applicant is signing for a company or other entity, state name of company or entity.

Note 1: The name must contain the term Limited Liability Company, LLC or L.L.C. The name cannot contain any of the following terms: "Corporation," "Corp." "Incorporated," "Inc.," "Ltd.," "Co.," "Limited Partnership" or "LP." However, a limited liability company that will provide services licensed by the Illinois Department of Financial and Professional Regulation must instead contain the term Professional Limited Liability Company, PLLC or P.L.L.C. in the name.

Note 2: A professional limited liability company must state the specific professional service or related professional services to be rendered by the professional limited liability company.

Delaware

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "ENCOMPASS HEALTH CORPORATION" IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE SIXTEENTH DAY OF MAY, A.D. 2019.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE BEEN PAID TO DATE.

Jeffrey W. Bullock, Secretary of State

2028917 8300

SR# 20194014269

You may verify this certificate online at corp.delaware.gov/authver.shtml

Authentication: 202839409

Date: 05-16-19

Attachment 1

PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT (this "Agreement") is entered into on or as of this 17th day of April, 2019, by and between **Brunette Holdings, LLC,** an Illinois limited liability company (the "Seller"), and **Encompass Health Corporation**, a Delaware corporation (the "Purchaser").

Recitals

A. Seller is the owner of that certain unimproved parcel of real property consisting of approximately 8.5 acres, more or less, located at 1220 American Way in Libertyville, Lake County, Illinois, which property is more particularly described on Exhibit A attached hereto and made a part hereof (the "Property").

B. Purchaser desires to purchase the Property, and Seller desires to sell the Property pursuant to the terms and conditions of this Agreement.

Agreement

NOW, THEREFORE, in consideration of the above Recitals and other good and valuable consideration, including the mutual covenants and promises herein contained, the receipt and sufficiency of which are hereby acknowledged, Seller and Purchaser hereby agree as follows:

1. Agreement to Sell. For the consideration set forth in paragraph 2 below, Seller hereby agrees to grant, bargain, sell, assign and convey to Purchaser, the Property, together with all easements, rights of way, privileges, appurtenances and other rights pertaining thereto.

2. Purchase Price. The total purchase price for the Property shall be $2,525,000 (the "Purchase Price"), to be paid as hereinafter provided.

3. Earnest Money. Purchaser will deliver, within five (5) business days following Purchaser's receipt of a fully executed original of this Agreement (the "Effective Date"), a wire in the amount of Fifty Thousand and No/100 Dollars ($50,000.00) to Stewart Title Insurance Company (the "Title Company") (the $50,000.00 deposit, together with interest thereon, is hereinafter referred to as the "Earnest Money"), to be held and disbursed by the Title Company in accordance with the terms of this Agreement. Title Company shall deposit the Earnest Money in its interest bearing trust account. Should Purchaser fail to purchase the Property for any of the reasons set forth in paragraph 5 below, the Earnest Money shall be refunded to Purchaser and this Agreement shall terminate. Except as may be otherwise provided in paragraph 5 of this Agreement, the Earnest Money shall not be refundable should Purchaser fail to purchase the Property and shall be forfeited to and retained by Seller as liquidated damages for taking the Property off the market prior to the Closing Date, and Seller shall have no further claim against the Purchaser.

Attachment 2

4. Right of Inspection; Extension Periods.

a. Inspection Period. Commencing the next business day after the Effective Date, Purchaser, its employees, agents or designees, at Purchaser's sole expense, shall have one hundred twenty (120) days (as such period may be extended as provided for hereunder, the "Inspection Period") to examine and test the Property, and shall further have the right of ingress and egress over and through the Property during normal business hours for the purpose of inspecting, appraising, soil and environmental testing, testing for drainage, surveying, preparing engineering or architectural drawings, and any other activities reasonably necessary to assess the Property, including the review of the Title Commitment, as hereafter defined, and the satisfactory completion of the governmental permitting process (collectively, the "Inspections"). Purchaser shall indemnify and hold harmless Seller from and against any and all expenses, claims, or losses arising from any activities of Purchaser, its officers, agents, employees, or contractors on the Property prior to Closing, including without limitation, any attorney's fees or court costs occasioned by such claims. Within five (5) business days following the Effective Date (the "Seller's Documents Delivery Date"), Seller shall make available to Purchaser (i) Seller's owner's title insurance policy for the Property and any current title report or title commitment for the Property, (ii) Seller's existing survey and any plat of the Property, (iii) any environmental and property condition reports related to the Property and (iv) copies of any unrecorded documents that potentially impact the use and/or development of the Property (collectively, the "Existing Due Diligence"). The Seller acknowledges that the Existing Due Diligence is critical to the Purchaser's Inspections, and as a result, the Inspection Period will be extended automatically one day for each day that the delivery of the Existing Due Diligence is delayed past the Seller's Documents Delivery Date.

b. Extension Periods. Purchaser shall be permitted to extend the Inspection Period for up to four (4) additional six (6) month periods (each, an "Extension Period") by providing written notice of such extension to Seller prior to the end of the Inspection Period or Extension Period, as the case may be, solely for the purpose of obtaining all Entitlements (as defined below) for the operation of its intended use of the Property. "Entitlements" shall mean final, non-appealable certificate of need for Purchaser's intended operations at the Property and all final, non-appealable zoning approvals required to authorize construction and operation by Purchaser of its proposed improvements at the Property. An additional deposit of $50,000 shall be due and payable within five (5) days following the exercise of each Extension Period (each, a "Hold Still Payment"). Each Hold Still Payment shall be paid by Purchaser to the Title Company and then immediately remitted by the Title Company directly to Seller and shall be non-refundable except in the event of a Seller default. The first two Hold Still Payments shall be applicable to the Purchase Price at Closing, but the third and fourth Hold Still Payments shall not be applicable to the Purchase Price. In the event that Purchaser does not receive all of its Entitlements and terminates the Agreement prior to the expiration of the applicable Extension Period, the Hold Still Payments shall be retained by Seller, the initial Earnest Money shall be refunded to Purchaser and neither party shall have any further obligation or liabilities pursuant to this Agreement except those which expressly survive termination of this Agreement.

Attachment 2

5. Application of Earnest Money or Refund. The Earnest Money shall be applied to the Purchase Price to be paid by Purchaser at Closing. Upon Purchaser's request, the Earnest Money shall be immediately refunded upon the occurrence of any of the following:

   a. Seller is unable to convey title or fails to cure a title defect or title objection as required under this Agreement; or

   b. Any other Inspection or other matter related to the Property is deemed unacceptable by the Purchaser for any reason in its sole discretion during the Inspection Period.

   If either of the foregoing 5(a) - (b) shall occur, Purchaser shall either terminate this Agreement during the Inspection Period or, at Purchaser's option, give Seller written notice of the problem during the Inspection Period and Seller shall have the right to remedy or cure it within thirty (30) days of receipt of Purchaser's notice; provided, however, that if the problem cannot be remedied or cured within said thirty (30) day period, and if Seller begins to diligently attempt to cure or remedy the problem and continues such efforts, Purchaser shall extend the cure period to up to ninety (90) days and, if necessary, the Closing Date, as defined in paragraph 8 shall automatically be extended by the appropriate number of days. If Seller cannot remedy or cure the problem to Purchaser's satisfaction within the appropriate period, or if the Purchaser elects to terminate this Agreement within the Inspection Period, the Earnest Money shall be refunded to Purchaser and neither party shall have any further claim against the other.

6. Cooperation. Prior to the Closing Date, Seller shall cooperate in whatever manner is reasonably required by Purchaser or any independent inspector, surveyor, or governmental authority in order to obtain any environmental site assessment reports, surveys or any other reports required by Purchaser to assess the Property.

7. Possession. Seller shall deliver possession of the Property to Purchaser on the Closing Date.

8. Place and Date of Closing. The closing of the sale and purchase of the Property (the "Closing") shall take place either by overnight carrier and wire transfer or at 10:00 a.m. local time at the offices of the Title Company within thirty (30) days following the completion of the Inspection Period (as may be extended by the Extension Periods), or at such other location and date as may be agreed upon by the parties hereto in writing. The actual date of Closing is referred to herein as the "Closing Date." The parties hereto expressly acknowledge and agree that time is of the essence with respect to the Closing Date.

9. Additional Inspections.

   a Survey. Purchaser, at its option and expense, may cause a survey of the Property and improvements to be prepared by a surveyor acceptable to Purchaser. The survey shall be certified to Purchaser and the Title Company issuing the Title Commitment, and shall certify that the Property is not located in a flood plain.

b. Phase I. Purchaser, at Purchaser's sole cost and expense, may obtain during the Inspection Period a written environmental site assessment report prepared by an environmental engineer acceptable to Purchaser.

c. Regulatory Approval. Purchaser's obligation to close the purchase of the Property is subject to Purchaser's having received, prior to the expiration of the Inspection Period, all necessary approvals from all applicable regulatory authorities to operate an inpatient rehabilitation facility on the Property.

d Zoning. Purchaser's obligation to close the purchase of the Property is subject to Purchaser's having received, prior to the expiration of the Inspection Period, adequate evidence (as determined by Purchaser in its sole and absolute discretion) that the Property is zoned in such a manner that the operation of an inpatient rehabilitation facility on the Property will comply with any and all applicable use restrictions affecting the Property. Seller agrees to cooperate with Purchaser in applying for any necessary rezoning of the Property, at Purchaser's sole cost and expense, such that the operation of an inpatient rehabilitation facility on the Property will comply with any and all applicable use restrictions affecting the Property

e. Permitting. Purchaser's obligation to close the purchase of the Property is subject to Purchaser's having received evidence satisfactory to Purchaser that all grading, building, traffic and other permits and licenses that are necessary for the Purchaser's intended use have been, or will be, granted by the applicable governmental entity.

f. [intentionally omitted.]

The above described additional inspections (the "Additional Inspections") shall be deemed Inspections, and shall be subject to review and approval as provided in paragraph 4 above.

10 Conveyance. Seller shall convey good and marketable fee simple title to the Property to Purchaser by special warranty deed subject only to the restrictions, easements and other matters of record reflected in the Title Commitment and accepted by Purchaser during the Inspection Period.

11 Costs and Fees. Seller shall pay the costs of the Title Commitment and the cost of the owner's title insurance premium. Purchaser shall pay the costs of any lender's title insurance premium and the cost of any title endorsements requested by Purchaser. In addition, Purchase shall pay the costs of the survey, appraisal and environmental audits. Seller and Purchaser shall each pay fifty percent (50%) of the costs of all taxes and other charges on the deed and fees associated with the recording of the deed. Purchaser and Seller shall each pay their respective costs for their own attorney's fees for services related to the negotiation and preparation of this Agreement and the sale and purchase of the Property.

12. Apportionments. Ad valorem taxes and assessments, if any, for the tax year in which the Closing occurs are to be apportioned (on the basis of a 365-day year) as of the Closing Date in accordance with the following procedures:

a. Apportionment of ad valorem taxes and assessments, if any, shall be made on the basis of the tax year for which assessed. If the Closing Date shall occur before the tax rate for the current year shall be established, the tax rate for the preceding year shall be applied to the last assessed valuation. After the taxes and assessments, if any, are finally fixed, Seller and Purchaser shall make a recalculation of the apportionment of same, and Seller or Purchaser, as the case may be, shall make an appropriate payment to the other based on such recalculation. All real property assessments levied against the Property prior to the Closing Date shall be apportioned as provided for herein. Seller's and Purchaser's obligations under this subparagraph (a) shall survive the Closing.

b. If any refund of real property taxes and assessments is made after the Closing Date in respect of a period any portion of which was prior to the Closing Date, the same shall be applied first to the costs incurred in obtaining the refund. The balance, if any, of such refund shall be paid to Seller (for the period prior to the Closing Date) and to Purchaser (for the period commencing with the Closing Date.)

c. If there is a net balance due Seller on the foregoing apportionments, the same shall be paid by Purchaser at the Closing. If there be a net balance due Purchaser on the foregoing apportionments, the same shall be credited against the Purchase Price at the Closing.

13. Representations and Warranties of Seller. To induce Purchaser to enter into this Agreement, the Seller makes the following representations and warranties, all of which, to the best of Seller's knowledge, are true as of the date hereof (unless otherwise specified) and, to the best of Seller's knowledge, shall also be true as of the Closing Date:

a. Seller has full power and authority to enter into this Agreement and to perform all of its obligations hereunder. The execution and delivery of this Agreement and the performance by Seller of its obligations hereunder have been duly authorized by all requisite action and no further action or approval is required in order to constitute this Agreement as a binding and enforceable obligation of Seller.

b. No act or omission has occurred with respect to the Property and no materials or services have been furnished or delivered on or to the Property which would create or otherwise encumber the Property with any mechanics, materialman, laborer, or other similar type lien after the Closing Date.

c. Seller has no actual knowledge of and shall not initiate or participate in any changes in zoning proposed by any applicable zoning authority, except as may be requested by Purchaser.

d. The Property has full and free access to and from a dedicated public roadway, and there is no pending or, to the best of Seller's knowledge, any threatened proceeding by any governmental authority or any other fact or condition which might limit or result in the termination of such access. Seller owns and will convey to Purchaser at Closing, good, indefeasible, fee simple title to the Property, free and clear of all conditions, exceptions or reservations, except the Permitted Exceptions.

e. There are no outstanding written or oral leases or agreements relating to the use or possession of the Property, and to the best of Seller's knowledge, there are no parties claiming any rights to possess of the Property.

f. There are no special assessments of any kind presently pending against the Property and Seller has not received any notice of any special assessments being contemplated.

g. No default or breach exists under any of the covenants, conditions, restrictions, rights-of-way, or easements, if any, affecting all or any portion of the Property.

h. No notice of a violation of any Governmental Requirement (defined below) has been received by Seller. The term "***Governmental Requirements***" shall mean all laws, ordinances, statutes, codes, rules, regulations, orders and decrees of any governmental authorities having jurisdiction over the Property.

i. There are no agreements to which Seller is a party or notices that Seller has received which in any way affect any portion of the Property or affect Seller's ability to sell or convey the Property.

j. No attachments, execution proceedings, assignments for the benefit of creditors, insolvency, bankruptcy, reorganization or other proceedings are pending or threatened against Seller, nor are any of such proceedings contemplated by Seller.

k. Seller has received no written notice and has no actual knowledge that there is any plan, study or effort of any governmental authority that would materially affect the current use of the Property, including, without limitation, any threatened condemnation or taking, or any intended public improvements that would result in any charge being levied against, or any lien assessed upon, the Property, including, without limitation, any resolution or ordinance intending to condemn any portion of the Property.

l. Except for the brokerage commissions referenced in Paragraph 31 herein below, as of the closing date, no commissions, brokerage fees or similar payments with respect to the Property shall be due and owing for which the Seller is bound and liable and there are no other existing brokerage commission or similar agreements

entered into by the Seller to which the Seller is bound or liable relating to the sale or leasing of all or any portion of the Property.

m. No other person or other entity has any right or option to acquire the Property. No Person has any right or option to acquire or lease any or all of the Property or any right of first refusal with regard to purchase of the Property.

n. To the best knowledge of Seller, neither Seller nor any previous owner, tenant, occupant or user of the Property, nor any other person, has engaged in or permitted any operations or activities upon, or any use or occupancy of the Property, or any portion thereof, for the purpose of or in any way involving the handling, manufacture, treatment, storage, use, generation, release, discharge, refining, dumping or disposal of any Hazardous Materials (as hereinafter defined) in violation of any applicable laws or regulations on, under, in or about the Property, or transported any Hazardous Materials to, from or across the Property, nor are any Hazardous Materials presently constructed, deposited, stored, or otherwise located on, under, in or about the Property, nor have any Hazardous Materials migrated from the Property upon or beneath other properties, nor have any Hazardous Materials migrated or threatened to migrate from other properties upon, about or beneath the Property, nor are any underground improvements, including but not limited to storage tanks, dumps, or water, gas or oil wells now located or have ever been located on the Property. As used herein, the term "Hazardous Materials" means any substance:

i. the presence of which requires investigation or remediation under any federal, state or local statute, regulation, ordinance, order, action, policy or common law; or

ii. which is or becomes defined as a "hazardous waste," "hazardous substance," pollutant or contaminant under any federal, state or local statute, regulation, rule or ordinance or amendments thereto including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. § 9601 et seq.) and/or the Resource Conservation and Recovery Act (42 U.S.C. § 6901 et seq.); or

iii. which is toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic, or otherwise hazardous and is or becomes regulated by any governmental authority, agency, department, commission, board, agency or instrumentality of the United States, the State of Illinois or any political subdivision thereof; or

iv. the presence of which on the Property causes or threatens to cause a nuisance upon the Property or to adjacent properties or poses or threatens to pose a hazard to the health or safety of persons on or about the Property; or

Attachment 2

v. the presence of which on adjacent properties could constitute a trespass by Seller; or

vi. without limitation, which contains gasoline, diesel fuel or other petroleum hydrocarbons; or

vii. without limitation, which contains polychlorinated biphenyls (PCBs), asbestos or urea formaldehyde foam insulation; or

viii. without limitation, radon gas.

With respect to the representations and warranties contained in subparagraphs (a)-(m) above, Seller agrees to indemnify, defend, reimburse and hold harmless Purchaser, its affiliates, successors and assigns from any and all liabilities, costs, damages and expenses (including without limitation, attorneys' fees) arising from or out of any liens or claims by third parties for any such act or omission occurring prior to the Closing Date with respect to the Property or for materials or services furnished on the Property prior to the Closing, except those acts or omissions of Purchaser, or materials or services contracted for by Purchaser. With respect to the representations and warranties contained in subparagraph (n) above, Seller agrees to indemnify, defend, reimburse and hold harmless Purchaser and its successors and assigns from any and all liabilities, costs, damages and expenses (including without limitation, attorneys' fees) arising from or related to the breach of any representation or warranty as to conditions existing on or prior to the Closing Date for a period ending six (6) months from the Closing Date. The obligations of Seller under this paragraph shall not be affected by any investigation by or on behalf of Purchaser, or by any information which Purchaser may have or obtain with respect thereto. Seller's obligation hereunder shall include, but not be limited to, the burden and expense of defending all claims, suits and administrative proceedings (with counsel reasonably approved by the Purchaser), even if such claims, suits or proceedings are groundless, false or fraudulent, and conducting all negotiations of any description, and paying and discharging, when and as the same become due, any and all judgments, penalties or other sums due against such indemnified person. Purchaser, at its sole expense, may employ additional counsel of its choice to associate with counsel representing Seller.

14 Title Commitment.

a. Seller, at its expense, shall obtain a title commitment, together with legible copies of all exceptions (the "Title Commitment") issued by the Title Company for an owner's title insurance policy in the amount of the Purchase Price setting forth the status of title to the Property and any exceptions thereto. After the Effective Date, Seller shall in no way encumber or burden the Property without the prior written consent of the Purchaser.

b. If a search of the title discloses judgments, bankruptcies or other liens against other persons having names the same as or similar to that of Seller, Seller, on request, shall deliver to Purchaser and the Title Company affidavits showing that such judgments, bankruptcies or other liens are not against Seller.

c. At the Closing, Seller shall deliver to Purchaser, with a copy thereof to the Title Company, an affidavit with respect to (i) mechanic's liens, certifying that as of the Closing Date there are no known unpaid bills rendered or to be rendered for services performed or materials furnished to the Property and (ii) parties in possession, certifying that on the Closing Date, there are no parties other than Seller in possession of the Property.

15. Conditions Precedent to Closing. The obligations of Purchaser and Seller under this Agreement are subject to all covenants, agreements, actions, proceedings, instruments and documents required pursuant to this Agreement having been performed, complied with or delivered (as the case may be) in accordance with this Agreement.

16. Documents for Closing.

a. Seller's attorney shall prepare the necessary instruments required in the Title Commitment in connection with transferring title to the Property to Purchaser. In addition to the special warranty deed, Seller shall (if required) prepare a resolution authorizing the sale of the Property to Purchaser and authorizing specific managers, corporate officers or partners, as the case may be, to execute the necessary documents to transfer title to the Property to Purchaser. Seller, at Seller's sole cost and expense, shall also deliver or cause to be delivered to Purchaser the following documents:

i. a certificate of non-foreign status to insure Seller's compliance with Foreign Investment in Real Property Tax Act ("FIRPTA") (Section 1445 of the Internal Revenue Code of 1986, as amended), and

ii. such additional documents and instruments as Purchaser or the Title Company may reasonably require to transfer Seller's interest in the Property pursuant to the terms of this Agreement, each of which shall be in form and substance satisfactory to Purchaser, the Title Company and Purchaser's counsel; and

b. At the Closing, Purchaser shall deliver, or cause to be delivered, to Seller in accordance with the terms of this Agreement the Purchase Price less the Earnest Money and prorations.

17. Remedies. In the event of a default in the obligations herein taken by Seller with respect to the Property, Purchaser may, at Purchaser's election, as its sole and exclusive remedy, either: (i) have the right to obtain specific performance of Seller's obligation to convey the Property, (ii) waive any unsatisfied conditions and proceed to Closing in accordance with the terms and provisions hereof, or (iii) terminate this Agreement by delivering written notice thereof to Seller no later than Closing, upon which termination (a) the Earnest Money and any Hold Still Payments paid to Seller shall be refunded to Purchaser, and (b) Seller shall pay to Purchaser all documented, out-of-pocket costs and expenses incurred by Purchaser in connection with this Agreement not to exceed Twenty Five Thousand and No/100 Dollars ($25,000.00), which return and payment shall operate to

terminate this Agreement and release Seller and Purchaser from any and all liability hereunder, except those which are specifically stated herein to survive any termination hereof. Except as provided below, in no event under this Paragraph 17 or otherwise shall Seller be liable to Purchaser for any punitive, speculative or consequential damages. Prior to a Seller Default and Purchaser being entitled to the remedy set forth in this Paragraph 17, Purchaser shall give Seller written notice of Seller's breach of this Agreement and Seller shall have ten (10) Business Days from receipt of Purchaser's notice to cure such breach; provided that Seller shall have no right to extend the Closing Date pursuant to this Paragraph 17 due to Seller's voluntary failure to timely close. If Seller does not cure the breach within said time period, such breach will be a "**Seller Default**" under this Agreement and Purchaser will be entitled to the damages set forth in this Paragraph 17. Notwithstanding anything herein to the contrary, in the sole instance in which Seller has caused specific performance to be unavailable as a remedy, Purchaser shall have the right to seek damages from Seller.

If Purchaser fails to comply with the terms of this Agreement, Seller's sole remedy shall be the Earnest Money, as provided in paragraph 3 above.

18. Condemnation and Destruction. If, on the Closing Date, all or any reasonably substantial portion of the Property is the subject of a pending or contemplated taking by eminent domain which has not been consummated or if the Property has been materially damaged or destroyed, Seller shall notify Purchaser of such fact and Purchaser shall have the option to terminate this Agreement and, in the event Purchaser shall elect to terminate this Agreement, the Seller shall refund to Purchaser the Earnest Money together with all interest earned thereon. If this Agreement is terminated and the Earnest Money together with accrued interest is returned, as aforesaid, neither party shall have any further rights or obligations hereunder. If, after receipt of Seller's notice, as aforesaid, Purchaser does not exercise its option to terminate this Agreement, the parties hereto shall remain bound hereunder and Seller shall assign and turn over, and Purchaser shall be entitled to receive and keep, all awards for the taking by eminent domain described in said notice or all insurance proceeds payable as a result of such destruction or damage.

19. Final Agreement. This Agreement represents the final agreement of the parties and no agreements or representations, unless incorporated in this Agreement shall be binding on any of the parties and no portion hereof shall be amended or modified unless such change shall be in writing and signed by both parties thereto.

20. Notice. All notices, requests, demands or other communications required or permitted under this Agreement shall be in writing and delivered either: (i) personally; (ii) by certified or registered mail, return receipt requested, postage prepaid; (iii) by a recognized overnight courier service (such as Fed Ex); or (iv) by facsimile transmission made during normal business hours with a copy to follow by registered or certified mail, return receipt requested, postage prepaid or by overnight courier service, addressed as follows:

If to Seller: Brunette Holdings, LLC
1352 Armour Boulevard
Mundelein, IL 60060

Attention: Margaret Hercek

With a copy to: John Foley, Esq.
Foley Law and Tax Group, LLC
549 S. Washington Street
Naperville, IL 60540
Phone: 630-717-200
Fax: 630-717-7595
Email: jf@tfalaw.com

If to Purchaser: Encompass Health Corporation
9001 Liberty Parkway
Birmingham, AL 35242
Attention: Chief Real Estate Officer

With a copy to: Encompass Health Corporation
9001 Liberty Parkway
Birmingham, AL 35242
Attention: Legal Services Department

If to Title Company: Stewart Title Company
700 E. Diehl Road, #180
Naperville, Illinois 60563
Phone: 630-577-8620
Fax: 630-577-8624

All notices given in accordance with the terms hereof shall be deemed received on the next business day if sent by overnight courier, on the same day if sent by facsimile before 5 P.M. (Central Daylight Standard Time) on a business day, on the third (3rd) business day following deposit with the United States Mail as a registered or certified matter with postage prepaid, or when delivered personally or otherwise received. Either party hereto may change the address for receiving notices, requests, demands or other communication by notice sent in accordance with the terms of this paragraph 20.

21. Number and Gender. Whenever the singular number is used herein and when required by the context, the same shall include the plural, and the masculine gender shall include the feminine and neuter genders, and the word "person" shall include a corporation, firm, partnership, joint venture, trust or estate.

22. Counterparts; Electronic Execution and Retention. This Agreement may be executed in any number of counterparts, each of which, when so executed, shall be deemed to be an original, and such counterparts shall, together, constitute and be one and the same instrument. A signature on a counterpart may be made by facsimile or otherwise electronically transmitted, and such signature shall have the same force and effect as an original signature. Further, this Agreement may be retained in any electronic format, and

Attachment 2

all electronic copies thereof shall likewise be deemed to be an original and shall have the same force and effect as an original copy of this Agreement.

23. Governing Law. This Agreement shall be governed by, construed and enforced in accordance with the internal laws of the State of Illinois.

24. Assignment; Successors and Assigns. This Agreement may be assigned by either party hereto and shall be binding upon and inure to the benefit of the parties hereto and their respective representatives, successors and assigns.

25. Survival. The representations, warranties and indemnities contained herein shall be deemed to have been made again by the parties as of the Closing Date, and shall survive the expiration or termination of this Agreement, the discharge of all other obligations owed by the parties to each other, and any transfer of title to the Property, and shall not be affected by any investigation by or on behalf of Purchaser, or by any information which Purchaser may have or obtain with respect thereto.

26. Confidentiality. Except for those public disclosures required by applicable law, Seller and Purchaser hereby agree that prior to the Closing the matters contained herein shall remain confidential, and that neither party will reveal the contents of this Agreement to any third parties other than their respective accountants and attorneys, the parties performing the Inspections and any prospective assignees of this Agreement.

27. Severability. In the event that any condition or covenant herein contained is held to be invalid or void by any court of competent jurisdiction, the same shall be deemed severable from the remainder of this Agreement and shall in no way affect any other covenant or conditions herein contained. If such condition, covenant or other provision shall be deemed invalid due to its scope or breadth, such provision shall be deemed valid to the extent of the scope or breadth permitted by law.

28. Waiver and Amendment. No breach of any provision hereof can be waived unless in writing. Waiver of any one breach shall not be deemed to be a waiver of any other breach of the same or any other provision hereof. This Agreement may be amended only by a written agreement executed by all of the parties hereto.

29. Captions and Interpretations. Paragraph titles or captions contained herein are inserted as a matter of convenience and for reference, and in no way define, limit, extend or describe the scope of this Agreement or any provision hereof. No provision in this Agreement is to be interpreted for or against either party because that party or his legal representative drafted such provision.

30. Public Announcements. Seller and Purchaser agree that any public announcements, if any, concerning the subject matter of this Agreement shall be mutually approved in advance.

31. Broker Commission. THE COMMISSION PAYABLE TO THE AGENT IN THIS SALE IS NEGOTIATED BETWEEN THE SELLER AND THE AGENT, and the Seller agrees to pay (a) Newmark Knight Frank Retail, as the agent of the Purchaser, if and

when Closing occurs, but not otherwise, a sales commission in the amount of two and one-half percent (2.5%) of the Purchase Price for negotiating this sale, and (b) Dominick Clarizio of @ Properties, as the agent of the Seller, if and when Closing occurs, but not otherwise, a sales commission in the amount of two and one-half percent (2.5%) of the Purchase Price for negotiating this sale.

32. Business Days. In the event any period of time provided for in this Agreement ends on a day other than a business day on which banks are generally open for a full day for business, such ending date shall automatically be extended to the next business day.

33. Representations and Warranties of Seller and Purchaser. Purchaser and Seller hereby represent that the terms and conditions set forth in this Agreement were negotiated at arm's length by the parties and that the Purchase Price represents a reasonable estimation of the fair market value of the Property not taking into account any former, current or future business relationships between Seller and Purchaser. The parties further represent and warrant that it is not a purpose of this Agreement or the transaction contemplated herein to induce the referral of patients. The parties acknowledge that there is no requirement nor payment under this Agreement or any agreement between the parties that either refers, recommends or arranges for any items or services paid for by Medicare or Medicaid. Either party may refer patients to any hospital providing services needed by a patient, and will make such referrals, if any, consistent with professional medical judgment and the wishes of the patient.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective duly authorized representatives as of the date set forth above.

Witness:
DocuSigned by:
Sarina Davis
45CA E0B 2014FF
Sarina Davis
[Print Name]

Witness
[Print Name]

PURCHASER:

Encompass Health Corporation

By: DocuSigned by: Arthur Wilson
Name: Arthur Wilson
Title: Chief Real Estate Officer

SELLER:

Brunette Holdings, LLC

By: Margaret L Heird
Name: Margaret L Heird
Title: Manager

Attachment 2

Exhibit A

[Property]

Attachment 2

Persons with 5% or Greater Interest in the Licensee
Encompass Health Rehabilitation Hospital of Libertyville, LLC

Encompass Health Rehabilitation Hospital of Libertyville, LLC will be wholly-owned by Encompass Health Corporation. The corporate entity is a Delaware corporation.

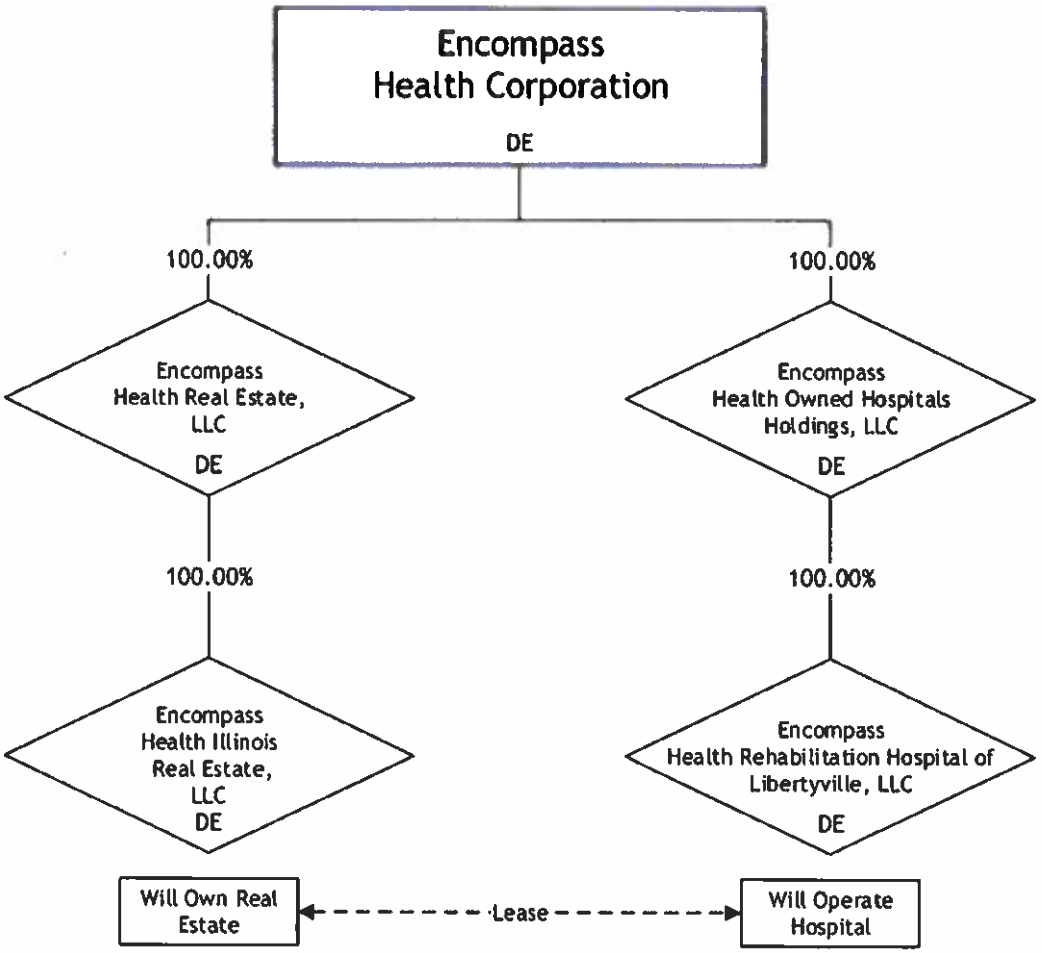
Encompass Health Corporation is a Delaware corporation. Encompass Health Corporation is a Co-Applicant for the proposed project.

Encompass Health Illinois Real Estate, LLC ("EHIRE"), a wholly-owned subsidiary of Encompass Health Corporation, will develop the project and own the real estate, including the hospital building and site improvements. EHIRE is a Delaware corporation.

Encompass Libertyville, the Applicant/Licensee, will be the licensed operator of the proposed project and lease the hospital building, land, and site improvements from EHIRE. The purchase and sale agreement for the land is provided at Attachment 2.

Encompass Health, the parent entity to Encompass Libertyville and EHIRE, will fund the project from available cash on hand and/or internal existing funds available through Encompass Health's credit facilities. An organization chart follows in Attachment 4.

Encompass Health Illinois Real Estate, LLC and Encompass Health Rehabilitation Hospital of Libertyville, LLC



Attachment 4

Kimley»Horn

July 22, 2019

Lawrence Whatley
Attn: Vice President Design & Construction
Encompass Health
9001 Liberty Parkway
Birmingham, Alabama 25243

Re: Encompass Health Rehabilitation Hospital of Libertyville, IL

Dear Mr. Whatley:

As requested, our office has reviewed the classifications of the 8.6 acres of property located at the northeast corner of IL Route 45 and Winchester Road in Libertyville, Illinois (Lot 8 in American Corporate Center, being a subdivision of parts of Sections 7 and 18, Township 44N, Range 11E of the third principal meridian).

We reviewed the FEMA Flood Insurance Rate Map 17097C0142K dated September 18, 2013 and determined that the subject property is classified as Zone X, meaning the property is outside the 500-year floodplain. FEMA Map is enclosed for reference.

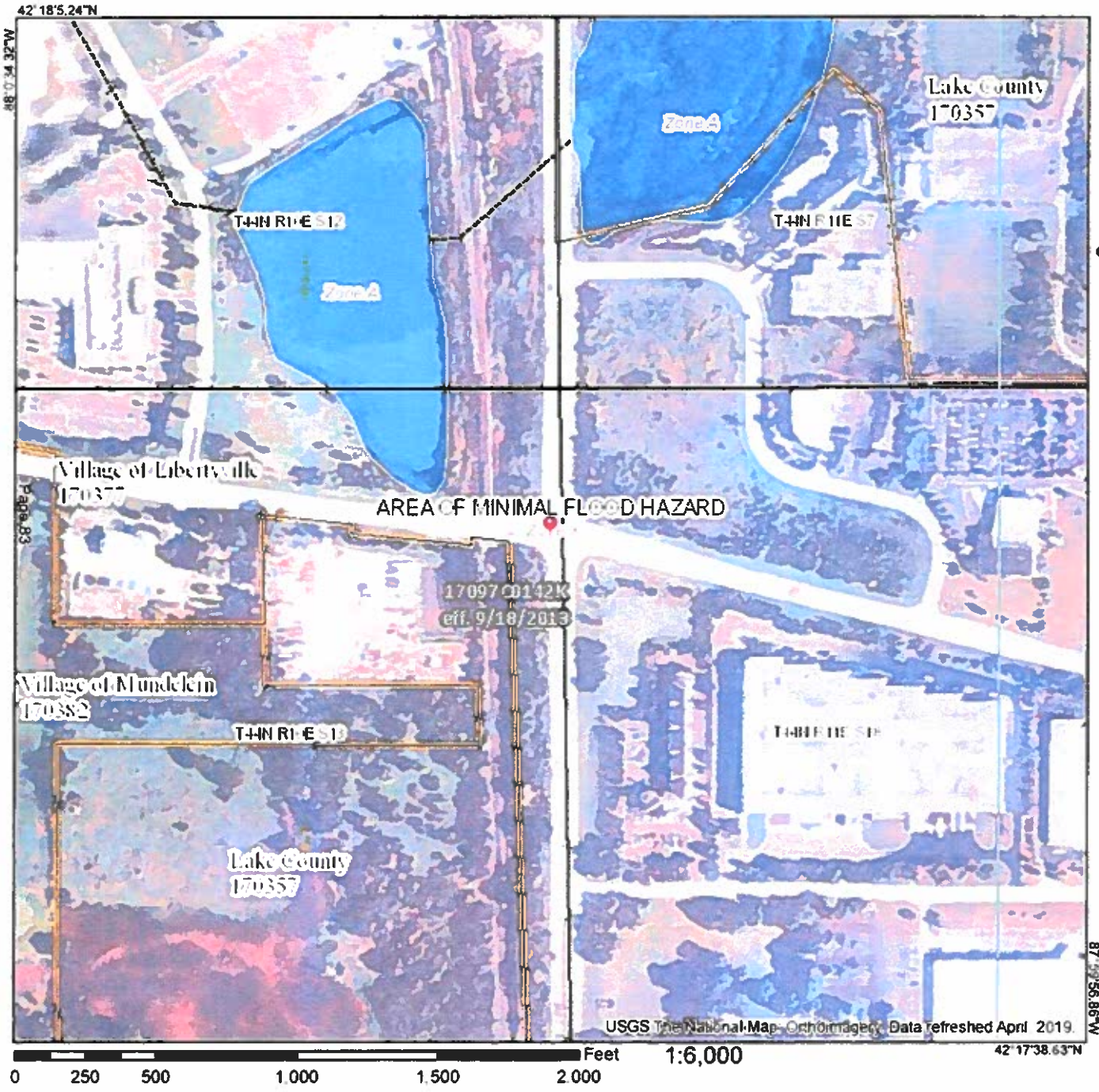
Additionally, our office submitted an application to the Illinois Department of Natural Resources (IDNR) for historic review and the property was determined to have no significant historic, architectural, or archaeological resources onsite. IDNR review letter enclosed for reference.

Sincerely,
Kimley-Horn and Associates, Inc.

Lesley Netzer, P.E.
Project Manager

Enclosures: FEMA Map
IDNR Historic Review Letter

National Flood Hazard Layer FIRMette



Legend

SEE FIS REPORT FOR DETAILED LEGEND AND INDEX MAP FOR FIRM PANEL LAYOUT

SPECIAL FLOOD HAZARD AREAS
- Without Base Flood Elevation (BFE) Zone A, V, A99
- With BFE or Depth Zone AE, AO, AH, VE, AR
- Regulatory Floodway

OTHER AREAS OF FLOOD HAZARD
- 0.2% Annual Chance Flood Hazard, Areas of 1% annual chance flood with average depth less than one foot or with drainage areas of less than one square mile
- Future Conditions 1% Annual Chance Flood Hazard
- Area with Reduced Flood Risk due to Levee. See Notes.
- Area with Flood Risk due to Levee

OTHER AREAS
- NO SCREEN Area of Minimal Flood Hazard
- Effective LOMRs
- Area of Undetermined Flood Hazard

GENERAL STRUCTURES
- Channel, Culvert, or Storm Sewer
- Levee, Dike, or Floodwall

OTHER FEATURES
- 20.2 Cross Sections with 1% Annual Chance
- 17.5 Water Surface Elevation
- Coastal Transect
- Base Flood Elevation Line (BFE)
- Limit of Study
- Jurisdiction Boundary
- Coastal Transect Baseline
- Profile Baseline
- Hydrographic Feature

MAP PANELS
- Digital Data Available
- No Digital Data Available
- Unmapped

N

The pin displayed on the map is an approximate point selected by the user and does not represent an authoritative property location.

This map complies with FEMA's standards for the use of digital flood maps if it is not void as described below. The basemap shown complies with FEMA's basemap accuracy standards

The flood hazard information is derived directly from the authoritative NFHL web services provided by FEMA. This map was exported on 5/21/2019 at 11:18:05 AM and does not reflect changes or amendments subsequent to this date and time. The NFHL and effective information may change or become superseded by new data over time.

This map image is void if the one or more of the following map elements do not appear: basemap imagery, flood zone labels, legend, scale bar, map creation date, community identifiers, FIRM panel number, and FIRM effective date. Map images for unmapped and unmodernized areas cannot be used for regulatory purposes.

Attachment 5

#19-036

ILLINOIS DEPARTMENT OF NATURAL RESOURCES

Illinois Department of Natural Resources

JB Pritzker, Governor
Colleen Callahan, Director

www.dnr.illinois.gov

Mailing address: State Historic Preservation Office, 1 Old State Capitol Plaza, Springfield, IL 62701

PLEASE REFER TO: SHPO LOG #009060619

Lake County
Libertyville
NE of Winchester Road & Route 45, Section:7-Township:44N-Range:11E
IEPA, KHA-168801000
New construction, rehabilitation hospital - Encompass Health

June 28, 2019

Lesley Netzer
Kimley-Horn and Associates, Inc.
1001 Warrenville Road, Suite 350
Lisle, IL 60532

Dear Ms. Netzer:

The Illinois State Historic Preservation Office is required by the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420, as amended, 17 IAC 4180) to review all state funded, permitted or licensed undertakings for their effect on cultural resources. Pursuant to this, we have received information regarding the referenced project for our comment.

Our staff has reviewed the specifications under the state law and assessed the impact of the project as submitted by your office. We have determined, based on the available information, that no significant historic, architectural or archaeological resources are located within the proposed project area.

According to the information you have provided concerning your proposed project, apparently there is no federal involvement in your project. However, please note that the state law is less restrictive than the federal cultural resource laws concerning archaeology. If your project will use federal loans or grants, need federal agency permits, use federal property, or involve assistance from a federal agency, then your project must be reviewed under the National Historic Preservation Act of 1966, as amended. Please notify us immediately if such is the case.

This clearance remains in effect for two (2) years from date of issuance. It does not pertain to any discovery during construction, nor is it a clearance for purposes of the IL Human Skeletal Remains Protection Act (20 ILCS 3440).

Please retain this letter in your files as evidence of compliance with the Illinois State Agency Historic Resources Preservation Act.

If further assistance is needed please contact Jeff Kruchten, Chief Archaeologist at 217/785-1279 or Jeffery.kruchten@illinois.gov.

Sincerely,

Robert F. Appleman
Deputy State Historic
Preservation Officer

Attachment 6

Project and Sources of Funds Itemization
Encompass Health Rehabilitation Hospital of Libertyville, LLC

Summary of Project and Related Cost Data Assumptions

Project Costs and Sources of Funds						
Component		**Clinical**		**Non-Clinical**		**Total**
Site Survey and Soil Investigation	$	178,560	$	69,440	$	248,000
Site Preparation	$	1,283,148	$	499,002	$	1,782,150
New Construction Contracts	$	23,751,360	$	9,236,640	$	32,988,000
Contingencies	$	1,911,600	$	743,400	$	2,655,000
Architectural/Engineering Fees	$	1,401,840	$	545,160	$	1,947,000
Consulting and Other Fees	$	713,520	$	277,480	$	991,000
Movable/Other Equipment (not in contracts)	$	3,983,760	$	1,549,240	$	5,533,000
Net Interest Expense During Construction	$	1,249,224	$	485,810	$	1,735,034
Other Costs To Be Capitalized	$	3,254,647	$	1,050,553	$	4,305,200
Total Project Cost	**$**	**37,727,659**	**$**	**14,456,725**	**$**	**52,184,384**

Site Preparation
Project site preparation costs are based upon the proposed site location in Libertyville, IL and Encompass Health experience.

New Construction
The new construction will be a single-story 60,730 gross square foot building. Project building costs are comprised of all costs and expenses covered under the construction contract, including major medical and other fixed equipment and contractor's overhead and profit. Costs are estimated based on national architectural/construction standards adjusted for Lake County building code compliance and Encompass experience. These costs are projected to be $32,988,000 or $543.19 per square foot.

Contingencies
Project contingencies costs are an allowance for unforeseeable events related to construction and are estimated to be $2,655,000, which is 8% of estimated new construction costs.

Architectural/Engineering fees
Project architectural/engineering fees are projected to be $1,947,000, or approximately 6% of new construction and contingencies costs. These costs are consistent with Encompass Health experience.

Moveable Equipment Costs not in Building Contract
Project moveable equipment costs are estimated costs commensurate for a 60-bed facility and are based on Encompass Health experience.

Net Interest Expense during Construction
Construction period project costs will be funded by cash transfers from Encompass at annual interest rate of 7.25%.

Other Costs that are to be Capitalized
Other project costs to be capitalized are primarily comprised of CON Development fees, pre-opening expenses, and ACE-IT clinical system installation costs.

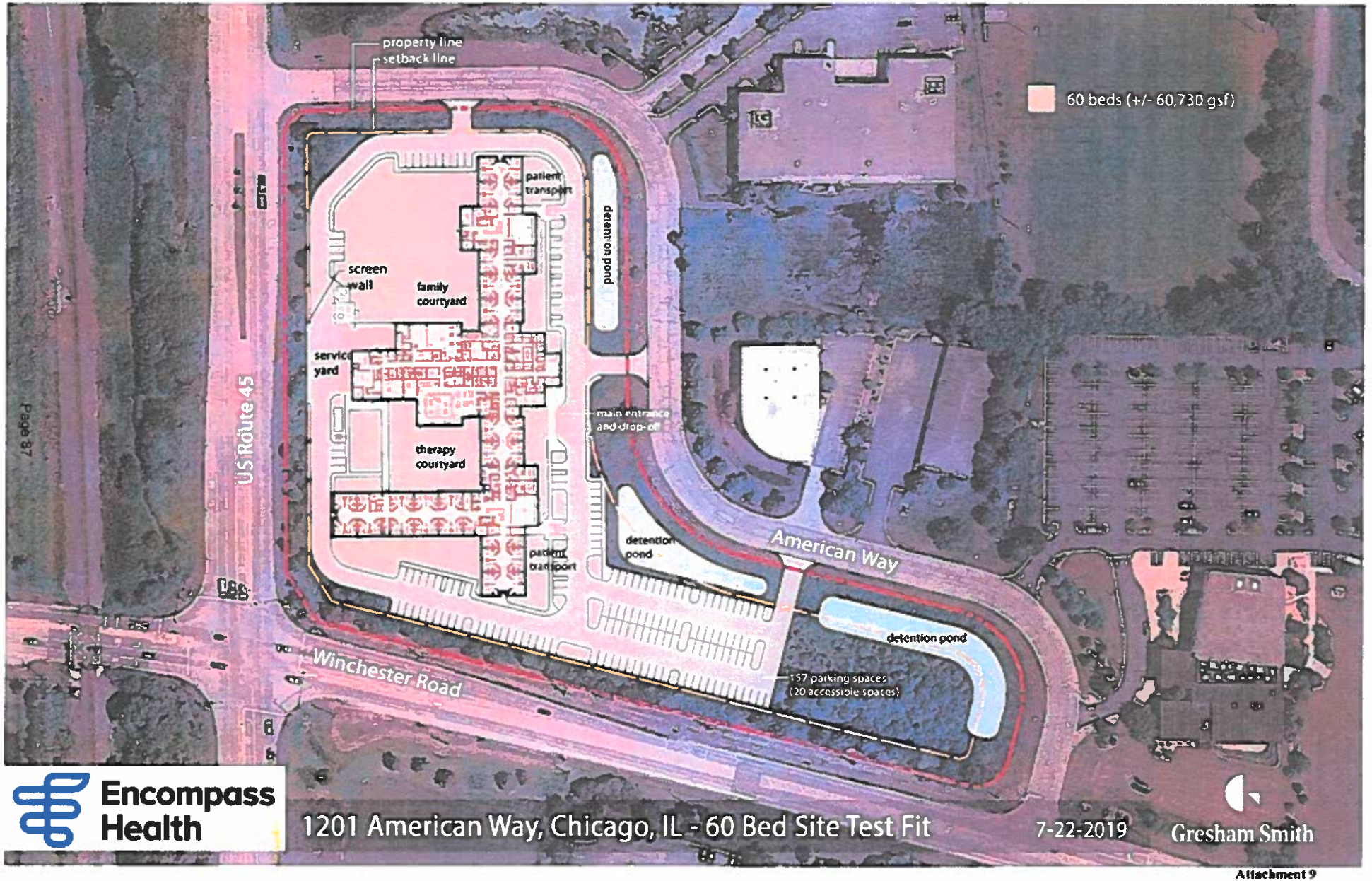
Cost Space Requirements
Encompass Health Rehabilitation Hospital of Libertyville, LLC

Provide in the following format, the **Departmental Gross Square Feet (DGSF)** or the **Building Gross Square Feet (BGSF)** and cost. The type of gross square footage either **DGSF** or **BGSF** must be identified. The sum of the department costs **MUST** equal the total estimated project costs. Indicate if any space is being reallocated for a different purpose. Include outside wall measurements plus the department's or area's portion of the surrounding circulation space. **Explain the use of any vacated space.**

		Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
Dept. / Area	**Cost**	**Existing**	**Proposed**	**New Const.**	**Modernized**	**As Is**	**Vacated Space**
REVIEWABLE							
Comprehensive Rehabilitation	$37,727,659		43,900 BGSF	43,900 BGSF			
Intensive Care							
Diagnostic Radiology							
MRI							
Total Clinical	$37,727,659		43,900 BGSF	43,900 BGSF			
NON REVIEWABLE							
Administrative							
Parking							
Gift Shop							
Total Non-clinical	$14,456,725		16,830 BGSF	16,830 BGSF			
TOTAL	**$52,184,384**		**60,730 BGSF**	**60,730 BGSF**			

APPEND DOCUMENTATION AS ATTACHMENT 9, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Attachment 9
Page 1



Attachment 9

#19-036

Background of the Applicant
Encompass Health Rehabilitation Hospital of Libertyville, LLC

The following information is provided to illustrate the qualifications, background and character of the ultimate parent entity of the Applicant/Licensee and to assure the Review Board that the inpatient Rehab hospital will provide a proper standard of health care service for the community.

Encompass Health Rehabilitation Hospital of Libertyville, LLC ("Encompass Libertyville")

1. Encompass Libertyville, the Licensee, will be a wholly-owned subsidiary of Encompass Health Corporation ("Encompass"). Encompass is a Delaware corporation. Encompass Libertyville is also a Delaware corporation.

2. Encompass Libertyville does not own nor operate any healthcare facilities, thus can certify that there have been no adverse actions during the three (3) years prior to the filing of this Application. A letter certifying the above information is attached at Attachment 11.

3. We have included a letter authorizing access to the HFSRB and IDPH to verify information about Encompass Libertyville at Attachment 11.

Encompass Health Illinois Real Estate, LLC ("EHIRE")

1. EHIRE will be a wholly-owned subsidiary of Encompass Health Corporation. EHIRE is a Delaware corporation.

2. EHIRE does not own nor operate any healthcare facilities, thus can certify that there have been no adverse actions during the three (3) years prior to the filing of this Application. A letter certifying the above information is attached at Attachment 11.

3. We have included a letter authorizing access to the HFSRB and IDPH to verify information about EHIRE at Attachment 11.

Encompass Health

1. Encompass Health owns and operates a single facility in Illinois through a joint venture arrangement with Mercyhealth:

- Van Matre Encompass Health Rehabilitation Hospital in Rockford.

Encompass Health (f/k/a HealthSouth Corporation) is a national leader in inpatient rehabilitation services with 130 inpatient rehab hospitals in 32 states and Puerto Rico, representing over 20% of the licensed acute rehabilitation beds nationally. One hundred and fifteen (115) of Encompass' inpatient rehab hospitals hold one or more disease-specific certifications from The Joint Commission's Disease-Specific Care Certification Program in areas such as stroke, brain injury, or hip fracture rehabilitation.

Encompass brings to the local market the resources and experience of a national company that has proven high quality, cost-effective programs and services along with the financial strength to ensure

that its patients and specialized staff members have access to an extensive array of rehab-specific clinical equipment and technology.

2. There have been no adverse action taken against any facility owned or operated by Encompass during the three (3) years prior to the filing of this Application. A letter certifying the above information is attached at Attachment 11.

3. We have included a letter authorizing access to the HFSRB and IDPH to verify information about Encompass Health at Attachment 11.

July 19, 2019

Courtney Avery
Board Administrator
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, 2nd Floor
Springfield, IL 62761

Dear Ms. Avery:

As representative of Encompass Health Rehabilitation Hospital of Libertyville, LLC, I, Walter Smith, give authorization to the Health Facilities and Services Review Board and the Illinois Department of Public Health (IDPH) to access documents necessary to verify the information submitted including, but not limited to: official records of IDPH or other state agencies, the licensing or certification records of other states, and the records of nationally recognized accreditation organizations.

I further verify that, Encompass Health Rehabilitation Hospital of Libertyville, LLC owns no other healthcare facilities and has had no adverse action in the past three (3) years.

I hereby certify this is true and based upon my personal knowledge under penalty of perjury and in accordance with 735 ILCS 5/1-109.

Sincerely,

Walter Smith
Director, State Regulatory Affairs
Encompass Health Corporation
Authorized Representative

Subscribed and Sworn to before me this 19 day of July, 2019.

Notary Public

MIA K. HAYNES
My Commission Expires
May 9, 2023

Attachment 11

July 19, 2019

Courtney Avery
Board Administrator
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, 2nd Floor
Springfield, IL 62761

Dear Ms. Avery:

As representative of Encompass Health Illinois Real Estate, LLC, I, Walter Smith, give authorization to the Health Facilities and Services Review Board and the Illinois Department of Public Health (IDPH) to access documents necessary to verify the information submitted including, but not limited to: official records of IDPH or other state agencies, the licensing or certification records of other states, and the records of nationally recognized accreditation organizations.

I further verify that, Encompass Health Illinois Real Estate, LLC, owns no other healthcare facilities and has had no adverse action in the past three (3) years.

I hereby certify this is true and based upon my personal knowledge under penalty of perjury and in accordance with 735 ILCS 5/1-109.

Sincerely,

Walter Smith
Director, State Regulatory Affairs
Encompass Health Corporation
Authorized Representative

Subscribed and Sworn to before me this 19 day of July, 2019.

Notary Public

MIA K. HAYNES
My Commission Expires
May 9, 2023

Attachment 11

#19-036

Encompass Health

9001 Liberty Parkway
Birmingham, AL 35242

encompasshealth.com

July 19, 2019

Courtney Avery
Board Administrator
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, 2nd Floor
Springfield, IL 62761

Dear Ms. Avery:

As representative of Encompass Health Corporation, I, Walter Smith, give authorization to the Health Facilities and Services Review Board and the Illinois Department of Public Health (IDPH) to access documents necessary to verify the information submitted including, but not limited to: official records of IDPH or other state agencies, the licensing or certification records of other states, and the records of nationally recognized accreditation organizations.

I further verify that, Encompass Health Corporation is a part of joint venture arrangement and has an ownership interest in Van Matre Encompass Health Rehabilitation Hospital and has had no adverse action in the past three (3) years.

I hereby certify this is true and based upon my personal knowledge under penalty of perjury and in accordance with 735 ILCS 5/1-109.

Sincerely,

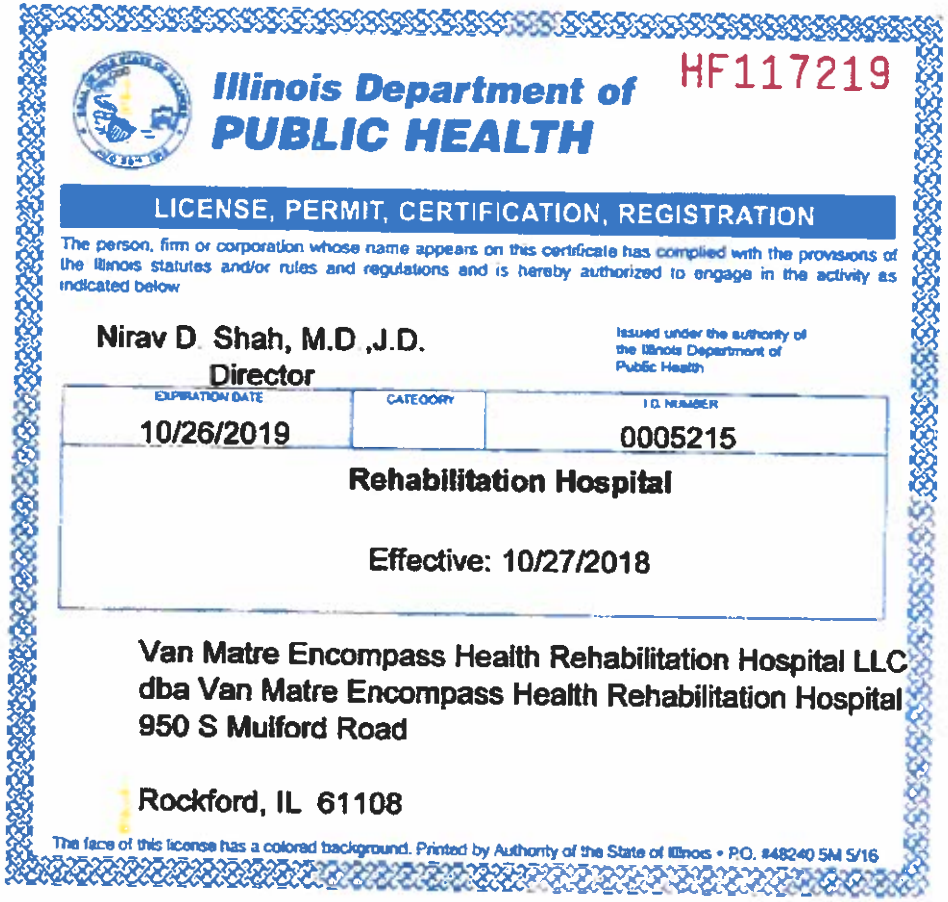
Walter Smith
Director, State Regulatory Affairs
Encompass Health Corporation
Authorized Representative

Subscribed and Sworn to before me this 19 day of July, 2019.

Notary Public

MIA K. HAYNES
My Commission Expires
May 9, 2023

Attachment 11



Illinois Department of PUBLIC HEALTH

HF117219

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below

Nirav D. Shah, M.D ,J.D.
Director

Issued under the authority of the Illinois Department of Public Health

EXPIRATION DATE	CATEGORY	I.D. NUMBER
10/26/2019		0005215

Rehabilitation Hospital

Effective: 10/27/2018

Van Matre Encompass Health Rehabilitation Hospital LLC
dba Van Matre Encompass Health Rehabilitation Hospital
950 S Mulford Road

Rockford, IL 61108

The face of this license has a colored background. Printed by Authority of the State of Illinois • P.O. #48240 5M 5/16

← DISPLAY THIS PART IN A CONSPICUOUS PLACE

Exp. Date 10/26/2019

Lic Number 0005215

Date Printed 12/19/2018

Van Matre Encompass Health Rehabili
dba Van Matre Encompass Health Re
950 S Mulford Road
Rockford, IL 61108

FEE RECEIPT NO.

The Joint Commission

March 14, 2017

Re: # 352409
CCN: #143028
Program: Hospital
Accreditation Expiration Date: January 07, 2020

Kenneth Bowman
Chief Executive Officer
Van Matre Rehabilitation Center, LLC
950 South Mulford Road
Rockford, Illinois 61108

Dear Mr. Bowman:

This letter confirms that your January 05, 2017 - January 06, 2017 unannounced full resurvey was conducted for the purposes of assessing compliance with the Medicare conditions for hospitals through The Joint Commission's deemed status survey process.

Based upon the submission of your evidence of standards compliance on March 13, 2017, The Joint Commission is granting your organization an accreditation decision of Accredited with an effective date of January 07, 2017.

The Joint Commission is also recommending your organization for continued Medicare certification effective January 07, 2017. Please note that the Centers for Medicare and Medicaid Services (CMS) Regional Office (RO) makes the final determination regarding your Medicare participation and the effective date of participation in accordance with the regulations at 42 CFR 489.13. Your organization is encouraged to share a copy of this Medicare recommendation letter with your State Survey Agency.

This recommendation applies to the following location:

Van Matre Rehabilitation Center, LLC
d/b/a Van Matre HealthSouth Rehabilitation Hospital
950 South Mulford Road, Rockford, IL, 61108

Please be assured that The Joint Commission will keep the report confidential, except as required by law or court order. To ensure that The Joint Commission's information about your organization is always accurate and current, our policy requires that you inform us of any changes in the name or ownership of your organization or the health care services you provide.

Sincerely,

The Joint Commission

Mark Pelletier

Mark G. Pelletier, RN, MS
Chief Operating Officer
Division of Accreditation and Certification Operations

cc: CMS/Central Office/Survey & Certification Group/Division of Acute Care Services
CMS/Regional Office 5 /Survey and Certification Staff

The Joint Commission

May 6, 2019

Jeffrey Reese, MBA
CEO
Van Matre Rehabilitation Center, LLC
950 South Mulford Road
Rockford , IL 61108

Joint Commission ID #: 352409
Program: Brain Injury Rehabilitation
Certification Activity: 60-day Evidence of Standards Compliance
Certification Activity Completed Date : 5/6/2019

Dear Mr. Reese:

The Joint Commission is pleased to grant your organization a Passed Certification decision for all services reviewed under the applicable manual(s) noted below:

- **Disease Specific Care Certification Manual**

This certification cycle is effective beginning February 27, 2019 and is customarily valid for up to 24 months. Please note, The Joint Commission reserves the right to shorten or lengthen the duration of the cycle.

Should you wish to promote your certification decision, please view the information listed under the 'Publicity Kit' link located on your secure extranet site, The Joint Commission Connect.

The Joint Commission will update your certification decision on Quality Check®.

Congratulations on your achievement.

Sincerely,

Mark Pelletier

Mark G.Pelletier, RN, MS
Chief Operating Officer and Chief Nurse Executive
Division of Accreditation and Certification Operations

Attachment 11

Purpose of the Project
Encompass Health Rehabilitation Hospital of Libertyville, LLC

Executive Summary

Too much of Illinois' healthcare delivery system operates without sufficient access to the comprehensive post-acute care rehabilitation services that can be provided in a hospital dedicated to providing comprehensive physical inpatient rehabilitation. This has been an existing gap in the Illinois healthcare delivery system for too long. This is best illustrated by the fact that Illinois residents in the northeastern area of the state that are routinely having to travel significant distances into heavily congested urban areas of Chicago ***to obtain this care*** or leave of state to Wisconsin to have access to this care. This project provides increased access to necessary care.

A fundamental aspect of the CON program is to ensure sufficient access to care so that Illinois residents have accessible and available services in their local communities (particularly as defined by HFSRB Service Areas), so need not travel too far to access necessary care. Moreover, it is axiomatic that Illinois residents should not have to leave the state of Illinois to obtain access to quality care. This project is designed to address that.

Encompass Health, a world-class provider of post-acute care services, is proposing to establish a 60-bed hospital dedicated to comprehensive inpatient Rehab care in Illinois. This project is needed for many reasons, including but not limited to the following:.

- It addresses the Board's projected need for 20 inpatient Rehab beds, but looks beyond that;
- The projected need for 20 beds is rooted in the historical utilization of providers in HSA8, thus ignoring HSA8 residents who must leave their community and travel into the congested Chicago urban area for care or leave the state to Wisconsin. Considering the patients leaving the service area and travelling significant distances to obtain these services, along with the patients with clinical conditions that would benefit from inpatient rehabilitation services yet are unable to access that care, the need increases to 66 beds;
- Once you consider the national standards at which this service ***should be available***, the justifiable need is 120 additional beds.
- Moreover, the proposed location in Lake County will ***enhance access*** to inpatient Rehab care for all HSA8 residents, including the more than 750,000 Lake County residents who no longer have access to a single inpatient Rehab bed within their home county since Vista Medical Center-West closed its 25-bed Rehab program in late 2017.

This project is designed to meet the inpatient rehabilitation needs of this community both for today, and for tomorrow. More importantly, it is designed to allow Illinois residents to receive world-class care within their local HFSRB-defined community.

The detailed explanation of need is fully outlined below.

Purpose of the Project
Encompass Health Rehabilitation Hospital of Libertyville, LLC

1. Encompass Libertyville will provide services to improve the health care of HSA8 residents.

A) <u>The Proposed Project will meet the Documented Need for Additional Rehab Beds</u>.

There is a documented need for twenty (20) additional comprehensive physical rehabilitation beds in HSA8, according to the most recent Revised Bed Need Determinations as shown below.

Table 1
HFSRB Rehab Bed Need

STATE SUMMARY
REVISED BED NEED DETERMINATIONS
6/5/2019

REHABILITATION BEDS

REHAB SERVICE AREA	APPROVED EXISTING BEDS	CALCULATED BED NEED	ADDITIONAL BEDS NEEDED	EXCESS REHAB BEDS
HSA 1	65	65	0	0
HSA 2	66	49	0	17
HSA 3	48	34	0	14
HSA 4	80	53	0	27
HSA 5	39	36	0	3
HSA 6	585	419	0	166
HSA 7	432	372	0	60
HSA 8	80	100	20	0
HSA 9	96	98	2	0
HSA 10	22	12	0	10
HSA 11	36	43	7	0
ILLINOIS TOTAL	**1,549**	**1,281**	**29**	**297**

Source: HFSRB, Department of Public Health.

This defined numeric need is the result of the reduction in the number of available Rehab beds in HSA8 and the ongoing growth (and aging) of the service area population, resulting in high aggregate utilization of the three remaining inpatient Rehab providers in the HSA8.

Details supporting the HFSRB calculated need for 20 inpatient Rehab beds in the HSA8 service area are shown below. It is noteworthy that the HFSRB calculated need is based upon historical utilization from 2015 and, as identified below, aspects of the need for this project look beyond the HFSRB historically based need to other identified national standards of need to offer additional support and evidence of the need for this project and for access to this care.

Purpose of the Project
Encompass Health Rehabilitation Hospital of Libertyville, LLC

Table 2 **HSA8 Comprehensive Physical Rehabilitation Providers' Utilization Drives Bed Need Calculations**		
HSA8 Rehab Providers	**Hospital County**	**2015 Patient Days**
Centegra Hospital – McHenry	McHenry	6,716
Presence St. Joseph Hospital – Elgin	Kane	13,821
Rush – Copley Medical Center	Kane	4,363
Vista Medical Center – West	Lake	3,476
Total HSA8 Hospitals' Rehab Patient Days		**28,376**
2015 Area Rehab Use Rate		.0184
Multiplied by Projected 2020 Area Total Population		1,692,900
***Equals* Projected Rehab Patient Days in HSA8 Hospitals**		**31,191**
Average Daily Census		85.2
Projected Gross Rehab Bed Need		**100**
Sources: Inventory of Health Care Facilities and Services and Need Determinations, HFSRB 9/1/2017.		

The current gap results in less than optimal care for many Service Area patients, who are either discharged to a less intensive setting such as a skilled nursing facility ("SNF") or home with home health care services, rather than the more appropriate inpatient rehab setting; are foregoing needed inpatient rehab care altogether; or, are having to travel outside of the HFSRB-defined Service Area for inpatient Rehab services. The proposed 60-bed new freestanding inpatient Rehab hospital will address the unquestionable gap in care and meet the HFSRB-identified need.

As shown below, the availability of HSA8 Rehab beds have decreased significantly since 2017, with a loss of 25 licensed beds in the three-county Service Area. However, the need for this service has not decreased and the available data evidences that the need will continue to increase. The result is an unacceptably low number of Rehab beds per population in HSA8 for all ages, and particularly for ages 65+ since that population is the primary user of inpatient rehab services. Notably, the already-low number of inpatient Rehab beds per HSA8 resident will only worsen in the future as the large Service Area population continues to grow to nearly 1.8 million residents. This is too important of an issue to risk being unable to meet the needs of Illinois residents who do and will need access to a world-class inpatient rehabilitation hospital.

Purpose of the Project
Encompass Health Rehabilitation Hospital of Libertyville, LLC

Table 3
HSA8 Comprehensive Physical Rehab Beds per 1,000 Person

HSA8 Rehab Providers	Hospital County	Licensed Rehab Beds 2017	2019	2024
Centegra Hospital – McHenry*	McHenry	22	22	22
Presence St. Joseph Hospital – Elgin	Kane	40	40	40
Rush – Copley Medical Center	Kane	18	18	18
Vista Medical Center – West	Lake	25	-0-	-0-
Total Licensed HSA8 Rehab Beds		**105**	**80**	**80**
Service Area (HSA8) Total Population (July estimate)		1,640,947	1,675,356	1,759,574
Rehab Beds/1,000 Population		**0.064**	**0.048**	**0.045**
Service Area (HSA8) Population Ages 65+		214,394	235,166	293,801
Rehab Beds/1,000 Population Ages 65+		**0.490**	**0.340**	**0.272**
Illinois Rehab Beds/1,000 Population Ages 65+ (2019 data)		0.856	0.753	0.651
Ratio of Illinois Beds/1,000 Pop Ages 65+ to HSA8		1.7	2.2	2.4

Sources: Inventory of Health Care Facilities and Services and Need Determinations, HFSRB 9/1/2017 and 6/5/2019 Update; and Illinois Dept. of Public Health Certificate of Need Population Projections, 2014.
*Note: Centegra Hospital-McHenry received exemption to discontinue its 22-bed Rehab program (Change of Permit #E-037-17). Contemporaneously, Centegra Hospital-Woodstock received permit to establish a 22-bed Rehab unit (17-036). Both Centegra Hospitals are located in McHenry County; thus, there will be no net change to the number of Rehab beds located in McHenry County following 'transfer' of the beds from one McHenry County-based hospital to another.

Notably, without the proposed project to meet the need for additional beds in HSA8, the disparity between the statewide beds per person and HSA8 beds per person will increase as the HSA8 population ages, with the population having access to a fraction of the Rehab beds per 1,000 population in comparison to the population statewide.

Table 4
HSA8 Comprehensive Physical Rehab Beds per Person are Declining Despite a Large Increasing and Aging Population

Indicator	2017	2019	2024	Change, 2017-24	% Change, 2017-24
Total Licensed HSA8 Rehab Beds	105	80	80	-25	**-23.8%**
Service Area (HSA8) Total Population	1,640,947	1,675,356	1,759,574	118,628	7.2%
Rehab Beds/1,000 Population	0.064	0.048	0.045	-0.019	-28.9%
Service Area (HSA8) Pop Ages 65+	214,394	235,166	293,801	79,407	**37.0%**
Rehab Beds/1,000 Pop Ages 65+	0.490	0.340	0.272	-0.217	-44.4%

Sources: Inventory of Health Care Facilities and Services and Need Determinations, HFSRB 9/1/2017 and 6/5/2019 Update; and Illinois Department of Public Health Certificate of Need Population Projections, 2014.

Purpose of the Project
Encompass Health Rehabilitation Hospital of Libertyville, LLC

The significant shortage of Rehab beds in HSA8 is evident not only when compared to the statewide ratio but also when HSA8 is compared to every other Health Service Area in Illinois. As shown below, *HSA8 has the lowest number of inpatient Rehab beds per population in the entire state*, ***ranking last*** out of 11 HSAs. Notably, HSA8 has the third largest population in the state (with nearly 1.7 million residents in 2020).

Table 5
Inpatient Rehab Beds per 1,000 Population, 2020
Ranked Highest to Lowest Beds per Pop

HSA	2020 Population	Inpatient Rehab Beds	Beds per 1,000 Population	*Ranked Highest to Lowest*
6	2,562,700	585	0.228	1
7	3,508,600	432	0.123	2
10	207,100	22	0.106	3
2	672,400	66	0.098	4
4	857,900	80	0.093	5
1	711,700	65	0.091	6
10	1,111,300	96	0.086	7
3	575,500	48	0.083	8
5	613,700	39	0.064	9
11	614,100	36	0.059	10
8	**1,692,600**	**80**	**0.047**	**11**
Total	13,127,600	1,549	0.118	--

Sources: Inventory of Health Care Facilities and Services and Need Determinations, HFSRB 9/1/2017 and Addendum to Inventory of Health Care Facilities, HFSRB 6/5/2019.

The proposed project, Encompass Libertyville, will provide a needed addition of inpatient Rehab beds to the severely underserved population of HSA8. Without the proposed project, the growing population of the Service Area will experience an even greater deficit of Rehab beds in future years, requiring an even larger percentage of the population to travel significant distances to access inpatient rehab services or to forego those services by substituting less optimal types of post-acute care.

Purpose of the Project
Encompass Health Rehabilitation Hospital of Libertyville, LLC

B) <u>The Proposed Project will Enhance Local Access to Rehab Care for HSA8 Residents.</u>

Due to the significant deficit of licensed inpatient Rehab beds within the service area, many HSA8 patients are traveling outside of HSA8 into Chicago for inpatient rehab services, or simply foregoing inpatient rehab care altogether. Within HSA8, Lake County has the largest population (with more than 750,000 residents now and close to 800,000 projected in 2025), yet is the only county without a single inpatient Rehab bed. Any of these 750,000 Illinois residents requiring this care would have to leave their county or their state to have access to this necessary care.

The closest existing provider of inpatient rehab services for Libertyville residents is more than 15 miles away, which is a minimum 30-minute drive for area residents. Considering that *Chicago is the third most congested city in the country* according to the INRIX[1] 2018 Traffic Scorecard Report, traveling into the downtown Chicago area for inpatient Rehab care creates significant challenges and undue hardship on the patient and his/her family members.

Specific to inpatient Rehab services, proximity to family is a particularly important indicator of successful outcomes. It is tremendously helpful for the patient and their family to receive their post-acute inpatient rehabilitation in the community where they live, so family and/or caregiver participation in therapy can be achieved easily. Participation by the family member or caregiver in an inpatient's care enhances quality of care for the patient both during his/her hospital stay and when the patient returns home where the family member or caregiver assists the patient in his/her ongoing recovery. In short, involvement of family members/caregivers in the patient's care ultimately enhances patient outcomes, quality of care, and quality of life for the rehab patient. The residents of HSA8 deserve an available path to success.

As shown below, the percentage of residents who must currently travel outside HSA8 for Rehab services is large and growing, due at least in part to the recent loss of Lake County's only inpatient Rehab provider. The proposed project will provide Lake County, and HSA8, residents with a local option for inpatient Rehab care.

Table 6
HSA8 Residents' Discharges to Comprehensive Inpatient Rehab Services
A Significant Proportion of HSA8 Residents are Leaving the HFSRB-defined Service Area for Inpatient Rehab Care

HSA8 Residents' Rehab Discharges from General Acute Care Hospitals	**Rehab Discharges by CY**		
	2016	**2017**	**2018***
Total HSA8 Discharges to Rehab	3,378	3,151	3,078
Minus HSA8 Rehab Provider Total Discharges	2,309	2,159	2,017
***Equals* Rehab Discharges Leaving HSA8**	**1,069**	**992**	**1,061**
% HSA8 Residents Leaving Service Area for Care	31.6%	31.5%	34.5%

* Rehab Provider Discharges for 2018 are estimated utilizing 2017 data excluding Vista West as 2018 annual survey data is currently not available.

[1] Founded in 2005, INRIX is recognized as a global leader in mobility data analytics, publishing its annual Scorecard which ranks traffic congestion and mobility trends across 200 cities globally.

Purpose of the Project
Encompass Health Rehabilitation Hospital of Libertyville, LLC

Sources: Illinois Hospital Association, COMPdata Informatics Inpatient Discharge Database and 2017 Annual Hospital Questionnaire, Illinois Department of Public Health, Division of Health Systems Development.

To put the number of patients out-migrating from the service area for post-acute inpatient rehab care into perspective, Encompass Libertyville projects to serve 1,064 patients in its first full year of operation, approximating the historical number of patients annually traveling out of the service area for care. The bed need for the historical outmigration alone is 41 beds (based on Illinois' Rehab average length of stay of 14.1 days), *without consideration* of patients who should be receiving inpatient Rehab services but are foregoing those services for a variety of reasons. Moreover, the outmigration analysis provided above is conservative in that it assumes that 100% of all patients admitted to an HSA8 inpatient rehabilitation provider are residents of HSA8.

Requiring residents to leave the service area to access distant inpatient rehab providers in the Chicago area places significant stress on patients and their families and creates a significant barrier to accessing care. Due to the significant traffic congestion that exists in the Chicago area, residents tend to focus on accessing healthcare services locally, a behavior that is recognized by healthcare leaders in the Chicago area. Moreover, many of the Chicago-area facilities are highly-utilized and predominantly serve patients discharged from their own hospital. According to Mark Frey, CEO of Amita Health which is one of the largest hospital systems in Illinois, Chicago's neighborhood-focused culture has developed due to the significant traffic congestion that exists in the Chicago area. "A factor that has emerged over time is just the difficulty of getting from place to place," Frey said. "It is just brutal in terms of traffic, construction, bad weather. So you have a tendency for people to try to focus on convenience and understand that, to the extent that it's possible, going long distances across Chicago for your healthcare is pretty challenging. Which is not to say that's not true in other environments, but it's especially true here in Chicago metro." (Stempniak, Marty, Chicago's Hospital Market Fragmented at the Top, *Modern Healthcare*, June 8, 2019.)

The following analysis attempts to quantify the number of HSA8 patients who should have received inpatient Rehab services but were unable to receive that optimal level of care, regardless of the reason.

First, the number of relevant or rehab-appropriate discharges for HSA8 residents must be estimated. For calendar year 2018, HSA8 residents had a total 41,386 potentially-appropriate inpatient Rehab discharges from any hospital, regardless of hospital location (*i.e.*, includes Illinois hospitals outside of HSA8 and out-of-state hospitals). As shown in the following table, less than 5 percent (4.8%) of the total general acute care hospital rehab-appropriate discharges were discharged to inpatient Rehab while at the same time, 18.6% of those discharges were discharged to SNF.

For those residents choosing to travel for general acute care services, which is generally into the urban Chicago area, they have a greater likelihood of being discharged to inpatient Rehab (6.6% of discharges for non-HSA8 hospitals) compared to the HSA8 patients who remain in an Illinois hospital for care, *i.e.*, only 4.8% discharged to inpatient Rehab. Thus, patients who currently travel to Chicago have greater access to inpatient Rehab services than those patients remaining in the Service Area. Moreover, the following chart shows that HSA8 residents discharged from an HSA8 general acute care hospital with its own Rehab unit have a greater likelihood of discharge to Rehab (8.3%) than residents discharged from an HSA8 general acute care hospital without a Rehab unit (2.9%). This

Purpose of the Project
Encompass Health Rehabilitation Hospital of Libertyville, LLC

statistic is not surprising since the vast majority of HSA8 Rehab units admit patients from their own hospitals. Encompass Libertyville will provide HSA8 residents with a freestanding inpatient Rehab hospital that will care for rehab-appropriate patients from all general acute care hospitals, thus leveling the playing field by ensuring that residents can receive appropriate post-acute care services without having to leave the Service Area.

Table 7
HSA8 Residents' Inpatient Discharges for Rehab-Appropriate MS-DRGs
by Hospital of Discharge, Calendar Year 2018
HSA8 Inpatient Rehab Providers Shaded

Hospital Name	Hospital City	Hospital County	Rehab-Appropriate General Acute Care Discharges			Hospital-Specific Discharge Rates	
			Total	to SNF	to Inpt Rehab	% to SNF	% to Inpt Rehab
Advocate Condell Medical Center	Libertyville	Lake	4,969	1,209	90	24.3%	1.8%
Advocate Good Shepherd Hospital	Barrington	Lake	2,695	563	18	20.9%	0.7%
Advocate Sherman Hospital	Elgin	Kane	3,601	560	194	15.6%	5.4%
Centegra Hospital-Huntley/Northwestern	Huntley	McHenry	2,480	425	106	17.1%	4.3%
Centegra Hospital-McHenry/Northwestern	McHenry	McHenry	2,926	537	239	18.4%	8.2%
Centegra Hospital-Woodstock	Woodstock	McHenry	1	0	0	0.0%	0.0%
Highland Park Hospital	Highland Park	Lake	1,450	421	13	29.0%	0.9%
Mercy Harvard Hospital, Inc.	Harvard	McHenry	140	34	1	24.3%	0.7%
Midwestern Regional Medical Center	Zion	Lake	26	3	1	11.5%	3.8%
Northwestern Delnor Hospital	Geneva	Kane	1,956	435	196	22.2%	10.0%
Northwestern Lake Forest Hospital	Lake Forest	Lake	2,162	429	20	19.8%	0.9%
Presence Mercy Medical Center/Amita	Aurora	Kane	1,155	236	18	20.4%	1.6%
Presence Saint Joseph Hosp - Elgin/Amita	Elgin	Kane	2,294	315	216	13.7%	9.4%
Rush Copley Medical Center	Aurora	Kane	901	182	52	20.2%	5.8%
Vista Medical Center East	Waukegan	Lake	2,389	477	18	20.0%	0.8%
Vista Medical Center West	Waukegan	Lake	0	0	0	0.0%	0.0%
Non-HSA8 Hospitals (including Chicago-area providers)			12,241	1,858	803	15.2%	6.6%
Total - All Hospitals (HSA8 + All Other Hospitals)			**41,386**	**7,684**	**1,985**	**18.6%**	**4.8%**
HSA8 Inpatient Rehab Providers' Discharges by Disposition			**6,121**	**1,034**	**507**	**16.9%**	**8.3%**
HSA8 Hospitals without Inpatient Rehab, Discharges by Disposition			**23,024**	**4,792**	**675**	**20.8%**	**2.9%**

Source: Illinois Hospital Association, COMPdata Informatics Inpatient Discharge Database.
Notes: Rehab-appropriate discharges are select MS-DRGs across services lines and excluding all newborns, obstetrics, psychiatric and substance abuse patients.
Vista West received exemption to discontinue inpatient rehabilitation services on 9/29/2017 and now operates as a dedicated psychiatric hospital - Lake Behavioral Hospital. Centegra Hospital - Woodstock received exemption to discontinue Medical-Surgical and Intensive Care services on 11/14/2017.

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Next, the expected percentage of rehab-appropriate general acute care hospital discharges who would benefit from inpatient rehab services is applied to the total rehab-appropriate discharges for HSA8 residents, regardless of where those residents received general acute care inpatient services. The following analyses shows that there are a significant number of HSA8 residents who need, and thus would benefit from, inpatient Rehab services that currently are not receiving these services. Thus, as documented, there is a projected net need for an **additional 66 Rehab beds** to be located in and serve the residents in HSA8. Calculations follow.

Table 8
Projected Rehab Bed Need Based on Current Rehab-Appropriate HSA8 Discharges from All Hospitals – CY2018

Calculations	Current Need
General Acute Care Hospital Discharges Appropriate for Inpatient Rehab Care	41,386
Multiplied by Actual HSA8 Rehab Providers' Discharge Rate to IRF for HSA8 Patients	8.3%
Equals Estimated Total HSA8 Discharges in Need of Rehab Bed	3,435
Minus Current Total HSA8 Rehab-Appropriate Discharges to Rehab	1,985
Equals HSA8 Incremental Rehab Discharges in Need of Rehab Care	1,450
Multiplied by CY17 Illinois Statewide Rehab Average Length of Stay	14.1
Equals Projected Rehab Patient Days in Need	20,445
Divided by Calendar Days	365
Equals Incremental Bed Need @ 100% Occupancy	56
Divided by Target Occupancy Factor	0.85
***Equals* Incremental Bed Need @ 85% Target Occupancy**	**66**

Sources: Illinois Hospital Association, COMPdata Informatics Inpatient Discharge Database; and Encompass Health.

The proposed project meets the community need for additional Rehab beds to be located in and serve HSA8 patients, as demonstrated above. The analysis is based on the following assumptions:

- Rehab-appropriate discharges are select MSDRGs across services lines, excluding all obstetrical, neonatal, psychiatric, and substance abuse patients.
- The actual 8.3% inpatient Rehab discharge rate for residents of HSA8 who are discharged from a general acute hospital in the Service Area that has its own inpatient Rehab unit. Use of the 8.3% discharge rate is reasonable as it assumes that all HSA8 residents with rehab-appropriate clinical conditions will have equal access to inpatient Rehab care once the freestanding 60-bed hospital is established in the 3-county area.
- The bed need excludes any in-migration of patients from outside of HSA8.
- The bed need is based on current discharges, thus conservatively excludes expected growth in rehab-appropriate discharges due to the aging of patient population.

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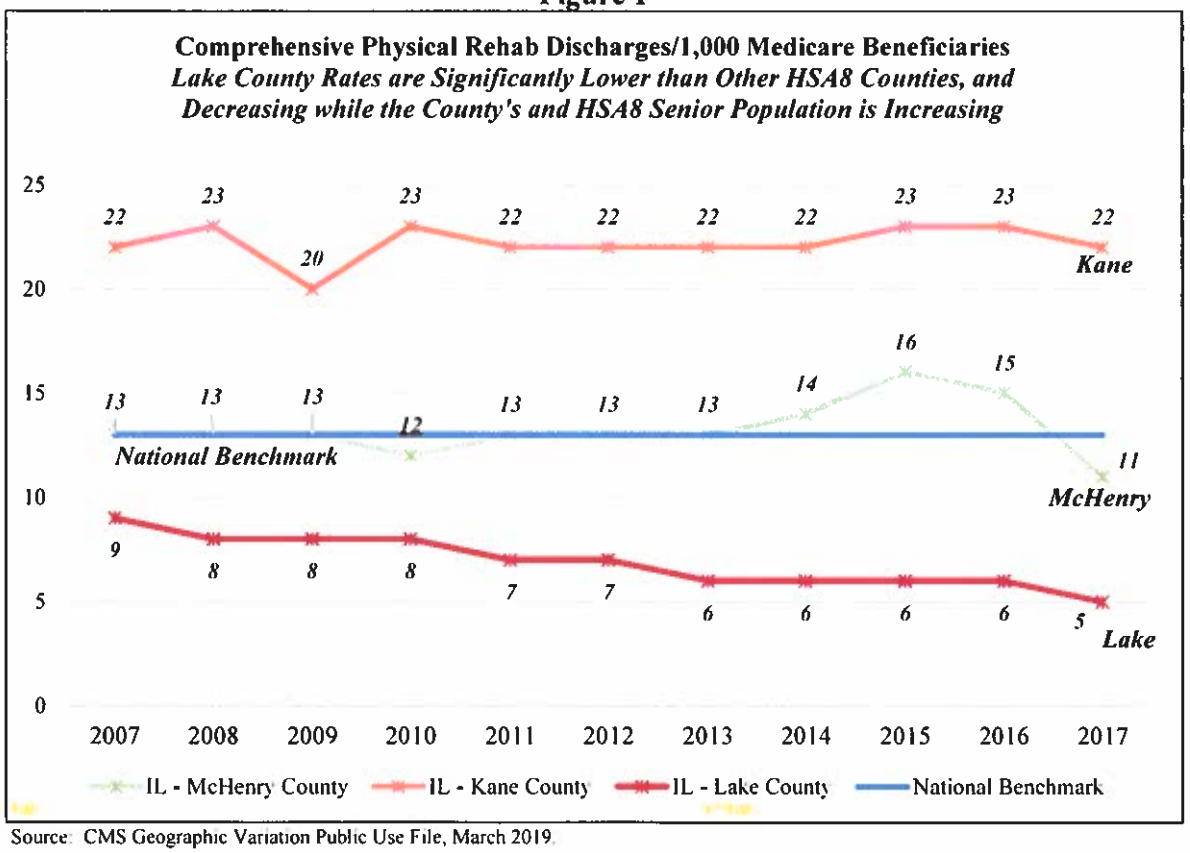
- Local access to inpatient Rehab services will be enhanced, reducing the need for residents to travel into the congested urban Chicago area for care.

CMS Inpatient Rehab Use Rates Applied to HSA8 Population
Another way to quantify the bed need for the residents in HSA8 when all patients are considered, including those who travel outside their local community for care, is to apply national Centers for Medicare and Medicaid Services ("CMS") data to the Service Area population. This provides a meaningful alternative lens to amplify the historical utilization methodology utilized by the HFSRB because it allows for an evaluation that assesses projected population growth and normalizes underutilization issues due to lack of access and lack of availability by considering national data. That analysis follows.

The following graph documents that the limited availability of Rehab beds for residents in HSA8 has adversely impacted residents' access to inpatient Rehab services for many years, and has been particularly detrimental for the residents of the heavily-populated Lake County.

Figure 1



Source: CMS Geographic Variation Public Use File, March 2019.

As shown above, Kane County Medicare residents are utilizing inpatient Rehab services at significantly higher rates than McHenry and Lake, which is not surprising since Kane County is home to two of the three inpatient Rehab providers in HSA8, accounting for over half of HSA8 licensed Rehab beds. McHenry County's Medicare inpatient Rehab use has historically been comparable to

the national benchmark, though has recently declined dramatically. Lake County, the most populated county with zero Rehab beds, has by far the lowest Medicare inpatient Rehab utilization in HSA8; and the county's dismally-low rate is falling. Notably, Lake County's inpatient Rehab utilization has been dramatically declining at the same time that its population ages 65 and older has been significantly increasing.

The following table mirrors the data provided in the graph, demonstrating the significant decrease in inpatient Rehab utilization for Lake County residents compared to Kane and McHenry counties. Unfortunately, it is reasonable to expect the already-low inpatient Rehab utilization rate for Lake County to continue to decline given the closure of Rehab beds at Vista Medical Center – West in late 2017. It is important to consider that the discontinuation of those beds was not due to a lack of need for the services but due to the sale and conversion of that facility into a specialty hospital focused on acute mental illness.

Table 9
Inpatient Rehabilitation Utilization per 1,000 Medicare Beneficiaries
State and HSA8 County Rates

County/Geography	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Kane	22	23	20	23	22	22	22	22	23	23	22
Lake	9	8	8	8	7	7	6	6	6	6	5
McHenry	13	13	13	12	13	13	13	14	16	15	11
State of Illinois	*13*	*13*	*12*	*12*	*12*	*12*	*12*	*12*	*12*	*11*	*11*

Source: Centers for Medicare & Medicaid Services (CMS). Geographic Variation Public Use File, data represent Medicare Fee for Service Enrollees.

The proposed project will address the disparities within HSA8 by providing needed additional beds to all residents in the Service Area, including Lake County residents.

The disparity in inpatient Rehab utilization between HSA8 counties is further documented below. As shown, Lake County residents have access to general acute care services similar to residents in the other two HSA8 counties, yet have significantly lower utilization of inpatient Rehab services. In lieu of available and accessible[2] Rehab beds, Lake County residents are utilizing SNF disproportionate to other services and to other counties.

[2] Lake County residents currently must travel over an hour to reach specialized inpatient rehab services in Chicago, or travel out-of-state to the "nearest" Rehab provider in Wisconsin, neither of which are viable alternatives to the proposed Lake County Rehab hospital.

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Table 10 **2017 Acute Care and Post-Acute Care Utilization, Medicare Beneficiaries (All Ages)** ***Significant Disparity Exists Within HSA8 Due to Lake County's Low Rehab Utilization***				
Health Care Utilization (Discharges/Visits per 1,000 persons)	**Illinois Average**	**HSA8 Counties**		
		Kane	**Lake**	**McHenry**
General Acute Care	299	275	270	291
Post-Acute Care Services				
Long Term Acute Care	2	2	1	2
Inpatient Rehabilitation	11	22	5	11
Skilled Nursing	82	70	86	77
Ratio: Skilled Nursing to Inpatient Rehabilitation	**7.5**	**3.2**	**17.2**	**7.0**
Source: Centers for Medicare & Medicaid Services (CMS), Geographic Variation Public Use File, data represents Medicare Fee for Service Enrollees and is for select PAC Services.				

Absent the proposed project, HSA8 residents will continue to either forego needed inpatient Rehab services altogether or, alternatively, travel outside their local community for care, neither of which are viable options for patients in a community with an increasing population ages 65+.

In order to estimate the number of additional beds needed in HSA8 for the Planning Year Horizon (2024), the following methodology and assumptions were used:

- National actual Rehab Medicare utilization (13 discharges per 1,000 Medicare beneficiaries, which is the 75th percentile nationally) was the baseline or target discharge rate used to project HSA8 Medicare FFS Rehab admissions.

- Total admissions (all payors) were projected by applying the statewide distribution of patients (*i.e.*, Medicare FFS as a percent of total admissions) to HSA8 Medicare FFS Rehab admissions.

- Actual statewide average length of stay ("ALOS") for Rehab patients (all payors) was used to project HSA8 Rehab days.

- Inventory of existing Rehab beds based on HFSRB reported 80 beds, which reflects the recent closure of the Rehab beds at Vista Medical Center West.

As shown below, based on the national Medicare Rehab use rates, there is a projected net need for an **additional 120 Rehab beds in 2024** to meet the needs of the residents in HSA8 at that time. Calculations follow.

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Table 11 **HSA8 Projected Rehab Bed Need in Planning Year Horizon (2024)** **Based on National CMS 75th Percentile Discharge Rate**	
Calculations for HSA8 Bed Need	**2024 Projections**
Projected HSA8 Medicare Beneficiaries, 2024	265,436
Multiplied by HSA8 CY17 Percent of Medicare FFS Beneficiaries	80.7%
Equals Total Projected Medicare FFS Beneficiaries, HSA8	214,207
Multiplied by National CY17 Rehab Admit Rate per FFS Beneficiaries	13
Equals Projected HSA8 Rehab Admits – Medicare FFS	2,785
Divided by Statewide % Rehab YTD18 Admits that are Medicare FFS	57.8%
Equals Projected HSA8 Rehab Admits – All Payers, 2024	4,818
Multiplied by Current (CY17) Illinois Rehab Patient Length of Stay	12.82
Equals Projected 2024 Rehab Days, HSA8	61,767
Total HSA8 Rehab Beds Needed at 100% Occupancy	169
Target Rehab *Occupancy Rate*	85.0%
Projected Gross Need for HSA8 Rehab Beds	200
Minus Existing Rehab Beds in HSA8	80
***Equals* Projected Net Rehab Bed Need, HSA8**	**120**
Sources: CMS Geographic Variation Public Use Files; Illinois Hospital Association, COMPdata Informatics Inpatient Discharge Database; Inventory of Health Care Facilities and Services and Need Determinations, HFSRB 9/1/2017; and, Illinois Department of Public Health Certificate of Need Population Projections, 2014.	

In summary, regardless of the methodology utilized, there is a need for at least 66 additional beds to be located in and serve the residents of HSA8. The additional beds will ensure that residents have available and accessible options for Rehab inpatient care without the need to travel out of the service area, forego services altogether, or utilize less intensive services in lieu of Rehab, when needed.

C) <u>The Proposed Project will Provide High Quality, Cost-Effective Care</u>.

It is important for patients and families to have a choice of inpatient Rehab providers close to home. As noted previously, the ability of the patient's family to actively participate in the patient's care plan and provide support to the patient ultimately enhances quality of care for patients. For elderly family members particularly, the ability to participate in the care without having to travel highly congested roadways into the urban Chicago area on a daily basis means more participation and involvement in the patient's care.

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The mere addition of beds is not sufficient, however, to ensure that the proposed project will provide health services that improve the health care of the service area population. It is proven programs, services, staff, and facility design that are integral to the delivery of high quality care. Encompass Health has proven programs and services in place in Illinois and nationally that are illustrative of the high quality, cost-effective care that will be provided in the new freestanding 60-bed inpatient Rehab hospital in Libertyville.

Encompass Health currently operates one inpatient rehabilitation hospital in Illinois, Van Matre Encompass Health Rehabilitation Hospital in Rockford. The 65-bed Van Matre Encompass Health Rehabilitation Hospital, operated in partnership with Mercyhealth, is Joint Commission-accredited and has the following Disease-Specific Care Certifications from The Joint Commission:

- Stroke Rehabilitation
- Brain Injury Rehabilitation
- Spinal Cord Rehabilitation.

The high quality care at Van Matre Encompass Health epitomizes the proven programs and services of Encompass, regardless of how quality is defined. For example and consistent with the Disease-Specific Care Certifications of Van Matre Encompass Health, 115 of Encompass Health's inpatient rehab hospitals hold one or more disease-specific certifications from The Joint Commission's Disease-Specific Care Certification Program in areas such as stroke, brain injury, or hip fracture rehabilitation.

Encompass Health consistently exceeds expectations in terms of its hospitals' FIM® scores, which measures a patient's gain in functional improvement from admission to discharge and indicates the degree of practical improvement toward the patient's rehab goals. The FIM® (functional independence measure) score is based on 18 cognitive and functional measures including walking, climbing stairs, transfers, bowel and bladder function, and dressing.

As indicated by the chart below, Encompass Health's FIM® score exceeded the UDSMR® expected FIM® score for each of the last nine years.[3]

[3] This is the most recent data available for FIM scores because CMS is replacing the FIM functional assessment measures with the CARE Tool measures effective October 1, 2019.

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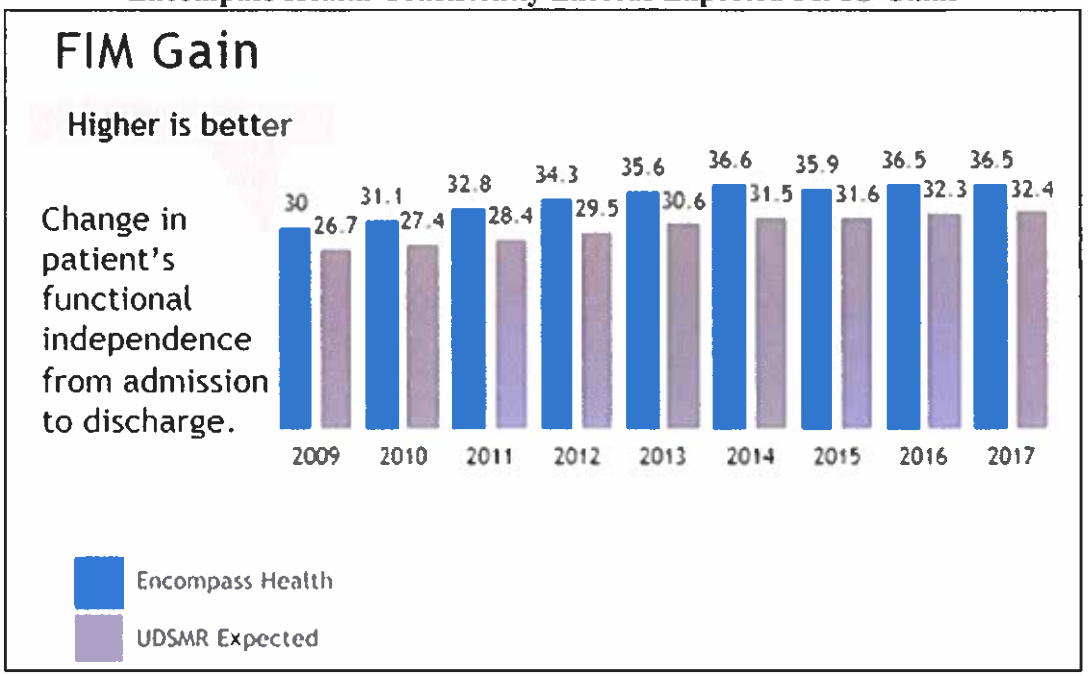
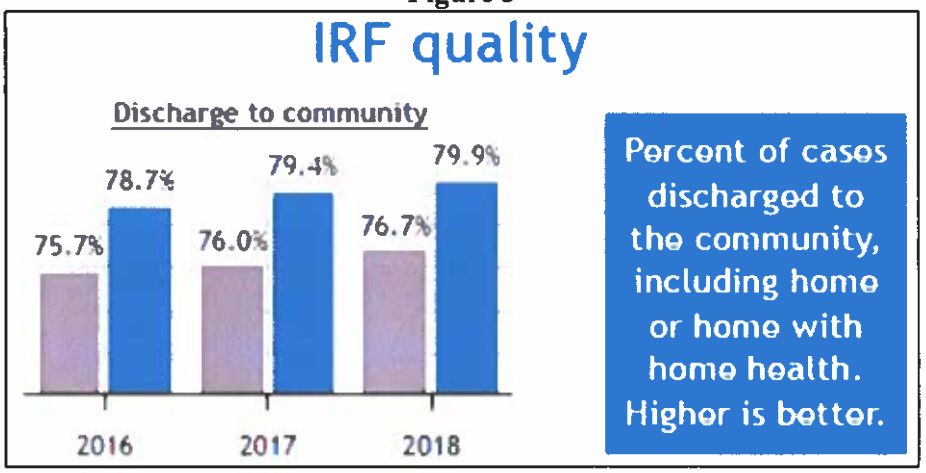
Figure 2
Encompass Health Consistently Exceeds Expected FIM® Gains



Further evidence of Encompass Health's provision of quality care is the percentage of patients discharged to the community versus to a SNF or acute care hospital. As shown on the following page, Encompass has a proven track record of returning approximately 80% of its patients back to the community, outperforming other providers nationally. Encompass Libertyville will utilize Encompass Health's proven programs to ensure high quality care is provided to its patients.

Figure 3



Source: Investor Reference Book, Post Q4 2018 Earnings Release Updated March 5, 2019, Encompass Health.

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Finally, as shown below, Encompass Health hospitals across the nation continually engage in primary research to supplement the company's the best practices and protocols for a variety of diagnoses so that patients will always have the highest level of outcomes and quality care.

A listing of select current research at Encompass hospitals nationally follows.

- Western PA Patient Registry
- Audiology & Speech Language Registry
- Psych and Neuro of Spatial Cognition
- SDM-Stroke
- SDMM-Geriatric
- Incontinence Study
- Project Steady
- Speed and Distance
- Stroke Studies (several separate studies are underway at various facilities)
- Review of Stroke Patients that Return to Acute
- Stroke Rehabilitation Disparities
- C. Diff EIP
- Flexor Tendon Repair
- Fitness to Drive in Older Adults
- Home Modifications
- AO Spine
- Prolonging Safe Driving - Stroke
- Prism Adaptation Therapy
- Step-Hi
- Tele-rehab vs in-clinic therapy
- The Impact of Falls Prevention Education on Fall Rates
- Is The Ability To Detect A Foreign Accent Located In The Right Hemisphere?
- Bleeding in tracheotomy patients
- Dynamic Body-weight Support (DBWS) on Inpatient Rehabilitation
- Predicting D/C Destination in Hip Fractures
- IM Impact on Falls
- Acuity rating project
- MMJ Study
- Amputee Rehab Outcome Research

Thus, as documented here, the proposed new freestanding inpatient Rehab hospital will implement Encompass Health's proven programs and services to improve the health care of the market area population to be served. (Details on how the project will improve the population's health status and well-being are provided below in response to #5.)

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D) <u>The Proposed Project will Complement Existing Rehab Services Offered in HSA8</u>.

Currently, the nearly 1.7 million residents in HSA8 are served by three inpatient Rehab providers: the 40-bed Comprehensive Rehabilitation Center at Presence St. Joseph Hospital – Elgin, the 22-bed Inpatient Rehabilitation Care Center at Northwestern Medicine McHenry Hospital (formerly Centegra Hospital – McHenry) and Rush – Copley Medical Center's 18-bed Inpatient Physical Rehabilitation Center. Each of these programs offer services in a unit within their respective general acute care hospital. Thus, *the proposed Encompass Health Rehabilitation Hospital of Libertyville will be the only standalone, freestanding rehab-only hospital in HSA8.* Moreover, as stated previously, the proposed new hospital will include all private rooms.

The advantages of the proposed freestanding inpatient rehab-only hospital compared to the existing HSA8 in-hospital units are many, including for example:

- The ability of Encompass Health to focus solely on the needs of inpatient rehab patients and bring national programs and services (including for example, electronic medical records) specifically designed for rehab patients to the local market, whereas existing general acute care hospitals simply cannot. Instead, general acute care hospitals must prioritize and distribute limited resources across many service lines and programs, with inpatient rehab units representing only a small portion of their portfolio of health care services.
- A facility design that makes clear some of the many advantages of a freestanding inpatient rehab hospital compared to typical in-hospital units, including significantly larger rehab therapy areas with more equipment and technology, an extensive outdoor therapy area, dedicated bariatric rehab rooms, dedicated isolation rooms, and a dedicated dialysis unit.
- Ease of hospital navigation by the patient and family, including convenient free parking near the hospital entrance and wayfinding throughout the facility.
- The ability of a dedicated rehab hospital to recruit highly-specialized and specially-trained rehab-specific clinical staff members.
- Equal acceptance of rehab-appropriate patients from all general acute care providers so that HSA8 residents receiving care at any HSA8 general acute care hospital have the same chance of discharge to Rehab services as patients who are discharged from general acute care hospitals with their own in-hospital Rehab unit.

As documented below, the existing inpatient Rehab providers in HSA8 are well-utilized, with an aggregate occupancy of approximately 80%.

Table 12
Existing Providers are Unable to Meet HSA8 Residents' Needs

Inpatient Rehab Providers	Licensed Rehab Beds	CY2017 Occupancy
Northwestern Medicine McHenry Hospital	22	75.2%
Presence St. Joseph Hospital – Elgin	40	89.1%
Rush – Copley Medical Center	18	63.6%
Total	**80**	**79.5%**

Sources: 2017 Annual Hospital Questionnaire, Illinois Department of Public Health, Division of Health Systems Development.

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HSA8 Rehab providers offer care to patients with a broad spectrum of clinical conditions, as indicated by the distribution of Medicare patients across condition types. The following table shows the distribution of Rehab patients at each of the Rehab providers in the Service Area.

Table 13
Comparison of Medical Conditions Treated by Local IRF Providers to National Averages for Medicare Patients (April 2017 - March 2018)

		Centegra Hospital - McHenry		*Presence St. Joseph Hospital - Elgin*		*Rush - Copley Medical Center*	
Conditions	**National**	**Discharges**	**% of Total**	**Discharges**	**% of Total**	**Discharges**	**% of Total**
Stroke	**22.6%**	66	**23.5%**	138	**13.3%**	117	**33.3%**
Nervous System Disorder (Excluding Stroke)	**13.9%**	42	**14.9%**	272	**26.2%**	72	**20.5%**
Brain Disease or Condition (Non-Traumatic)	**7.4%**	32	**11.4%**	84	**8.1%**	10	**2.8%**
Brain Injury (Traumatic)	**4.6%**	10	**3.6%**	37	**3.6%**	19	**5.4%**
Spinal Cord Disease or Condition (Non-Traumatic)	**4.7%**	15	**5.3%**	14	**1.4%**	10	**2.8%**
Spinal Cord Injury (Traumatic)	**1.9%**	10	**3.6%**	10	**1.0%**	10	**2.8%**
Hip or Femur Fracture	**9.6%**	28	**10.0%**	57	**5.5%**	51	**14.5%**
Hip or Knee Replacement, Amputation or Other Bone or Joint Condition	**16.4%**	41	**14.6%**	194	**18.7%**	32	**9.1%**
All Other Conditions	**19.0%**	37	**13.2%**	231	**22.3%**	30	**8.5%**
Estimated Total	**100.0%**	**281**	**100.0%**	**1,037**	**100.0%**	**351**	**100.0%**

Note: To protect patient privacy, CMS does not provide discharge totals by facility for conditions with less than 11 total discharges. Therefore, a discharge total of 10 patients was applied to estimate volumes for those conditions.
Source: Data.Medicare.gov, Inpatient Rehabilitation Facility (IRF) Compare datasets, IRF-Conditions dataset, updated March 6, 2019.

Similar to existing HSA8 providers, Encompass Libertyville will offer proven programs and services to patients recovering from a wide array of injuries and illnesses. Thus, the proposed project will complement the existing Rehab providers, ensuring that patients with a wide array of diagnoses in need of inpatient rehabilitation have available and accessible services close to home.

For reference, the overall mix of patients nationally (average for all Encompass Health hospitals) follows. Encompass Libertyville expects to serve a similarly wide array of patient types.

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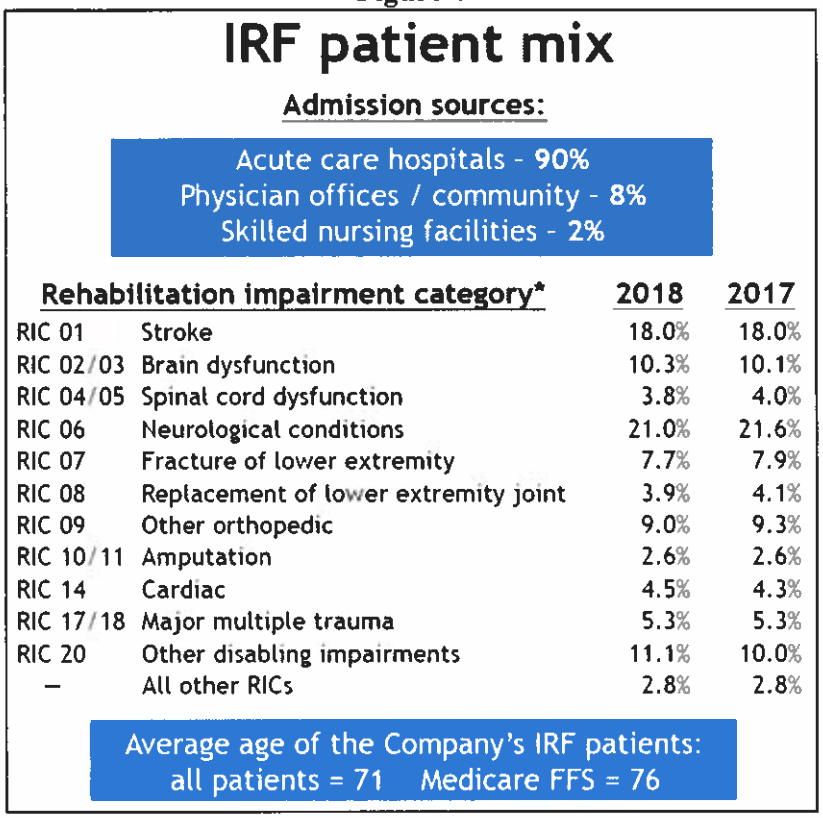
Figure 4



IRF patient mix

Admission sources:

Acute care hospitals - **90%**
Physician offices / community - **8%**
Skilled nursing facilities - **2%**

Rehabilitation impairment category*		2018	2017
RIC 01	Stroke	18.0%	18.0%
RIC 02/03	Brain dysfunction	10.3%	10.1%
RIC 04/05	Spinal cord dysfunction	3.8%	4.0%
RIC 06	Neurological conditions	21.0%	21.6%
RIC 07	Fracture of lower extremity	7.7%	7.9%
RIC 08	Replacement of lower extremity joint	3.9%	4.1%
RIC 09	Other orthopedic	9.0%	9.3%
RIC 10/11	Amputation	2.6%	2.6%
RIC 14	Cardiac	4.5%	4.3%
RIC 17/18	Major multiple trauma	5.3%	5.3%
RIC 20	Other disabling impairments	11.1%	10.0%
–	All other RICs	2.8%	2.8%

Average age of the Company's IRF patients:
all patients = 71 Medicare FFS = 76

Source: Investor Reference Book, Post Q4 2018 Earnings Release Updated March 5, 2019, Encompass Health.

Notably, an integral component in the provision of services to a wide array of patient diagnoses (or Rehabilitation Impairment Categories) is Encompass Health's ***open medical staff model*** which ensures that community-based physicians are available to care for patients' medical needs alongside the PMR physician caring for their physical rehabilitative needs. For example, Van Matre Encompass Health in Rockford works with community-based Internal Medicine physicians, Hospitalists, and other specialties (*e.g.*, Neurology) to ensure that their inpatients have access to medical specialists as needed during their inpatient stay.

Thus, the proposed project will enhance accessibility and availability of needed Rehab beds for residents in the four-county service area by:

- Addressing the HFSRB-identified need for 20 beds with a 60-bed freestanding inpatient Rehab hospital centrally located and easily accessible to patients throughout HSA8.
- Ensuring sufficient beds are available and accessible to meet residents' needs so that they no longer must travel congested roadways into and around Chicago, which is outside the HFSRB-defined service area.
- Providing the most appropriate and intensive inpatient rehabilitative care so that residents do not have to settle for less-intensive rehab services such as skilled nursing (or home health care) when intensive inpatient rehab is needed, which appears to be the case presently.

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E) <u>The Proposed Project will have a Positive Economic Impact Short & Long Term</u>.

The proposed project will have a positive economic impact on the health system and its patients by returning the majority of patients back to the community with the ability to live as independently as possible. In addition to positively impacting the health system and its patients, the new 60-bed hospital will have a positive economic impact on the community during construction and ongoing operations of the facility, as follows:

- New hospital will be a major source of jobs for professional workers.
- Economic downstream impact and employer-multiplier effect translates to an annual economic impact in the millions of dollars.
- Annual tax-paying entity (sales and property taxes).

2. The Planning area to be served is the 3-county HSA8.

The proposed project is being developed to address the need for additional inpatient rehab beds to be located in and serve the residents of HSA8. As documented above, a significant number of HSA8 residents who are admitted for inpatient Rehab services are residents willing and able to travel outside of the service area into Chicago. (*See* Table 6 previously provided.)

The following map shows Encompass Libertyville's easily accessible location in the three-county planning area to patients who currently have limited geographic access to inpatient rehab services. Also shown on the map are general acute care hospitals in HSA8 and the three existing Rehab providers in HSA8.

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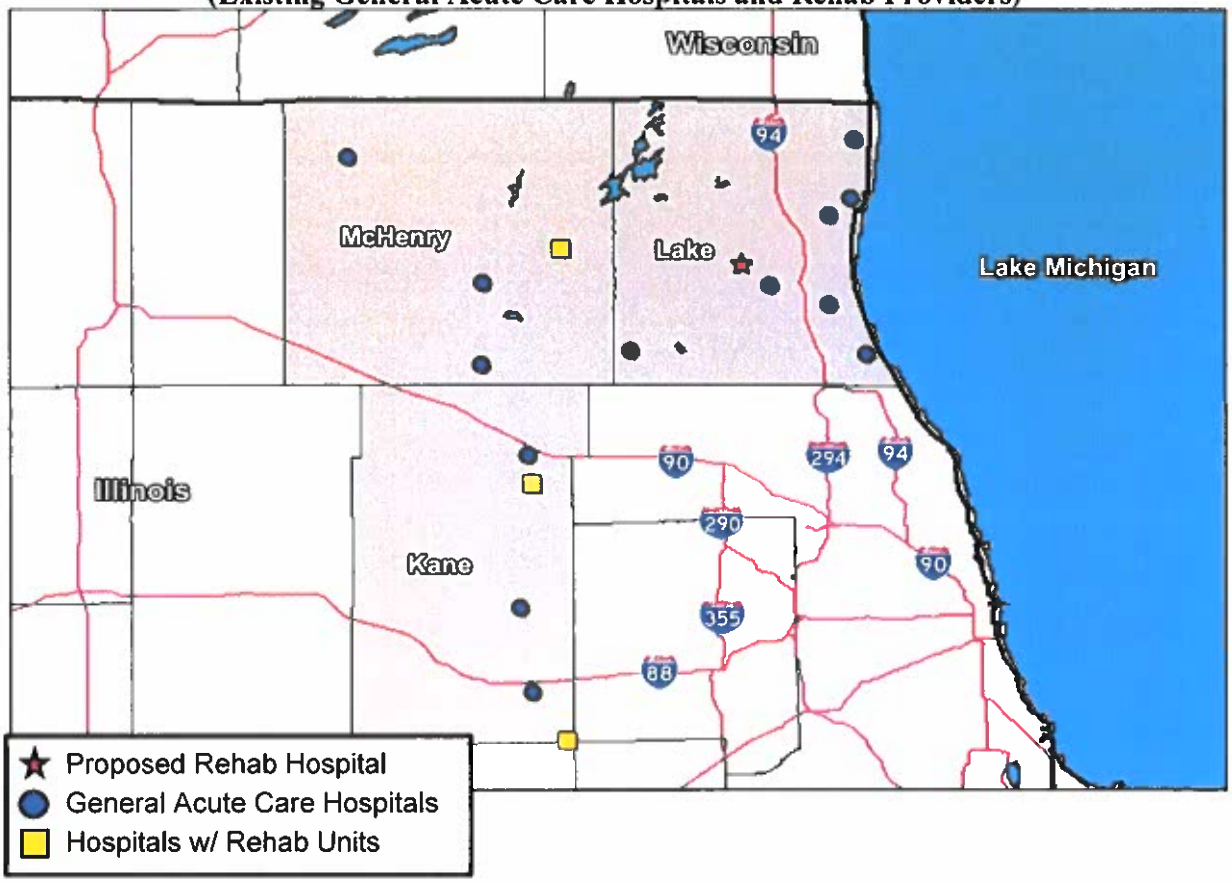
Figure 5
HSA8 Service Area Map
(Existing General Acute Care Hospitals and Rehab Providers)



The need for additional beds in HSA8 is based on the total population and the aging in place of that population. To put the declining number of an already-limited and undersupply of Rehab beds into perspective, consider the following:

- HSA8 total population is forecasted to reach nearly 1.76 million in 2024.
- All three of the service area counties rank in the Top 10 statewide in terms of total population:
  - Lake County ranks as the state's 4th largest county in terms of total population, both now (2019) and in the Planning Year Horizon (2024).
  - Kane County ranks as the state's 5th largest county in terms of total population, both now (2019) and in the Planning Year Horizon (2024).
  - McHenry County ranks as the state's 6th largest county in terms of total population, both now (2019) and in the Planning Year Horizon (2024).

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Details regarding HSA8 population follows.

Table 14
HSA8 Total Population, 2019-2024

County	2019	2024	Numerical Change	% Change
Kane	576,118	611,941	35,823	6.2%
Lake	757,936	788,049	30,113	4.0%
McHenry	341,302	359,584	18,282	5.4%
TOTAL	**1,675,356**	**1,759,574**	**84,218**	**5.0%**

Sources: Illinois Department of Public Health, Illinois Health Facilities and Services Review Board, Certificate of Need Population Projections Project, 2014.
Note: Population projections as of July 1 for the specified years.

Moreover, HSA8's large total population is aging, which is relevant to the proposed rehab project because the majority (nearly 70%) of rehab discharges are typically Medicare patients, the vast majority of whom are ages 65 and over. HSA8's elderly population is projected to increase approximately 25% over the planning horizon, as documented in the following chart.

Table 15
HSA8 Elderly Population, 2019 and 2024

	Total Population		Pop 65+		65+ Pop,	65 + Pop as a % of Total Pop	
County	2019	2024	2019	2024	% Change	2019	2024
Kane	576,118	611,941	76,879	95,181	23.8%	13.3%	15.6%
Lake	757,936	788,049	109,882	137,378	25.0%	14.5%	17.4%
McHenry	341,302	359,584	48,405	61,242	26.5%	14.2%	17.0%
Total Area	**1,675,356**	**1,759,574**	**235,166**	**293,801**	**24.9%**	**14.0%**	**16.7%**

Sources: Illinois Department of Public Health, Illinois Health Facilities and Services Review Board, Certificate of Need Population Projections Project, 2014.
Note: Population projections as of July 1 for the specified years.

Purpose of the Project
Encompass Health Rehabilitation Hospital of Libertyville, LLC

3. The project will address existing problems facing HSA8 residents due to the lack of beds.

As documented previously, there are two primary existing problems facing HSA8 residents that will be addressed by the proposed project:

(1) Lack of sufficient number of available and accessible rehab beds in HSA8 to meet the need for patients, based on HSA8 Rehab providers' historical (2015) patient days and the limited (and declining) number of Rehab beds in the HFSRB-defined Service Area.

(2) Lack of sufficient number of available and accessible rehab beds in HSA8 to meet the needs of patients who are currently traveling out of the service area for inpatient rehab care; are receiving less intensive services (such as SNF) in lieu of inpatient rehab care; or foregoing post-acute inpatient rehab care altogether.

The proposed bed addition will address the current gap in utilization, offering local Rehab services to the HSA8 patients in need.

4. Sources used in the analyses.

As documented in the various tables previously presented, the following sources were used in the analyses:

- Illinois HFSRB State Summary Revised Bed Need Projection, 6/5/2019.
- Illinois HFSRB Inventory of Health Care Facilities and Services and Need Determinations, 9/1/2017.
- Illinois Department of Public Health, Illinois Health Facilities and Services Review Board, Certificate of Need Population Projections Project, 2014.
- Illinois Hospital Association, COMPdata Informatics Inpatient Discharge Database.
- CMS Geographic Variation Public Use File, March 2019.
- Medicare data obtained from Data.Medicare.gov, Inpatient Rehabilitation Facility (IRF) Compare datasets, IRF-Conditions dataset, Updated March 6, 2019.
- Healthcare Cost Utilization Project (H-CUP) Statistical Brief #205, An All-Payer View of Hospital Discharge to Post-acute Care, 2013, Agency for Healthcare Research and Quality (AHRQ), Published May 2016, Author Wen Tian, PhD, MD.
- INRIX 2018 Global Traffic Scorecard Report, Published February 2019.

Purpose of the Project
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5. Encompass Libertyville will improve the health care and well-being of HSA8 residents.

The results of the proven programs and services that Encompass Health will implement at Encompass Libertyville were previously presented, documenting that the project will in fact improve the health care and well-being of HSA8 residents by offering locally accessible and available intensive inpatient rehabilitation services.

The following describes *how* the project will address or improve the previously-referenced issues, as well as the population's health status and well-being.

First, the proposed project will ensure that HSA8 residents have access to local health care services through the establishment of a 60-bed rehab-only freestanding hospital that is accessible to service area residents when needed.

Second, the proposed project will implement the following programs, services, and facility amenities specific to Encompass Health hospitals throughout the nation, and in place at the current joint venture facility owned and operated by Mercyhealth and Encompass, *i.e.*, Van Matre Encompass Health Rehabilitation Hospital.

The success of the following programs and services is due in large part to the synergy of Encompass Health's comprehensive team approach to rehabilitation services and use of the latest technology and treatments available. The facility design specifically allows for and supports the use of extensive equipment and technology by specially-trained staff in a patient-centered environment. Notably, the proposed new 60-bed hospital will be the only freestanding inpatient Rehab hospital in HSA8.

Specific ***programs and services*** to be offered at Encompass Libertyville address a wide range of diagnosis including, but not limited to, the following.

- Stroke
- Brain injury
- Neurological conditions
- Joint replacement
- Orthopedic
- Hip fracture
- Spinal cord injury
- Amputee
- Parkinson's Disease
- Multiple sclerosis
- Burns
- Pulmonary/respiratory
- Pain management

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The success of these programs and services is due in large part to the highly-qualified and specially-trained ***physicians and staff members*** who comprise a **comprehensive, multidisciplinary team** including:

- **Medical Director:** A Physical Medicine and Rehabilitation ("PMR") physician who frequently meets with the patient during the patient's inpatient stay, and is ultimately responsible for implementing the patient's care plan as the multidisciplinary team leader.

- **Rehabilitation nursing:** Implements each patient's medical care program as directed by his or her physician.

- **Occupational therapy:** Designs and delivers activity-based therapy to promote independence in the areas of self-care, home management and community reintegration.

- **Physical therapy:** Evaluates and designs a treatment program to address limitations in physical function, mobility and safety.

- **Respiratory therapy:** Ensures proper respiratory function through services such as oxygen supplements and aerosol treatments.

- **Speech-language pathology:** Assesses and treats individuals with communication and comprehension disorders, cognitive difficulties and swallowing disorders.

- **Dietary and nutritional counseling:** Supervises all meals to ensure patients meet their required nutritional needs.

- **Case management:** Coordinates with the physician to ensure the patient's needs are met and involves the family and other caregivers in the patient's rehabilitation. The Case Manager is also responsible for:
  - Working with the family prior to the patient's discharge to provide training to help family members care for patients after discharge.
  - Visiting the patient's home prior discharge to identify and then address any special needs (such as equipment) the patient will have upon returning home.
  - Coordination and collaboration of services between the patient and community service providers who will be responsible for providing care to the patient post-discharge.

Patients benefit not only from the extensive array and number of staff members in place at Encompass Health hospitals, such as that proposed for the new Libertyville facility, but also from the unique patient-centric programs staff members institute at their facilities to ensure patients receive high quality care.

A few ***employee-driven patient-centric programs*** that are expected to be implemented at The Rehab Institute, as they are at existing Encompass facilities, include the following.

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- **No Pass Policy** which ensures that any and all staff members must never pass by a patient's room when the nurse call light is on or when it is clear that, even without the call light on, the patient would benefit from assistance. Notably, this operational mandate applies to all staff members, not just nursing staff, so that any and all staff members ensure that patients and families' needs are the highest priority at all times.

- **Welcome Announcement** is one small way in which the staff members can make a new patient feel welcome and know that his/her admission to the hospital is recognized by all staff members as a new beginning. While the patient's name isn't announced so that the patient's privacy is protected, the announcement makes clear that a new patient in a specific room number has arrived, and will join the other patients in his/her journey along the road to rehabilitation and recovery.

- **Patient's in-room information board** is an often overlooked ubiquitous aspect of an inpatient's room at virtually every acute care hospital in the U.S. However, the staff members at Encompass recognized the full potential and importance of the in-room board to the patient, family, and staff members and so have focused on this tool as a means to enhance patient involvement, and thus ultimately quality of care.
  - For example, each patient can refer to the board for that day's rehabilitation schedule, any special daily activities in the Day Room, and a photograph of the physician who is responsible for his/her care during the inpatient stay, among other items. The patient and staff will also see reminders of any special precautions or needs, *e.g.*, indication that an alarm will sound when the patient gets out of bed. In this way, the patient and staff have a visible reminder of the patient's activities and specific needs that goes beyond the typical in-room information board of general acute care hospitals, improving it to specifically meet the needs of inpatient rehab patients.

- **Victory Bell** that is in place at the entrance to the Therapy Gym is another way that the staff recognize individual patients and their success in rehabilitation. The Victory Bell is used by patients when they are being discharged from the hospital, signaling to other patients and all staff members that the patient has passed a significant milestone in his/her life, and that the other patients can too. (The Encompass Health hospital's Victory Bell is similar to the "Survivor Bell" that many oncology programs have in place for their patients to ring to announce the successful end of their treatment.)

The ***facility design*** supports and promotes the programs and services offered by Encompass Health hospitals, ensuring that staff members can provide high quality, intensive rehabilitation and restorative services in a cost-effective manner. As illustrated below, the facility design is patient-centered, with an emphasis on clinical outcomes, patient safety, and the use of technology and innovation in caring for patients.

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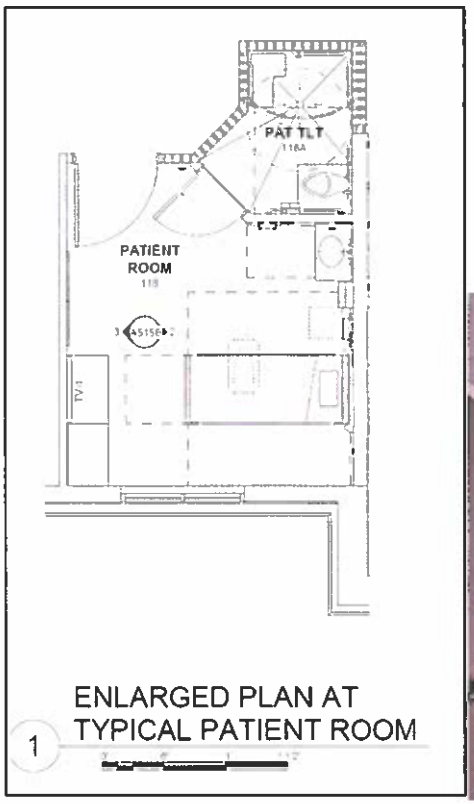
The proposed facility includes the following amenities.

- Sixty (60) private wheelchair accessible patient rooms with wheelchair accessible private bathrooms, and sufficient space bedside for caregivers and family members to interact with the patient comfortably. Notably, all patient rooms are designed with full capability of acute care inpatient rooms, *e.g.*, head walls and gases are incorporated into the design, reflecting the medical complexity of patients served.

- Four (4) private bariatric/isolation rooms, providing larger and specially-designed rooms to care for bariatric patients who require additional space in both the patient room and bathroom in addition to specialized equipment, *e.g.*, overhead track system with lift capability. These rooms also have negative air pressure flow to meet the special needs of patients with communicable diseases, so can be used as isolation rooms when needed.

- A dialysis treatment area with four patient bays for patients requiring dialysis care during their inpatient stay.



Architectural Figure A

Architectural Figure B

Purpose of the Project
Encompass Health Rehabilitation Hospital of Libertyville, LLC

- A Therapy Gym with specialized equipment and of sufficient size ensures that patients and staff members have appropriate space to work for the patient to complete his/her daily rehabilitation, and affords family members and caregivers the opportunity to attend the patient's therapy session. (*See* Architectural Figure C below.)

  - For comparison purposes, proposed rehab hospital's Therapy Gym is nearly double the size of the typical therapy gym/inpatient rehab area offered in general acute care hospitals that have dedicated inpatient rehabilitation beds.

  - A listing and brief description of the hospital's planned clinical rehab equipment and technology that will be included in the Therapy Gym is provided later in this Attachment.

Architectural Figure C

- A dedicated and separate Activities of Daily Living ("ADL") Suite within the Therapy Gym provides patients and their families a home-like setting where the patient can relearn ADL activities in order to live as independently as possible when returning home. The ADL Suite includes a kitchen with a stove, sink, refrigerator, dishwasher, cabinets, and tables and chairs; a laundry room with a washer and dryer; and a homelike bathroom intentionally designed with a small, non-compliant American with Disabilities Act ("ADA") doorway since that is what most patients will face when they return to the community.

- A dedicated Outdoor Therapy Area, adjacent to the large indoor Therapy Gym, with specialized ramps, surfaces, curbs, and seating for rehab patients to use in order to practice navigating the various settings a patient will face when s/he returns to the community.

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- A large Dining Area where patients engage in communal dining as part of their ongoing rehabilitation and restoration. (*See* Architectural Figure D below.)

Architectural Figure D

- A Dayroom Activity Area that is used for socialization and rehabilitation of patients, including special activities involving family and/or community members.

- Sufficiently-sized and appropriately-designed support functions such as the nursing unit area, in-house pharmacy, dietary services, medical records, environmental services, and central supply to ensure that the specialized needs of the rehabilitation patients are met. (*See* Architectural Figure E below showing a nursing unit area with clear sight lines to patient rooms.)

Purpose of the Project
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Architectural Figure E

- Overall facility design that includes sufficiently-wide corridors for easy navigation of patients, families, and staff members and designated spaces along those hallways to store equipment out of the way of patients and families but in close proximity to staff members.

- Additional features specific to the local community include the use of interior design themes, colors, and photographs consistent with and reflective of the area, *e.g.*, local landmarks, landscapes, and events, to provide a sense of community to the patients and also to enhance the mental acuity of patients through recognition of familiar sites and images throughout the hallways.

Architectural Figure F (lobby)

Purpose of the Project
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Patients will also benefit from ***patient-centric facility design features*** that are in place at all Encompass facilities and will be included in the Encompass Health Rehabilitation Hospital of Libertyville.

- **Color-coded hallways** at Encompass Health rehabilitation hospitals does not simply mean that there is a color-coded stripe painted down the hallway or a doorway is painted a certain color, as is sometimes the case in other facilities. Rather, the entire inpatient unit, including all walls and hallways, is painted a consistent and distinct color from those used in other inpatient hallways so that patients can easily find their way to and from their rooms and the therapy gym, dining room, and/or day room during their inpatient stay. Staff members' experience is that all patients, not just those suffering from a neurological episode, benefit from this patient-centric facility design feature that will be implemented at the proposed new hospital.

- **Electronic patient status/nurse call boards throughout the inpatient hallways** ensures that all staff members can at all times see when a patient in his/her inpatient room has requested assistance, and thus timely respond to the patient's needs. This facility design feature goes hand-in-hand with the No Pass Policy implemented at all Encompass Health hospitals, ensuring that patients' needs are immediately known and responded to by staff members.

- **Patient-centered inpatient units** are intentionally-sized based upon best-practices to promote high quality care and staff efficiency and effectiveness. Specific design features include:
  - *All private rooms*, with each room standardized in design and support space allocation. Patient rooms are designed to improve quality of care and support patient healing, provide family support, and enhance clinical efficiency and effectiveness. Patient rooms are acuity-adaptable and standardized to allow care of all diagnosis groups and to facilitate efficient processes, from patient care to cleaning and maintenance.
  - *Clear sight lines of nursing units to inpatient rooms* to ensure patient safety and high quality care. The clear sight lines from staff to patient and staff to staff enhance staff interaction with patients, increase responsiveness of staff to patients, and mitigate falls and other injuries, thus ultimately enhancing quality of care.

Encompass Health is the nation's leading owner and operator of inpatient rehab hospitals, representing over 20% of the licensed acute rehabilitation beds nationally. HSA8 residents will benefit from Encompass' proven high quality, cost-effective programs that extensively utilize specialized staff and technology to deliver higher than expected clinical outcomes. A listing of select corporate programs and services that will benefit the patients and families of the proposed new hospital follows.

- **TeamWorks** is a corporate-wide clinical initiative to continually improve quality of care through the identification, standardization, and implementation of best-practices across all of Encompass' hospitals. Just two of the many ways this program has benefitted patients include (1) a quicker admission process and (2) greater coordination pre-admission and post-discharge between community health care providers and Encompass hospitals.

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- **Patient Safety Task Force** is comprised of employees across all regions and disciplines who are primarily responsible for identifying changes and/or improvements in processes, policies, or programs to increase patient and staff safety in Encompass Health hospitals.

- **Post-Acute Innovation Center** is an example of Encompass Health's ongoing efforts to continually enhance quality of care. The Center was established in 2017 as a partnership with Cerner Corporation to develop clinical decision support tools that can more effectively and efficiently manage patients across multiple care settings, thus enhancing care coordination between a patient's providers, regardless of the provider's location.

- **National partnership with the American Heart Association/American Stroke Association** to increase patient independence after a stroke and reduce stroke mortality through community outreach and information campaigns. This multi-year project is expected to accelerate adoption of the recent AHA/ASA Stroke Rehabilitation Guidelines, increase patient awareness of post-stroke options, and provide practical support to patients and their families to improve recovery outcomes.

- **Participation in The Joint Commission's Disease-Specific Care Certification Programs** has resulted in 115 of Encompass Health's inpatient rehab hospitals holding one or more disease-specific certifications from The Joint Commission's Disease-Specific Care Certification Program in areas such as stroke, brain injury, or hip fracture rehabilitation.

- **Advanced Technology** includes rehab-specific clinical equipment and technologies such as the standard equipment included in all new hospitals (presented at the end of this response), as well as the following corporate-wide information technology.
  - Predictive data analytic programs ReAct and Sepsis Alert enhance patient quality of care by closely monitoring even the most subtle changes in a patient's status, reducing readmissions to acute care hospitals, and ultimately enhancing quality of care.
  - A proprietary rehab-specific clinical information system (ACE-IT) interfaces Encompass patients' clinical information with acute care hospitals' clinical information systems to facilitate patient transfers, reduce readmissions, and enhance outcomes.
  - An internally-developed, real-time management reporting system (BEACON) enhances clinical and business processes to ensure that the high quality care provided by Encompass hospitals is delivered in the most cost-efficient manner.

- **Financial Resources and Strength** of Encompass Health provide the local hospitals with sufficient means to purchase needed equipment and technology, ensure the appropriate complement and number of staff are in place to care for patients, and the facility is designed and well-maintained with all of the latest amenities – all of which combine to enhance quality of care for the patient and family, as evidenced by Encompass Health's existing facilities.

- **Encompass Health Home Health Care** enables Encompass to integrate care delivery in HSA8 for those patients requiring home health upon discharge from an inpatient rehabilitation stay. As Encompass Health is an existing licensed home health provider in the three HSA8

counties, patients selecting Encompass Health as their home health provider experience improved patient experience and outcomes through clinical collaboration between both Encompass Health levels of post-acute care. Encompass Health is the 4th largest provider of Medicare-certified skilled home health services, enabling its home health care services to leverage best practices and experiences nationwide in order to deliver evidence-based specialty programs related to post-operative care, fall prevention, chronic disease management and transitional care. Care collaboration with community-based providers is also enabled utilizing Encompass Health Connection, Encompass' secure web-based portal, as physicians and clinical care teams are able to review patient diagnoses, orders, medications and overall progress.

Thus, Encompass Health will leverage demonstrated best practices, proven staffing models, comprehensive information technology, centralized administrative functions, supply chain efficiencies, and economies of scale to ensure that the new 60-bed hospital consistently provides the highest clinical outcomes in the most cost-effective manner.

6. Projected utilization further supports the need for the proposed project.

The forecasted utilization of the new 60-bed hospital, as shown below, further supports the need for the project.

Table 16
Encompass Health Rehabilitation Hospital of Libertyville
Projected Utilization

Indicator	CON Year 1	CON Year 2
Discharges	1,064	1,486
Days	13,338	18,636
Average Daily Census	36.5	51.1
Occupancy	60.9%	85.1%

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Encompass Health

THESE ITEMS ARE STANDARD IN ALL NEW HOSPITALS

Rehabilitation Equipment & Technology

Clinical technologies are invaluable tools in the therapy process and offer patients an exciting and enjoyable experience during their road to recovery. Encompass Health's Therapy Innovations Committee (TIC) evaluates the most cutting-edge, innovative clinical technologies on the market today. The committee establishes and maintains technology standards for new hospitals and identifies best-in-class technologies for Disease Specific Certifications (DSC) to support the gold star quality of care HealthSouth is known for. Some examples of these technologies are as follows:

Bioness Vector Overhead Track System®

Bioness Vector is an overhead track and harness system that provides a safe ambulation environment for both therapist and patient. Without the fear of falling, patients can focus more fully on their tasks of gait and balance.

B.I.T.S Bioness Integrated Therapy System®

Using a 50" touch screen monitor, BITS is designed to improve visual abilities for a wide range of patients with visually-related learning problems, strabismus, amblyopia, and traumatic brain injury. BITS offers 16 unique programs with customizable features designed to enhance outcomes for physical and occupational therapy patients.

SaeboFlex®

Stroke survivors and other neurologically impaired patients use this custom-fitted hand and arm splint to increase shoulder, elbow, wrist and hand function. During therapy exercises, the splint is used to retrain the hand's grasp and release movements.

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Purpose of the Project
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Encompass Health

Bioness H200®

When stroke, brain injury or spinal cord injury occur, a person's neurological abilities, like grasping, can be impaired. The innovative NESS H200 helps improve hand function and voluntary movement.

Bioness L300™

This small wireless device is worn on a patient's leg to help improve walking abilities. Through electrical stimulation, NESS L300 retrains lower leg muscles, increasing motion and blood circulation enabling the return to a more normal step.

Synchrony®

Unlike any other dysphagia rehabilitation solution available, Synchrony™ enables SLPs and patients to literally "See the Swallow" using virtual reality augmented sEMG biofeedback. This important capability helps SLPs evaluate the specific dynamics of a normal, effortful or Mendelsohn swallow in real time, while guiding a series of therapeutic exercise activities that are engaging and fun for patients.

Interactive Metronome™

Interactive Metronome is a brain-based rehabilitation assessment and training program created to improve a patient's ability to plan, organize and use language.

BURT®

BURT® is a user-friendly robot that assists in improving motor control and fine motor skills in the arms and hands. This robot contains integrated gaming software to practice movement patterns and provides customizable features to tailor to patient-specific rehabilitation treatments.

VitalStim®

For those who suffer from dysphagia, a common condition among stroke and brain injury survivors, this therapy greatly improves swallowing ability with electrical stimulation.

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Alternatives
Encompass Health Rehabilitation Hospital of Libertyville, LLC

1. Maintain status quo and limit availability and accessibility to adult inpatient rehab beds, despite the HFSRB-identified need for 20 additional beds.

Maintaining the status quo would result in no enhanced access for patients currently leaving the service area for inpatient rehab services, or for those patients who are foregoing inpatient rehab services post-discharge altogether, or choosing to utilize less intensive services such as SNF in lieu of inpatient rehab care, when needed. Lake County has the largest population of the 3-county HSA8 geographic area, accounting for approximately 45% of the residents in HSA8, yet currently has no inpatient rehab beds due to the closure of Vista Medical Center – West's 25-bed rehab unit in late 2017. It must also be considered that Lake County has communities that span the full and disparate spectrum of poverty and affluence. This is important because those Lake County residents within more affluent communities are more likely to be able to overcome access care barriers because these services are only available in other communities. This means that the notable brunt of the lack of these services being available is being borne by already underserved communities, an inequity the CON program was designed to correct.

Thus, the approval of the proposed freestanding inpatient rehab hospital will provide service area residents with an optimal solution to their inpatient rehab needs by offering high quality, low-cost services close to home. The new hospital will bring the strength and support of a national health care entity to the service area. The proposed inpatient rehab hospital will be supported and strengthened by the proven policies, procedures, infrastructure, expertise, and commitment to local communities provided by Encompass Health. For these reasons this alternative was rejected.

2. Submit a CON Application for the Establishment of a Smaller Facility.

The applicant considered the establishment of a facility of less than 60 beds and rejected this alternative because the establishment of a facility of less than the proposed 60 beds would fail to meet the predicted need for locally available and accessible inpatient rehab services. Moreover, a smaller 20-bed specialty rehab hospital is not feasible nor practical because it is inherently cost-prohibitive and inefficient. For example, construction of the necessary infrastructure (gym, day room, dialysis suite, kitchen, etc.) and minimal staff requirements needed to serve inpatient rehab patients make this option a non-starter. Thus, Encompass Health did not consider a 20-bed facility to be a viable option, particularly considering the quantified need for more than 60 additional beds in the analyses presented previously.

When all factors are considered, it is clear that the only viable alternative is for service area residents to have access to the needed 60 additional inpatient Rehab beds, and that the proposed hospital is best positioned to address the residents' needs. For these reasons, this alternative was rejected.

3. Submit a CON Application for the Establishment of a Larger Facility

The applicant considered the establishment of a facility larger than 60 beds and rejected this alternative because although the establishment of facility larger than the proposed 60 beds could be justified by the predicted need for locally available and accessible inpatient rehab services, the more

appropriate and conservative health planning approach is to build a right sized facility for today and for tomorrow, leaving room for either growth or further expansion by other providers to serve this area. Our analysis of Medicare patients discharge reflects a need for as many as 120 beds in the planning area. However, we believe that, at this time, a 60 bed facility would be more prudent and would be capable of meetingthe needs of HSA8 and allows for appropriate utilization of the facility consistent with this Board's rules. For these reasons this alternative was rejected.

4. Project as Proposed

The project, as proposed, reflects the most cost-effective, patient-centered, comprehensive means of ensuring access to quality care for patients in need of inpatient Rehab services. Consistent with Ill. Admin. Code Section 1110.110 (d)(1)(b), this project will bring a national healthcare leader for a project that will meet the existing and future inpatient Rehab needs of this community. This project was designed to meet the needs of the surrounding community and provide Illinois residents with high quality care in their HFSRB-defined local service area.

Size of the Project
Encompass Health Rehabilitation Hospital of Libertyville, LLC

SIZE OF PROJECT				
DEPARTMENT/SERVICE	**PROPOSED BGSF/DGSF**	**STATE STANDARD**	**DIFFERENCE**	**MET STANDARD?**
Rehab Hospital: Clinical Portions	43,900 BGSF	39,600 BGSF (60-beds x 660/bed)	+ 4,300 BGSF	Yes**
Rehab Hospital: Non-Clinical Portions	16,830 BGSF	None	N/A	N/A
Total	60,730 BGSF	None	N/A	N/A

**The proposed project exceeds the state minimum standard specific to clinical BGSF, which is 525-660 BGSF/Bed, due primarily to the Applicant's facility design that includes a large indoor therapy area, dedicated bariatric/isolation rooms, and a dialysis unit. These specialized services enable Encompass Libertyville to care for more medically complex patients that are typically hard-to-place in inpatient rehab programs.

Encompass Health Hospital of Libertyville		07/18/2018
Room Name	**Area (SF)**	**Comments**
Section 250.2440 General Hospital Standards		
a) Admin and Public Areas		
a) 1) Main Entrance		The main entrance is designed to accommodate persons with physical disabilities.
Vestibule	194	
a) 2) Lobby	600	The lobby includes a Reception, computer niche and Waiting Space. Public toilet facilities for men and women and a drinking fountain are located around the corner adjacent to the Lobby.
Reception		Lobby includes Reception desk. Those waiting will have access to the receptionists telephone as needed
Waiting		Provided in Lobby
WC Storage	53	
Men's Public Restroom	170	
Women s Public Restroom	176	
Staff Tlt	48	
Storage	203	
Conference Room	179	
a) 3) Interview Space	284	Interviews will take place in Admin. Conference Room
a) 4) General or Individual Office		The Admin. Suite is located adjacent to the Lobby and provides offices for administrative personnel
HR Office	112	
HR Storage	46	
Admiss ons Office	110	
Admin. Assistant	99	
Admissions Work Area	270	
CEO	164	
Business Development	105	
Medical Director	105	
Director of Quality	101	
Controller	120	
PASC	106	
a) 5) Multipurpose Room	278	The mult purpose room is des gnated for conferences meetings and education purposes including a TV for visual aid
a) 6) Medical Library Facilities		Medical Resources are located in the Admin. Suite
a) 7) Storage Areas	203	General Storage is located adjacent to Admin. Suite
b) Medical Records Unit (HIMS)	263	The Medical Records room provides enough space for the reviewing, dictating, sorting, recording and storage of medical records as required by the functional program
c) Adjunct Diagnostic and Treatment		
c) 1) Laboratory Suite	100	A laboratory room is provided in the nursing unit sized accord ngly to the functional program.
c) 1) A) work counter		A work counter is provided in the lab.
c) 1) B) lavatory or counter sink		A counter sink is provided for hand-washing.
c) 1) C) storage cabinet		Base and wall cabinets are provided for storage.
c) 1) D) blood storage		Prov ded by vendor.
c) 1) E) specimen collection		Specimen pass-through window provided between the lab and the adjacent patient toilet room.
c) 2) Morgue and Autopsy Suite		N/A
c) 3) Radiology Suite		N/A
c) 4) Pharmacy Suite	381	Pharmacy provided in the nursing unit

c) 4) A) Administrative functions		Work space is provided for administrative functions, including requisitioning, recording and reporting, receiving, storage (including refrigeration) and accounting
c) 4) B) Quality Control Area		No bulk compounding or packaging functions are performed.
c) 4) C) Locked storage for drugs and biologicals		Locked storage for drugs and biologicals is provided by shelving vendor (Coshatt)
c) 4) D) Dispensing Area		A dispensing area is provided.
c) 4) E) Hand-washing facilities		Hand-washing facilities are provided.
c) 4) E) I) drug info		Users can access a drug information area for reference materials and personnel.
c) 4) E) ii) sterile products		N/A
c) 5) Physical Therapy Suite		
c) 5) A) Shared Spaces		Physical Therapy and Occupational Therapy share the use of the ADL suite.
c) 5) B) I) Office Space	116	A director of therapy office is provided within the Therapy Gym
c) 5) B) ii) Waiting Space		All patient rooms are private patient rooms, patients will wait in their rooms until their pre- scheduled time.
c) 5) B) iii)Treatment Areas	80/Each	3 Treatment Areas are provided. Walls separate each individual area, and cubicle curtains separate each treatment area from the rest of the therapy gym. Two hand washing stations are easily located to the Treatment Areas.
c) 5) B) iv) Wet and Soiled Linen	102	A soiled linen room is provided for the collection of wet and soiled linen and other material.
c) 5) B) v) Exercise Area	3634	An exercise area is provided in the therapy gym and the therapy yard.
c) 5) B) vi) Storage for Clean Linen, Supplies, Equipment	94	A clean linen room is provided for clean linen, supplies and equipment
c) 5) B) vii) Patient Dressing Area and Toilet Rooms		This is an inpatient only hospital and therefore patients will dress in their private rooms where they will have access to a toilet room and a wardrobe. Patients have an assigned schedule time and will be ready ahead of arriving at the Therapy Gym
c) 5) B) viii) Wheelchair and Stretcher Storage	56	Wheelchair and stretcher storage is provided
c) 5) B) ix) Showers, Lockers, Service Sinks		Storage cabinets are provided Showers are not provided in the Therapy gym due to this being an inpatient only hospital and each patient has their own private shower in their room.
c) 6) Occupational Therapy Suite		An ADL Suite is provided within the Therapy Gym
c) 6) A) Shared spaces		Physical Therapy and Occupational Therapy share the use of the ADL suite
c) 6) B) I) Office Space (Charting)	116	An office is provided for the Director of Therapy a charting room is provided for all other Therapy Staff
c) 6) B) ii) Activities Area w/ Sink or Lavatory		A sink is provided in each room of the ADL suite
c) 6) B) iii) Stage Space for Supplies and Equipment	307	Kitchen, bathroom, bedroom, and laundry spaces are provided
c) 6) B) iv) Patient Toilet Room	42	Provided adjacent to the ADL suite
d) Nursing Unit		
d) 1) Patient Rooms	214/Each	(60-Bed Hospital)
d) 1) A) Windows in each patient room		Each patient room is an outside room Windows are provided for each patient room and are not of a size less than 7.5% of the square footage of the floor of the room
d) 1) B) Minimum room areas 100 square feet clear in one-bed rooms		Each patient room is a private patient room with a clear floor space of 164 sq. ft
d) 1) C) Minimum 3 feet clear at foot and sides of each bed		4 feet clear at the foot and sides of the bed is provided.
d) 1) D) Access to toilet room without entering the corridor		Each patient room has access to a toilet without entering the corridor.
d) 1) E) One toilet room shall not service more than 4 beds and not more than 2 patient rooms		Each patient room is equipped with its own toilet room

d) 1) F) Toilet room shall contain water closet and a lavatory. Lavatory may be omitted if single bedroom contains lavatory		The toilet room shall include a water closet and a lavatory The lavatory is omitted from the toilet room that serves not more than two single bedrooms since each such single bedroom contains a lavatory.
d) 1) G) Each patient shall have a wardrobe, locker, or closet for personal effects		Each patient has a wardrobe for hanging and storing personal effects.
d) 1) H) Visual privacy for each patient bed provided in multi-bed rooms		N/A
d) 2) Nurses' Service Center		
d) 2) A) Nurses' Station	305	A nurses' station with a work counter, storage areas, and communications equipment is provided.
d) 2) B) Nurses' Office	140 182	A nurses' office is provided.
d) 2) C) Hand-washing Facilities		Hand-washing facilities convenient to the nurses' station and the drug distribution station is provided. Another handwashing station is provided within the meds room (drug distribution station).
d) 2) D) Charting Facilities	149	Charting facilities are provided for nurses and doctors, including a work counter and charting racks.
d) 2) E) Staff Lounge	345, 233	Two staff lounges, each with a bathroom are provided Men's and Women's toilet rooms are provided
d) 2) E) Men's Staff Tlt Room	117	Men's Locker Room and Shower Room provided central to both Nursing Units
d) 2) E) Women's Staff Tlt Room	122	Women's Locker Room and Shower Room provided central to both Nursing Units
d) 2) F) Closets or Compartments for Staff Personal Belongings		Lockers for the safekeeping of coats and personal effect of nursing personnel are provided in the staff lounge and locker rooms
d) 2) G) Multipurpose Room	219	A multipurpose room is provided for conferences, demonstrations and consultation. This room is located centrally to both nursing units.
d) 2) H) Exam room		This room is omitted because all patient rooms are single bedrooms
d) 2) I) One tub or shower for each 12 beds		Not applicable as each patient room has a private toilet/shower room within their private patient room
d) 2) J) Nourishment Station	90, 83	A nourishment room with a sink equipped with hand-washing, equipment for serving nourishment between scheduled meals, a refrigerator, storage cabinets, and a unit to provide ice for patient's service and treatment is provided.
d) 2) K) Drug Distribution Station (Meds)	171, 185	Within this secured access room there are self-contained Pyxis units. The meds room is under the nursing staff's visual control due to its adjacent location to the main nurse station. The Meds room contains a work counter, refrigerator, and locked storage for biologicals and drugs
d) 3) Service Area		
d) 3) A) Clean Workroom	171, 185, 146,	A clean work room is provided in each Nursing Unit. The clean work room contains a work counter, hand-washing facilities, a nurse signal, and storage facilities The clean holding room is part of a system for storage and distribution of clean and sterile supplies and materials.
d) 3) B) Clean Linen Storage	84, 98	A Clean Linen room is provided in the Therapy Gym, Back-of-House and Nurse Unit (A separate designated area within the Cleanwork room is provided for clean linen storage)
d) 3) C) Parking for Stretchers and Wheelchairs	51	Parking is provided in alcoves for stretchers and wheelchairs out of the path of normal traffic

d) 3) D) Soiled Workroom	95, 99	A soiled workroom is provided. The soiled workroom contains a clinical sink or equivalent flushing rim fixture a nurse signal, a hand-washing sink, a waste receptacle, and a linen receptacle. The soiled holding room is part of a system for the collection and disposal of soiled materials.
Soiled Hold	110, 99	A Soiled Hold room is provided in the Therapy Gym, Back-of-House and Nurse Unit (A separate designated area within the Soiled Workroom is provided for clean linen storage.)
d) 3) E) Equipment Storage	203, 203, 202	Rooms for the storage of equipment such as IV stands, inhalators, mattresses and walkers is provided.
d) 3) F) Emergency Equipment Storage	28	An alcove is provided for the storage of required emergency equipment within the Nurse Station. This equipment shall be under the direct control of the nursing staff.
d) 3) G) Sitz baths if req by program narrative		N/A. Sitz baths are not required by the program narrative
d) 4) Isolation Room	207/Each	2 rooms are provided for the isolation of patients with known or suspected communicable diseases. Each isolation room has an individual toilet equipped with a bedpan flushing attachment and lavatory. All isolations rooms are private rooms and are otherwise planned as required for a standard patient room.
Isolation Room Ante Rooms	64/Each	4 Isolation Ante Rooms are provided equipped with a hand-washing sink, trimmed with valves that can be operated without the use of hands, storage spaces for clean and soiled materials, and a space for gowning
d) 5) Rooms for Disturbed Patients	196	There is one patient room designed for a disturbed patient for a duration of less than 24 hours. The design provides close observation and shall minimize the dangers of patient escape, suicide or injury. This room is located in a private room adjacent to the nurse station
e) Intensive Care Units		N/A
f) Pediatric Nursing Unit		N/A
g) Psychiatric Nursing Unit		N/A
h) Newborn Care Unity		N/A
I) Surgical Suite		N/A
j) Obstetrics and Neonatal Suite		N/A
k) Emergency Suite (program calls for minimum level of emergency services and therefore will comply only with (k)(1), (k) (4), and (k)(10) with the remaining support spaces being located within the adjacent nursing unit.)	140	Emergency Exam room is provided in the Nursing Unit for emergency care.
k) (1) entrance	125	An entrance at grade level is provided less than 20 feet from the room with pedestrian and ambulance access.
k) (4) treatment area		The treatment area contains a handwashing sink trimmed with valves that are aseptically operated (knee/foot controls), general storage cabinets, medication dispensing Pyxis units, work counters, medical suction outlets, x-ray film illuminators, and space for storage equipment
k) (10) Toilet facilities	45	Provided adjacent to the Exam room
l) Outpatient Department		N/A
m) Service Departments		
m) 1) Dietary Facilities		

Attachment 14

m) 1) A) General		Construction equipment and installation complies with the standards specified in the Department's Food Service Sanitation Code and the Food Service Sanitation Manual P H S. 93 Dietary facility services will be provided by the functional program and designed by a contracted kitchen specialist. Services will consist of a combination of on- site conventional food preparation system and a convenience food service system. Services will be provided for emergency food preparation and refrigeration
m) 1) B) Functional Elements		
m) 1) B) I) Control Station for Receiving Food Supplies	121	A kitchen receiving room is provided for receiving food supplies.
m) 1) B) ii) Storage Space	255, 242	Adequate storage space is provided for normal and emergency supply needs, including food requiring cold storage and dry storage.
m) 1) B) iii) Food Preparation Facilities	710	Conventional food preparation systems have adequate space and equipment for preparing, cooking and baking. Convenience food service systems, such as frozen prepared meals, bulk packaged entrees, and individual packaged portions, or systems using contractual commissary service, have space and equipment for thawing, portioning, heating, cooking and baking.
m) 1) B) iv) Hand-washing Facilities		Hand-washing facilities are located in the food preparation area.
m) 1) B) v) Patients' Meal Service Facilities (Tray Assembly and Distribution)		Facilities provided for tray assembly and distribution.
m) 1) B) vi) Dining Space	1272	Dining space provided for ambulatory patients, staff, and visitors.
m) 1) B) vii) Warewashing Space	115, 220	Warewashing space is located in a room separate from food preparation and serving areas. Commercial-type dishwashing equipment is provided. Space is also provided for receiving, scraping, sorting, and stacking soiled tableware and for transferring clean tableware to the using areas. A hand- washing lavatory is conveniently available.
Tray Return	115220	
m) 1) B) viii) Pot-Washing Facilities		Pot-washing facilities included in warewashing
m) 1) B) ix) Storage Area		A storage area is provided for cans, carts, and mobile tray conveyors.
m) 1) B) x) Waste Storage Facilities	34	A waste storage facility is located in a separate room easily accessible to the outside for direct pickup or disposal.
m) 1) B) xi) Offices or Desk Spaces	123	An office is provided for the dietary service manager.
m) 1) B) xii) Men's and Women's Toilets Accessible to Dietary Staff	117, 122	Men's and Women's locker room and toilet rooms are directly accessible to the Dietary Staff, adjacent to the kitchen. Hand-washing facilities are immediately available.
m) 1) B) xiii) Janitors' Closet		The janitors' closet is located within the dietary department. It contains a service sink and storage space for housekeeping equipment and supplies
m) 1) B) xiv) Self-dispensing Ice-making Facilities		Ice-making facilities are provided by the contracted Kitchen vendor in their equipment
m) 1) B) xv) Adequate Can, Cart and Mobile Tray Washing Facilities		Adequate can, cart and mobile tray washing facilities are provided directly outside the Back-of-House
m) 2) Central Stores		
m) 2) A) Off-Street Unloading Facilities		Off-street unloading facilities are provided in the service yard behind the facility
m) 2) B) Receiving Areas	121	A receiving area is provided
m) 2) C) General Storage Rooms	633	General storage rooms meet the needs of the hospital located in back of house and throughout facility
m) 2) D) Office Space		Desk provided in Central Supply per functional program

m) 3) Linen Services		Linen is to be processed off site.
m) 3) A) On-site Processing		Off-site processing is used.
m) 3) B) i) Soiled Linen Holding Room w/ Hand-Washing Facilities	110	A soiled linen holding room with facilities for hand-washing is provided.
m) 3) B) ii) Clean Linen, Receiving, Inspection and Storage Rooms	84	Clean linen, receiving, inspection and storage rooms are provided.
m) 3) B) iii) Cart Storage	121	
m) 3) B) iv) Office Space	100	
m) 4) Facilities for Cleaning and Sanitizing Carts		Provided in Service Yard
m) 5) Employees' Facilities	117, 122	Locker Rooms provided with lockers, a toilet, and handwashing sink for Men and Women. Showers not required with functional program.
m) 6) Janitors' Closets	121	In addition to the janitors' closets called for in certain departments, sufficient janitors' closets are provided throughout the facility as required to maintain a clean and sanitary environment. Each contains a floor receptor or service sink and storage space for housekeeping equipment and supplies. Space for large housekeeping equipment and for back-up supplies may be located in other areas.
m) 7) Engineering Service and Equipment Areas		
m) 7) A) Rooms or separate buildings for boilers, mechanical equipment, and electrical equipment	552, 188, 207, 102	Mechanical and Electrical rooms provided. Tele/Data 12' Min. from all electrical rooms.
m) 7) B) Engineer's space		Provided in maintenance room
m) 7) C) A maintenance shop	518	A maintenance room and maintenance office are provided.
m) 7) D) A storage room or rooms for building maintenance supplies	545	Provided in maintenance room
m) 7) E) Yard equipment storage		Provided in Service Yard
m) 8) Waste Processing services		
m) 8) A) Storage and Disposal	34	Waste storage s provided for the sanitary storage and disposal of waste by incineration, mechanical destruction compaction, containerization, removal, or by a combination of these techniques. Proper handling and disposal of radioactive waste substances is provided.
m) 8) B) Incineration		N/A
m) 9) Storage	202,203,203,325, 214	Suitable storage is provided per functional program.
Spaces Not Listed In Administrative Code 250:		
Dialysis Suite	658	Consisting of 4 Treatment Areas, Nurse Station, two handwashing sinks (one upon entry and another at the nurse station). Equipment Storage, and a linen distribution system are provided within the suite. Easily accessible Wheelchair Storage, Janitors Closet, and Staff Toilet are across the hall.
Dialysis Patient Toilet	40	
Dialysis Clean and Soiled Carts		Provided within the suite as part of a distribution system.
Speech Rooms	110	Two Provided
Bariatric Rooms	338, 338, 407, 407	4 Bariatric Patient Rooms are provided with FGI 2018 spacing accommodations.

Project Services Utilization
Encompass Health Rehabilitation Hospital of Libertyville, LLC

UTILIZATION					
	DEPT./ SERVICE	**HISTORICAL UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.**	**PROJECTED UTILIZATION (PATIENT DAYS)**	**STATE STANDARD**	**MEET STANDARD?**
YEAR 1	Rehab Hospital	N/A	13,338 60.9%	85%	No
YEAR 2	Rehab Hospital	N/A	18,636 85.1%	85%	Yes

The projected utilization is based on the need for 60 additional beds to be located in and primarily serve residents of HSA8.

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Page 1

Comprehensive Physical Rehabilitation Service Specific Criteria
Encompass Health Rehabilitation Hospital of Libertyville, LLC

Applicable service-specific criteria follow. The relevant criteria is presented in **bold font** for ease of review.

b) Planning Area Need – Review Criterion
The applicant shall document that the number of beds to be established or added is necessary to serve the planning area's population, based on the following:

1) 77 Ill. Adm. Code 1100 (Formula Calculation)

A) The number of beds to be established for each category of service is in conformance with the projected bed deficit specified in 77 Ill. Adm. Code 1100, as reflected in the latest updates to the Inventory.

B) The number of beds proposed shall not exceed the number of the projected deficit, to meet the health care needs of the population served, in compliance with the occupancy standard specified in 77 Ill. Adm. Code 1100.

The proposed project is for the establishment of a 60-bed inpatient comprehensive physical rehabilitation hospital needed to:

- Meet the HFSRB-identified need for twenty (20) additional beds in HSA8; and
- Provide a local alternative to services in Chicago, where approximately one-third of HSA8 Rehab patients are now receiving inpatient rehab care.

The need for the proposed project is illustrated by the (a) quantified bed need analyses presented previously and (b) projected utilization of the new hospital, which is expected to exceed the 85% occupancy standard by Project Year 2.

Comprehensive Physical Rehabilitation Service Specific Criteria
Encompass Health Rehabilitation Hospital of Libertyville, LLC

2) Service to Planning Area Residents

A) Applicants proposing to establish or add beds shall document that the primary purpose of the project will be to provide necessary health care to the residents of the area in which the proposed project will be physically located (i.e., the planning or geographical service area, as applicable), for each category of service included in the project.

B) Applicants proposing to add beds to an existing Rehab service shall provide patient origin information for all admissions for the last 12- month period, verifying that at least 50% of admissions were residents of the area. For all other projects, applicants shall document that at least 50% of the projected patient volume will be from residents of the area.

C) Applicants proposing to expand an existing Rehab service shall submit patient origin information by zip code, based upon the patient's legal residence (other than a health care facility).

The proposed new 60-bed hospital is being established for the primary purpose of providing needed inpatient Rehab health care services to the residents in HSA8. Letters of support and the bed need analysis in which the discharges from HSA8 are driving the need for the new facility and support this statement.

Comprehensive Physical Rehabilitation Service Specific Criteria
Encompass Health Rehabilitation Hospital of Libertyville, LLC

3) Service Demand – Establishment of Comprehensive Physical Rehabilitation
The number of beds proposed to establish Rehab service is necessary to accommodate the service demand experienced annually by the existing applicant facility over the latest 2-year period, as evidenced by historical and projected referrals, or, if the applicant proposes to establish a new hospital, the applicant shall submit projected referrals. The applicant shall document subsection (b)(3)(A) and either subsection (b)(3)(B) or (C).

B) Projected Referrals
An applicant proposing to establish Rehab or to establish a new hospital shall submit the following:

i) Physician referral letters that attest to the physician's total number of patients (by zip code of residence) who have received care at existing facilities located in the area during the 12-month period prior to submission of the application;

ii) An estimated number of patients whom the physician will refer annually to the applicant's facility within a 24-month period after project completion. The anticipated number of referrals cannot exceed the physician's documented historical caseload;

iii) The physician's notarized signature, the typed or printed name of the physician, the physician's office address and the physician's specialty; and

iv) Verification by the physician that the patient referrals have not been used to support another pending or approved CON application for the subject services.

Physicians located in and serving patients from HSA8 support the proposed project and intend to refer patients to the project, as will be documented in letters submitted under separate cover and on an ongoing basis. Moreover, as the Board has acknowledged in consideration of other similar projects, this is a service whose need exceeds traditional referral patterns and can span beyond traditional catchment areas.

Because of the lack of sufficient beds and comprehensive Rehab services in HSA8 to meet the residents' needs, patients are currently leaving the HFSRB-defined service area for inpatient Rehab services, foregoing inpatient rehab services post-discharge altogether, or choosing to utilize less intensive (and therefore less optimal) services such as SNF in lieu of inpatient rehab, when needed. For that reason, data documenting the number of rehab-appropriate HSA8 residents by ZIP Code follows, further supporting the need for the proposed project and the expected high utilization by Project Year 2.

Comprehensive Physical Rehabilitation Service Specific Criteria
Encompass Health Rehabilitation Hospital of Libertyville, LLC

Rehab-Appropriate Discharges by ZIP Code, HSA8 CY2018	
Resident ZIP Code	**Rehab-Appropriate Discharges**
60002 - ANTIOCH	636
60010 - BARRINGTON	1,231
60011 - BARRINGTON	12
60012 - CRYSTAL LAKE	296
60013 - CARY	623
60014 - CRYSTAL LAKE	1,317
60015 - DEERFIELD	674
60020 - FOX LAKE	410
60021 - FOX RIVER GROVE	151
60030 - GRAYSLAKE	1,107
60031 - GURNEE	992
60033 - HARVARD	405
60034 - HEBRON	78
60035 - HIGHLAND PARK	912
60039 - CRYSTAL LAKE	7
60040 - HIGHWOOD	119
60041 - INGLESIDE	290
60042 - ISLAND LAKE	220
60044 - LAKE BLUFF	276
60045 - LAKE FOREST	566
60046 - LAKE VILLA	843
60047 - LAKE ZURICH	928
60048 - LIBERTYVILLE	777
60050 - MCHENRY	1,220
60051 - MCHENRY	826
60060 - MUNDELEIN	911
60061 - VERNON HILLS	648
60064 - NORTH CHICAGO	420
60069 - LINCOLNSHIRE	310
60071 - RICHMOND	128
60072 - RINGWOOD	35
60073 - ROUND LAKE	1,191
60075 - RUSSELL	3
60079 - WAUKEGAN	16
60081 - SPRING GROVE	225
60083 - WADSWORTH	246
60084 - WAUCONDA	446

Comprehensive Physical Rehabilitation Service Specific Criteria
Encompass Health Rehabilitation Hospital of Libertyville, LLC

Rehab-Appropriate Discharges by ZIP Code, HSA8 CY2018	
Resident ZIP Code	**Rehab-Appropriate Discharges**
60085 - WAUKEGAN	1,603
60086 - NORTH CHICAGO	3
60087 - WAUKEGAN	710
60088 - GREAT LAKES	23
60089 - BUFFALO GROVE	915
60096 - WINTHROP HARBOR	150
60097 - WONDER LAKE	343
60098 - WOODSTOCK	989
60099 - ZION	939
60102 - ALGONQUIN	926
60109 - BURLINGTON	37
60110 - CARPENTERSVILLE	820
60118 - DUNDEE	591
60119 - ELBURN	271
60120 - ELGIN	510
60121 - ELGIN	23
60123 - ELGIN	1,751
60124 - ELGIN	752
60134 - GENEVA	662
60136 - GILBERTS	178
60140 - HAMPSHIRE	596
60142 - HUNTLEY	1,502
60144 - KANEVILLE	5
60147 - LAFOX	7
60151 - MAPLE PARK	124
60152 - MARENGO	466
60156 - LAKE IN THE HILLS	616
60174 - SAINT CHARLES	962
60175 - SAINT CHARLES	520
60177 - SOUTH ELGIN	569
60180 - UNION	53
60183 - WASCO	2
60184 - WAYNE	3
60505 - AURORA	1,151
60506 - AURORA	1,334
60507 - AURORA	17
60510 - BATAVIA	786

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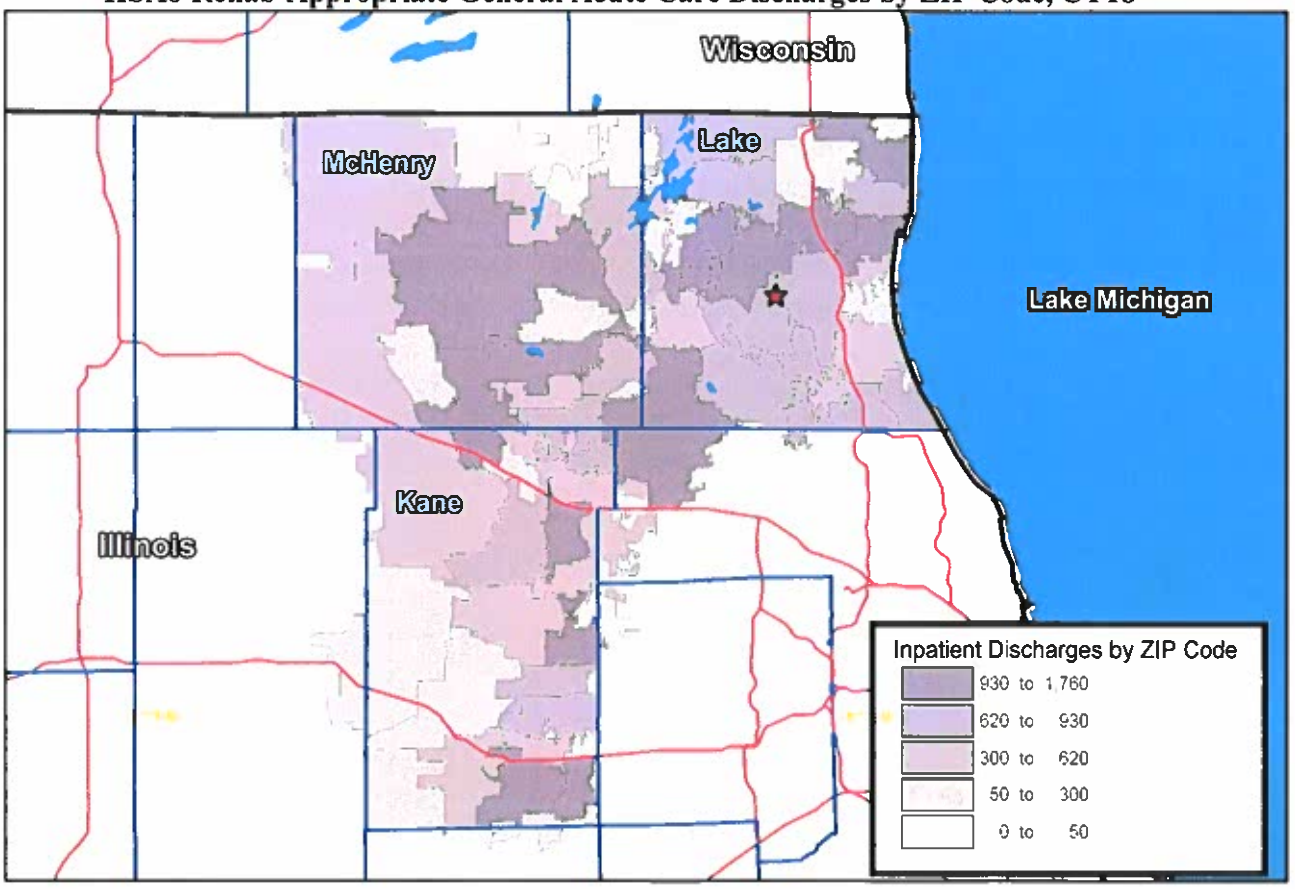
Rehab-Appropriate Discharges by ZIP Code, HSA8 CY2018	
Resident ZIP Code	**Rehab-Appropriate Discharges**
60511 - BIG ROCK	64
60538 - MONTGOMERY	53
60539 - MOOSEHEART	2
60542 - NORTH AURORA	495
60554 - SUGAR GROVE	367
60568 - AURORA	1
Total	**41,386**
Source: Illinois Hospital Association, COMPdata Informatics Inpatient Discharge Database.	

The following map shows the distribution of rehab-appropriate general acute care discharges by ZIP Code for HSA8 residents. (The darker the color, the more rehab-appropriate discharges.)

HSA8 Rehab-Appropriate General Acute Care Discharges by ZIP Code, CY18



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Comprehensive Physical Rehabilitation Service Specific Criteria
Encompass Health Rehabilitation Hospital of Libertyville, LLC

5) Service Accessibility
The number of beds being established or added for each category of service is necessary to improve access for planning area residents. The applicant shall document the following:

A) Service Restrictions
The applicant shall document that at least one of the following factors exists in the planning area:

- **i) The absence of the proposed service within the planning area;**
- **ii) Access limitations due to payor status of patients, including, but not limited to, individuals with health care coverage through Medicare, Medicaid, managed care or charity care;**
- **iii) Restrictive admission policies of existing providers;**
- **iv) The area population and existing care system exhibit indicators of medical care problems, such as an average family income level below the State average poverty level, high infant mortality, or designation by the Secretary of Health and Human Services as a Health Professional Shortage Area, a Medically Underserved Area, or a Medically Underserved Population;**
- **v) For purposes of this subsection (b)(5) only, all services within the established radii outlined in 77 Ill. Adm. Code 1100.510(d) meet or exceed the utilization standard specified in 77 Ill. Adm. Code 1100.**

B) Supporting Documentation
The applicant shall provide the following documentation, as applicable, concerning existing restrictions to service access:

- **i) The location and utilization of other planning area service providers;**
- **ii) Patient location information by zip code;**
- **iii) Independent time-travel studies;**
- **iv) A certification of waiting times;**
- **v) Scheduling or admission restrictions that exist in area providers;**
- **vi) An assessment of area population characteristics that document that access problems exist; and**
- **vii) Most recently published IDPH Hospital Questionnaire.**

Encompass Libertyville is being proposed to improve access to needed inpatient Rehab services for planning area residents. HFSRB has identified an existing gap in care for HSA8 residents by quantifying a need for twenty (20) additional beds based solely on HSA8 hospitals' patient days and projected population. Thus, patients who are currently traveling outside their local community and into the congested metro Chicago area to receive needed inpatient Rehab care are excluded from that calculated need, as are patients who are currently either discharged to a lesser intensive setting such as skilled nursing facility or home with home health care services, or are foregoing needed inpatient rehab care altogether.

Comprehensive Physical Rehabilitation Service Specific Criteria
Encompass Health Rehabilitation Hospital of Libertyville, LLC

The response to Purpose of the Project (Attachment 12) provides much detail and supporting documentation regarding the area population's characteristics documenting that access problems exist for patients in need of inpatient Rehab services. As previously shown:

- Rehab-appropriate HSA8 patients who are discharged from an HSA8 general acute care hospital with its own inpatient Rehab unit have a significantly greater chance at being discharged to inpatient Rehab (8.9% discharge rate) compared to HSA8 patients discharged from an HSA8 general acute care hospital without an inpatient Rehab unit (2.9% discharge rate). (*See* Table 7, Attachment 12.)

- Lake County has not a single Rehab bed within its borders, yet has the largest population (757,936 in 2019) in HSA8. (*See* Tables 3 and 14, Attachment 12.)

- Thus, not surprisingly, Lake County has by far the lowest inpatient Rehab utilization rate in HSA8, with only 5 discharges per 1,000 Medicare Beneficiary in 2017 compared to Kane County's 22 and McHenry's 11 inpatient Rehab discharges per 1,000 Medicare Beneficiaries. (*See* Table 9, Attachment 12.)

- Lake County residents currently must travel over an hour to reach specialized inpatient Rehab services in Chicago, or travel out-of-state to the "nearest" inpatient Rehab provider in Wisconsin, neither of which are viable alternatives to the proposed Lake County freestanding inpatient Rehab hospital.

- The above statistics are supported by letters of support (to be provided under separate cover) attesting to the need for the proposed project.

Comprehensive Physical Rehabilitation Service Specific Criteria
Encompass Health Rehabilitation Hospital of Libertyville, LLC

c) Unnecessary Duplication/Maldistribution – Review Criterion

1) The applicant shall document that the project will not result in an unnecessary duplication. The applicant shall provide the following information:

A) A list of all zip code areas that are located, in total or in part, within the established radii outlined in 77 Ill. Adm. Code 1100.510(d) of the project's site;

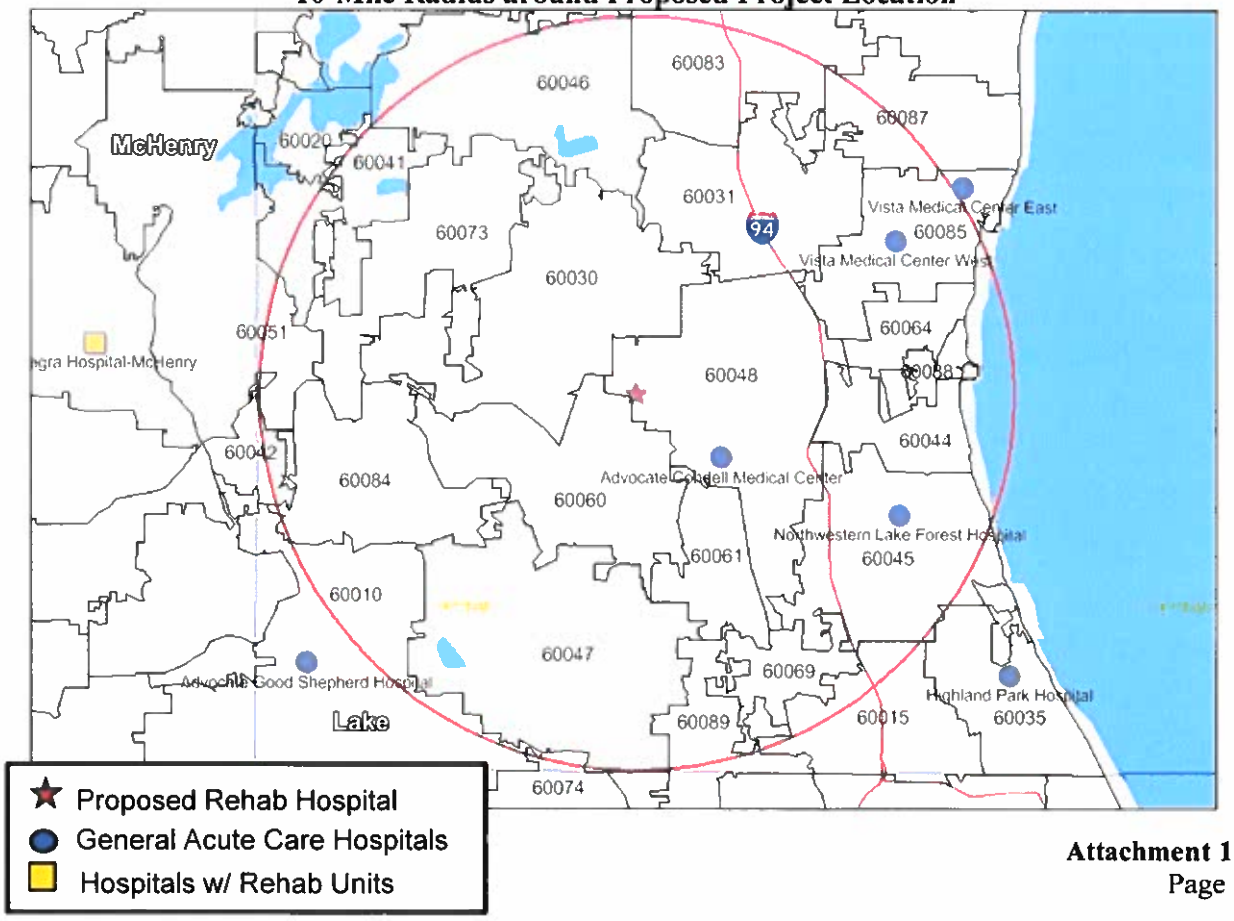
B) The total population of the identified zip code areas (based upon the most recent population numbers available for the State of Illinois population); and

C) The names and locations of all existing or approved health care facilities located within the established radii outlined in 77 Ill. Adm. Code 1100.510(d) from the project site that provide the categories of bed service that are proposed by the project.

The proposed project will not result in an unnecessary duplication of services because it is responsive to the HFSRB-identified need and to provide locally accessible and available services for HSA8 residents currently traveling out of the local HFSRB-defined local community for care.

The following ZIP Code map shows the proposed new hospital in relation to the existing inpatient Rehab providers within the applicable 10-mile radius. A shown below, ***no existing inpatient Rehab providers are located within the 10-mile radius of the proposed Encompass Libertyville location.***

10-Mile Radius around Proposed Project Location



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Comprehensive Physical Rehabilitation Service Specific Criteria
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ZIP Codes within 10-Mile Radius of Proposed Freestanding Inpatient Rehab Hospital and Total Population Projections by ZIP Code, 2019 & 2024

ZIP Code	County	City	2019 Population	2024 Population
60010	Lake	Barrington	45,146	45,355
60015	Lake	Deerfield	26,101	25,863
60020	Lake	Fox Lake	10,777	10,883
60030	Lake	Grayslake	38,147	38,355
60031	Lake	Gurnee	38,566	38,645
60035	Lake	Highland Park	28,833	28,315
60041	Lake	Ingleside	9,882	9,973
60042	McHenry	Island Lake	8,498	8,519
60044	Lake	Lake Bluff	9,105	9,060
60045	Lake	Lake Forest	19,683	19,421
60046	Lake	Lake Villa	35,211	35,345
60047	Lake	Lake Zurich	41,191	41,575
60048	Lake	Libertyville	29,508	29,433
60051	McHenry	McHenry	25,612	25,724
60060	Lake	Mundelein	37,492	37,502
60061	Lake	Vernon Hills	27,315	27,692
60064	Lake	North Chicago	14,360	13,949
60069	Lake	Lincolnshire	8,846	8,947
60073	Lake	Round Lake	60,747	62,038
60074	Cook	Palatine	39,553	39,815
60083	Lake	Wadsworth	9,682	9,918
60084	Lake	Wauconda	17,066	17,549
60085	Lake	Waukegan	69,076	68,077
60087	Lake	Waukegan	27,572	27,568
60088	Lake	Great Lakes	14,941	14,984
60089	Lake	Buffalo Grove	40,503	40,071
Total			**733,413**	**734,576**

Source: Environics Analytics (EA) ©Claritas, LLC 2019.
Notes: includes ZIP Codes with resident population. Total population for the ZIP Code, whether in whole or in part included with the 10-mile radius, included in the population estimate.

Comprehensive Physical Rehabilitation Service Specific Criteria
Encompass Health Rehabilitation Hospital of Libertyville, LLC

2) The applicant shall document that the project will not result in maldistribution of services. Maldistribution exists when the identified area (within the planning area) has an excess supply of facilities, beds and services characterized by such factors as, but not limited to:

A) A ratio of beds to population that exceeds one and one-half times the State average;

B) Historical utilization (for the latest 12-month period prior to submission of the application) for existing facilities and services that is below the occupancy standard established pursuant to 77 Ill. Adm. Code 1100; or

C) Insufficient population to provide the volume or caseload necessary to utilize the services proposed by the project at or above occupancy standards.

The proposed project will not result in maldistribution of services. In fact, following the opening of the proposed freestanding 60-bed inpatient Rehab hospital, the HSA8 beds per 1,000 population for ages 65+ will fortunately increase to a level closer to, but still below, the statewide average, as shown below.

Beds per 1,000 Population Ages 65+		
Geographic Region	**2019 (Current)**	**2024 (With 60 New Beds)**
HSA8	0.340	0.477
Statewide	0.753	0.676
Sources: Inventory of Health Care Facilities and Services and Need Determinations, HFSRB 9/1/2017 and 6/5/2019 Update; and Illinois Department of Public Health Certificate of Need Population Projections, 2014.		

Comprehensive Physical Rehabilitation Service Specific Criteria
Encompass Health Rehabilitation Hospital of Libertyville, LLC

3) **The applicant shall document that, within 24 months after project completion, the proposed project:**

   A) **Will not lower the utilization of other area providers below the occupancy standards specified in 77 Ill. Adm. Code 1100; and**

   B) **Will not lower, to a further extent, the utilization of other area hospitals that are currently (during the latest 12-month period) operating below the occupancy standards.**

Absent the addition of beds, HSA8 residents will continue to either forego needed inpatient Rehab services altogether or, alternatively, travel outside their local community for care, neither of which are viable options for patients in a community with a large and increasing population ages 65+. As such, the proposed project will not redirect or serve patients currently served by any of the existing inpatient Rehab providers. Thus, the proposed project will have no impact on any existing inpatient Rehab provider's occupancy.

Comprehensive Physical Rehabilitation Service Specific Criteria
Encompass Health Rehabilitation Hospital of Libertyville, LLC

e) Staffing

1) Availability – Review Criterion
The applicant shall document that relevant clinical and professional staffing needs for the proposed project were considered and that licensure and The Joint Commission staffing requirements can be met. In addition, the applicant shall document that necessary staffing is available by providing a narrative explanation of how the proposed staffing will be achieved.

Encompass Health has in place numerous innovative approaches to recruit and retain staff members at their hospital facilities, thus Encompass Libertyville does not anticipate having difficulty hiring the necessary resources for the proposed project. In fact, a distinct advantage that the proposed project has in terms of recruitment is the level of professional engagement, challenge, and satisfaction employees have working with other professionals across disciplines. Moreover, because of the significant resources of Encompass to recruit nationally, the proposed project will have no material impact on existing health care providers in the service area.

The following information details the ability of Encompass Health, as a rehab-centric organization, to recruit needed staff for the proposed project.

The three primary components of Encompass Health's employee recruitment and retention strategy are described below, and include:

- Competitive Compensation and Benefits
- National Recruitment Strategy
- Relationships with Local Universities and Colleges

Competitive Compensation and Benefits
Encompass Health offers competitive packages that include a range of benefits including medical and dental insurance coverage, generous paid time off (PTO) plans, health savings accounts (HSAs), 401K savings and investment programs, basic term life and optional group term life insurance, disability insurance, an employee stock benefit plan and tuition reimbursement as well as a scholarship program. Encompass Health also offers employee health nurse services and employee wellness activities focused on maintaining the health and wellness of the entire Encompass Health team.

To retain staff, Encompass Health provides benefits such as continuing education including in-person courses, live webinars as well as web-based education and online instruction modules. Encompass provides clinical career ladders for therapists, nurses, and staff. Continuing education funds are also allocated to support additional educational opportunities for clinical staff. Encompass Health also offers reimbursement for professional licenses and national professional association membership dues. For example, Encompass Health supports rehab nurses in attaining their Certified Rehabilitation Registered Nurse (CRRN) certification through additional training materials and financial incentives upon completion of the certification. It is Encompass' stated goal to increase the number of nurses with CRRN certification, which ultimately improves clinical outcomes, patient satisfaction, and employee engagement and satisfaction.

Comprehensive Physical Rehabilitation Service Specific Criteria
Encompass Health Rehabilitation Hospital of Libertyville, LLC

Employee recognition and development activities and opportunities include employee celebration activities, employee family social activities, employee of the quarter/year recognition, quarterly town hall meetings, departmental recognition programs, career ladders for select positions, employee activities committees, employee suggestion committees, management development programs and mentoring programs.

National Recruitment Strategy
Encompass Health has a dedicated recruitment team that utilizes various avenues to ensure job positions are marketed to the right individuals. One way that is achieved is through partnerships with national associations including, for example:

- American Physical Therapy Association Combined Sections Meeting (APTA CSM)
- Annual APTA events
- APTA National Student Conclave
- American Occupational Therapy Association (AOTA)
- AOTA National Student Conclave
- Association of Rehabilitation Nurses (ARN)
- American Speech-Language-Hearing Association (ASHA)
- American Academy of Physical Medicine and Rehabilitation (AAPM&R)
- National Black Nurses Association
- National Hispanic Nurses Association

Additionally, Encompass Health leverages automated software to purchase, place, and optimize job searches throughout top media sources including various websites such as Indeed, Glassdoor, LinkUp, ZipRecruiter, Monster, SimplyHired, CollegeRecruiter, StartWire, and Jobs2Careers. Positions are also posted on EncompassHealth.com (search engine optimized), as well as Nexxt.com, indeed.com, linkedin.com, APTA, AOTA and CareerBuilder. Job positions are also posted on social media, utilizing Facebook, Twitter and LinkedIn.

Relationships with Local Universities and Colleges
Encompass Health develops relationships/training programs with local universities and colleges, community colleges and other training agencies to create and support a nation-wide workforce. With over 600 affiliation agreements throughout the nation with universities and schools for allied health professionals, prospective employees become acquainted with Encompass Health and existing hospitals become familiar with the skills they possess (enabling future recruitment capabilities once operational).

In addition, Encompass Health continually invests in the future pipeline of top talent by investing in the relationships with local schools through lunch-n-learns, resume workshops and participation in career fair events.

Comprehensive Physical Rehabilitation Service Specific Criteria
Encompass Health Rehabilitation Hospital of Libertyville, LLC

f) Performance Requirements – Bed Capacity Minimums

1) The minimum freestanding facility size for comprehensive physical rehabilitation is a minimum facility capacity of 100 beds.

2) The minimum hospital unit size for comprehensive physical rehabilitation is 16 beds.

The Applicant proposes to construct a 60-bed freestanding inpatient Rehab hospital in order to meet the planning area needs, as documented elsewhere in this application.

g) Assurances
The applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that, by the second year of operation after the project completion, the applicant will achieve and maintain the occupancy standards specified in 77 Ill. Adm. Code 1100 for each category of service involved in the proposal.

Please see the following page for a letter from the Encompass Libertyville representative regarding the projected utilization of the proposed project. As shown, the new facility is expected to reach and maintain the occupancy standard in CON Project Year 2.

Encompass Health Rehabilitation Hospital of Libertyville, LLC
9001 Liberty Parkway
Birmingham, AL 35242

July 19, 2019

Courtney Avery
Board Administrator
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, 2nd Floor
Springfield, IL 62761

RE: Criterion 1110.205(g), Assurances

Dear Ms. Avery:

As representative of Encompass Health Rehabilitation Hospital of Libertyville, LLC, I, Walter Smith, attest to the Applicant's ability to achieve and maintain the occupancy standards specified in 77 Ill. Adm. Code 1100 for comprehensive physical medicine services by the second year of operation after the project completion.

Sincerely,

Walter Smith
Director, State Regulatory Affairs
Encompass Health Corporation
Authorized Representative

Subscribed and Sworn to before me this 19 day of July, 2019.

Notary Public

MIA K. HAYNES
My Commission Expires
May 9, 2023

Attachment 19

Availability of Funds
Encompass Health Rehabilitation Hospital of Libertyville, LLC

The total estimated project cost is $52,184,384. The Applicant/Licensee will fund the project from available cash on hand and existing internal funds obtained from Encompass Health Corporation.

Encompass Health Corporation has sufficient resources to fully fund these expenditures in addition to its other ongoing obligations. In 2018, Encompass Health Corporation's operating activities generated $762 Million and as of the end of 2018, the company had $69 Million of unrestricted cash on its balance sheet. In addition, Encompass Health Corporation has at its discretion a $700 Million Revolving Credit Facility, of which approximately $630 Million was available as of March 31, 2019. Existing cash, cash flow from operations, and funds available under the existing credit facility offer more than adequate funds for the proposed project. In addition to the commitment for this project, Encompass Health Corporation is also committed to providing the necessary working capital for this proposed project.

Please see the following letter confirming proof of project funding and most recent audited financial statement for Encompass Health.

Attachment 33
Page 1

Encompass Health

9001 Liberty Parkway
Birmingham, AL 35242

205.967.7116
encompasshealth.com

July 19, 2019

Courtney Avery
Board Administrator
Illinois Health Facilities and Services Review Board
525 W. Jefferson St., Second Floor
Springfield, IL 62761

RE: Encompass Health Rehabilitation Hospital of Libertyville, LLC
Application for Permit to Establish a New Rehabilitation Hospital
Criterion 1120.120(a) Available Funds Certification
Criterion 1120.140A. Reasonableness of Financing Arrangements

Dear Ms. Avery:
In accordance with the verification requirements of 735 ILCS 5/1-109 of the Illinois Code of Civil Procedure, I hereby certify under the penalty of perjury the following:

1. The Encompass Health Rehabilitation Hospital of Libertyville, LLC Project costs will be funded entirely by Encompass Health Corporation, an Applicant, from internal cash resources including cash and equivalents or borrowings under its revolving credit facility.

2. Encompass Health Corporation, an Applicant, will fund the necessary working capital and operating deficits through the first full fiscal year when the project achieves the target utilization of 85% of average annual occupancy.

3. Encompass Health Corporation, an Applicant, has sufficient and readily accessible internal resources to fund the obligations required by the Project. In 2018, Encompass Health Corporation's operating activities generated $762 Million and as of the end of 2018, the company had $69 Million of unrestricted cash on its balance sheet. In addition, Encompass Health Corporation has at its discretion a $700 Million Revolving Credit Facility, of which approximately $630 Million was available as of March 31, 2019. Existing cash, cash flow from operations, and funds available under the credit facility offer more than adequate funds for the proposed Project. We have sufficient resources to fund these expenditures in addition to our other ongoing obligations.

This letter shall also serve as a confirmation of our analysis of the funding options for this Project. Funding the Project through cash and cash equivalents is the lowest cost option.

I hereby certify this is true and based upon my personal knowledge and under the penalty of perjury and in accordance with 735 ILCS 5/1-109.

Encompass Health

9001 Liberty Parkway
Birmingham, AL 35242

205.967.7116
encompasshealth.com

Sincerely yours,

Edmund Fay
Senior Vice President and Treasurer
Encompass Health Corporation

Subscribed and Sworn before me this 19th day of July, 2019.

Notary Public

MIA K. HAYNES
My Commission Expires
May 9, 2023

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PART IV

Item 15. Exhibits and Financial Statement Schedules

Financial Statements

See the accompanying index on page F-1 for a list of financial statements filed as part of this report.

Financial Statement Schedules

None.

Exhibits

See Exhibit Index immediately following page F-77 of this report.

Item 16. Form 10-K Summary

Not applicable.

Attachment 33

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENCOMPASS HEALTH CORPORATION

By: /s/ MARK J. TARR

Mark J. Tarr
President and Chief Executive Officer

Date: February 27, 2019

[Signatures continue on the following page]

Attachment 33

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POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Patrick Darby his true and lawful attorney-in-fact and agent with full power of substitution and re-substitution, for him in his name, place and stead, in any and all capacities, to sign any and all amendments to this Report and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, and hereby grants to such attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ MARK J. TARR **Mark J. Tarr**	President and Chief Executive Officer and Director	February 27, 2019
/s/ DOUGLAS E. COLTHARP **Douglas E. Coltharp**	Executive Vice President and Chief Financial Officer	February 27, 2019
/s/ ANDREW L. PRICE **Andrew L. Price**	Chief Accounting Officer	February 27, 2019
/s/ LEO I. HIGDON, JR. **Leo I. Higdon, Jr.**	Chairman of the Board of Directors	February 27, 2019
/s/ JOHN W. CHIDSEY **John W. Chidsey**	Director	February 27, 2019
/s/ DONALD L. CORRELL **Donald L. Correll**	Director	February 27, 2019
/s/ YVONNE M. CURL **Yvonne M. Curl**	Director	February 27, 2019
/s/ CHARLES M. ELSON **Charles M. Elson**	Director	February 27, 2019
/s/ JOAN E. HERMAN **Joan E. Herman**	Director	February 27, 2019
/s/ LESLYE G. KATZ **Leslye G. Katz**	Director	February 27, 2019
/s/ JOHN E. MAUPIN, JR. **John E. Maupin, Jr.**	Director	February 27, 2019
/s/ Nancy M. Schlichting **Nancy M. Schlichting**	Director	February 27, 2019
/s/ L. EDWARD SHAW, JR. **L. Edward Shaw, Jr.**	Director	February 27, 2019

Attachment 33

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Item 15. Financial Statements

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Encompass Health Corporation:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Encompass Health Corporation and its subsidiaries (the "Company") as of December 31, 2018 and December 31, 2017, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, 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, 2018 and December 31, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 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, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for net operating revenues in 2018.

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 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

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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
Birmingham, Alabama
February 27, 2019

We have served as the Company's auditor since 2003.

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Encompass Health Corporation and Subsidiaries

Consolidated Statements of Operations

	For the Year Ended December 31,		
	2018	2017	2016
	(In Millions, Except Per Share Data)		
Net operating revenues	$ 4,277.3	$ 3,913.9	$ 3,642.6
Operating expenses:			
Salaries and benefits	2,354.0	2,154.6	1,985.9
Other operating expenses	585.1	531.6	490.6
Occupancy costs	78.0	73.5	71.3
Supplies	158.7	149.3	140.0
General and administrative expenses	220.2	171.7	133.4
Depreciation and amortization	199.7	183.8	172.6
Government, class action, and related settlements	52.0	—	—
Total operating expenses	3,647.7	3,264.5	2,993.8
Loss on early extinguishment of debt	—	10.7	7.4
Interest expense and amortization of debt discounts and fees	147.3	154.4	172.1
Other income	(2.2)	(4.1)	(2.9)
Equity in net income of nonconsolidated affiliates	(8.7)	(8.0)	(9.8)
Income from continuing operations before income tax expense	493.2	496.4	482.0
Provision for income tax expense	118.9	145.8	163.9
Income from continuing operations	374.3	350.6	318.1
Income (loss) from discontinued operations, net of tax	1.1	(0.4)	—
Net income	375.4	350.2	318.1
Less: Net income attributable to noncontrolling interests	(83.1)	(79.1)	(70.5)
Net income attributable to Encompass Health	$ 292.3	$ 271.1	$ 247.6
Weighted average common shares outstanding:			
Basic	97.9	93.7	89.1
Diluted	99.8	99.3	99.5
Earnings per common share:			
Basic earnings per share attributable to Encompass Health common shareholders:			
Continuing operations	$ 2.97	$ 2.88	$ 2.77
Discontinued operations	0.01	—	—
Net income	$ 2.98	$ 2.88	$ 2.77
Diluted earnings per share attributable to Encompass Health common shareholders:			
Continuing operations	$ 2.92	$ 2.84	$ 2.59
Discontinued operations	0.01	—	—
Net income	$ 2.93	$ 2.84	$ 2.59
Amounts attributable to Encompass Health:			
Income from continuing operations	$ 291.2	$ 271.5	$ 247.6
Income (loss) from discontinued operations, net of tax	1.1	(0.4)	—
Net income attributable to Encompass Health	$ 292.3	$ 271.1	$ 247.6

The accompanying notes to consolidated financial statements are an integral part of these statements.

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Encompass Health Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

	For the Year Ended December 31,		
	2018	2017	2016
		(In Millions)	
COMPREHENSIVE INCOME			
Net income	$ 375.4	$ 350.2	$ 318.1
Other comprehensive loss, net of tax:			
Net change in unrealized (loss) gain on available-for-sale securities:			
Unrealized net holding (loss) gain arising during the period	—	(0.1)	0.1
Other comprehensive (loss) income before income taxes	—	(0.1)	0.1
Provision for income tax expense related to other comprehensive loss items	—	—	(0.1)
Other comprehensive loss, net of tax:	—	(0.1)	—
Comprehensive income	375.4	350.1	318.1
Comprehensive income attributable to noncontrolling interests	(83.1)	(79.1)	(70.5)
Comprehensive income attributable to Encompass Health	$ 292.3	$ 271.0	$ 247.6

The accompanying notes to consolidated financial statements are an integral part of these statements.

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Encompass Health Corporation and Subsidiaries

Consolidated Balance Sheets

	As of December 31,	
	2018	2017
	(In Millions, Except Share Data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 69.2	$ 54.4
Restricted cash	59.0	62.4
Accounts receivable	467.7	472.1
Prepaid expenses and other current assets	66.2	113.3
Total current assets	662.1	702.2
Property and equipment, net	1,634.8	1,517.1
Goodwill	2,100.8	1,972.6
Intangible assets, net	443.4	403.1
Deferred income tax assets	42.9	34.4
Other long-term assets	291.0	235.1
Total assets[(1)]	$ 5,175.0	$ 4,864.5
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 35.8	$ 32.3
Accounts payable	90.0	78.4
Accrued payroll	188.4	172.1
Accrued interest payable	24.4	24.7
Other current liabilities	333.9	210.0
Total current liabilities	672.5	517.5
Long-term debt, net of current portion	2,478.6	2,545.4
Self-insured risks	119.6	110.1
Other long-term liabilities	85.6	75.2
	3,356.3	3,248.2
Commitments and contingencies		
Redeemable noncontrolling interests	261.7	220.9
Shareholders' equity:		
Encompass Health shareholders' equity:		
Common stock, $.01 par value; 200,000,000 shares authorized; issued: 112,492,690 in 2018; 111,690,547 in 2017	1.1	1.1
Capital in excess of par value	2,588.7	2,747.4
Accumulated deficit	(885.2)	(1,176.2)
Accumulated other comprehensive loss	—	(1.3)
Treasury stock, at cost (13,566,209 shares in 2018 and 13,385,019 shares in 2017)	(427.9)	(418.5)
Total Encompass Health shareholders' equity	1,276.7	1,152.5
Noncontrolling interests	280.3	242.9
Total shareholders' equity	1,557.0	1,395.4
Total liabilities[(1)] **and shareholders' equity**	$ 5,175.0	$ 4,864.5

(1) Our consolidated assets as of December 31, 2018 and December 31, 2017 include total assets of variable interest entities of $197.5 million and $264.1 million, respectively, which cannot be used by us to settle the obligations of other entities. Our consolidated liabilities as of December 31, 2018 and December 31, 2017 include total liabilities of the variable interest entities of $50.8 million and $52.5 million, respectively. See Note 3, *Variable Interest Entities*.

The accompanying notes to consolidated financial statements are an integral part of these statements.

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Encompass Health Corporation and Subsidiaries

Consolidated Statements of Shareholders' Equity

	Encompass Health Common Shareholders							
	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interests	Total
	(In Millions)							
December 31, 2015	90.1	$ 1.1	$ 2,821.0	$ (1,696.0)	$ (1.2)	$ (527.4)	$ 167.9	$ 765.4
Net income	—	—	—	247.6	—	—	56.4	304.0
Receipt of treasury stock	(0.5)	—	—	—	—	(11.6)	—	(11.6)
Dividends declared ($0.94 per share)	—	—	(84.9)	—	—	—	—	(84.9)
Stock-based compensation	—	—	21.4	—	—	—	—	21.4
Stock options exercised	0.6	—	13.1	—	—	(7.8)	—	5.3
Distributions declared	—	—	—	—	—	—	(54.2)	(54.2)
Repurchases of common stock in open market	(1.7)	—	—	—	—	(65.6)	—	(65.6)
Capital contributions from consolidated affiliates	—	—	—	—	—	—	19.6	19.6
Fair value adjustments to redeemable noncontrolling interests	—	—	(10.9)	—	—	—	—	(10.9)
Windfall tax benefits from share-based compensation	—	—	17.3	—	—	—	—	17.3
Other	0.4	—	4.0	—	—	(2.3)	3.1	4.8
December 31, 2016	88.9	1.1	2,781.0	(1,448.4)	(1.2)	(614.7)	192.8	910.6
Net income	—	—	—	271.1	—	—	61.2	332.3
Receipt of treasury stock	(0.9)	—	—	—	—	(19.8)	—	(19.8)
Dividends declared ($0.98 per share)	—	—	(95.2)	—	—	—	—	(95.2)
Stock-based compensation	—	—	21.3	—	—	—	—	21.3
Stock options exercised	1.1	—	20.4	—	—	(19.3)	—	1.1
Stock warrants exercised	0.7	—	26.6	—	—	—	—	26.6
Distributions declared	—	—	—	—	—	—	(50.5)	(50.5)
Repurchases of common stock in open market	(0.9)	—	—	—	—	(38.1)	—	(38.1)
Capital contributions from consolidated affiliates	—	—	—	—	—	—	46.2	46.2
Fair value adjustments to redeemable noncontrolling interests	—	—	(67.0)	—	—	—	—	(67.0)
Conversion of convertible debt, net of tax	8.9	—	53.7	—	—	274.5	—	328.2
Other	0.5	—	6.6	1.1	(0.1)	(1.1)	(6.8)	(0.3)
December 31, 2017	98.3	1.1	2,747.4	(1,176.2)	(1.3)	(418.5)	242.9	1,395.4
Net income	—	—	—	292.3	—	—	69.2	361.5
Receipt of treasury stock	(0.2)	—	—	—	—	(8.3)	—	(8.3)
Dividends declared ($1.04 per share)	—	—	(103.7)	—	—	—	—	(103.7)
Stock-based compensation	—	—	28.9	—	—	—	—	28.9
Stock options exercised	0.1	—	3.2	—	—	—	—	3.2
Distributions declared	—	—	—	—	—	—	(71.1)	(71.1)
Capital contributions from consolidated affiliates	—	—	—	—	—	—	38.8	38.8
Fair value adjustments to redeemable noncontrolling interests	—	—	(91.0)	—	—	—	—	(91.0)
Other	0.7	—	3.9	(1.3)	1.3	(1.1)	0.5	3.3
December 31, 2018	98.9	$ 1.1	$ 2,588.7	$ (885.2)	$ —	$ (427.9)	$ 280.3	$ 1,557.0

The accompanying notes to consolidated financial statements are an integral part of these statements.

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Encompass Health Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	For the Year Ended December 31,		
	2018	2017	2016
		(In Millions)	
Cash flows from operating activities:			
Net income	$ 375.4	$ 350.2	$ 318.1
(Income) loss from discontinued operations, net of tax	(1.1)	0.4	—
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for government, class action, and related settlements	52.0	—	—
Depreciation and amortization	199.7	183.8	172.6
Amortization of debt-related items	4.0	8.7	13.8
Loss on early extinguishment of debt	—	10.7	7.4
Equity in net income of nonconsolidated affiliates	(8.7)	(8.0)	(9.8)
Distributions from nonconsolidated affiliates	8.3	8.6	8.5
Stock-based compensation	85.9	47.7	27.4
Deferred tax expense	(9.1)	60.8	132.9
Other, net	9.2	3.4	0.1
Changes in assets and liabilities, net of acquisitions			
Accounts receivable	7.0	(31.5)	(66.3)
Prepaid expenses and other assets	11.5	(12.6)	(3.3)
Accounts payable	6.6	7.5	6.3
Accrued payroll	14.8	24.4	21.4
Other liabilities	6.1	4.8	11.8
Net cash provided by (used in) operating activities of discontinued operations	0.8	(0.6)	(0.7)
Total adjustments	388.1	307.7	322.1
Net cash provided by operating activities	762.4	658.3	640.2
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired	(143.9)	(38.8)	(48.1)
Purchases of property and equipment	(254.5)	(225.8)	(177.7)
Additions to capitalized software costs	(16.0)	(19.2)	(25.2)
Proceeds from disposal of assets	0.4	12.3	23.9
Proceeds from sale of restricted investments	11.6	4.2	0.1
Purchases of restricted investments	(13.3)	(8.5)	(1.3)
Other, net	(8.8)	(7.2)	(1.7)
Net cash provided by investing activities of discontinued operations	—	—	0.1
Net cash used in investing activities	(424.5)	(283.0)	(229.9)

(Continued)

Attachment 33

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Encompass Health Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

	For the Year Ended December 31,		
	2018	2017	2016
		(In Millions)	
Cash flows from financing activities:			
Principal payments on debt, including pre-payments	(20.6)	(129.9)	(202.1)
Principal borrowings on notes	13.2	—	—
Borrowings on revolving credit facility	325.0	273.3	335.0
Payments on revolving credit facility	(390.0)	(330.3)	(313.0)
Principal payments under capital lease obligations	(17.9)	(15.3)	(13.3)
Repurchases of common stock, including fees and expenses	—	(38.1)	(65.6)
Dividends paid on common stock	(100.8)	(91.5)	(83.8)
Purchase of equity interests in consolidated affiliates	(65.1)	—	—
Proceeds from exercising stock warrants	—	26.6	—
Distributions paid to noncontrolling interests of consolidated affiliates	(75.4)	(51.9)	(64.9)
Taxes paid on behalf of employees for shares withheld	(8.3)	(19.8)	(11.6)
Contributions from consolidated affiliates	12.6	20.8	3.5
Other, net	6.1	(3.8)	(0.6)
Net cash used in financing activities	(321.2)	(359.9)	(416.4)
Increase (decrease) in cash, cash equivalents, and restricted cash	16.7	15.4	(6.1)
Cash, cash equivalents, and restricted cash at beginning of year	116.8	101.4	107.5
Cash, cash equivalents, and restricted cash at end of year	$ 133.5	$ 116.8	$ 101.4
Reconciliation of Cash, Cash Equivalents, and Restricted Cash			
Cash and cash equivalents at beginning of period	$ 54.4	$ 40.5	$ 61.6
Restricted cash at beginning of period	62.4	60.9	45.9
Cash, cash equivalents, and restricted cash at beginning of period	$ 116.8	$ 101.4	$ 107.5
Cash and cash equivalents at end of period	$ 69.2	$ 54.4	$ 40.5
Restricted cash at end of period	59.0	62.4	60.9
Restricted cash included in other long-term assets at end of period	5.3	—	—
Cash, cash equivalents, and restricted cash at end of period	$ 133.5	$ 116.8	$ 101.4
Supplemental cash flow information:			
Cash (paid) received during the year for			
Interest	$ (149.6)	$ (150.5)	$ (164.3)
Income tax refunds	0.6	1.9	1.4
Income tax payments	(115.4)	(96.4)	(33.3)
Supplemental schedule of noncash financing activities:			
Conversion of convertible debt	$ —	$ 319.4	$ —

The accompanying notes to consolidated financial statements are an integral part of these statements.

1. Summary of Significant Accounting Policies:

Organization and Description of Business

Encompass Health Corporation, incorporated in Delaware in 1984, including its subsidiaries, is one of the nation's largest providers of post-acute healthcare services, offering both facility-based and home-based post-acute services in 36 states and Puerto Rico through our network of inpatient rehabilitation hospitals, home health agencies, and hospice agencies. We manage our operations and disclose financial information using two reportable segments: (1) inpatient rehabilitation and (2) home health and hospice. See Note 18, *Segment Reporting*.

On July 10, 2017, we announced the plan to rebrand and change our name from HealthSouth Corporation to Encompass Health Corporation. On October 20, 2017, our board of directors approved an amended and restated certificate of incorporation in order to change the name effective as of January 1, 2018. Along with the corporate name change, the NYSE ticker symbol for our common stock changed from "HLS" to "EHC." Our operations in both business segments transitioned to the Encompass Health branding in 2018.

Basis of Presentation and Consolidation

The accompanying consolidated financial statements of Encompass Health and its subsidiaries were prepared in accordance with generally accepted accounting principles in the United States of America and include the assets, liabilities, revenues, and expenses of all wholly-owned subsidiaries, majority-owned subsidiaries over which we exercise control, and, when applicable, entities in which we have a controlling financial interest.

We use the equity method to account for our investments in entities we do not control, but where we have the ability to exercise significant influence over operating and financial policies. Consolidated *Net income attributable to Encompass Health* includes our share of the net earnings of these entities. The difference between consolidation and the equity method impacts certain of our financial ratios because of the presentation of the detailed line items reported in the consolidated financial statements for consolidated entities compared to a one line presentation of equity method investments.

We use the cost method to account for our investments in entities we do not control and for which we do not have the ability to exercise significant influence over operating and financial policies. In accordance with the cost method, these investments are recorded at the lower of cost or fair value, as appropriate.

We eliminate all significant intercompany accounts and transactions from our financial results.

Variable Interest Entities

Any entity considered a variable interest entity ("VIE") is evaluated to determine which party is the primary beneficiary and thus should consolidate the VIE. This analysis is complex, involves uncertainties, and requires significant judgment on various matters. In order to determine if we are the primary beneficiary of a VIE, we must determine what activities most significantly impact the economic performance of the entity, whether we have the power to direct those activities, and if our obligation to absorb losses or receive benefits from the VIE could potentially be significant to the VIE.

Use of Estimates and Assumptions

The preparation of our consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but not limited to: (1) revenue reserves for contractual adjustments and uncollectible amounts; (2) fair value of acquired assets and assumed liabilities in business combinations; (3) asset impairments, including goodwill; (4) depreciable lives of assets; (5) useful lives of intangible assets; (6) economic lives and fair value of leased assets; (7) income tax valuation allowances; (8) uncertain tax positions; (9) fair value of stock options and restricted stock containing a market condition; (10) fair value of redeemable noncontrolling interests; (11) reserves for self-insured healthcare plans; (12) reserves for professional, workers' compensation, and comprehensive general insurance liability risks; and (13) contingency and litigation reserves. Future events and their effects cannot be predicted with certainty; accordingly, our

accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained, and as our operating environment changes. We evaluate and update our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluation, as considered necessary. Actual results could differ from those estimates.

Risks and Uncertainties—

As a healthcare provider, we are required to comply with extensive and complex laws and regulations at the federal, state, and local government levels. These laws and regulations relate to, among other things:

- licensure, certification, and accreditation;
- policies, either at the national or local level, delineating what conditions must be met to qualify for reimbursement under Medicare (also referred to as coverage requirements);
- coding and billing for services;
- requirements of the 60% compliance threshold under The Medicare, Medicaid and State Children's Health Insurance Program (SCHIP) Extension Act of 2007;
- relationships with physicians and other referral sources, including physician self-referral and anti-kickback laws;
- quality of medical care;
- use and maintenance of medical supplies and equipment;
- maintenance and security of patient information and medical records;
- acquisition and dispensing of pharmaceuticals and controlled substances; and
- disposal of medical and hazardous waste.

In the future, changes in these laws or regulations or the manner in which they are enforced could subject our current or past practices to allegations of impropriety or illegality or could require us to make changes in our hospitals, equipment, personnel, services, capital expenditure programs, operating procedures, contractual arrangements, and patient admittance practices, as well as the way in which we deliver home health and hospice services.

If we fail to comply with applicable laws and regulations, we could be required to return portions of reimbursements deemed after the fact to have not been appropriate. We could also be subjected to liabilities, including (1) criminal penalties, (2) civil penalties, including monetary penalties and the loss of our licenses to operate one or more of our hospitals or agencies, and (3) exclusion or suspension of one or more of our hospitals from participation in the Medicare, Medicaid, and other federal and state healthcare programs which, if lengthy in duration and material to us, could potentially trigger a default under our credit agreement. Because Medicare comprises a significant portion of our *Net operating revenues*, failure to comply with the laws and regulations governing the Medicare program and related matters, including anti-kickback and anti-fraud requirements, could materially and adversely affect us. Specifically, reductions in reimbursements, substantial damages, and other remedies assessed against us could have a material adverse effect on our business, financial position, results of operation, and cash flows. Even the assertion of a violation, depending on its nature, could have a material adverse effect upon our stock price or reputation.

Historically, the United States Congress and some state legislatures have periodically proposed significant changes in regulations governing the healthcare system. Many of these changes have resulted in limitations on the increases in and, in some cases, significant roll-backs or reductions in the levels of payments to healthcare providers for services under many government reimbursement programs. There can be no assurance that future governmental initiatives will not result in pricing roll-backs or freezes or reimbursement reductions. Because we receive a significant percentage of our revenues from Medicare, such changes in legislation might have a material adverse effect on our financial position, results of operations, and cash flows.

In addition, there are increasing pressures from many third-party payors to control healthcare costs and to reduce or limit increases in reimbursement rates for medical services. Our relationships with managed care and nongovernmental third-party payors are generally governed by negotiated agreements. These agreements set forth the amounts we are entitled to receive for our services. We could be adversely affected in some of the markets where we operate if we are unable to negotiate and maintain favorable agreements with third-party payors.

Our third-party payors may also, from time to time, request audits of the amounts paid, or to be paid, to us. We could be adversely affected in some of the markets where we operate if the auditing payor alleges substantial overpayments were made to us due to coding errors or lack of documentation to support medical necessity determinations.

As discussed in Note 17, *Contingencies and Other Commitments*, we are a party to a number of lawsuits. We cannot predict the outcome of litigation filed against us. Substantial damages or other monetary remedies assessed against us could have a material adverse effect on our business, financial position, results of operations, and cash flows.

Net Operating Revenues

Our *Net operating revenues* disaggregated by payor source and segment are as follows (in millions):

	Inpatient Rehabilitation			Home Health and Hospice			Consolidated		
	Year Ended December 31,			Year Ended December 31,			Year Ended December 31,		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Medicare	$2,451.7	$2,313.6	$2,187.8	$ 794.5	$ 662.9	$ 565.9	$3,246.2	$2,976.5	$2,753.7
Medicare Advantage	306.5	261.0	226.9	88.6	74.8	59.0	395.1	335.8	285.9
Managed care	343.3	335.6	325.4	33.2	29.1	26.2	376.5	364.7	351.6
Medicaid	101.3	93.2	84.5	11.6	4.3	25.8	112.9	97.5	110.3
Other third-party payors	49.0	49.9	50.3	—	—	—	49.0	49.9	50.3
Workers' compensation	27.4	27.5	29.6	1.5	0.1	0.1	28.9	27.6	29.7
Patients	18.7	18.4	17.9	0.8	0.7	0.5	19.5	19.1	18.4
Other income	48.3	42.1	42.0	0.9	0.7	0.7	49.2	42.8	42.7
Total	$3,346.2	$3,141.3	$2,964.4	$ 931.1	$ 772.6	$ 678.2	$4,277.3	$3,913.9	$3,642.6

We record *Net operating revenues* on an accrual basis using our best estimate of the transaction price for the type of service provided to the patient. Our estimate of the transaction price includes estimates of price concessions for such items as contractual allowances, potential adjustments that may arise from payment and other reviews, and uncollectible amounts. Our accounting systems calculate contractual allowances on a patient-by-patient basis based on the rates in effect for each primary third-party payor. Adjustments related to payment reviews by third-party payors or their agents are based on our historical experience and success rates in the claims adjudication process. Estimates for uncollectible amounts are based on the aging of our accounts receivable, our historical collection experience for each type of payor, and other relevant factors.

Management continually reviews the revenue transaction price estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms that result from contract renegotiations and renewals. Due to complexities involved in determining amounts ultimately due under reimbursement arrangements with third-party payors, which are often subject to interpretation, we may receive reimbursement for healthcare services authorized and provided that is different from our estimates, and such differences could be material. In addition, laws and regulations governing the Medicare and Medicaid programs are complex, subject to interpretation, and are routinely modified for provider reimbursement. All healthcare providers participating in the Medicare and Medicaid programs are required to meet certain financial reporting requirements. Federal regulations require submission of annual cost reports covering medical costs and expenses associated with the services provided under each hospital, home health, and hospice provider number to program beneficiaries. Annual cost reports required under the Medicare and Medicaid programs are subject to routine audits, which may result in adjustments to the amounts ultimately determined to be due to Encompass Health under these reimbursement programs. These audits often require several years to reach the final determination of amounts earned under the programs. If

actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material.

The Centers for Medicare and Medicaid Services ("CMS") has been granted authority to suspend payments, in whole or in part, to Medicare providers if CMS possesses reliable information an overpayment, fraud, or willful misrepresentation exists. If CMS suspects payments are being made as the result of fraud or misrepresentation, CMS may suspend payment at any time without providing prior notice to us. The initial suspension period is limited to 180 days. However, the payment suspension period can be extended almost indefinitely if the matter is under investigation by the United States Department of Health and Human Services Office of Inspector General (the "HHS-OIG") or the United States Department of Justice (the "DOJ"). Therefore, we are unable to predict if or when we may be subject to a suspension of payments by the Medicare and/or Medicaid programs, the possible length of the suspension period, or the potential cash flow impact of a payment suspension. Any such suspension would adversely impact our financial position, results of operations, and cash flows.

Pursuant to legislative directives and authorizations from Congress, CMS has developed and instituted various Medicare audit programs under which CMS contracts with private companies to conduct claims and medical record audits. As a matter of course, we undertake significant efforts through training and education to ensure compliance with Medicare requirements. However, audits may lead to assertions we have been underpaid or overpaid by Medicare or submitted improper claims in some instances, require us to incur additional costs to respond to requests for records and defend the validity of payments and claims, and ultimately require us to refund any amounts determined to have been overpaid. In some circumstances auditors assert the authority to extrapolate denial rationales to large pools of claims not actually audited, which could increase the impact of the audit. We cannot predict when or how these audit programs will affect us.

Medicare Administrative Contractors ("MACs"), under programs known as "widespread probes," have conducted pre-payment claim reviews of our Medicare billings and in some cases denied payment for certain diagnosis codes. The majority of the denials we have encountered in these probes relate to determinations regarding medical necessity and provision of therapy services. We dispute, or "appeal," most of these denials, and for claims we choose to take to administrative law judge hearings, we have historically experienced a success rate of approximately 70%. This historical success rate is a component of our estimate of transaction price as discussed above. The resolution of these disputes can take in excess of three years, and we cannot provide assurance as to our ongoing and future success of these disputes. When the amount collected related to denied claims differs from the amount previously estimated, these collection differences are recorded as an adjustment to *Net operating revenues*.

In August 2017, CMS announced the Targeted Probe and Educate ("TPE") initiative. Under the TPE initiative, MACs use data analysis to identify healthcare providers with high claim error rates and items and services that have high national error rates. Once a MAC selects a provider for claims review, the initial volume of claims review is limited to 20 to 40 claims. The TPE initiative includes up to three rounds of claims review if necessary with corresponding provider education and a subsequent period to allow for improvement. If results do not improve sufficiently after three rounds, the MAC may refer the provider to CMS for further action, which may include extrapolation of error rates to a broader universe of claims or referral to a ZPIC or RAC (defined below). We cannot predict the impact of the TPE initiative on our ability to collect claims on a timely basis.

In connection with CMS approved and announced Recovery Audit Contractors ("RACs") audits related to inpatient rehabilitation facilities ("IRFs"), we received requests from 2013 to 2018 to review certain patient files for discharges occurring from 2010 to 2018. These RAC audits are focused on identifying Medicare claims that may contain improper payments. RAC contractors must have CMS approval before conducting these focused reviews which cover issues ranging from billing documentation to medical necessity. Medical necessity is an assessment by an independent physician of a patient's ability to tolerate and benefit from intensive multi-disciplinary therapy provided in an IRF setting.

CMS has also established contractors known as the Zone Program Integrity Contractors ("ZPICs"). These contractors conduct audits with a focus on potential fraud and abuse issues. Like the RACs, the ZPICs conduct audits and have the ability to refer matters to the HHS-OIG or the DOJ. Unlike RACs, however, ZPICs do not receive a specific financial incentive based on the amount of the error as a result of ZPIC audits. We have, from time to time, received ZPIC record requests which have resulted in claim denials on paid claims. We have appealed substantially all ZPIC denials arising from these audits using the same process we follow for appealing other denials by contractors. CMS has announced its intention to rename ZPICs as Unified Program Integrity Contractors.

To date, the Medicare claims that are subject to these post-payment audit requests represent less than 1% of our Medicare patient discharges from 2010 to 2018, and not all of these patient file requests have resulted in payment denial determinations by the audit contractor. Because we have confidence in the medical judgment of both the referring and admitting physicians who assess the treatment needs of their patients, we have appealed substantially all claim denials arising from these audits using the same process we follow for appealing denials of certain diagnosis codes by MACs. Due to the delays announced by CMS in the related adjudication process, we believe the resolution of any claims that are subsequently denied as a result of these claim audits could take in excess of three years. In addition, because we have limited experience with ZPICs and RACs in the context of claims reviews of this nature, we cannot provide assurance as to the timing or outcomes of these disputes. As such, we make estimates for these claims based on our historical experience and success rates in the claims adjudication process, which is the same process we follow for appealing denials of certain diagnosis codes by MACs. As the ultimate results of these audits impact our estimates of amounts determined to be due to Encompass Health under these reimbursement programs, our reserve for claims that are part of this post-payment claims review process are recorded to *Net operating revenues*. During 2018, 2017, and 2016, our adjustment to *Net operating revenues* for claims that are part of this post-payment claims review process was not material.

Our performance obligations relate to contracts with a duration of less than one year. Therefore, we elected to apply the optional exemption to not disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. These unsatisfied or partially unsatisfied performance obligations primarily relate to services provided at the end of the reporting period.

We are subject to changes in government legislation that could impact Medicare payment levels and changes in payor patterns that may impact the level and timing of payments for services rendered.

Inpatient Rehabilitation Revenues

Inpatient rehabilitation segment revenues are recognized over time as the services are provided to the patient. The performance obligation is the rendering of services to the patient during the term of their inpatient stay. Revenues are recognized (or measured) using the input method as therapy, nursing, and auxiliary services are provided based on our estimate of the respective transaction price. Revenues recognized by our inpatient rehabilitation segment are subject to a number of elements which impact both the overall amount of revenue realized as well as the timing of the collection of the related accounts receivable. Factors considered in determining the estimated transaction price include the patient's total length of stay for in-house patients, each patient's discharge destination, the proportion of patients with secondary insurance coverage and the level of reimbursement under that secondary coverage, and the amount of charges that will be disallowed by payors. Such additional factors are assumed to remain consistent with the experience for patients discharged in similar time periods for the same payor classes.

Home Health and Hospice Revenues

Home Health

Under the Medicare home health prospective payment system, we are paid by Medicare based on episodes of care. The performance obligation is the rendering of services to the patient during the term of the episode of care. An episode of care is defined as a length of stay up to 60 days, with multiple continuous episodes allowed. A base episode payment is established by the Medicare program through federal regulation. The base episode payment can be adjusted based on each patient's health including clinical condition, functional abilities, and service needs, as well as for the applicable geographic wage index, low utilization, patient transfers, and other factors. The services covered by the episode payment include all disciplines of care in addition to medical supplies.

We bill a portion of reimbursement from each Medicare episode near the start of each episode, and the resulting cash payment is typically received before all services are rendered. As we provide home health services to our patients on a scheduled basis over the episode of care in a manner that approximates a pro rata pattern, revenue for the episode of care is recorded over an average length of treatment period using a calendar day prorating method. The amount of revenue recognized for episodes of care which are incomplete at period end is based on the pro rata number of days in the episode which have been completed as of the period end date. As of December 31, 2018 and December 31, 2017, the difference between the cash

received from Medicare for a request for anticipated payment on episodes in progress and the associated estimated revenue was not material and was recorded in *Other current liabilities* in our consolidated balance sheets.

We are subject to certain Medicare regulations affecting outlier revenue if our patient's care was unusually costly. Regulations require a cap on all outlier revenue at 10% of total Medicare revenue received by each provider during a cost reporting year. Management has reviewed the potential cap. Adjustments to the transaction price for the outlier cap were not material as of December 31, 2018 and December 31, 2017.

For episodic-based rates that are paid by other insurance carriers, including Medicare Advantage, we recognize revenue in a similar manner as discussed above for Medicare revenues. However, these rates can vary based upon the negotiated terms. For non-episodic-based revenue, revenue is recorded on an accrual basis based upon the date of service at amounts equal to our estimated per-visit transaction price. Price concessions, including contractual allowances for the differences between our standard rates and the applicable contracted rates, as well as estimated uncollectible amounts from patients, are recorded as decreases to the transaction price.

Hospice

Medicare revenues for hospice are recognized and recorded on an accrual basis using the input method based on the number of days a patient has been on service at amounts equal to an estimated daily or hourly payment rate. The performance obligation is the rendering of services to the patient during each day that they are on hospice care. The payment rate is dependent on whether a patient is receiving routine home care, general inpatient care, continuous home care or respite care. Adjustments to Medicare revenues are recorded based on an inability to obtain appropriate billing documentation or authorizations acceptable to the payor or other reasons unrelated to credit risk. Hospice companies are subject to two specific payment limit caps under the Medicare program. One limit relates to inpatient care days that exceed 20% of the total days of hospice care provided for the year. The second limit relates to an aggregate Medicare reimbursement cap calculated by the MAC. Adjustments to the transaction price for these caps were not material as of December 31, 2018 and December 31, 2017.

For non-Medicare hospice revenues, we record gross revenue on an accrual basis based upon the date of service at amounts equal to our estimated per day transaction price. Price concessions, including contractual adjustments for the difference between our standard rates and the amounts estimated to be realizable from patients and third parties for services provided, are recorded as decreases to the transaction price and thus reduce our *Net operating revenues*.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with maturities of three months or less when purchased. Carrying values of *Cash and cash equivalents* approximate fair value due to the short-term nature of these instruments.

We maintain amounts on deposit with various financial institutions, which may, at times, exceed federally insured limits. However, management periodically evaluates the credit-worthiness of those institutions, and we have not experienced any losses on such deposits.

Marketable Securities

Effective January 1, 2018, in connection with the adoption of ASU 2016-01, we record all marketable securities with readily determinable fair values and for which we do not exercise significant influence at fair value and record the change in fair value for the reporting period in our consolidated statements of operations.

Prior to January 1, 2018, we recorded all marketable securities with readily determinable fair values and for which we did not exercise significant influence as available-for-sale securities. We carried the available-for-sale securities at fair value and reported unrealized holding gains or losses, net of income taxes, in *Accumulated other comprehensive loss*, which is a separate component of shareholders' equity. We recognized realized gains and losses in our consolidated statements of operations using the specific identification method. Unrealized losses were charged against earnings when a decline in fair value was determined to be other than temporary. Management reviewed several factors to determine whether a loss was other than temporary, such as the length of time a security is in an unrealized loss position, the extent to which fair value is less than

cost, the financial condition and near term prospects of the issuer, industry, or geographic area and our ability and intent to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

Accounts Receivable

We report accounts receivable from services rendered at their estimated transaction price which takes into account price concessions from federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies, workers' compensation programs, employers, and patients. Our accounts receivable are concentrated by type of payor. The concentration of patient service accounts receivable by payor class, as a percentage of total patient service accounts receivable, is as follows:

	As of December 31,	
	2018	2017
Medicare	73.2%	75.1%
Managed care and other discount plans, including Medicare Advantage	19.3%	17.4%
Medicaid	2.8%	2.4%
Other third-party payors	2.7%	2.9%
Workers' compensation	1.1%	1.3%
Patients	0.9%	0.9%
Total	100.0%	100.0%

While revenues and accounts receivable from the Medicare program are significant to our operations, we do not believe there are significant credit risks associated with this government agency. We do not believe there are any other significant concentrations of revenues from any particular payor that would subject us to any significant credit risks in the collection of our accounts receivable.

Accounts requiring collection efforts are reviewed via system-generated work queues that automatically stage (based on age and size of outstanding balance) accounts requiring collection efforts for patient account representatives. Collection efforts include contacting the applicable party (both in writing and by telephone), providing information (both financial and clinical) to allow for payment or to overturn payor decisions to deny payment, and arranging payment plans with self-pay patients, among other techniques. When we determine all in-house efforts have been exhausted or it is a more prudent use of resources, accounts may be turned over to a collection agency.

The collection of outstanding receivables from Medicare, managed care payors, other third-party payors, and patients is our primary source of cash and is critical to our operating performance. While it is our policy to verify insurance prior to a patient being admitted, there are various exceptions that can occur. Such exceptions include instances where we are (1) unable to obtain verification because the patient's insurance company was unable to be reached or contacted, (2) a determination is made that a patient may be eligible for benefits under various government programs, such as Medicaid, and it takes several days, weeks, or months before qualification for such benefits is confirmed or denied, and (3) the patient is transferred to our hospital from an acute care hospital without having access to a credit card, cash, or check to pay the applicable patient responsibility amounts (i.e., deductibles and co-payments).

Our primary collection risks relate to patient responsibility amounts and claims reviews conducted by MACs or other contractors. Patient responsibility amounts include accounts for which the patient was the primary payor or the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient co-payment amounts remain outstanding. Changes in the economy, such as increased unemployment rates or periods of recession, can further exacerbate our ability to collect patient responsibility amounts.

If actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material. Changes in general economic conditions, business office operations, payor mix, or trends in federal or state governmental and private employer healthcare coverage could affect our collection of accounts receivable, financial position, results of operations, and cash flows.

Property and Equipment

We report land, buildings, improvements, vehicles, and equipment at cost, net of accumulated depreciation and amortization and any asset impairments. We report assets under capital lease obligations at the lower of fair value or the present value of the aggregate future minimum lease payments at the beginning of the lease term. We depreciate our assets using the straight-line method over the shorter of the estimated useful life of the assets or life of the lease term, excluding any lease renewals, unless the lease renewals are reasonably assured. Useful lives are generally as follows:

	Years
Buildings	10 to 30
Leasehold improvements	2 to 15
Vehicles	5
Furniture, fixtures, and equipment	3 to 10
Assets under capital lease obligations:	
Real estate	15 to 25
Vehicles	3
Equipment	3 to 5

Maintenance and repairs of property and equipment are expensed as incurred. We capitalize replacements and betterments that increase the estimated useful life of an asset. We capitalize pre-acquisition costs when they are directly identifiable with a specific property, the costs would be capitalizable if the property were already acquired, and acquisition of the property is probable. We capitalize interest expense on major construction and development projects while in progress.

We retain fully depreciated assets in property and accumulated depreciation accounts until we remove them from service. In the case of sale, retirement, or disposal, the asset cost and related accumulated depreciation balances are removed from the respective accounts, and the resulting net amount, less any proceeds, is included as a component of income from continuing operations in the consolidated statements of operations. However, if the sale, retirement, or disposal involves a discontinued operation, the resulting net amount, less any proceeds, is included in the results of discontinued operations.

We account for operating leases by recognizing rents, including any rent holidays, on a straight-line basis over the term of the lease.

Goodwill and Other Intangible Assets

We are required to test our goodwill and indefinite-lived intangible asset for impairment at least annually, absent some triggering event that would accelerate an impairment assessment. Absent any impairment indicators, we perform this impairment testing as of October 1st of each year. We recognize an impairment charge for any amount by which the carrying amount of the asset exceeds its implied fair value. We present an impairment charge as a separate line item within income from continuing operations in the consolidated statements of operations, unless the impairment is associated with a discontinued operation. In that case, we include the impairment charge, on a net-of-tax basis, within the results of discontinued operations.

We assess qualitative factors in our inpatient rehabilitation and home health and hospice reporting units to determine whether it is necessary to perform the first step of the two-step quantitative impairment test. If, based on this qualitative assessment, we were to believe we must proceed to Step 1, we would determine the fair value of our reporting units using generally accepted valuation techniques including the income approach and the market approach. The income approach includes the use of each reporting unit's discounted projected operating results and cash flows. This approach includes many assumptions related to pricing and volume, operating expenses, capital expenditures, discount factors, tax rates, etc. Changes in economic and operating conditions impacting these assumptions could result in goodwill impairment in future periods. We reconcile the estimated fair value of our reporting units to our market capitalization. When we dispose of a hospital or home health or hospice agency, goodwill is allocated to the gain or loss on disposition using the relative fair value methodology.

We assess qualitative factors related to our indefinite-lived intangible asset to determine whether it is necessary to perform the first step of the two-step quantitative impairment test. If, based on this qualitative assessment, we were to believe we must proceed to Step 1, we would determine the fair value of our indefinite-lived intangible asset using generally accepted valuation techniques including the relief-from-royalty method. This method is a form of the income approach in which value is equated to a series of cash flows and discounted at a risk-adjusted rate. It is based on a hypothetical royalty, calculated as a percentage of forecasted revenue, that we would otherwise be willing to pay to use the asset, assuming it were not already owned. This approach includes assumptions related to pricing and volume, as well as a royalty rate a hypothetical third party would be willing to pay for use of the asset. When making our royalty rate assumption, we consider rates paid in arms-length licensing transactions for assets comparable to our asset.

We amortize the cost of intangible assets with finite useful lives over their respective estimated useful lives to their estimated residual value. As of December 31, 2018, none of our finite useful lived intangible assets has an estimated residual value. We also review these assets for impairment whenever events or changes in circumstances indicate we may not be able to recover the asset's carrying amount.

The range of estimated useful lives and the amortization basis for our intangible assets, excluding goodwill, are generally as follows:

	Estimated Useful Life and Amortization Basis
Certificates of need	10 to 30 years using straight-line basis
Licenses	10 to 20 years using straight-line basis
Noncompete agreements	1 to 18 years using straight-line basis
Trade names:	
Encompass	indefinite-lived asset
All other	1 to 20 years using straight-line basis
Internal-use software	3 to 7 years using straight-line basis
Market access assets	20 years using accelerated basis

We capitalize the costs of obtaining or developing internal-use software, including external direct costs of material and services and directly related payroll costs. Amortization begins when the internal-use software is ready for its intended use. Costs incurred during the preliminary project and post-implementation stages, as well as maintenance and training costs, are expensed as incurred.

Our market access assets are valued using discounted cash flows under the income approach. The value of the market access assets is attributable to our ability to gain access to and penetrate an acquired facility's historical market patient base. To determine this value, we first develop a debt-free net cash flow forecast under various patient volume scenarios. The debt-free net cash flow is then discounted back to present value using a discount factor, which includes an adjustment for company-specific risk. As noted in the above table, we amortize these assets over 20 years using an accelerated basis that reflects the pattern in which we believe the economic benefits of the market access will be consumed.

Impairment of Long-Lived Assets and Other Intangible Assets

We assess the recoverability of long-lived assets (excluding goodwill and our indefinite-lived asset) and identifiable acquired intangible assets with finite useful lives, whenever events or changes in circumstances indicate we may not be able to recover the asset's carrying amount. We measure the recoverability of assets to be held and used by a comparison of the carrying amount of the asset to the expected net future cash flows to be generated by that asset, or, for identifiable intangibles with finite useful lives, by determining whether the amortization of the intangible asset balance over its remaining life can be recovered through undiscounted future cash flows. The amount of impairment of identifiable intangible assets with finite useful lives, if any, to be recognized is measured based on projected discounted future cash flows. We measure the amount of impairment of other long-lived assets (excluding goodwill) as the amount by which the carrying value of the asset exceeds the fair market value of the asset, which is generally determined based on projected discounted future cash flows or appraised

values. We classify long-lived assets to be disposed of other than by sale as held and used until they are disposed. We report long-lived assets to be disposed of by sale as held for sale and recognize those assets in the balance sheet at the lower of carrying amount or fair value less cost to sell, and we cease depreciation.

Investments in and Advances to Nonconsolidated Affiliates

Investments in entities we do not control but in which we have the ability to exercise significant influence over the operating and financial policies of the investee are accounted for under the equity method. Equity method investments are recorded at original cost and adjusted periodically to recognize our proportionate share of the investees' net income or losses after the date of investment, additional contributions made, dividends or distributions received, and impairment losses resulting from adjustments to net realizable value. We record equity method losses in excess of the carrying amount of an investment when we guarantee obligations or we are otherwise committed to provide further financial support to the affiliate.

We use the cost method to account for equity investments for which the equity securities do not have readily determinable fair values and for which we do not have the ability to exercise significant influence. Under the cost method of accounting, private equity investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, additional investments, or distributions deemed to be a return of capital.

Management periodically assesses the recoverability of our equity method and cost method investments and equity method goodwill for impairment. We consider all available information, including the recoverability of the investment, the earnings and near-term prospects of the affiliate, factors related to the industry, conditions of the affiliate, and our ability, if any, to influence the management of the affiliate. We assess fair value based on valuation methodologies, as appropriate, including discounted cash flows, estimates of sales proceeds, and external appraisals, as appropriate. If an investment or equity method goodwill is considered to be impaired and the decline in value is other than temporary, we record an appropriate write-down.

Financing Costs

We amortize financing costs using the effective interest method over the expected life of the related debt. Excluding financing costs related to our revolving line of credit (which is included in *Other long-term assets*), financing costs are presented as a direct deduction from the face amount of the financings. The related expense is included in *Interest expense and amortization of debt discounts and fees* in our consolidated statements of operations.

We accrete discounts and amortize premiums using the effective interest method over the expected life of the related debt, and we report discounts or premiums as a direct deduction from, or addition to, the face amount of the financing. The related income or expense is included in *Interest expense and amortization of debt discounts and fees* in our consolidated statements of operations.

Fair Value Measurements

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions market participants would use in pricing an asset or liability.

The basis for these assumptions establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- *Level 1* – Observable inputs such as quoted prices in active markets;
- *Level 2* – Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- *Level 3* – Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- *Cost approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- *Income approach* – Techniques to convert future cash flows to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

Our financial instruments consist mainly of cash and cash equivalents, restricted cash, restricted marketable securities, accounts receivable, accounts payable, letters of credit, and long-term debt. The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable approximate fair value because of the short-term maturity of these instruments. The fair value of our letters of credit is deemed to be the amount of payment guaranteed on our behalf by third-party financial institutions. We determine the fair value of our long-term debt using quoted market prices, when available, or discounted cash flows based on various factors, including maturity schedules, call features, and current market rates.

On a recurring basis, we are required to measure our restricted marketable securities at fair value. The fair values of our restricted marketable securities are determined based on quoted market prices in active markets or quoted prices, dealer quotations, or alternative pricing sources supported by observable inputs in markets that are not considered to be active.

On a nonrecurring basis, we are required to measure property and equipment, goodwill, other intangible assets, investments in nonconsolidated affiliates, and assets and liabilities of discontinued operations at fair value. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges or similar adjustments made to the carrying value of the applicable assets. The fair value of our property and equipment is determined using discounted cash flows and significant unobservable inputs, unless there is an offer to purchase such assets, which could be the basis for determining fair value. The fair value of our intangible assets, excluding goodwill, is determined using discounted cash flows and significant unobservable inputs. The fair value of our investments in nonconsolidated affiliates is determined using quoted prices in private markets, discounted cash flows or earnings, or market multiples derived from a set of comparables. The fair value of our assets and liabilities of discontinued operations is determined using discounted cash flows and significant unobservable inputs unless there is an offer to purchase such assets and liabilities, which would be the basis for determining fair value. The fair value of our goodwill is determined using discounted projected operating results and cash flows, which involve significant unobservable inputs.

See also the "Redeemable Noncontrolling Interests" section of this note.

Noncontrolling Interests in Consolidated Affiliates –

The consolidated financial statements include all assets, liabilities, revenues, and expenses of less-than-100%-owned affiliates we control. Accordingly, we have recorded noncontrolling interests in the earnings and equity of such entities. We record adjustments to noncontrolling interests for the allocable portion of income or loss to which the noncontrolling interests holders are entitled based upon their portion of the subsidiaries they own. Distributions to holders of noncontrolling interests are adjusted to the respective noncontrolling interests holders' balance.

Redeemable Noncontrolling Interests –

Certain of our joint venture agreements contain provisions that allow our partners to require us to purchase their interests in the joint venture at fair value at certain points in the future. Likewise, certain members of the home health and hospice management team hold similar put rights regarding their interests in our home health and hospice business, as discussed in Note 11, *Redeemable Noncontrolling Interests*. Because these noncontrolling interests provide for redemption features that are not solely within our control, we classify them as *Redeemable noncontrolling interests* outside of permanent equity in our consolidated balance sheets. At the end of each reporting period, we compare the carrying value of the *Redeemable noncontrolling interests* to their estimated redemption value. If the estimated redemption value is greater than the current

carrying value, the carrying value is adjusted to the estimated redemption value, with the adjustments recorded through equity in the line item *Capital in excess of par value*.

The fair value of the *Redeemable noncontrolling interests* related to our home health segment is determined using the product of a 12-month specified performance measure and a specified median market price multiple based on a basket of public health companies and publicly disclosed home health acquisitions with a value of $400 million or more. The fair value of our *Redeemable noncontrolling interests* in our joint venture hospitals is determined primarily using the income approach. The income approach includes the use of the hospital's projected operating results and cash flows discounted using a rate that reflects market participant assumptions for the applicable hospitals, or *Level 3* inputs. The projected operating results use management's best estimates of economic and market conditions over the forecasted periods including assumptions for pricing and volume, operating expenses, and capital expenditures.

Share-Based Payments—

Encompass Health has shareholder-approved stock-based compensation plans that provide for the granting of stock-based compensation to certain employees and directors. All share-based payments to employees, excluding stock appreciation rights ("SARs"), are recognized in the financial statements based on their estimated grant-date fair value and amortized on a straight-line basis over the applicable requisite service period. Share-based payments to employees in the form of SARs are recognized in the financial statements based on their current fair value and expensed ratably over the applicable service period.

Litigation Reserves—

We accrue for loss contingencies associated with outstanding litigation for which management has determined it is probable a loss contingency exists and the amount of loss can be reasonably estimated. If the accrued amount associated with a loss contingency is greater than $5.0 million, we also accrue estimated future legal fees associated with the loss contingency. This requires management to estimate the amount of legal fees that will be incurred in the defense of the litigation. These estimates are based on our expectations of the scope, length to complete, and complexity of the claims. In the future, additional adjustments may be recorded as the scope, length to complete, or complexity of outstanding litigation changes.

Advertising Costs—

We expense costs of print, radio, television, and other advertisements as incurred. Advertising expenses, primarily included in *Other operating expenses* within the accompanying consolidated statements of operations, were $6.7 million, $6.3 million, and $7.5 million in each of the years ended December 31, 2018, 2017, and 2016, respectively.

Income Taxes—

We provide for income taxes using the asset and liability method. This approach recognizes the amount of income taxes payable or refundable for the current year, as well as deferred tax assets and liabilities for the future tax consequence of events recognized in the consolidated financial statements and income tax returns. Deferred income tax assets and liabilities are adjusted to recognize the effects of changes in tax laws or enacted tax rates.

A valuation allowance is required when it is more likely than not some portion of the deferred tax assets will not be realized. Realization is dependent on generating sufficient future taxable income in the applicable tax jurisdiction. On a quarterly basis, we assess the likelihood of realization of our deferred tax assets considering all available evidence, both positive and negative. Our most recent operating performance, the scheduled reversal of temporary differences, our forecast of taxable income in future periods by jurisdiction, our ability to sustain a core level of earnings, and the availability of prudent tax planning strategies are important considerations in our assessment.

We evaluate our tax positions and establish assets and liabilities in accordance with the applicable accounting guidance on uncertainty in income taxes. We review these tax uncertainties in light of changing facts and circumstances, such as the progress of tax audits, and adjust them accordingly.

We have used the with-and-without method to determine when we will recognize excess tax benefits from stock-based compensation. Under this method in 2016, we recognized these excess tax benefits only after we fully realized the tax benefits of net operating losses.

Encompass Health and its corporate subsidiaries file a consolidated federal income tax return. Some subsidiaries consolidated for financial reporting purposes are not part of the consolidated group for federal income tax purposes and file separate federal income tax returns. State income tax returns are filed on a separate, combined, or consolidated basis in accordance with relevant state laws and regulations. Partnerships, limited liability companies, and other pass-through entities we consolidate or account for using the equity method of accounting file separate federal and state income tax returns. We include the allocable portion of each pass-through entity's income or loss in our federal income tax return. We allocate the remaining income or loss of each pass-through entity to the other partners or members who are responsible for their portion of the taxes.

Assets and Liabilities in and Results of Discontinued Operations—

Effective January 1, 2015, in connection with a new standard issued by the FASB, we changed our criteria for determining which disposals are presented as discontinued operations. Historically, any component that had been disposed of or was classified as held for sale qualified for discontinued operations reporting unless there was significant continuing involvement with the disposed component or continuing cash flows. In contrast, we now report the disposal of the component, or group of components, as discontinued operations only when it represents a strategic shift that has, or will have, a major effect on our operations and financial results. As a result, the sale or disposal of a single Encompass Health facility or location no longer qualifies as a discontinued operation. This accounting change was made prospectively. No new components were recognized as discontinued operations since this guidance became effective.

In the period a component of an entity has been disposed of or classified as held for sale, we reclassify the results of operations for current and prior periods into a single caption titled *(Loss) income from discontinued operations, net of tax*. In addition, we classify the assets and liabilities of those components as current and noncurrent assets and liabilities within *Prepaid expenses and other current assets*, *Other long term assets*, *Other current liabilities*, and *Other long-term liabilities* in our consolidated balance sheets. We also classify cash flows related to discontinued operations as one line item within each category of cash flows in our consolidated statements of cash flows.

Earnings per Common Share

The calculation of earnings per common share is based on the weighted-average number of our common shares outstanding during the applicable period. The calculation for diluted earnings per common share recognizes the effect of all potential dilutive common shares, including warrants, that were outstanding during the respective periods, unless their impact would be antidilutive. The calculation of earnings per common share also considers the effect of participating securities. Stock-based compensation awards that contain nonforfeitable rights to dividends and dividend equivalents, such as our restricted stock units, are considered participating securities and are included in the computation of earnings per common share pursuant to the two-class method. In applying the two-class method, earnings are allocated to both common stock shares and participating securities based on their respective weighted-average shares outstanding for the period.

We used the if-converted method to include our convertible senior subordinated notes in our computation of diluted earnings per share. All other potential dilutive shares, including warrants, are included in our weighted-average diluted share count using the treasury stock method.

Treasury Stock—

Shares of common stock repurchased by us are recorded at cost as treasury stock. When shares are reissued, we use an average cost method to determine cost. The difference between the cost of the shares and the re-issuance price is added to or deducted from *Capital in excess of par value*. We account for the retirement of treasury stock as a reduction of retained earnings. However, due to our *Accumulated deficit*, the retirement of treasury stock is currently recorded as a reduction of *Capital in excess of par value*.

Comprehensive Income—

Comprehensive income is comprised of *Net income* and changes in unrealized gains or losses on available-for-sale securities and is included in the consolidated statements of comprehensive income.

Recent Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" and has subsequently issued supplemental and/or clarifying ASUs (collectively "ASC 606"). ASC 606 outlines a five-step framework that supersedes the principles for recognizing revenue and eliminates industry-specific guidance. In addition, ASC 606 revises current disclosure requirements in an effort to help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. We adopted ASC 606 on January 1, 2018 using the full retrospective model. The primary impact of adopting under ASC 606 is that all amounts we previously presented as *Provision for doubtful accounts* are now considered an implicit price concession in determining *Net operating revenues*. Such concessions reduce the transaction price and therefore *Net operating revenues*, as shown below. Adopting ASC 606 on January 1, 2018 using the full retrospective transition method had the following impact to our previously reported consolidated statements of operations (in millions):

	For the Year Ended December 31, 2017			For the Year Ended December 31, 2016		
	As Reported	Adjustment for ASC 606	Recasted	As Reported	Adjustment for ASC 606	Recasted
Net operating revenues	$ 3,971.4	$ (57.5)	$ 3,913.9	$ 3,707.2	$ (64.6)	$ 3,642.6
Provision for doubtful accounts	$ 52.4	$ (52.4)	$ —	$ 61.2	$ (61.2)	$ —
Other operating expenses	$ 536.7	$ (5.1)	$ 531.6	$ 492.1	$ (3.4)	$ 488.7

In addition, the adoption of ASC 606 resulted in increased disclosure, including qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. See the "Net Operating Revenues" and "Accounts Receivable" section of this note. Except for the adjustments discussed above, the adoption of ASC 606 did not have a material impact on our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Topic 825). Recognition and Measurement of Financial Assets and Financial Liabilities." This standard revises the classification and measurement of investments in certain equity investments and the presentation of certain fair value changes for certain financial liabilities measured at fair value. This revised standard requires the change in fair value of many equity investments to be recognized in *Net income*. This revised standard requires a modified retrospective application with a cumulative effect adjustment recognized in retained earnings as of the date of adoption and was effective for our interim and annual periods beginning January 1, 2018. Beginning in the first quarter of 2018, we recognized mark-to-market gains and losses associated with our marketable securities through *Net income* instead of *Accumulated other comprehensive income*. The adoption of this guidance resulted in an immaterial impact to our consolidated financial statements. See the "Marketable Securities" section of this note.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments," to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. In addition, the standard clarifies when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. The new guidance requires retrospective application and was effective for our annual reporting period beginning January 1, 2018, including interim periods within that reporting period. The clarification that debt prepayment premiums or debt extinguishment costs should be classified as financing activities resulted in an immaterial increase in certain prior period operating cash inflows and a corresponding increase in financing cash outflows.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230), Restricted Cash," to clarify how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The new guidance requires amounts generally described as restricted cash and restricted cash equivalents be included with *Cash and cash equivalents* when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. The new guidance requires retrospective application and is effective for our annual reporting period beginning January 1, 2018, including interim periods within that reporting period. The adoption of this guidance resulted in an immaterial decrease to previously reported *Net Cash used in investing activities* and a corresponding increase to previously reported *Increase in cash and cash equivalents* (which is now captioned *Increase in cash, cash equivalents, and restricted cash*, pursuant to the adoption of this guidance). In addition, as noted above, we added a reconciliation of cash, cash equivalents, and restricted cash to the consolidated statements of cash flows.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," and has subsequently issued supplemental and/or clarifying ASUs (collectively "ASC 842"), in order to increase transparency and comparability by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. Under ASC 842, lessees will recognize a right-of-use asset and a corresponding lease liability for all leases with a term longer than 12 months. The liability will be equal to the present value of future minimum lease payments and the corresponding asset may be subject to adjustment, such as for the impact of straight-line rent. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in an expense pattern similar to current capital leases. Classification will be based on criteria that are similar to those applied in current lease accounting. ASC 842 will be effective for us beginning on January 1, 2019. We will adopt ASC 842 on January 1, 2019 using the modified retrospective transition approach and will recognize any cumulative-effect adjustment to the opening balance of *Capital in excess of par value* in that period. We will apply the transition provisions using the effective date as our date of initial application. Therefore, financial information will not be updated and the disclosures required under ASC 842 will not be provided for dates and periods before January 1, 2019. ASC 842 provides optional practical expedients in transition. We expect to elect the 'package of practical expedients', which permits us not to reassess under ASC 842 our prior conclusions about lease identification, lease classification and initial direct costs, and the practical expedient to not reassess certain land easements. We do not expect to elect the use-of-hindsight practical expedient during the transition to ASC 842.

We have substantially completed our assessment of the impact ASC 842 may have on our consolidated financial statements by validating our current portfolio of leases, including a review of historical accounting policies and practices to identify potential differences in applying the new guidance. In addition, the adoption of ASC 842 will result in increased disclosure, including qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of cash flows arising from leases. We have also received, tested, and implemented the necessary updates to our leasing software to be ready for adoption. Based on our current assessment, we estimate the adoption of ASC 842 will result in an increase of approximately $330 million to $370 million in assets and liabilities to our consolidated balance sheet, with no significant change to our consolidated statements of operations or cash flows. ASC 842 also provides practical expedients for an entity's ongoing accounting. We currently expect to elect the short-term lease recognition exemption for all leases that qualify and the practical expedient to not separate lease and non-lease components for all of our leases. See Note 6, *Property and Equipment*, for disclosure related to our operating leases.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326)," which provides 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 us beginning January 1, 2020, including interim periods within that reporting period. Early adoption is permitted beginning January 1, 2019. We continue to review the requirements of this standard and any potential impact it may have on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." The update helps entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement), by providing guidance in determining when the arrangement includes a software license. It requires entities to account for such costs consistent with the guidance on capitalizing costs associated with developing or obtaining internal-use software. The new guidance is effective for us beginning January 1, 2020, including interim periods within that reporting period. Early adoption is permitted. We continue to review the requirements of this standard and any potential impact it may have on our consolidated financial statements.

We do not believe any other recently issued, but not yet effective, accounting standards will have a material effect on our consolidated financial position, results of operations, or cash flows.

Revision of Previously Issued Financial Statements

During the preparation of our December 31, 2018 financial statements, an error was identified in the accounting for deferred tax assets related to fair value adjustments to redeemable noncontrolling interests. Because the discharge of the redeemable noncontrolling interest, either through the purchase of shares or the sale of the home health and hospice segment, would not result in a tax deduction or tax loss reported in the income tax return, the GAAP to tax basis difference does not meet the definition of a temporary difference. Accordingly, a deferred tax asset and corresponding increase to capital in excess of par value should not have been recognized in prior periods. In addition, the overstatement of deferred tax assets resulted in a $14.8 million overstatement of our *Provision for income tax expense* in 2017 due to the revaluation of our deferred tax assets and liabilities in connection with the 2017 Tax Cuts and Jobs Act (the "Tax Act"). We assessed the materiality of the errors in deferred tax assets and related balances and concluded they were not material to any previously issued financial statements or disclosures. However, we have revised our prior period financial statements to reflect the correction of the errors, as disclosed in the tables below. See Note 19, "*Quarterly Data (Unaudited)*," for the impact of this revision on our unaudited quarterly results.

The impact on our consolidated financial statements are as follows:

Consolidated Balance Sheet

As of December 31, 2017	As Reported	Adjustment	As Revised
		(In Millions)	
Deferred income tax assets	$ 63.6	$ (29.2)	$ 34.4
Total assets	4,893.7	(29.2)	4,864.5
Capital in excess of par value	2,791.4	(44.0)	2,747.4
Accumulated deficit	(1,191.0)	14.8	(1,176.2)
Total Encompass Health shareholders' equity	1,181.7	(29.2)	1,152.5
Total shareholders' equity	1,424.6	(29.2)	1,395.4
Total liabilities and shareholders' equity	4,893.7	(29.2)	4,864.5

Consolidated Statement of Operations

For the Year Ended December 31, 2017	As Reported	Adjustment	As Revised
		(In Millions, Except Per Share Data)	
Provision for income tax expense	$ 160.6	$ (14.8)	$ 145.8
Income from continuing operations	335.8	14.8	350.6
Net income	335.4	14.8	350.2
Net income attributable to Encompass Health	256.3	14.8	271.1
Basic earnings per share attributable to Encompass Health common shareholders	2.73	0.15	2.88
Diluted earnings per share attributable to Encompass Health common shareholders	2.69	0.15	2.84

Consolidated Statement of Comprehensive Income

For the Year Ended December 31, 2017	As Reported	Adjustment	As Revised
		(In Millions)	
Net income	$ 335.4	$ 14.8	$ 350.2
Comprehensive income	335.3	14.8	350.1
Comprehensive income attributable to Encompass Health	256.2	14.8	271.0

Consolidated Statement of Shareholders' Equity

	As Reported	Adjustment	As Revised
For the Year Ended December 31, 2017		(In Millions)	
Fair value adjustments to redeemable noncontrolling interests	$ (41.0)	$ (26.0)	$ (67.0)
Capital in excess of par value	2,791.4	(44.0)	2,747.4
Accumulated deficit	(1,191.0)	14.8	(1,176.2)
Total shareholders' equity	1,424.6	(29.2)	1,395.4
For the Year Ended December 31, 2016			
Fair value adjustments to redeemable noncontrolling interests	$ (6.7)	$ (4.2)	$ (10.9)
Capital in excess of par value	2,799.1	(18.1)	2,781.0
Total shareholders' equity	928.7	(18.1)	910.6
For the Year Ended December 31, 2015			
Capital in excess of par value	$ 2,834.9	$ (13.9)	$ 2,821.0
Total shareholders' equity	779.3	(13.9)	765.4

Consolidated Statement of Cash Flows

	As Reported	Adjustment	As Revised
For the Year Ended December 31, 2017		(In Millions)	
Net income	$ 335.4	$ 14.8	$ 350.2
Deferred tax expense	75.6	(14.8)	60.8

The impact of the revision has been reflected throughout the financial statements, including the applicable footnotes, as appropriate.

2. Business Combinations:

2018 Acquisitions

Inpatient Rehabilitation

During 2018, we completed the following inpatient rehabilitation acquisitions, none of which were individually material to our financial position, results of operations, or cash flows. Each acquisition was made to enhance our position and ability to provide inpatient rehabilitation services to patients in the applicable geographic areas.

- In September 2018, we acquired approximately 62% of a 29-bed inpatient rehabilitation unit, including a 60-bed certificate of need, in Murrells Inlet, South Carolina through a joint venture with Tidelands Health. The acquisition was funded through contributions of funds to be utilized by the consolidated joint venture to build a 46-bed de novo inpatient rehabilitation satellite location.
- In October 2018, we acquired approximately 50% of the 68-bed inpatient rehabilitation unit in Winston-Salem, North Carolina, through a joint venture with Novant Health Inc. This acquisition was funded through a contribution of a 68-bed de novo inpatient rehabilitation hospital to the consolidated joint venture.
- In November 2018, we acquired approximately 68% of an 17-bed inpatient rehabilitation unit in Littleton, Colorado through a joint venture with Portercare Adventist Health System. The acquisition was funded through the contribution of our existing inpatient rehabilitation hospital in Littleton, Colorado to the consolidated joint venture.

We accounted for these transactions under the acquisition method of accounting and reported the results of operations of the acquired hospitals from its respective date of acquisition. Assets acquired were recorded at their estimated fair values as of the acquisition date. Estimated fair values were based on various valuation methodologies including: an income approach using primarily discounted cash flow techniques for the noncompete intangible asset; an income approach utilizing the relief from royalty method for the trade name intangible asset; and an income approach utilizing the excess earnings method for the certificate of need intangible asset. The aforementioned income methods utilize management's estimates of future operating results and cash flows discounted using a weighted-average cost of capital that reflects market participant assumptions. The excess of the fair value of the consideration conveyed over the fair value of the assets acquired was recorded as goodwill. The goodwill reflects our expectations of our ability to gain access to and penetrate the acquired hospital's historical patient base and the benefits of being able to leverage operational efficiencies with favorable growth opportunities based on positive demographic trends in this market. None of the goodwill recorded as a result from these transactions is deductible for federal income tax purposes.

The fair value of the assets acquired at the acquisition date were as follows (in millions):

Property and equipment	$ 0.1
Identifiable intangible assets:	
Noncompete agreements (useful lives of 2 to 3 years)	1.4
Trade names (useful lives of 20 years)	2.3
Certificates of need (useful lives of 20 years)	12.5
Goodwill	23.2
Total assets acquired	39.5
Total liabilities assumed	(0.2)
Net assets acquired	$ 39.3

Information regarding the net cash paid for the inpatient rehabilitation acquisitions during 2018 is as follows (in millions):

Fair value of assets acquired	$ 16.3
Goodwill	23.2
Fair value of liabilities assumed	(0.2)
Fair value of noncontrolling interest owned by joint venture partner	(39.3)
Net cash paid for acquisition	$ —

Home Health and Hospice

Camellia Acquisition

On May 1, 2018, we completed the previously announced acquisition of privately owned Camellia Healthcare and affiliated entities ("Camellia"). The Camellia portfolio consists of hospice, home health and private duty locations in Mississippi, Alabama, Louisiana and Tennessee. The acquisition leverages our home health and hospice operating platform across key certificate of need states and strengthens our geographic presence in the Southeastern United States. We funded the cash purchase price of the acquisition with cash on hand and borrowings under our revolving credit facility.

We accounted for this transaction under the acquisition method of accounting and reported the results of operations of Camellia from its date of acquisition. Assets acquired and liabilities assumed were recorded at their estimated fair values as of the acquisition date. Estimated fair values were based on various valuation methodologies including: replacement cost and continued use methods for property and equipment; an income approach using primarily discounted cash flow techniques for the noncompete and certain license intangible assets; an income approach utilizing the relief-from-royalty method for the trade name intangible asset; and an income approach utilizing the excess earnings method for the certificate of need and certain

license intangible assets. The aforementioned income methods utilize management's estimates of future operating results and cash flows discounted using a weighted-average cost of capital that reflects market participant assumptions. For all other assets and liabilities, the fair value was assumed to represent carrying value due to their short maturities. The excess of the fair value of the consideration conveyed over the fair value of the net assets acquired was recorded as goodwill. All goodwill recorded as a result from this transaction is deductible for federal income tax purposes. The goodwill reflects our expectations of favorable growth opportunities in the home health and hospice markets based on positive demographic trends.

The fair value of the assets acquired and liabilities assumed at the acquisition date were as follows (in millions):

Cash and cash equivalents	$ 1.3
Prepaid expenses and other current assets	0.3
Property and equipment, net	0.6
Identifiable intangible assets:	
Noncompete agreements (useful lives of 5 years)	0.5
Trade name (useful life of 1 year)	1.4
Certificates of need (useful lives of 10 years)	16.6
Licenses (useful lives of 10 years)	21.6
Goodwill	96.1
Total assets acquired	138.4
Liabilities assumed:	
Accounts payable	1.7
Accrued payroll	4.0
Total liabilities assumed	5.7
Net assets acquired	$ 132.7

Information regarding the net cash paid for Camellia is as follows (in millions):

Fair value of assets acquired, net of $1.3 million of cash acquired	$ 41.0
Goodwill	96.1
Fair value of liabilities assumed	(5.7)
Net cash paid for acquisition	$ 131.4

Other Home Health and Hospice Acquisitions

During 2018, we completed the following home health acquisitions, none of which were individually material to our financial position, results of operations, or cash flows. Each acquisition was made to enhance our position and ability to provide post-acute healthcare services to patients in the applicable geographic areas. Each acquisition was funded using cash on hand.

- In January 2018, we acquired the assets of one hospice location from Golden Age Hospice, Inc. in Oklahoma City, Oklahoma.
- In June 2018, we acquired the assets of one hospice location from Medical Services of America in Las Vegas, Nevada.
- In November 2018, we acquired the assets of one home health and one hospice location from Tenet Hospital Limited in Birmingham, Alabama and El Paso, Texas. We also acquired 75% of the assets of a home health location in Talladega, Alabama through a joint venture with Tenet Hospital Limited.

- In December 2018, we acquired 75% of the assets of a hospice location in Talladega, Alabama through a joint venture with Tenet Hospital Limited.

We accounted for these transactions under the acquisition method of accounting and reported the results of operations of the acquired locations from their respective dates of acquisition. Assets acquired were recorded at their estimated fair values as of the respective acquisition dates. The fair values of identifiable intangible assets were based on valuations using an income approach. The income approach is based on management's estimates of future operating results and cash flows discounted using a weighted-average cost of capital that reflects market participant assumptions. The excess of the fair value of the consideration conveyed over the fair value of the net assets acquired was recorded as goodwill. The goodwill reflects our expectations of our ability to utilize the acquired locations' mobile workforce and established relationships within each community and the benefits of being able to leverage operational efficiencies with favorable growth opportunities based on positive demographic trends in these markets. All goodwill recorded as a result of these transactions is deductible for federal income tax purposes.

The fair value of the assets acquired at the acquisition date were as follows (in millions):

Total current assets	$	0.1
Identifiable intangible assets:		
Noncompete agreements (useful lives of 5 years)		0.2
Certificates of need (useful lives of 10 years)		2.5
Licenses (useful lives of 10 years)		1.5
Goodwill		8.9
Total assets acquired	$	13.2
Total liabilities assumed		(0.1)
Net assets acquired	$	13.1

Information regarding the net cash paid for the other home health and hospice acquisitions during each period presented is as follows (in millions):

Fair value of assets acquired	$	4.3
Goodwill		8.9
Fair value of liabilities assumed		(0.1)
Fair value of noncontrolling interest owned by joint venture partner		(0.6)
Net cash paid for acquisitions	$	12.5

Pro Forma Results of Operations

The following table summarizes the results of operations of the above mentioned acquisitions from their respective dates of acquisition included in our consolidated results of operations and the unaudited pro forma results of operations of the combined entity had the date of the acquisitions been January 1, 2017 (in millions):

	Net Operating Revenues	Net (Loss) Income Attributable to Encompass Health
Acquired entities only: Actual from acquisition date to December 31, 2018		
Inpatient Rehabilitation	$ 9.1	$ (1.6)
Camellia	50.0	(0.9)
All Other Home Health and Hospice	3.5	(0.3)
Combined entity: Supplemental pro forma from 01/01/2018-12/31/2018 (unaudited)	4,337.4	300.0
Combined entity: Supplemental pro forma from 01/01/2017-12/31/2017 (unaudited)	4,039.9	289.0

The information presented above is for illustrative purposes only and is not necessarily indicative of results that would have been achieved if the acquisitions had occurred as of the beginning of our 2017 period.

2017 Acquisitions

Inpatient Rehabilitation

During 2017, we completed the following inpatient rehabilitation acquisitions, none of which were individually material to our financial position, results of operations, or cash flows. Each acquisition was made to enhance our position and ability to provide inpatient rehabilitation services to patients in the applicable geographic areas.

- In April 2017, we acquired 80% of the 33 bed inpatient rehabilitation unit of Memorial Hospital at Gulfport in Gulfport, Mississippi, through a joint venture with Memorial Hospital at Gulfport. This acquisition was funded on March 31, 2017 using cash on hand.
- In April 2017, we also acquired approximately 80% of the inpatient rehabilitation unit of Mount Carmel West in Columbus, Ohio, through a joint venture with Mount Carmel Health System. This acquisition was funded through a contribution of a 60-bed de novo inpatient rehabilitation hospital to the consolidated joint venture.
- In July 2017, we acquired 50% of the inpatient rehabilitation unit at Jackson-Madison County General Hospital through a joint venture with West Tennessee Healthcare. The acquisition was funded through a contribution of our existing inpatient rehabilitation hospital in Martin, Tennessee to the consolidated joint venture.
- In September 2017, we acquired 75% of Heritage Valley Beaver Hospital's inpatient rehabilitation unit in Beaver, Pennsylvania, through a joint venture with Heritage Valley Health System, Inc. The acquisition was funded through the exchange of 25% of our existing inpatient rehabilitation hospital in Sewickley, Pennsylvania.

We accounted for these transactions under the acquisition method of accounting and reported the results of operations of the acquired hospitals from their respective dates of acquisition. Assets acquired were recorded at their estimated fair values as of the respective acquisition dates. The fair values of the identifiable intangible assets were based on valuations using the income approach. The income approach is based on management's estimates of future operating results and cash flows discounted using a weighted-average cost of capital that reflects market participant assumptions. The excess of the fair value of the consideration conveyed over the fair value of the net assets acquired was recorded as goodwill. The goodwill reflects our expectations of our ability to gain access to and penetrate the acquired hospital's historical patient base and the benefits of being able to leverage operational efficiencies with favorable growth opportunities based on positive demographic trends in these markets. None of the goodwill recorded as a result of these transactions is deductible for federal income tax purposes.

The fair value of the assets acquired at the acquisition date were as follows (in millions):

Property and equipment	$	0.1
Identifiable intangible assets:		
Noncompete agreements (useful lives of 2 to 3 years)		0.6
Trade name (useful life of 20 years)		0.5
Certificate of need (useful life of 20 years)		9.8
Goodwill		24.0
Total assets acquired	$	35.0

Information regarding the net cash paid for the inpatient rehabilitation acquisitions during 2017 is as follows (in millions):

Fair value of assets acquired	$	11.0
Goodwill		24.0
Fair value of noncontrolling interest owned by joint venture partner		(24.1)
Net cash paid for acquisition	$	10.9

Home Health and Hospice

During 2017, we completed the following home health acquisitions, none of which were individually material to our financial position, results of operations, or cash flows. Each acquisition was made to enhance our position and ability to provide post-acute healthcare services to patients in the applicable geographic areas. Each acquisition was funded using cash on hand.

- In February 2017, we acquired the assets of Celtic Healthcare of Maryland, Inc., a home health provider with locations in Owings Mill, Maryland and Rockville, Maryland.
- In February 2017, we also acquired the assets of two home health locations from Community Health Services, Inc., located in Owensboro, Kentucky and Elizabethtown, Kentucky.
- In May 2017, we acquired the assets of two home health locations from Bio Care Home Health Services, Inc. and Kinsman Enterprises, Inc., located in Irving, Texas and Longview, Texas.
- In July 2017, we acquired the assets of four home health locations from VNA Healthtrends, located in Bourbonnais, Illinois; Des Plaines, Illinois; Schererville, Indiana; and Tempe, Arizona.
- In August 2017, we acquired the assets of two home health locations from VNA Healthtrends, located in Canton, Ohio and Forsyth, Illinois.
- In October 2017, we acquired the assets of a home health location from Ware Visiting Nurses Services, Inc. located in Savannah, Georgia; and
- In October 2017, we also acquired the assets of a home health location from Pickens County Health Care Authority located in Carrollton, Alabama.

We accounted for these transactions under the acquisition method of accounting and reported the results of operations of the acquired locations from their respective dates of acquisition. Assets acquired or liabilities assumed were recorded at their estimated fair values as of the respective acquisition dates. The fair values of identifiable intangible assets were based on valuations using the cost and income approaches. The cost approach is based on amounts that would be required to replace the asset (i.e., replacement cost). The income approach is based on management's estimates of future operating results and cash flows discounted using a weighted-average cost of capital that reflects market participant assumptions. The excess of the fair value of the consideration conveyed over the fair value of the net assets acquired was recorded as goodwill. The goodwill

reflects our expectations of our ability to utilize the acquired locations' mobile workforce and established relationships within each community and the benefits of being able to leverage operational efficiencies with favorable growth opportunities based on positive demographic trends in these markets. All of the goodwill recorded as a result of these transactions is deductible for federal income tax purposes.

The fair value of the assets acquired and liabilities assumed at the acquisition date were as follows (in millions):

Total current assets	$ 0.1
Identifiable intangible asset:	
Noncompete agreements (useful lives of 5 years)	0.8
Trade name (useful life of 1 year)	0.1
Certificates of need (useful lives of 10 years)	1.8
Licenses (useful lives of 10 years)	4.0
Goodwill	21.4
Total assets acquired	28.2
Total liabilities assumed	(0.3)
Net assets acquired	$ 27.9

Information regarding the net cash paid for the home health acquisitions during 2017 is as follows (in millions):

Fair value of assets acquired	$ 6.8
Goodwill	21.4
Fair value of liabilities assumed	(0.3)
Net cash paid for acquisitions	$ 27.9

Pro Forma Results of Operations

The following table summarizes the results of operations of the above mentioned acquisitions from their respective dates of acquisition included in our consolidated results of operations and the unaudited pro forma results of operations of the combined entity had the date of the acquisitions been January 1, 2016 (in millions):

	Net Operating Revenues	Net (Loss) Income Attributable to Encompass Health
Acquired entities only: Actual from acquisition date to December 31, 2017	$ 32.9	$ (6.3)
Combined entity: Supplemental pro forma from 01/01/2017-12/31/2017 (unaudited)	3,996.1	260.3
Combined entity: Supplemental pro forma from 01/01/2016-12/31/2016 (unaudited)	3,771.5	254.8

The information presented above is for illustrative purposes only and is not necessarily indicative of results that would have been achieved if the acquisitions had occurred as of the beginning of our 2016 reporting period.

2016 Acquisitions

Inpatient Rehabilitation

During 2016, we completed the following inpatient rehabilitation hospital acquisitions, none of which were individually material to our financial position, results of operations, or cash flows. Each acquisition was made to enhance our position and ability to provide inpatient rehabilitation services to patients in the applicable geographic areas. Each acquisition was funded through a contribution to the respective consolidated joint venture.

- In February 2016, we acquired 50% of the inpatient rehabilitation hospital at CHI St. Vincent Hot Springs, a 20-bed inpatient rehabilitation hospital in Hot Springs, Arkansas, through a joint venture with St. Vincent Community Health Services, Inc.
- In August 2016, we acquired 50% of the inpatient rehabilitation hospital at St. Joseph Regional Health Center, a 19-bed inpatient rehabilitation hospital in Bryan, Texas, through a joint venture with St. Joseph Health System.
- In August 2016, we also acquired 51% of the inpatient rehabilitation hospital at The Bernsen Rehabilitation Center at St. John, a 24-bed inpatient rehabilitation hospital in Broken Arrow, Oklahoma, through a joint venture with St. John Health System.

We accounted for these transactions under the acquisition method of accounting and reported the results of operations of the acquired hospitals from their respective dates of acquisition. Assets acquired and liabilities assumed, if any, were recorded at their estimated fair values as of the respective acquisition dates. The fair values of the identifiable intangible assets were based on valuations using the income approach. The income approach is based on management's estimates of future operating results and cash flows discounted using a weighted-average cost of capital that reflects market participant assumptions. The excess of the fair value of the consideration conveyed over the fair value of the net assets acquired was recorded as goodwill. The goodwill reflects our expectations of our ability to gain access to and penetrate the acquired hospital's historical patient base and the benefits of being able to leverage operational efficiencies with favorable growth opportunities based on positive demographic trends in these markets. None of the goodwill recorded as a result of these transactions is deductible for federal income tax purposes.

The fair value of the assets acquired at the acquisition date were as follows (in millions):

Property and equipment	$ 5.3
Identifiable intangible assets:	
Noncompete agreements (useful lives of 1 to 3 years)	0.4
Trade names (useful lives of 20 years)	1.0
Goodwill	9.4
Total assets acquired	$ 16.1

Information regarding the net cash paid for all inpatient rehabilitation acquisitions during 2016 is as follows (in millions):

Fair value of assets acquired	$ 6.7
Goodwill	9.4
Fair value of noncontrolling interest owned by joint venture partner	(16.1)
Net cash paid for acquisition	$ —

See also Note 8, *Investments in and Advances to Nonconsolidated Affiliates*.

Home Health and Hospice

During 2016, we completed the following home health and hospice acquisitions, none of which were individually material to our financial position, results of operations, or cash flows. Each acquisition was made to enhance our position and ability to provide post-acute healthcare services to patients in the applicable geographic areas. Each acquisition was funded using cash on hand.

- In May 2016, we acquired Home Health Agency of Georgia, LLC, a home health and hospice provider with two home health locations and two hospice locations in the Greater Atlanta area.
- In July 2016, we acquired Advantage Health Inc., a home health provider with one location in Yuma, Arizona.

- In September 2016, we acquired three hospice agencies from Sotto International, Inc. located in Texarkana, Arkansas; Magnolia, Arkansas; and Texarkana, Texas.
- In October 2016, we acquired two home health agencies from Summit Home Health Care, Inc. located in Cheyenne, Wyoming and Laramie, Wyoming.
- In October 2016, we also acquired LightHouse Health Care, Inc., a home health provider with one location in Springfield, Virginia.
- In November 2016, we acquired Gulf City Home Care, Inc., a home health provider with one location in Sarasota, Florida.
- In November 2016, we also acquired Honor Hospice, LLC, a hospice provider with one location in Wheat Ridge, Colorado.

We accounted for all of these transactions under the acquisition method of accounting and reported the results of operations of the acquired locations from their respective dates of acquisition. Assets acquired and liabilities assumed were recorded at their estimated fair values as of the respective acquisition dates. The fair values of identifiable intangible assets were based on valuations using the cost and income approaches. The cost approach is based on amounts that would be required to replace the asset (i.e., replacement cost). The income approach is based on management's estimates of future operating results and cash flows discounted using a weighted-average cost of capital that reflects market participant assumptions. The excess of the fair value of the consideration conveyed over the fair value of the net assets acquired was recorded as goodwill. The goodwill reflects our expectations of our ability to utilize the acquired locations' mobile workforce and established relationships within each community and the benefits of being able to leverage operational efficiencies with favorable growth opportunities based on positive demographic trends in these markets. All goodwill recorded as a result of these transactions is deductible for federal income tax purposes.

The fair value of the assets acquired and liabilities assumed at the acquisition date were as follows (in millions):

Identifiable intangible asset:	
Noncompete agreements (useful lives of 5 years)	$ 1.1
Trade names (useful lives of 1 year)	0.7
Certificate of needs (useful lives of 10 years)	1.9
Licenses (useful lives of 10 years)	3.4
Goodwill	41.4
Total assets acquired	48.5
Total liabilities assumed	(0.4)
Net assets acquired	$ 48.1

Information regarding the net cash paid for home health and hospice acquisitions during 2016 is as follows (in millions):

Fair value of assets acquired	$ 7.1
Goodwill	41.4
Fair value of liabilities assumed	(0.4)
Net cash paid for acquisitions	$ 48.1

Pro Forma Results of Operations

The following table summarizes the results of operations of the above mentioned inpatient rehabilitation hospitals and home health and hospice agencies from their respective dates of acquisition included in our consolidated results of operations and the unaudited pro forma results of operations of the combined entity had the date of the acquisitions been January 1, 2015 (in millions):

	Net Operating Revenues	Net (Loss) Income Attributable to Encompass Health
Acquired entities only: Actual from acquisition date to December 31, 2016	$ 27.4	$ (2.2)
Combined entity: Supplemental pro forma from 1/01/2016-12/31/2016 (unaudited)	3,745.6	252.2
Combined entity: Supplemental pro forma from 1/01/2015-12/31/2015 (unaudited)	3,217.1	187.3

The information presented above is for illustrative purposes only and is not necessarily indicative of results that would have been achieved if the acquisitions had occurred as of the beginning of our 2015 reporting period.

3. Variable Interest Entities:

As of December 31, 2018 and December 31, 2017, we consolidated eight and ten, respectively, limited partnership-like entities that are variable interest entities ("VIEs") and of which we are the primary beneficiary. Our ownership percentages in these entities range from 50.0% to 75.0% as of December 31, 2018. Through partnership and management agreements with or governing each of these entities, we manage all of these entities and handle all day-to-day operating decisions. Accordingly, we have the decision making power over the activities that most significantly impact the economic performance of our VIEs and an obligation to absorb losses or receive benefits from the VIE that could potentially be significant to the VIE. These decisions and significant activities include, but are not limited to, marketing efforts, oversight of patient admissions, medical training, nurse and therapist scheduling, provision of healthcare services, billing, collections and creation and maintenance of medical records. The terms of the agreements governing each of our VIEs prohibit us from using the assets of each VIE to satisfy the obligations of other entities.

The carrying amounts and classifications of the consolidated VIEs' assets and liabilities, which are included in our consolidated balance sheet, are as follows (in millions):

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 0.3	$ 1.2
Accounts receivable	31.0	32.6
Other current assets	4.9	5.6
Total current assets	36.2	39.4
Property and equipment, net	111.5	142.8
Goodwill	15.9	73.5
Intangible assets, net	4.3	7.7
Deferred income tax assets	0.6	0.7
Other long-term assets	29.0	—
Total assets	$ 197.5	$ 264.1
Liabilities		
Current liabilities:		
Current portion of long-term debt	$ 0.6	$ 1.8
Accounts payable	5.2	6.5
Accrued payroll	7.0	7.1
Accrued interest payable	—	0.2
Other current liabilities	38.0	8.6
Total current liabilities	50.8	24.2
Long-term debt, net of current portion	—	28.3
Total liabilities	$ 50.8	$ 52.5

4. Cash and Marketable Securities:

The components of our investments as of December 31, 2018 are as follows (in millions):

	Cash & Cash Equivalents	Restricted Cash	Restricted Marketable Securities	Total
Cash	$ 69.2	$ 64.3	$ —	$ 133.5
Marketable securities	—	—	62.0	62.0
Total	$ 69.2	$ 64.3	$ 62.0	$ 195.5

The components of our investments as of December 31, 2017 are as follows (in millions):

	Cash & Cash Equivalents	Restricted Cash	Restricted Marketable Securities	Total
Cash	$ 54.4	$ 62.4	$ —	$ 116.8
Marketable securities	—	—	62.0	62.0
Total	$ 54.4	$ 62.4	$ 62.0	$ 178.8

Restricted Cash

As of December 31, 2018 and 2017, *Restricted cash* consisted of the following (in millions):

	As of December 31,	
	2018	2017
Current:		
Affiliate cash	$ 16.4	$ 18.1
Self-insured captive funds	42.6	44.3
	59.0	62.4
Noncurrent:		
Self-insured captive funds	5.3	—
Total restricted cash	$ 64.3	$ 62.4

Affiliate cash represents cash accounts maintained by joint ventures in which we participate where one or more of our external partners requested, and we agreed, that the joint venture's cash not be commingled with other corporate cash accounts and be used only to fund the operations of those joint ventures. Self-insured captive funds represent cash held at our wholly owned insurance captive, HCS, Ltd., as discussed in Note 10, *Self-Insured Risks*. These funds are committed to pay third-party administrators for claims incurred and are restricted by insurance regulations and requirements. These funds cannot be used for purposes outside HCS without the permission of the Cayman Islands Monetary Authority.

The classification of restricted cash held by HCS as current or noncurrent depends on the classification of the corresponding claims liability.

Marketable Securities

Restricted marketable securities at both balance sheet dates represent restricted assets held at HCS. HCS insures a substantial portion of Encompass Health's professional liability, workers' compensation, and other insurance claims. These funds are committed for payment of claims incurred, and the classification of these marketable securities as current or noncurrent depends on the classification of the corresponding claims liability. As of December 31, 2018 and 2017, $62.0 million and $44.2 million, respectively, of restricted marketable securities are included in *Other long-term assets* in our consolidated balance sheets. As of December 31, 2018, $1.7 million of unrealized net losses were recognized in our consolidated statement of operations during 2018 on marketable securities were still held at the reporting date.

A summary of our restricted marketable securities as of December 31, 2017, as required for equity securities prior to ASU No. 2016-01, is as follows (in millions):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable securities	$ 64.0	$ 0.3	$ (2.3)	$ 62.0

Cost in the above table includes adjustments made to the cost basis of our equity securities for other-than-temporary impairments. During the years ended December 31, 2017, and 2016, we did not record any impairment charges related to our restricted marketable securities.

Investing information related to our restricted marketable securities is as follows (in millions):

	For the Year Ended December 31,		
	2018	2017	2016
Proceeds from sales of restricted marketable securities	$ 11.4	$ 4.0	$ —
Gross realized losses	$ (0.6)	$ —	$ —

Our portfolio of marketable securities is comprised of investments in mutual funds that hold investments in a variety of industries and geographies. As discussed in Note 1, *Summary of Significant Accounting Policies*, "Marketable Securities," and prior to ASU No. 2016-01, when our portfolio included marketable securities with unrealized losses that are not deemed to be other-than-temporarily impaired, we examined the severity and duration of the impairments in relation to the cost of the individual investments. We also considered the industry and geography in which each investment is held and the near-term prospects for a recovery in each.

5. Accounts Receivable:

Accounts receivable consists of the following (in millions):

	As of December 31,	
	2018	2017
Current:		
Patient accounts receivable	$ 459.9	$ 459.5
Other accounts receivable	7.8	12.6
	467.7	472.1
Noncurrent patient accounts receivable	155.5	129.1
Accounts receivable	$ 623.2	$ 601.2

Because the resolution of claims that are part of Medicare audit programs can take in excess of three years, we review the patient receivables that are part of this adjudication process to determine their appropriate classification as either current or noncurrent. Amounts considered noncurrent are included in *Other long-term assets* in our consolidated balance sheet.

6. Property and Equipment:

Property and equipment consists of the following (in millions):

	As of December 31,	
	2018	2017
Land	$ 142.4	$ 125.4
Buildings	1,875.2	1,712.4
Leasehold improvements	147.5	138.1
Vehicles	24.6	16.2
Furniture, fixtures, and equipment	441.6	461.5
	2,631.3	2,453.6
Less: Accumulated depreciation and amortization	(1,147.0)	(1,097.8)
	1,484.3	1,355.8
Construction in progress	150.5	161.3
Property and equipment, net	$ 1,634.8	$ 1,517.1

As of December 31, 2018, approximately 70% of our consolidated *Property and equipment, net* held by Encompass Health Corporation and its guarantor subsidiaries was pledged to the lenders under our credit agreement. See Note 9, *Long-term Debt*, and Note 20, *Condensed Consolidating Financial Information*.

In February 2016, we entered into a development lease agreement with CR HQ, LLC (the "Developer") to construct our new home office in Birmingham, Alabama. Under the terms of this agreement, the Developer is responsible for all costs of constructing the new facility 'shell' which is being leased to us for an initial term of 15 years with four, five-year renewal options. The lease commenced in April of 2018. We were responsible for the costs associated with improvements to the interior of the building. Due to the nature and extent of the tenant improvements we made to the new home office and certain provisions of the development lease agreement, we were deemed to be the accounting owner of the new home office during the construction period. Construction commenced in the second quarter of 2016. As of December 31, 2018 and 2017, *Property and equipment, net* includes $55.0 million and $49.8 million, respectively, for the construction costs incurred by the Developer, and *Long-term debt, net of current portion* includes a corresponding financing obligation liability of $54.8 million and $49.5 million, respectively. The remaining corresponding financing obligation liability of $0.2 million and $0.3 million as of December 31, 2018 and 2017 is included in the *Current portion of long-term debt*. The amounts recorded for construction costs and the corresponding liability are noncash activities for purposes of our consolidated statement of cash flows. See Note 9, *Long-term Debt*.

Information related to fully depreciated assets and assets under capital lease obligations is as follows (in millions):

	As of December 31,	
	2018	2017
Fully depreciated assets	$ 311.7	$ 318.6
Assets under capital lease obligations:		
Buildings	$ 329.6	$ 329.6
Vehicles	21.1	13.0
Equipment	0.3	0.3
	351.0	342.9
Less: Accumulated amortization	(126.9)	(104.6)
Assets under capital lease obligations, net	$ 224.1	$ 238.3

The amount of depreciation expense, amortization expense relating to assets under capital lease obligations, interest capitalized, and rent expense under operating leases is as follows (in millions):

	For the Year Ended December 31,		
	2018	2017	2016
Depreciation expense	$ 124.2	$ 111.8	$ 102.3
Amortization expense	$ 24.1	$ 22.7	$ 21.8
Interest capitalized	$ 6.0	$ 3.7	$ 2.0
Rent expense:			
Minimum rent payments	$ 69.8	$ 66.5	$ 62.6
Contingent and other rents	24.9	24.1	29.4
Other	9.1	8.9	4.0
Total rent expense	$ 103.8	$ 99.5	$ 96.0

Leases

We lease certain land, buildings, and equipment under noncancelable operating leases generally expiring at various dates through 2037. We also lease certain buildings and equipment under capital leases generally expiring at various dates through 2037. Operating leases generally have 1- to 20-year terms, with one or more renewal options, with terms to be negotiated at the time of renewal. Various facility leases include provisions for rent escalation to recognize increased operating costs or require us to pay certain maintenance and utility costs. Contingent rents are included in rent expense in the year incurred.

Some facilities are subleased to other parties. Rental income from subleases approximated $3.0 million, $2.9 million, and $4.1 million for the years ended December 31, 2018, 2017, and 2016, respectively. Total expected future minimum rentals under these noncancelable subleases approximated $2.6 million as of December 31, 2018.

Certain leases contain annual escalation clauses based on changes in the Consumer Price Index while others have fixed escalation terms. The excess of cumulative rent expense (recognized on a straight-line basis) over cumulative rent payments made on leases with fixed escalation terms is recognized as straight-line rental accrual and is included in *Other long-term liabilities* in the accompanying consolidated balance sheets, as follows (in millions):

	As of December 31,	
	2018	2017
Straight-line rental accrual	$ 12.1	$ 11.2

Future minimum lease payments at December 31, 2018, for those leases having an initial or remaining noncancelable lease term in excess of one year, are as follows (in millions):

Year Ending December 31,	Operating Leases	Capital Lease Obligations	Total
2019	$ 71.4	$ 36.2	$ 107.6
2020	65.8	32.3	98.1
2021	54.3	30.3	84.6
2022	41.0	28.7	69.7
2023	35.3	28.0	63.3
2024 and thereafter	148.2	299.7	447.9
	$ 416.0	455.2	$ 871.2
Less: Interest portion		(191.4)	
Obligations under capital leases		$ 263.8	

In addition to the above, and as discussed in Note 9, *Long-term Debt*, "Other Notes Payable," we have three sale leaseback transactions involving real estate accounted for as financings. Future minimum payments, two of which are accounted for as interest, under these obligations are $7.5 million in year one, $7.5 million in year two, $7.6 million in year three, $7.5 million in year four, $6.8 million in year five, and $82.2 million thereafter.

7. Goodwill and Other Intangible Assets:

The following table shows changes in the carrying amount of *Goodwill* for the years ended December 31, 2018, 2017, and 2016 (in millions):

	Inpatient Rehabilitation	Home Health and Hospice	Consolidated
Goodwill as of December 31, 2015	$ 1,133.1	$ 757.0	$ 1,890.1
Acquisitions	8.9	42.5	51.4
Divestiture of pediatric home health services	—	(14.3)	(14.3)
Goodwill as of December 31, 2016	1,142.0	785.2	1,927.2
Acquisitions	24.0	21.4	45.4
Goodwill as of December 31, 2017	1,166.0	806.6	1,972.6
Acquisitions	23.2	105.0	128.2
Goodwill as of December 31, 2018	$ 1,189.2	$ 911.6	$ 2,100.8

Goodwill increased in 2016 as a result of our acquisitions of inpatient and home health and hospice operations offset by the divestiture of our pediatric home health assets to Thrive Skilled Pediatric Care in November 2016 for approximately $21 million. We recorded a $3.3 million gain as part of *Other operating expenses* in our consolidated statements of operations during the year ended December 31, 2016. *Goodwill* increased in 2017 as a result of our acquisitions of inpatient and home health operations. *Goodwill* increased in 2018 as a result of our acquisitions of Camellia and other inpatient and home health and hospice operations. See Note 2, *Business Combinations*.

We performed impairment reviews as of October 1, 2018, 2017, and 2016 and concluded no *Goodwill* impairment existed. As of December 31, 2018, we had no accumulated impairment losses related to *Goodwill*.

The following table provides information regarding our other intangible assets (in millions):

	Gross Carrying Amount	Accumulated Amortization	Net
Certificates of need:			
2018	$ 148.3	$ (28.2)	$ 120.1
2017	113.7	(19.5)	94.2
Licenses:			
2018	$ 169.1	$ (82.2)	$ 86.9
2017	146.0	(71.6)	74.4
Noncompete agreements:			
2018	$ 65.6	$ (58.6)	$ 7.0
2017	63.5	(55.4)	8.1
Trade name - Encompass:			
2018	$ 135.2	$ —	$ 135.2
2017	135.2	—	135.2
Trade names - all other:			
2018	$ 38.9	$ (19.4)	$ 19.5
2017	35.1	(16.4)	18.7
Internal-use software:			
2018	$ 161.3	$ (89.3)	$ 72.0
2017	201.6	(132.3)	69.3
Market access assets:			
2018	$ 13.2	$ (10.5)	$ 2.7
2017	13.2	(10.0)	3.2
Total intangible assets:			
2018	$ 731.6	$ (288.2)	$ 443.4
2017	708.3	(305.2)	403.1

Amortization expense for other intangible assets is as follows (in millions):

	For the Year Ended December 31,		
	2018	2017	2016
Amortization expense	$ 51.4	$ 49.3	$ 48.5

Total estimated amortization expense for our other intangible assets for the next five years is as follows (in millions):

Year Ending December 31,	Estimated Amortization Expense
2019	$ 56.9
2020	43.3
2021	35.7
2022	29.6
2023	27.0

8. Investments in and Advances to Nonconsolidated Affiliates:

Investments in and advances to nonconsolidated affiliates as of December 31, 2018 represents our investment in five partially owned subsidiaries, of which four are general or limited partnerships, limited liability companies, or joint ventures in which Encompass Health or one of its subsidiaries is a general or limited partner, managing member, member, or venturer, as applicable. We do not control these affiliates but have the ability to exercise significant influence over the operating and financial policies of certain of these affiliates. Our ownership percentages in these affiliates range from approximately 19% to 60%. We account for these investments using the cost and equity methods of accounting. Our investments, which are included in *Other long-term assets* in our consolidated balance sheets, consist of the following (in millions):

	As of December 31,	
	2018	2017
Equity method investments:		
Capital contributions	$ 0.9	$ 0.9
Cumulative share of income	114.0	105.3
Cumulative share of distributions	(102.7)	(94.5)
	12.2	11.7
Cost method investments:		
Capital contributions, net of distributions and impairments	—	0.2
Total investments in and advances to nonconsolidated affiliates	$ 12.2	$ 11.9

The following summarizes the combined assets, liabilities, and equity and the combined results of operations of our equity method affiliates (on a 100% basis, in millions):

	As of December 31,	
	2018	2017
Assets		
Current	$ 9.9	$ 10.1
Noncurrent	17.8	18.3
Total assets	$ 27.7	$ 28.4
Liabilities and equity		
Current liabilities	$ 1.4	$ 2.7
Noncurrent liabilities	0.1	0.2
Partners' capital and shareholders' equity		
Encompass Health	12.2	11.7
Outside partners	14.0	13.8
Total liabilities and equity	$ 27.7	$ 28.4

Condensed statements of operations (in millions):

	For the Year Ended December 31,		
	2018	2017	2016
Net operating revenues	$ 42.6	$ 40.9	$ 44.8
Operating expenses	(25.6)	(24.1)	(24.3)
Income from continuing operations, net of tax	17.1	17.0	20.5
Net income	17.1	17.0	20.5

9. Long-term Debt:

Our long-term debt outstanding consists of the following (in millions):

	As of December 31,	
	2018	2017
Credit Agreement—		
Advances under revolving credit facility	$ 30.0	$ 95.0
Term loan facilities	280.1	294.7
Bonds payable—		
5.125% Senior Notes due 2023	296.6	295.9
5.75% Senior Notes due 2024	1,194.7	1,193.9
5.75% Senior Notes due 2025	345.0	344.4
Other notes payable	104.2	82.3
Capital lease obligations	263.8	271.5
	2,514.4	2,577.7
Less: Current portion	(35.8)	(32.3)
Long-term debt, net of current portion	$ 2,478.6	$ 2,545.4

The following chart shows scheduled principal payments due on long-term debt for the next five years and thereafter (in millions):

Year Ending December 31,	Face Amount	Net Amount
2019	$ 36.5	$ 36.5
2020	33.0	33.0
2021	28.4	28.4
2022	291.9	290.7
2023	313.4	310.1
Thereafter	1,826.2	1,815.7
Total	$ 2,529.4	$ 2,514.4

As a result of the 2017 and 2016 redemptions discussed below, we recorded a $10.7 million, and $7.4 million *Loss on early extinguishment of debt* in 2017 and 2016, respectively. There were no redemptions resulting in a *Loss on early extinguishment of debt* during 2018.

Senior Secured Credit Agreement—

Credit Agreement

In September 2017, we amended our existing credit agreement, previously amended on July 29, 2015 (the "Credit Agreement"). The Credit Agreement provided for a $300 million term loan commitment and a $700 million revolving credit facility, with a $260 million letter of credit subfacility and a swingline loan subfacility, all of which mature in September 2022. Outstanding term loan borrowings are payable in equal consecutive quarterly installments, commencing on December 31, 2017, of 1.25% of the aggregate principal amount of the term loans outstanding as of December 31, 2017, with the remainder due at maturity. We have the right at any time to prepay, in whole or in part, any borrowing under the term loan facilities.

Amounts drawn on the term loan facilities and the revolving credit facility bear interest at a rate per annum of, at our option, (1) LIBOR or (2) the higher of (a) Barclays Bank PLC's ("Barclays") prime rate and (b) the federal funds rate plus 0.5%, in each case, plus, in each case, an applicable margin that varies depending upon our leverage ratio. We are also subject to a commitment fee of 0.375% per annum on the daily amount of the unutilized commitments under the term loan facilities and revolving credit facility. The current interest rate on borrowings under the Credit Agreement is LIBOR plus 1.50%.

The Credit Agreement contains affirmative and negative covenants and default and acceleration provisions, including a minimum interest coverage ratio and a maximum leverage ratio that change over time. Under one such negative covenant, we are restricted from paying common stock dividends, prepaying certain senior notes, making certain investments, and repurchasing preferred and common equity unless (1) we are not in default under the terms of the Credit Agreement and (2) our senior secured leverage ratio, as defined in the Credit Agreement, does not exceed 2x. In the event the senior secured leverage ratio exceeds 2x, these payments are subject to a limit of $200 million plus an amount equal to a portion of available excess cash flows each fiscal year. Our obligations under the Credit Agreement are secured by the current and future personal property of the Company and its subsidiary guarantors. The maximum leverage ratio in the financial covenants is 4.50x through September 2019 and 4.25x from then until maturity.

As of December 31, 2018 and 2017, $30 million and $95 million were drawn under the revolving credit facility with an interest rate of 3.9% and 3.1%, respectively. Amounts drawn as of December 31, 2018 and 2017 exclude $37.4 million and $35.4 million, respectively, utilized under the letter of credit subfacility, which were being used in the ordinary course of business to secure workers' compensation and other insurance coverages and for general corporate purposes. Currently, there are no undrawn term loan commitments under the Credit Agreement. The 2017 amendment to our existing credit agreement included a net repayment of approximately $110 million to our existing term loan facility.

2016 Credit Agreement

In June and July 2015, we amended our existing credit agreement (the "2016 Credit Agreement"). The 2016 Credit Agreement provided for $500 million of term loan commitments and a $600 million revolving credit facility, with a $260 million letter of credit subfacility and a swingline loan subfacility, all of which would have matured in July 2020. Outstanding term loan borrowings were payable in equal consecutive quarterly installments, commencing on March 31, 2016, of 1.25% of the aggregate principal amount of the term loans outstanding as of December 31, 2015, with the remainder due at maturity. The 2016 Credit Agreement contained the same affirmative and negative covenants and default and acceleration provisions as the Credit Agreement, except for the senior secured leverage ratio couldn't exceed 1.75x under the negative covenant described above and the maximum leverage ratio was 4.50x through June 2017 and 4.25x from then until maturity.

Bonds Payable—

Nonconvertible Notes

The Company's 2023 Notes, 2024 Notes, and 2025 Notes (collectively, the "Senior Notes") were issued pursuant to an indenture (the "Base Indenture") dated as of December 1, 2009 between us and The Bank of Nova Scotia Trust Company of New York, as trustee (the "Original Trustee"), as supplemented by each Senior Notes respective supplemental indenture (together with the Base Indenture, the "Indenture"), among us, the Subsidiary Guarantors (as defined in the Indenture), and the Original Trustee. The Original Trustee notified us of its intention to discontinue its corporate trust operations and, accordingly, to resign upon the appointment of a successor trustee. Effective July 29, 2013, Wells Fargo Bank, National Association, was

appointed as successor trustee under the Indenture.

Pursuant to the terms of the Indenture, the Senior Notes are jointly and severally guaranteed on a senior, unsecured basis by all of our existing and future subsidiaries that guarantee borrowings under our Credit Agreement and other capital markets debt (see Note 20, *Condensed Consolidating Financial Information*). The Senior Notes are senior, unsecured obligations of Encompass Health and rank equally with our other senior indebtedness, senior to any of our subordinated indebtedness, and effectively junior to our secured indebtedness to the extent of the value of the collateral securing such indebtedness.

Upon the occurrence of a change in control (as defined in the Indenture), each holder of the Senior Notes may require us to repurchase all or a portion of the notes in cash at a price equal to 101% of the principal amount of the Senior Notes to be repurchased, plus accrued and unpaid interest.

The Senior Notes contain covenants and default and acceleration provisions, that, among other things, limit our and certain of our subsidiaries' ability to (1) incur additional debt, (2) make certain restricted payments, (3) consummate specified asset sales, (4) incur liens, and (5) merge or consolidate with another person.

2023 Notes

In March 2015, we issued $300 million of 5.125% Senior Notes due 2023 ("the 2023 Notes") at par, which resulted in approximately $295 million in net proceeds from the public offering. The 2023 Notes mature on March 15, 2023 and bear interest at a per annum rate of 5.125%. Inclusive of financing costs, the effective interest rate on the 2023 Notes is 5.4%. Interest on the 2023 Notes is payable semiannually in arrears on March 15 and September 15, beginning on September 15, 2015.

We may redeem the 2023 Notes, in whole or in part, at any time on or after March 15, 2018 at the redemption prices set forth below:

Period	Redemption Price*
2018	103.844%
2019	102.563%
2020	101.281%
2021 and thereafter	100.000%

* Expressed in percentage of principal amount

2024 Notes

In September 2012, we completed a public offering of $275 million aggregate principal amount of the 5.75% Senior Notes due 2024 ("the 2024 Notes") at par. In September 2014, we issued an additional $175 million of the 2024 Notes at a price of 103.625% of the principal amount, in January 2015, we issued an additional $400 million of the 2024 Notes at a price of 102% of the principal amount, and in August 2015, we issued an additional $350 million of our 2024 Notes at a price of 100.5% of the principal amount. The 2024 Notes mature on November 1, 2024 and bear interest at a per annum rate of 5.75%. Inclusive of premiums and financing costs, the effective interest rate on the 2024 Notes is 5.8%. Interest is payable semiannually in arrears on May 1 and November 1 of each year.

We may redeem the 2024 Notes, in whole or in part, at any time on or after November 1, 2017, at the redemption prices set forth below:

Period	Redemption Price*
2018	101.917%
2019	100.958%
2020 and thereafter	100.000%

* Expressed in percentage of principal amount

2025 Notes

In September 2015, we issued $350 million of 5.75% Senior Notes due 2025 ("the 2025 Notes") at par. The 2025 Notes mature on September 15, 2025 and bear interest at a per annum rate of 5.75%. Inclusive of financing costs, the effective interest rate on the 2025 Notes is 6.0%. Interest on the 2025 Notes is payable semiannually in arrears on March 15 and September 15, beginning on March 15, 2016.

We may redeem the 2025 Notes, in whole or in part, at any time on or after September 15, 2020, at the redemption prices set forth below:

Period	Redemption Price*
2020	102.875%
2021	101.917%
2022	100.958%
2023 and thereafter	100.000%

* Expressed in percentage of principal amount

Former 2022 Notes

In March and May 2016, we redeemed $50.0 million of the outstanding principal amount of our former senior notes due 2022 ("the Former 2022 Notes"). Pursuant to the terms of the Former 2022 Notes, these optional redemptions were made at a price of 103.875%, which resulted in a total cash outlay of approximately $104 million. We used cash on hand and capacity under our revolving credit facility to fund these redemptions.

In September 2016, we redeemed the remaining outstanding principal amount of $76 million of the Former 2022 Notes. Pursuant to the terms of these notes, these optional redemptions were made at a price of 102.583%, which resulted in a total cash outlay of approximately $78 million. We used cash on hand and capacity under our revolving credit facility to fund this redemption. The Former 2022 Notes would have matured on September 15, 2022. Inclusive of premiums and financing costs, the effective interest rate on the Former 2022 Notes was 7.9%. Interest was payable semiannually in arrears on March 15 and September 15 of each year.

Convertible Notes

Former Convertible Senior Subordinated Notes Due 2043

In November 2013, we exchanged $320 million in aggregate principal amount of newly issued 2.00% Convertible Senior Subordinated Notes due 2043 (the "Former Convertible Notes") for 257,110 shares of our outstanding 6.50% Series A Convertible Perpetual Preferred Stock. Our Former Convertible Notes were issued pursuant to an indenture dated November 18, 2013 (the " Former Convertible Notes Indenture") between us and Wells Fargo Bank, National Association, as trustee and conversion agent.

In May 2017, we provided notice of our intent to exercise our early redemption option on the $320 million outstanding principal amount of the Former Convertible Notes. Pursuant to the Former Convertible Notes Indenture, the holders had the right to convert their Former Convertible Notes into shares of our common stock at a conversion rate of 27.2221 shares per $1,000 principal amount of Former Convertible Notes, which rate was increased by the make-whole premium. Holders of $319.4 million in principal of these Former Convertible Notes chose to convert their notes to shares of our common stock resulting in the issuance of 8.9 million shares from treasury stock, including 0.2 million shares due to the make-whole premium. Approximately 8.6 million of these shares were included in *Diluted earnings per share attributable to Encompass Health common shareholders* as of March 31, 2017. We redeemed the remaining $0.6 million in principal at par in cash. The redemption and all conversions occurred in the second quarter of 2017. The Former Convertible Notes would have matured on December 1, 2043. Inclusive of discounts and financing costs, the effective interest rate on the Former Convertible Notes was 6.0%. Interest was payable semiannually in arrears in cash on June 1 and December 1 of each year.

Other Notes Payable—

Our notes payable consist of the following (in millions):

	As of December 31,		
	2018	2017	Interest Rates
Sale/leaseback transactions involving real estate accounted for as financings	$ 82.8	$ 77.7	7.5% to 11.2%
Construction of a new hospital	14.6	4.4	LIBOR + 2.5%; 4.8% to 5.0% and 3.9% as of December 31, 2018 and 2017, respectively
Other	6.8	0.2	4.3% to 6.8%
Other notes payable	$ 104.2	$ 82.3	

See also Note 6, *Property and Equipment*.

Capital Lease Obligations—

We engage in a significant number of leasing transactions including real estate and other equipment utilized in operations. Leases meeting certain accounting criteria have been recorded as an asset and liability at the lower of fair value or the net present value of the aggregate future minimum lease payments at the inception of the lease. Interest rates used in computing the net present value of the lease payments generally ranged from 2% to 11% based on our incremental borrowing rate at the inception of the lease. Our leasing transactions include arrangements for vehicles with major finance companies who retain ownership in the equipment during the term of the lease and with a variety of both small and large real estate owners.

10. Self-Insured Risks:

We insure a substantial portion of our professional liability, general liability, and workers' compensation risks through a self-insured retention program ("SIR") underwritten by our consolidated wholly owned offshore captive insurance subsidiary, HCS, Ltd., which we fund via regularly scheduled premium payments. HCS is an insurance company licensed by the Cayman Island Monetary Authority. We use HCS to fund our first layer of insurance coverage up to approximately $30 million for annual aggregate losses associated with general and professional liability risks. Workers' compensation exposures are capped on a per claim basis. Risks in excess of specified limits per claim and in excess of our aggregate SIR amount are covered by unrelated commercial carriers.

The following table presents the changes in our self-insurance reserves for the years ended December 31, 2018, 2017, and 2016 (in millions):

	2018	2017	2016
Balance at beginning of period, gross	$ 171.0	$ 171.4	$ 142.1
Less: Reinsurance receivables	(39.9)	(41.4)	(26.6)
Balance at beginning of period, net	131.1	130.0	115.5
Increase for the provision of current year claims	47.1	44.7	43.5
Decrease for the provision of prior year claims	(8.7)	(3.0)	(0.1)
Expenses related to discontinued operations	(0.2)	(0.5)	(0.4)
Payments related to current year claims	(7.0)	(5.0)	(5.0)
Payments related to prior year claims	(27.0)	(35.1)	(23.5)
Balance at end of period, net	135.3	131.1	130.0
Add: Reinsurance receivables	25.6	39.9	41.4
Balance at end of period, gross	$ 160.9	$ 171.0	$ 171.4

As of December 31, 2018 and 2017, $41.3 million and $60.9 million, respectively, of these reserves are included in *Other current liabilities* in our consolidated balance sheets.

Provisions for these risks are based primarily upon actuarially determined estimates. These reserves represent the unpaid portion of the estimated ultimate cost of all reported and unreported losses incurred through the respective consolidated balance sheet dates. The reserves are estimated using individual case-basis valuations and actuarial analyses. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known. The changes to the estimated ultimate loss amounts are included in current operating results.

The reserves for these self-insured risks cover approximately 1,000 individual claims at December 31, 2018 and 2017, and estimates for potential unreported claims. The time period required to resolve these claims can vary depending upon the jurisdiction, the nature, and the form of resolution of the claims. The estimation of the timing of payments beyond a year can vary significantly. Although considerable variability is inherent in reserve estimates, management believes the reserves for losses and loss expenses are adequate; however, there can be no assurance the ultimate liability will not exceed management's estimates.

11. Redeemable Noncontrolling Interests:

The following is a summary of the activity related to our *Redeemable noncontrolling interests* (in millions):

	For the Year Ended December 31,		
	2018	2017	2016
Balance at beginning of period	$ 220.9	$ 138.3	$ 121.1
Net income attributable to noncontrolling interests	13.9	17.9	14.1
Distributions declared	(8.6)	(4.6)	(7.8)
Contribution to joint venture	9.6	2.3	—
Purchase of redeemable noncontrolling interests	(65.1)	—	—
Change in fair value	91.0	67.0	10.9
Balance at end of period	$ 261.7	$ 220.9	$ 138.3

The following table reconciles the net income attributable to nonredeemable *Noncontrolling interests*, as recorded in the shareholders' equity section of the consolidated balance sheets, and the net income attributable to *Redeemable noncontrolling interests*, as recorded in the mezzanine section of the consolidated balance sheets, to the *Net income attributable to noncontrolling interests* presented in the consolidated statements of operations (in millions):

	For the Year Ended December 31,		
	2018	2017	2016
Net income attributable to nonredeemable noncontrolling interests	$ 69.2	$ 61.2	$ 56.4
Net income attributable to redeemable noncontrolling interests	13.9	17.9	14.1
Net income attributable to noncontrolling interests	$ 83.1	$ 79.1	$ 70.5

On December 31, 2014, we acquired 83.3% of our home health and hospice business when we purchased EHHI Holdings, Inc. ("EHHI"). In the acquisition, we acquired all of the issued and outstanding equity interests of EHHI, other than equity interests contributed to Encompass Health Home Health Holdings, Inc. ("Holdings"), a subsidiary of Encompass Health and an indirect parent of EHHI, by certain sellers in exchange for shares of common stock of Holdings. Those sellers were members of EHHI management, and they contributed a portion of their shares of common stock of EHHI, valued at approximately $64 million on the acquisition date, in exchange for approximately 16.7% of the outstanding shares of common stock of Holdings. At any time after December 31, 2017, each management investor has the right (but not the obligation) to have his or her shares of Holdings stock repurchased by Encompass Health for a cash purchase price per share equal to the fair value. Specifically, up to one-third of each management investor's shares of Holdings stock may be sold prior to December 31, 2018; two-thirds of each management investor's shares of Holdings stock may be sold prior to December 31, 2019; and all of each management investor's shares of Holdings stock may be sold thereafter. At any time after December 31, 2019, Encompass Health will have the right (but not the obligation) to repurchase all or any portion of the shares of Holdings stock owned by one or more management investors for a cash purchase price per share equal to the fair value. In February 2018, each management investor exercised the right to sell one-third of his or her shares of Holdings stock to Encompass Health, representing approximately 5.6% of the outstanding shares of the common stock of Holdings. On February 21, 2018, Encompass Health settled the acquisition of those shares upon payment of approximately $65 million in cash. As of December 31, 2018, the value of those outstanding shares of Holdings was approximately $223 million. See also Note 12, *Fair Value Measurements*

12. Fair Value Measurements:

Our financial assets and liabilities that are measured at fair value on a recurring basis are as follows (in millions):

		Fair Value Measurements at Reporting Date Using			
As of December 31, 2018	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Valuation Technique [1]**
Other long-term assets:					
Restricted marketable securities	$ 62.0	$ 6.4	$ 55.6	$ —	M
Redeemable noncontrolling interests	261.7	—	—	261.7	I
As of December 31, 2017					
Prepaid expenses and other current assets:					
Current portion of restricted marketable securities	$ 17.8	$ —	$ 17.8	$ —	M
Other long-term assets:					
Restricted marketable securities	44.2	—	44.2	—	M
Redeemable noncontrolling interests	220.9	—	—	220.9	I

[1] The three valuation techniques are: market approach (M), cost approach (C), and income approach (I).

In addition to assets and liabilities recorded at fair value on a recurring basis, we are also required to record assets and liabilities at fair value on a nonrecurring basis. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges or similar adjustments made to the carrying value of the applicable assets. During the years ended December 31, 2018, 2017, and 2016, we did not record any gains or losses related to our nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis as part of our continuing operations.

As discussed in Note 1, *Summary of Significant Accounting Policies*, "Fair Value Measurements," the carrying value equals fair value for our financial instruments that are not included in the table below and are classified as current in our consolidated balance sheets. The carrying amounts and estimated fair values for our other financial instruments are presented in the following table (in millions):

	As of December 31, 2018		As of December 31, 2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt:				
Advances under revolving credit facility	$ 30.0	$ 30.0	$ 95.0	$ 95.0
Term loan facilities	280.1	281.3	294.7	296.3
5.125% Senior Notes due 2023	296.6	298.5	295.9	306.8
5.75% Senior Notes due 2024	1,194.7	1,200.0	1,193.9	1,228.5
5.75% Senior Notes due 2025	345.0	339.5	344.4	364.9
Other notes payable	104.2	104.2	82.3	82.3
Financial commitments:				
Letters of credit	—	37.4	—	35.4

Fair values for our long-term debt and financial commitments are determined using inputs, including quoted prices in nonactive markets, that are observable either directly or indirectly, or *Level 2* inputs within the fair value hierarchy. See Note 1, *Summary of Significant Accounting Policies*, "Fair Value Measurements" and "Redeemable Noncontrolling Interests."

13. Share-Based Payments:

The Company has awarded employee stock-based compensation in the form of stock options, SARs, and restricted stock awards ("RSAs") under the terms of share-based incentive plans designed to align employee and executive interests to those of its stockholders. All employee stock-based compensation awarded between January 1, 2015 and May 8, 2016 was issued under the Amended and Restated 2008 Equity Incentive Plan (the "2008 Plan"), a stockholder-approved plan that reserved and provided for the grant of up to nine million shares of common stock. This plan allowed the grants of nonqualified stock options, incentive stock options, restricted stock, SARs, performance shares, performance share units, dividend equivalents, restricted stock units ("RSUs"), and/or other stock-based awards. No additional stock-based compensation was or will be issued from the 2008 Plan.

In May 2016, our stockholders approved the 2016 Omnibus Performance Incentive Plan, which reserves and provides for the grant of up to 14,000,000 shares of common stock. All employee stock-based compensation awarded after May 8, 2016 was issued under this plan. This plan allows for the same types of equity grants as the 2008 Plan.

Stock Options –

Under our share-based incentive plans, officers and employees are given the right to purchase shares of Encompass Health common stock at a fixed grant price determined on the day the options are granted. The terms and conditions of the options, including exercise prices and the periods in which options are exercisable, are generally at the discretion of the compensation and human capital committee of our board of directors. However, no options are exercisable beyond ten years from the date of grant. Granted options vest over the awards' requisite service periods, which are generally three years.

The fair values of the options granted during the years ended December 31, 2018, 2017, and 2016 have been estimated at the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	For the Year Ended December 31,		
	2018	2017	2016
Expected volatility	29.2%	30.5%	37.2%
Risk-free interest rate	2.7%	2.1%	1.6%
Expected life (years)	7.1	7.7	7.5
Dividend yield	2.2%	2.2%	2.1%

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, the Black-Scholes option-pricing model requires the input of highly subjective assumptions, including the expected stock price volatility. We estimate our expected term through an analysis of actual, historical post-vesting exercise, cancellation, and expiration behavior by our employees and projected post-vesting activity of outstanding options. We calculate volatility based on the historical volatility of our common stock over the period commensurate with the expected term of the options. The risk-free interest rate is the implied daily yield currently available on U.S. Treasury issues with a remaining term closely approximating the expected term used as the input to the Black-Scholes option-pricing model. We estimated our dividend yield based on our annual dividend rate and our stock price on the dividend payment dates. Under the Black-Scholes option-pricing model, the weighted-average grant date fair value per share of employee stock options granted during the years ended December 31, 2018, 2017, and 2016 was $14.57, $11.55, and $11.55, respectively.

A summary of our stock option activity and related information is as follows:

	Shares (In Thousands)	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Life (Years)	Aggregate Intrinsic Value (In Millions)
Outstanding, December 31, 2017	557	$ 30.53		
Granted	95	53.79		
Exercised	(115)	27.79		
Forfeitures	—	—		
Expirations	—	—		
Outstanding, December 31, 2018	537	35.22	5.9	$ 14.2
Exercisable, December 31, 2018	317	27.65	4.1	10.8

We recognized approximately $1.1 million, $0.8 million, and $1.6 million of compensation expense related to our stock options for the years ended December 31, 2018, 2017, and 2016, respectively. As of December 31, 2018, there was $1.6 million of unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of 21 months. The total intrinsic value of options exercised during the years ended December 31, 2018, 2017, and 2016 was $5.2 million, $29.0 million, and $9.1 million, respectively.

Stock Appreciation Rights

In conjunction with the EHHI acquisition, we granted SARs based on Encompass Health Home Health Holdings, Inc. ("Holdings") common stock to certain members of EHHI management at closing on December 31, 2014. Under a separate plan, we granted 122,976 SARs that vest based on continued employment and an additional maximum number of 129,124 SARs that vest based on continued employment and the extent of the attainment of a specified 2017 performance measure. The maximum number of performance SARs was achieved. In general terms, half of the SARs of each type will vest on December 31, 2018 with the remainder vesting on December 31, 2019. The SARs that ultimately vest will expire on the tenth

anniversary of the grant date or within a specified period following any earlier termination of employment. Upon exercise, each SAR must be settled for cash in the amount by which the per share fair value of Holdings' common stock on the exercise date exceeds the per share fair value on the grant date. The fair value of Holdings' common stock is determined using the product of the trailing 12-month specified performance measure for Holdings and a specified median market price multiple based on a basket of public home health companies and publicly disclosed home health acquisitions with a value of $400 million or more.

The fair value of the SARs granted in conjunction with the EHHI acquisition has been estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	As of December 31,	
	2018	2017
Expected volatility	27.1%	28.7%
Risk-free interest rate	2.6%	1.9%
Expected life (years)	1.3	2.1
Dividend yield	—%	—%

We did not include a dividend payment as part of our pricing model because Holdings currently does not pay dividends on its common stock. Under the Black-Scholes option-pricing model, the weighted-average fair value per share of SARs granted in conjunction with the EHHI acquisition was $419.28 and $199.41 as of December 31, 2018 and 2017, respectively. As of December 31, 2018, the fair value of the SARs is approximately $87 million, of which approximately $48 million is included in *Other current liabilities* and approximately $39 million is included in *Other long-term liabilities* in the consolidated balance sheet.

We recognized approximately $56.2 million, $26.0 million, and $5.8 million of compensation expense related to our SARs for the years ended December 31, 2018, 2017 and 2016, respectively. As of December 31, 2018, there was $9.7 million of unrecognized compensation cost related to unvested SARs. This cost is expected to be recognized over a weighted-average period of 12 months. The remaining unrecognized compensation expense for our SARs may vary each reporting period based on changes in both operational performance and the specified median market multiple. As of December 31, 2018, 231,092 SARs were outstanding.

Restricted Stock—

The RSAs granted in 2018, 2017, and 2016 included service-based awards and performance-based awards (that also included a service requirement). These awards generally vest over a three-year requisite service period. For RSAs with a service and/or performance requirement, the fair value of the RSA is determined by the closing price of our common stock on the grant date.

A summary of our issued restricted stock awards is as follows (share information in thousands):

	Shares	Weighted-Average Grant Date Fair Value
Nonvested shares at December 31, 2017	673	$ 40.90
Granted	687	37.61
Vested	(439)	42.60
Forfeited	(14)	40.00
Nonvested shares at December 31, 2018	907	37.61

The weighted-average grant-date fair value of restricted stock granted during the years ended December 31, 2017 and 2016 was $42.85 and $33.56 per share, respectively. We recognized approximately $27.1 million, $19.6 million, and $18.7 million of compensation expense related to our restricted stock awards for the years ended December 31, 2018, 2017, and 2016,

respectively. As of December 31, 2018, there was $29.9 million of unrecognized compensation expense related to unvested restricted stock. This cost is expected to be recognized over a weighted-average period of 20 months. The remaining unrecognized compensation expense for the performance-based awards may vary each reporting period based on changes in the expected achievement of performance measures. The total fair value of shares vested during the years ended December 31, 2018, 2017, and 2016 was $22.1 million, $17.7 million, and $24.3 million, respectively. We accrue dividends on outstanding RSAs which are paid upon vesting.

Nonemployee Stock-Based Compensation Plans

During the years ended December 31, 2018, 2017, and 2016, we provided incentives to our nonemployee members of our board of directors through the issuance of RSUs out of our share-based incentive plans. RSUs are fully vested when awarded and receive dividend equivalents in the form of additional RSUs upon the payment of a cash dividend on our common stock. During the years ended December 31, 2018, 2017, and 2016, we issued 24,771, 27,594, and 32,031 RSUs, respectively, with a fair value of $62.88, $47.30, and $40.75, respectively, per unit. We recognized approximately $1.6 million, $1.3 million, and $1.3 million, respectively, of compensation expense upon their issuance in 2018, 2017, and 2016. There was no unrecognized compensation related to unvested shares as of December 31, 2018. During the years ended 2018, 2017, and 2016, we issued an additional 8,045, 9,968, and 10,248, respectively, of RSUs as dividend equivalents. As of December 31, 2018, 504,512 RSUs were outstanding.

14. Employee Benefit Plans:

Substantially all Encompass Health hospital employees are eligible to enroll in Encompass Health-sponsored healthcare plans, including coverage for medical and dental benefits. Our primary healthcare plans are national plans administered by third-party administrators. We are self-insured for these plans. During 2018, 2017, and 2016, costs associated with these plans, net of amounts paid by employees, approximated $134.9 million, $120.8 million, and $119.0 million, respectively.

The Encompass Health Retirement Investment Plan is a qualified 401(k) savings plan. The plan allows eligible employees to contribute up to 100% of their pay on a pre-tax basis into their individual retirement account in the plan subject to the normal maximum limits set annually by the Internal Revenue Service. Encompass Health's employer matching contribution is 50% of the first 6% of each participant's elective deferrals. All contributions to the plan are in the form of cash. Employees who are at least 21 years of age are eligible to participate in the plan. Employer contributions vest 100% after three years of service. Participants are always fully vested in their own contributions.

Employer contributions to the Encompass Health Retirement Investment Plan approximated $19.8 million, $18.2 million, and $16.6 million in 2018, 2017, and 2016, respectively. In 2018, 2017, and 2016, approximately $2.4 million, $1.4 million, and $0.6 million, respectively, from the plan's forfeiture account were used to fund the matching contributions in accordance with the terms of the plan.

Senior Management Bonus Program

We maintain a Senior Management Bonus Program to reward senior management for performance based on a combination of corporate or regional goals and individual goals. The corporate and regional goals are approved on an annual basis by our board of directors as part of our routine budgeting and financial planning process. The individual goals, which are weighted according to importance, are determined between each participant and his or her immediate supervisor. The program applies to persons who join the Company in, or are promoted to, senior management positions. In 2019, we expect to pay approximately $20.4 million under the program for the year ended December 31, 2018. In March 2018 and February 2017, we paid $14.7 million and $11.2 million, respectively, under the program for the years ended December 31, 2017 and 2016.

15. Income Taxes:

On December 22, 2017, the US enacted the 2017 Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act, which is commonly referred to as "US tax reform," significantly changes US corporate income tax laws by, among other things, reducing the US corporate income tax rate from 35% to 21% starting in 2018. As a result, we recorded a net benefit of $13.6 million during the fourth quarter of 2017. This amount, which is included in *Provision for income tax expense* in the

consolidated statement of operations, consists of three components: (i) a $5.8 million credit resulting from the remeasurement of our net federal deferred tax assets based on the new lower corporate income tax rate, (ii) a $13.8 million credit resulting from the remeasurement of our net state deferred tax assets as a result of the decreased federal benefit implicit in the new lower corporate income tax rate, and (iii) a $5.8 million charge resulting from the remeasurement of our net valuation allowances for state NOLs as a result of the decreased federal benefit implicit in the new lower corporate income tax rate. In addition, we adopted the Tax Act's provisions allowing for 100% bonus depreciation on qualifying assets placed in service after September 27, 2017, which resulted in additional bonus depreciation deductions of $8.8 million in the fourth quarter of 2017. Certain amounts related to the impact of the Tax Act have been revised due to a correction of an error in our deferred tax assets. See Note 1, *Summary of Significant Accounting Policies*, "Revision of Previously Issued Financial Statements," for additional information on this revision.

The significant components of the *Provision for income tax expense* related to continuing operations are as follows (in millions):

	For the Year Ended December 31,		
	2018	2017	2016
Current:			
Federal	$ 103.8	$ 72.2	$ 16.1
State and other	24.2	12.8	14.9
Total current expense	128.0	85.0	31.0
Deferred:			
Federal	(13.7)	58.4	130.5
State and other	4.6	2.4	2.4
Total deferred expense	(9.1)	60.8	132.9
Total income tax expense related to continuing operations	$ 118.9	$ 145.8	$ 163.9

A reconciliation of differences between the federal income tax at statutory rates and our actual income tax expense on our income from continuing operations, which include federal, state, and other income taxes, is presented below:

	For the Year Ended December 31,		
	2018	2017	2016
Tax expense at statutory rate	21.0 %	35.0 %	35.0 %
Increase (decrease) in tax rate resulting from:			
State and other income taxes, net of federal tax benefit	4.5 %	3.5 %	3.8 %
(Decrease) increase in valuation allowance	(0.4)%	0.4 %	0.1 %
Nondeductible government, class action, and related settlements	2.7 %	— %	— %
Noncontrolling interests	(3.2)%	(4.6)%	(4.4)%
Share-based windfall tax benefits	(0.4)%	(1.8)%	— %
Tax Act	— %	(2.8)%	— %
Other, net	(0.1)%	(0.3)%	(0.5)%
Income tax expense	24.1 %	29.4 %	34.0 %

The *Provision for income tax expense* in 2018 was greater than the federal statutory rate primarily due to: (1) state and other income tax expense and (2) nondeductible settlements offset by (3) the impact of noncontrolling interests. See Note 1, *Summary of Significant Accounting Policies*, "Income Taxes," for a discussion of the allocation of income or loss related to pass-through entities, which is referred to as the impact of noncontrolling interests in this discussion. The *Provision for income tax expense* in 2017 was less than the federal statutory rate primarily due to: (1) the impact of noncontrolling interests, (2) the

impact of the Tax Act and (3) share-based windfall tax benefits offset by (4) state and other income tax expense. The *Provision for income tax expense* in 2016 was less than the federal statutory rate primarily due to: (1) the impact of noncontrolling interests offset by (2) state and other income tax expense.

Deferred income taxes recognize the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes and the impact of available NOLs. The significant components of our deferred tax assets and liabilities are presented in the following table (in millions):

	As of December 31,	
	2018	2017
Deferred income tax assets:		
Net operating loss	$ 66.0	$ 77.3
Property, net	30.8	36.3
Insurance reserve	16.8	19.9
Stock-based compensation	33.0	19.5
Revenue reserves	6.1	14.0
Other accruals	22.5	20.4
Tax credits	4.7	2.8
Other	0.6	0.5
Total deferred income tax assets	180.5	190.7
Less: Valuation allowance	(33.7)	(35.8)
Net deferred income tax assets	146.8	154.9
Deferred income tax liabilities:		
Deferred revenue	—	(28.9)
Intangibles	(88.5)	(80.0)
Carrying value of partnerships	(15.2)	(11.4)
Other	(0.2)	(0.2)
Total deferred income tax liabilities	(103.9)	(120.5)
Net deferred income tax assets	$ 42.9	$ 34.4

We have state NOLs of $66.0 million that expire in various amounts at varying times through 2031. For the years ended December 31, 2018, 2017, and 2016, the net changes in our valuation allowance were $2.1 million, ($7.9) million, and ($0.3) million, respectively. The decrease in our valuation allowance in 2018 related primarily to expirations of state net operating losses. The increase in our valuation allowance in 2017 related primarily to the impact of remeasuring our state NOL deferred tax assets and their corresponding valuation allowances pursuant to the Tax Act. The increase in our valuation allowance in 2016 related primarily to the valuation of our tax credits.

As of December 31, 2018, we have a remaining valuation allowance of $33.7 million. This valuation allowance remains recorded due to uncertainties regarding our ability to utilize a portion of our state NOLs and other credits before they expire. The amount of the valuation allowance has been determined for each tax jurisdiction based on the weight of all available evidence including management's estimates of taxable income for each jurisdiction in which we operate over the periods in which the related deferred tax assets will be recoverable. It is possible we may be required to increase or decrease our valuation allowance at some future time if our forecast of future earnings varies from actual results on a consolidated basis or in the applicable state tax jurisdictions, or if the timing of future tax deductions or credit utilizations differs from our expectations.

During the third quarter of 2016, we filed a non-automatic tax accounting method change related to billings denied under pre-payment claims reviews conducted by certain of our Medicare Administrative Contractors. In March 2017, the IRS approved our request resulting in additional cash tax benefits of approximately $51.3 million through December 31, 2017. These benefits are expected to reverse as pre-payment claims denials are settled and collected. This change did not have a

material impact on our effective tax rate. The Tax Act included revisions to Internal Revenue Code §451 that may eliminate this deferral of revenue for tax purposes. We are currently evaluating this provision of the Tax Act and its future impact on the method change we received in March 2017.

As of January 1, 2016, total remaining gross unrecognized tax benefits were $2.9 million, all of which would have affected our effective tax rate if recognized. The amount of unrecognized tax benefits did not change significantly during 2016. Total remaining gross unrecognized tax benefits were $2.8 million as of December 31, 2016, all of which would have affected our effective tax rate if recognized. The amount of unrecognized tax benefits decreased $2.5 million during 2017, primarily related to the favorable settlement of a federal interest claim. Total remaining gross unrecognized tax benefits were $0.3 million as of December 31, 2017, all of which would have affected our effective tax rate if recognized. The amount of unrecognized tax benefits did not change significantly during 2018. Total remaining gross unrecognized tax benefits were $0.9 million as of December 31, 2018, all of which would affect our effective tax rate if recognized.

A reconciliation of the beginning and ending liability for unrecognized tax benefits is as follows (in millions):

	Gross Unrecognized Income Tax Benefits	Accrued Interest and Penalties
January 1, 2016	$ 2.9	$ —
Gross amount of increases in unrecognized tax benefits related to prior periods	0.3	—
Gross amount of decreases in unrecognized tax benefits related to prior periods	(0.4)	—
Gross amount of increases in unrecognized tax benefits related to current period	0.1	—
Gross amount of decreases in unrecognized tax benefits related to current period	(0.1)	—
December 31, 2016	2.8	—
Gross amount of decreases in unrecognized tax benefits related to prior periods	(0.4)	—
Decreases in unrecognized tax benefits relating to settlements with taxing authorities	(2.1)	—
December 31, 2017	0.3	—
Gross amount of increases in unrecognized tax benefits related to prior periods	0.8	0.1
Reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations	(0.2)	—
December 31, 2018	$ 0.9	$ 0.1

Our continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. Interest recorded as part of our income tax provision during 2018, 2017, and 2016 was not material. Accrued interest income related to income taxes as of December 31, 2018 and 2017 was not material.

In December 2016, we signed an agreement with the IRS to participate in their Compliance Assurance Process ("CAP") for the 2017 tax year. CAP is a program in which we and the IRS endeavor to agree on the treatment of significant tax positions prior to the filing of our federal income tax returns. We renewed this agreement in January 2018 for the 2018 tax year and in December 2018 for the 2019 tax year. As a result of these agreements, the IRS is currently examining the 2017, 2018 and 2019 tax years. In May 2018, the IRS issued a no-change Revenue Agent's Report effectively closing our 2016 tax year audit. The statute of limitations has expired or we have settled federal income tax examinations with the IRS for all tax years through 2016. Our state income tax returns are also periodically examined by various regulatory taxing authorities. We are currently under audit by one state for tax years ranging from 2013 through 2015.

For the tax years that remain open under the applicable statutes of limitations, amounts related to unrecognized tax benefits have been considered by management in its estimate of our potential net recovery of prior years' income taxes. Based on discussions with taxing authorities, we anticipate $0.5 million of our unrecognized tax benefits will be released within the next 12 months.

See also Note 1, *Summary of Significant Accounting Policies*, "Recent Accounting Pronouncements."

16. Earnings per Common Share:

The following table sets forth the computation of basic and diluted earnings per common share (in millions, except per share amounts):

	For the Year Ended December 31,		
	2018	2017	2016
Basic:			
Numerator:			
Income from continuing operations[*]	$ 374.3	$ 350.6	$ 318.1
Less: Net income attributable to noncontrolling interests included in continuing operations	(83.1)	(79.1)	(70.5)
Less: Income allocated to participating securities[*]	(0.9)	(0.9)	(0.8)
Income from continuing operations attributable to Encompass Health common shareholders[*]	290.3	270.6	246.8
Income (loss) from discontinued operations, net of tax, attributable to Encompass Health common shareholders	1.1	(0.4)	—
Net income attributable to Encompass Health common shareholders[*]	$ 291.4	$ 270.2	$ 246.8
Denominator:			
Basic weighted average common shares outstanding	97.9	93.7	89.1
Basic earnings per share attributable to Encompass Health common shareholders:[*]			
Continuing operations	$ 2.97	$ 2.88	$ 2.77
Discontinued operations	0.01	—	—
Net income	$ 2.98	$ 2.88	$ 2.77
Diluted:			
Numerator:			
Income from continuing operations[*]	$ 374.3	$ 350.6	$ 318.1
Less: Net income attributable to noncontrolling interests included in continuing operations	(83.1)	(79.1)	(70.5)
Add: Interest on convertible debt, net of tax	—	4.6	9.7
Add: Loss on extinguishment of convertible debt, net of tax	—	6.2	—
Income from continuing operations attributable to Encompass Health common shareholders[*]	291.2	282.3	257.3
Income (loss) from discontinued operations, net of tax, attributable to Encompass Health common shareholders	1.1	(0.4)	—
Net income attributable to Encompass Health common shareholders[*]	$ 292.3	$ 281.9	$ 257.3
Denominator:			
Diluted weighted average common shares outstanding	99.8	99.3	99.5
Diluted earnings per share attributable to Encompass Health common shareholders:[*]			
Continuing operations	$ 2.92	$ 2.84	$ 2.59
Discontinued operations	0.01	—	—
Net income	$ 2.93	$ 2.84	$ 2.59

[*] 2017 amounts have been revised to correct an error in our deferred tax assets as discussed in Note 1, *Summary of Significant Accounting Policies*, "Revision of Previously Issued Financial Statements."

The following table sets forth the reconciliation between basic weighted average common shares outstanding and diluted weighted average common shares outstanding (in millions):

	For the Year Ended December 31,		
	2018	2017	2016
Basic weighted average common shares outstanding	97.9	93.7	89.1
Convertible senior subordinated notes	—	4.0	8.5
Restricted stock awards, dilutive stock options, and restricted stock units	1.9	1.6	1.9
Diluted weighted average common shares outstanding	99.8	99.3	99.5

There were no antidilutive options to purchase shares of common stock outstanding as of December 31, 2018. Options to purchase approximately 0.2 million shares of common stock were outstanding as of December 31, 2017, but were not included in the computation of diluted weighted-average shares because to do so would have been antidilutive.

In February 2014, our board of directors approved an increase in our common stock repurchase authorization from $200 million to $250 million. The repurchase authorization does not require the repurchase of a specific number of shares, has an indefinite term, and is subject to termination at any time by our board of directors. On July 24, 2018, the Company's board approved resetting the aggregate common stock repurchase authorization to $250 million. During 2017 and 2016, we repurchased 0.9 million, and 1.7 million shares of our common stock in the open market for $38.1 million, and $65.6 million, respectively. There were no repurchases of our common stock during 2018.

In July 2015, our board of directors approved an increase in the quarterly cash dividend and declared a dividend of $0.23 per share. The cash dividend of $0.23 per common share was declared and paid each quarter through July 2016. In July 2016, our board of directors approved an increase in the quarterly cash dividend on our common stock and declared a dividend of $0.24 per share. The cash dividend of $0.24 per common share was declared and paid each quarter through July 2017. In July 2017, our board of directors approved an increase in our quarterly dividend and declared a cash dividend of $0.25 per share. The cash dividend of $0.25 per common share was declared and paid in each quarter through July 2018. In July 2018, our board of directors approved an increase in our quarterly dividend and declared a cash dividend of $0.27 per share. The cash dividend of $0.27 per common share was declared in July 2018 and October 2018 and paid in October 2018 and January 2019, respectively. As of December 31, 2018 and 2017, accrued common stock dividends of $28.4 million and $25.4 million were included in *Other current liabilities* in our consolidated balance sheet. Future dividend payments are subject to declaration by our board of directors.

On September 30, 2009, we issued 5.0 million shares of common stock and 8.2 million common stock warrants in full satisfaction of our obligation to do so under the January 2007 comprehensive settlement of the consolidated securities action brought against us by our stockholders and bondholders. Prior to their expiration on January 17, 2017, the warrants were exercisable at a price of $41.40 per share by means of a cash or a cashless exercise at the option of the holder. The warrants were not assumed exercised for dilutive shares outstanding because they were antidilutive in 2016.

The following table summarizes information relating to these warrants and their activity through their expiration date (number of warrants in millions):

	Number of Warrants	Weighted Average Exercise Price
Common stock warrants outstanding as of December 31, 2016	8.2	$ 41.40
Cashless exercise	(6.5)	41.40
Cash exercise	(0.6)	41.40
Expired	(1.1)	41.40
Common stock warrants outstanding as of January 17, 2017	—	

The above exercises resulted in the issuance of 0.7 million shares of common stock in January 2017. Cash exercises resulted in gross proceeds of $26.7 million in January 2017.

See also Note 9, *Long-term Debt.*

17. Contingencies and Other Commitments:

We operate in a highly regulated industry in which healthcare providers are routinely subject to litigation. As a result, various lawsuits, claims, and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. The resolution of any such lawsuits, claims, or legal and regulatory proceedings could materially and adversely affect our financial position, results of operations, and cash flows in a given period.

Nichols Litigation—

We have been named as a defendant in a lawsuit filed March 28, 2003 by several individual stockholders in the Circuit Court of Jefferson County, Alabama, captioned *Nichols v. HealthSouth Corp.* The plaintiffs allege that we, some of our former officers, and our former investment bank engaged in a scheme to overstate and misrepresent our earnings and financial position. The plaintiffs are seeking compensatory and punitive damages. This case was stayed in the Circuit Court on August 8, 2005. The plaintiffs filed an amended complaint on November 9, 2010 to which we responded with a motion to dismiss filed on December 22, 2010. During a hearing on February 24, 2012, plaintiffs' counsel indicated his intent to dismiss certain claims against us. Instead, on March 9, 2012, the plaintiffs amended their complaint to include additional securities fraud claims against Encompass Health and add several former officers to the lawsuit. On September 12, 2012, the plaintiffs further amended their complaint to request certification as a class action. One of those named officers has repeatedly attempted to remove the case to federal district court, most recently on December 11, 2012. We filed our latest motion to remand the case back to state court on January 10, 2013. On September 27, 2013, the federal court remanded the case back to state court. On November 25, 2014, the plaintiffs filed another amended complaint to assert new allegations relating to the time period of 1997 to 2002. On December 10, 2014, we filed a motion to dismiss on the grounds the plaintiffs lack standing because their claims are derivative in nature, and the claims are time-barred by the statute of limitations. On May 26, 2016, the court granted our motion to dismiss. The plaintiffs appealed the dismissal of the case to the Supreme Court of Alabama on June 28, 2016. On March 23, 2018, the supreme court reversed the trial court's dismissal, holding that the plaintiffs' claims were not derivative or time-barred, and remanded the case for further proceedings. On April 6, 2018, we filed an application for rehearing with the Alabama Supreme Court.

We intend to vigorously defending ourselves in this case. Based on the stage of litigation, review of the current facts and circumstances as we understand them, the nature of the underlying claim, the results of the proceedings to date, and the nature and scope of the defense we continue to mount, we do not believe an adverse judgment or settlement is probable in this matter, and it is also not possible to estimate an amount of loss, if any, or range of possible loss that might result from an adverse judgment or settlement of this case.

Other Litigation

One of our hospital subsidiaries was named as a defendant in a lawsuit filed August 12, 2013 by an individual in the Circuit Court of Etowah County, Alabama, captioned *Honts v. HealthSouth Rehabilitation Hospital of Gadsden, LLC*. The plaintiff alleged that her mother, who died more than three months after being discharged from our hospital, received an unprescribed opiate medication at the hospital. We deny the patient received any such medication, accounted for all the opiates at the hospital and argued the plaintiff established no causal liability between the actions of our staff and her mother's death. The plaintiff sought recovery for punitive damages. On May 18, 2016, the jury in this case returned a verdict in favor of the plaintiff for $20.0 million. On June 17, 2016, we filed a renewed motion for judgment as a matter of law or, in the alternative, a motion for new trial or, in the further alternative, a motion seeking reduction of the damages awarded (collectively, the "post-judgment motions"). The trial court denied the post-judgment motions. We appealed the verdict as well as the rulings on the post-judgment motions to the Supreme Court of Alabama on October 12, 2016. On September 28, 2018, the supreme court reversed the trial court's judgment and remanded the case for a new trial. On October 12, 2018, the plaintiff filed an application for rehearing with the supreme court, and we filed a brief in opposition to the rehearing application on October 25, 2018.

As a result of the original judgment, we recorded a net charge of $5.7 million to *Other operating expenses* in our consolidated statements of operations for the year ended December 31, 2016. As of June 30, 2018, we maintained a liability of $20.1 million in *Accrued expenses and other current liabilities* in our condensed consolidated balance sheet with a corresponding receivable of $15.5 million in *Other current assets* for the portion of the liability we would expect to be covered through our excess insurance coverages. The portion of this liability that would be a covered claim through our captive insurance subsidiary, HCS, Ltd. is $6.0 million.

As a result of the Alabama Supreme Court's reversal, we reduced the associated liability, and no longer maintain an insurance receivable in our consolidated balance sheet because we do not believe the liability exceeds the retention level. As of December 31, 2018, we maintained a liability included in *Other current liabilities* in our consolidated balance sheet in connection with this matter. We continue to believe in the merits of our defenses and counterarguments, and we intend to vigorously defend ourselves in the re-trial of this case.

Governmental Inquiries and Investigations

On March 4, 2013, we received document subpoenas from an office of the HHS-OIG addressed to four of our hospitals. Those subpoenas also requested complete copies of medical records for 100 patients treated at each of those hospitals between September 2008 and June 2012. The investigation is being conducted by the United States Department of Justice (the "DOJ"). On April 24, 2014, we received document subpoenas relating to an additional seven of our hospitals. The new subpoenas reference substantially similar investigation subject matter as the original subpoenas and request materials from the period January 2008 through December 2013. Two of the four hospitals addressed in the original set of subpoenas have received supplemental subpoenas to cover this new time period. The most recent subpoenas do not include requests for specific patient files. However, in February 2015, DOJ requested the voluntary production of the medical records of an additional 70 patients, some of whom were treated in hospitals not subject to the subpoenas, and we provided these records. We have not received any subsequent requests for medical records from DOJ.

All of the subpoenas were in connection with an investigation of alleged improper or fraudulent claims submitted to Medicare and Medicaid and requested documents and materials relating to practices, procedures, protocols and policies, of certain pre- and post-admissions activities at these hospitals including, among other things, marketing functions, pre-admission screening, post-admission physician evaluations, patient assessment instruments, individualized patient plans of care, and compliance with the Medicare 60% rule. Under the Medicare rule commonly referred to as the "60% rule," an inpatient rehabilitation hospital must treat 60% or more of its patients from at least one of a specified list of medical conditions in order to be reimbursed at the inpatient rehabilitation hospital payment rates, rather than at the lower acute care hospital payment rates.

We have been cooperating fully with DOJ in connection with this investigation. Based on recent discussions with the government as well as the burdens and distractions associated with continuing the investigation and the likely costs of future litigation, we now estimate a settlement value of $48 million and have accrued a loss contingency in that amount which is included in *Other current liabilities* in our consolidated balance sheet. Discussions are ongoing, and until they are concluded, there can be no certainty about the nature, timing or likelihood of a settlement.

Other Matters

The False Claims Act allows private citizens, called "relators," to institute civil proceedings on behalf of the United States alleging violations of the False Claims Act. These lawsuits, also known as "whistleblower" or "*qui tam*" actions, can involve significant monetary damages, fines, attorneys' fees and the award of bounties to the relators who successfully prosecute or bring these suits to the government. *Qui tam* cases are sealed at the time of filing, which means knowledge of the information contained in the complaint typically is limited to the relator, the federal government, and the presiding court. The defendant in a *qui tam* action may remain unaware of the existence of a sealed complaint for years. While the complaint is under seal, the government reviews the merits of the case and may conduct a broad investigation and seek discovery from the defendant and other parties before deciding whether to intervene in the case and take the lead on litigating the claims. The court lifts the seal when the government makes its decision on whether to intervene. If the government decides not to intervene, the relator may elect to continue to pursue the lawsuit individually on behalf of the government. It is possible that *qui tam* lawsuits have been filed against us, which suits remain under seal, or that we are unaware of such filings or precluded by existing law or court order from discussing or disclosing the filing of such suits. We may be subject to liability under one or more undisclosed *qui tam* cases brought pursuant to the False Claims Act.

It is our obligation as a participant in Medicare and other federal healthcare programs to routinely conduct audits and reviews of the accuracy of our billing systems and other regulatory compliance matters. As a result of these reviews, we have made, and will continue to make, disclosures to the HHS-OIG and CMS relating to amounts we suspect represent over-payments from these programs, whether due to inaccurate billing or otherwise. Some of these disclosures have resulted in, or may result in, Encompass Health refunding amounts to Medicare or other federal healthcare programs.

Other Commitments

We are a party to service and other contracts in connection with conducting our business. Minimum amounts due under these agreements are $45.9 million in 2019, $44.0 million in 2020, $28.1 million in 2021, $9.5 million in 2022, $7.6 million in 2023, and $6.5 million thereafter. These contracts primarily relate to software licensing and support.

18. Segment Reporting

Our internal financial reporting and management structure is focused on the major types of services provided by Encompass Health. We manage our operations using two operating segments which are also our reportable segments: (1) inpatient rehabilitation and (2) home health and hospice. These reportable operating segments are consistent with information used by our chief executive officer, who is our chief operating decision maker, to assess performance and allocate resources. The following is a brief description of our reportable segments:

- *Inpatient Rehabilitation* - Our national network of inpatient rehabilitation hospitals stretches across 32 states and Puerto Rico, with a concentration of hospitals in the eastern half of the United States and Texas. As of December 31, 2018, we operate 130 inpatient rehabilitation hospitals, including one hospital that operates as a joint venture which we account for using the equity method of accounting. We are the sole owner of 85 of these hospitals. We retain 50.0% to 97.5% ownership in the remaining 45 jointly owned hospitals. In addition, we manage five inpatient rehabilitation units through management contracts. We provide specialized rehabilitative treatment on both an inpatient and outpatient basis. Our inpatient rehabilitation hospitals provide a higher level of rehabilitative care to patients who are recovering from conditions such as stroke and other neurological disorders, cardiac and pulmonary conditions, brain and spinal cord injuries, complex orthopedic conditions, and amputations.

- *Home Health and Hospice* - As of December 31, 2018, we provide home health and hospice services in 278 locations across 30 states with concentrations in the Southeast and Texas. In addition, two of these agencies operate as joint ventures which we account for using the equity method of accounting. We are the sole owner of 270 of these locations. We retain 50.0% to 81.0% ownership in the remaining eight jointly owned locations. Our home health services include a comprehensive range of Medicare-certified home nursing services to adult patients in need of care. These services include, among others, skilled nursing, physical, occupational, and speech therapy, medical social work, and home health aide services. Our hospice services include in-home services to terminally

ill patients and their families to address patients' physical needs, including pain control and symptom management, and to provide emotional and spiritual support.

The accounting policies of our reportable segments are the same as those described in Note 1, *Summary of Significant Accounting Policies*. All revenues for our services are generated through external customers. See Note 1, *Summary of Significant Accounting Policies*, "Net Operating Revenues," for the payor composition of our revenues. No corporate overhead is allocated to either of our reportable segments. Our chief operating decision maker evaluates the performance of our segments and allocates resources to them based on adjusted earnings before interest, taxes, depreciation, and amortization ("Segment Adjusted EBITDA").

Selected financial information for our reportable segments is as follows (in millions):

	Inpatient Rehabilitation			Home Health and Hospice		
	For the Year Ended December 31,			For the Year Ended December 31,		
	2018	2017	2016	2018	2017	2016
Net operating revenues	$ 3,346.2	$ 3,141.3	$ 2,964.1	$ 931.1	$ 772.6	$ 678.5
Operating expenses:						
Inpatient rehabilitation:						
Salaries and benefits	1,701.5	1,603.8	1,493.4	—	—	—
Other operating expenses	502.3	462.5	431.5	—	—	—
Supplies	140.6	135.7	128.8	—	—	—
Occupancy costs	63.8	61.9	61.2	—	—	—
Home health and hospice:						
Cost of services sold (excluding depreciation and amortization)	—	—	—	438.4	363.3	333.1
Support and overhead costs	—	—	—	323.5	277.2	237.2
	2,408.2	2,263.9	2,114.9	761.9	640.5	570.3
Other income	(3.6)	(4.1)	(2.9)	(0.5)	—	—
Equity in net income of nonconsolidated affiliates	(7.5)	(7.3)	(9.1)	(1.2)	(0.7)	(0.7)
Noncontrolling interests	77.2	67.6	64.0	8.5	6.9	6.5
Segment Adjusted EBITDA	$ 871.9	$ 821.2	$ 797.2	$ 162.4	$ 125.9	$ 102.4
Capital expenditures	$ 264.6	$ 238.0	$ 198.3	$ 11.6	$ 10.7	$ 8.7

	Inpatient Rehabilitation	Home Health and Hospice	Encompass Health Consolidated
As of December 31, 2018			
Total assets	$ 3,900.9	$ 1,314.6	$ 5,175.0
Investments in and advances to nonconsolidated affiliates	9.5	2.7	12.2
As of December 31, 2017			
Total assets[*]	$ 3,759.9	$ 1,150.5	$ 4,864.5
Investments in and advances to nonconsolidated affiliates	9.3	2.6	11.9

[*] 2017 amounts have been revised to correct an error in our deferred tax assets as discussed in Note 1, *Summary of Significant Accounting Policies*, "Revision of Previously Issued Financial Statements."

Segment reconciliations (in millions):

	For the Year Ended December 31,		
	2018	2017	2016
Total segment Adjusted EBITDA	$ 1,034.3	$ 947.1	$ 899.6
General and administrative expenses	(220.2)	(171.7)	(133.4)
Depreciation and amortization	(199.7)	(183.8)	(172.6)
Loss on disposal of assets	(5.7)	(4.6)	(0.7)
Government, class action, and related settlements	(52.0)	—	—
Professional fees—accounting, tax, and legal	—	—	(1.9)
Loss on early extinguishment of debt	—	(10.7)	(7.4)
Interest expense and amortization of debt discounts and fees	(147.3)	(154.4)	(172.1)
Net income attributable to noncontrolling interests	83.1	79.1	70.5
SARs mark-to-market impact on noncontrolling interests	2.6	—	—
Change in fair market value of equity securities	(1.9)	—	—
Tax reform impact on noncontrolling interests	—	(4.6)	—
Income from continuing operations before income tax expense	$ 493.2	$ 496.4	$ 482.0

	As of December 31, 2018	As of December 31, 2017
Total assets for reportable segments*	$ 5,215.5	$ 4,910.4
Reclassification of noncurrent deferred income tax liabilities to net noncurrent deferred income tax assets	(40.5)	(45.9)
Total consolidated assets*	$ 5,175.0	$ 4,864.5

(*) 2017 amounts have been revised to correct an error in our deferred tax assets as discussed in Note 1, *Summary of Significant Accounting Policies*, "Revision of Previously Issued Financial Statements."

Additional detail regarding the revenues of our operating segments by service line follows (in millions):

	For the Year Ended December 31,		
	2018	2017	2016
Inpatient rehabilitation:			
Inpatient	$ 3,247.9	$ 3,039.3	$ 2,853.9
Outpatient and other	98.3	102.0	110.2
Total inpatient rehabilitation	3,346.2	3,141.3	2,964.1
Home health and hospice:			
Home health	814.6	702.4	630.8
Hospice	116.5	70.2	47.7
Total home health and hospice	931.1	772.6	678.5
Total net operating revenues	$ 4,277.3	$ 3,913.9	$ 3,642.6

19. Quarterly Data (Unaudited):

	2018				
	First	Second	Third	Fourth	Total
	(In Millions, Except Per Share Data)				
Net operating revenues	$ 1,046.0	$ 1,067.7	$ 1,067.6	$ 1,096.0	$ 4,277.3
Operating earnings [a]	150.0	157.3	154.5	93.4	555.2
Provision for income tax expense	30.0	29.3	30.2	29.4	118.9
Income from continuing operations	105.7	113.0	109.4	46.2	374.3
(Loss) income from discontinued operations, net of tax	(0.5)	0.2	(0.1)	1.5	1.1
Net income	105.2	113.2	109.3	47.7	375.4
Less: Net income attributable to noncontrolling interests	(21.4)	(21.4)	(20.7)	(19.6)	(83.1)
Net income attributable to Encompass Health	$ 83.8	$ 91.8	$ 88.6	$ 28.1	$ 292.3
Earnings per common share:					
Basic earnings per share attributable to Encompass Health common shareholders: [b]					
Continuing operations	$ 0.86	$ 0.93	$ 0.90	$ 0.27	$ 2.97
Discontinued operations	(0.01)	—	—	0.02	0.01
Net income	$ 0.85	$ 0.93	$ 0.90	$ 0.29	$ 2.98
Diluted earnings per share attributable to Encompass Health common shareholders: [b]					
Continuing operations	$ 0.85	$ 0.92	$ 0.89	$ 0.26	$ 2.92
Discontinued operations	(0.01)	—	—	0.02	0.01
Net income	$ 0.84	$ 0.92	$ 0.89	$ 0.28	$ 2.93

[a] We define operating earnings as income from continuing operations attributable to Encompass Health before (1) loss on early extinguishment of debt; (2) interest expense and amortization of debt discounts and fees; (3) other income; and (4) income tax expense.

[b] Per share amounts may not sum due to the weighted average common shares outstanding during each quarter compared to the weighted average common shares outstanding during the entire year.

	2017				
	First	Second	Third	Fourth	Total
	(In Millions, Except Per Share Data)				
Net operating revenues	$ 957.1	$ 966.4	$ 981.6	$ 1,008.8	$ 3,913.9
Operating earnings [a]	147.1	141.3	145.2	144.7	578.3
Provision for income tax expense [b]	39.7	28.6	43.1	34.4	145.8
Income from continuing operations [b]	84.7	79.2	85.2	101.5	350.6
(Loss) income from discontinued operations, net of tax	(0.3)	0.2	(0.1)	(0.2)	(0.4)
Net income [b]	84.4	79.4	85.1	101.3	350.2
Less: Net income attributable to noncontrolling interests	(17.6)	(16.4)	(19.2)	(25.9)	(79.1)
Net income attributable to Encompass Health [b]	$ 66.8	$ 63.0	$ 65.9	$ 75.4	$ 271.1
Earnings per common share:					
Basic earnings per share attributable to Encompass Health common shareholders: [b] [c]					
Continuing operations	$ 0.75	$ 0.70	$ 0.67	$ 0.77	$ 2.88
Discontinued operations	—	—	—	—	—
Net income	$ 0.75	$ 0.70	$ 0.67	$ 0.77	$ 2.88
Diluted earnings per share attributable to Encompass Health common shareholders: [b] [c] [d]					
Continuing operations	$ 0.70	$ 0.70	$ 0.67	$ 0.76	$ 2.84
Discontinued operations	—	—	—	—	—
Net income	$ 0.70	$ 0.70	$ 0.67	$ 0.76	$ 2.84

[a] We define operating earnings as income from continuing operations attributable to Encompass Health before (1) loss on early extinguishment of debt; (2) interest expense and amortization of debt discounts and fees; (3) other income; and (4) income tax expense.

[b] During the preparation of our December 31, 2018 financial statements, an error was identified in the accounting for deferred tax assets as described further in Note 1, *Summary of Significant Accounting Policies*, "Revision of Previously Issued Financial Statements." The financial results included in the table above reflects the revision of our quarterly results for the three months and year ended December 31, 2017 to reflect the $14.8 million reduction in our *Provision for income tax expense* as shown in the table below. The revision of unaudited financial statements for the quarter and year-to-date periods ended March 31, June 30, and September 30, 2018 related to the statement of shareholders' equity, will be affected in connection with the filing of our 2019 Form 10-Qs.

For the Three Months Ended December 31, 2017	As Reported	Adjustment	As Revised
	(In Millions, Except Per Share Data)		
Provision for income tax expense	$ 49.2	$ (14.8)	$ 34.4
Income from continuing operations	86.7	14.8	101.5
Net income	86.5	14.8	101.3
Net income attributable to Encompass Health	60.6	14.8	75.4
Basic earnings per share attributable to Encompass Health common shareholders	0.62	0.15	0.77
Diluted earnings per share attributable to Encompass Health common shareholders	0.61	0.15	0.76

[c] Per share amounts may not sum due to the weighted average common shares outstanding during each quarter compared to the weighted average common shares outstanding during the entire year.

(d) For the second quarter of 2017, adding back the loss on extinguishment of convertible debt, net of tax to our *Income from continuing operations attributable to Encompass Health common shareholders* causes a per share increase when calculating diluted earnings per common share resulting in an antidilutive per share amount. Therefore, basic and diluted earnings per common share are the same for the three months ended June 30, 2017.

20. Condensed Consolidating Financial Information:

The accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X, Rule 3-10, "Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered." Each of the subsidiary guarantors is 100% owned by Encompass Health, and all guarantees are full and unconditional and joint and several, subject to certain customary conditions for release. Encompass Health's investments in its consolidated subsidiaries, as well as guarantor subsidiaries' investments in nonguarantor subsidiaries and nonguarantor subsidiaries' investments in guarantor subsidiaries, are presented under the equity method of accounting with the related investment presented within the line items *Intercompany receivable* and *Intercompany payable* in the accompanying condensed consolidating balance sheets.

The terms of our credit agreement allow us to declare and pay cash dividends on our common stock so long as: (1) we are not in default under our credit agreement and (2) our senior secured leverage ratio (as defined in our credit agreement) remains less than or equal to 2x. The terms of our senior note indenture allow us to declare and pay cash dividends on our common stock so long as (1) we are not in default, (2) the consolidated coverage ratio (as defined in the indenture) exceeds 2x or we are otherwise allowed under the indenture to incur debt, and (3) we have capacity under the indenture's restricted payments covenant to declare and pay dividends. See Note 9, *Long-term Debt*.

Periodically, certain wholly owned subsidiaries of Encompass Health make dividends or distributions of available cash and/or intercompany receivable balances to their parents. In addition, Encompass Health makes contributions to certain wholly owned subsidiaries. When made, these dividends, distributions, and contributions impact the *Intercompany receivable*, *Intercompany payable*, and *Encompass Health shareholders' equity* line items in the accompanying condensed consolidating balance sheet but have no impact on the consolidated financial statements of Encompass Health Corporation.

During the preparation of our December 31, 2018 financial statements, an error was identified in our deferred tax assets as discussed in Note 1, *Summary of Significant Accounting Policies*, "Revision of Previously Issued Financial Statements." We have revised our supplemental guarantor condensed consolidating statements of operations for the year ended December 31, 2017, and condensed consolidating balance sheet as of December 31, 2017, to reflect the impact of such revision. The errors did not impact the total cash flows from operating, investing, or financing activities in the condensed consolidating statement of cash flows. The impact on our condensed consolidating financial statements is as follows:

	Condensed Consolidating Statement of Operations For the Year Ended December 31, 2017		
	As Reported	Adjustment	As Revised
Encompass Health Corporation		(In Millions)	
Provision for income tax expense	$ (90.2)	$ (14.8)	$ (105.0)
Income from continuing operations	256.7	14.8	271.5
Net income	256.3	14.8	271.1
Net income attributable to Encompass Health	256.3	14.8	271.1
Comprehensive income	256.2	14.8	271.0
Comprehensive income attributable to Encompass Health	256.2	14.8	271.0

	Condensed Consolidating Balance Sheet		
	As of December 31, 2017		
	As Reported	Adjustment	As Revised
		(In Millions)	
Encompass Health Corporation			
Deferred income tax assets	$ 97.4	$ (29.2)	$ 68.2
Total assets	3,681.2	(29.2)	3,652.0
Encompass Health shareholders' equity	1,181.7	(29.2)	1,152.5
Total shareholders' equity	1,181.7	(29.2)	1,152.5
Total liabilities and shareholders' equity	3,681.2	(29.2)	3,652.0

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Encompass Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Condensed Consolidating Statement of Operations

	For the Year Ended December 31, 2018				
	Encompass Health Corporation	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	Encompass Health Consolidated
			(In Millions)		
Net operating revenues	$ 21.0	$ 2,325.6	$ 2,061.0	$ (130.3)	$ 4,277.3
Operating expenses:					
Salaries and benefits	49.5	1,120.0	1,205.9	(21.4)	2,354.0
Other operating expenses	37.9	340.7	256.3	(49.8)	585.1
Occupancy costs	1.9	95.5	39.7	(59.1)	78.0
Supplies	—	94.7	64.0	—	158.7
General and administrative expenses	161.0	—	59.2	—	220.2
Depreciation and amortization	14.3	106.0	79.4	—	199.7
Government, class action, and related settlements	52.0	—	—	—	52.0
Total operating expenses	316.6	1,756.9	1,704.5	(130.3)	3,647.7
Interest expense and amortization of debt discounts and fees	124.2	20.6	27.7	(25.2)	147.3
Other income	(22.4)	(1.0)	(4.0)	25.2	(2.2)
Equity in net income of nonconsolidated affiliates	—	(7.5)	(1.2)	—	(8.7)
Equity in net income of consolidated affiliates	(465.0)	(65.8)	—	530.8	—
Management fees	(153.1)	112.7	40.4	—	—
Income from continuing operations before income tax (benefit) expense	220.7	509.7	293.6	(530.8)	493.2
Provision for income tax (benefit) expense	(70.5)	136.4	53.0	—	118.9
Income from continuing operations	291.2	373.3	240.6	(530.8)	374.3
Income from discontinued operations, net of tax	1.1	—	—	—	1.1
Net income	292.3	373.3	240.6	(530.8)	375.4
Less: Net income attributable to noncontrolling interests	—	—	(83.1)	—	(83.1)
Net income attributable to Encompass Health	$ 292.3	$ 373.3	$ 157.5	$ (530.8)	$ 292.3
Comprehensive income	$ 292.3	$ 373.3	$ 240.6	$ (530.8)	$ 375.4
Comprehensive income attributable to Encompass Health	$ 292.3	$ 373.3	$ 157.5	$ (530.8)	$ 292.3

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Encompass Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Condensed Consolidating Statement of Operations

	For the Year Ended December 31, 2017				
	Encompass Health Corporation	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	Encompass Health Consolidated
			(In Millions)		
Net operating revenues	$ 21.3	$ 2,228.0	$ 1,790.7	$ (126.1)	$ 3,913.9
Operating expenses:					
Salaries and benefits	34.7	1,077.4	1,063.5	(21.0)	2,154.6
Other operating expenses	32.8	321.8	225.6	(48.6)	531.6
Occupancy costs	1.9	93.4	34.7	(56.5)	73.5
Supplies	—	93.2	56.1	—	149.3
General and administrative expenses	143.7	—	28.0	—	171.7
Depreciation and amortization	8.8	103.4	71.6	—	183.8
Total operating expenses	221.9	1,689.2	1,479.5	(126.1)	3,264.5
Loss on early extinguishment of debt	10.7	—	—	—	10.7
Interest expense and amortization of debt discounts and fees	130.5	21.1	23.8	(21.0)	154.4
Other (income) loss	(21.7)	0.2	(3.6)	21.0	(4.1)
Equity in net income of nonconsolidated affiliates	—	(7.3)	(0.7)	—	(8.0)
Equity in net income of consolidated affiliates	(341.6)	(40.3)	—	381.9	—
Management fees	(145.0)	108.3	36.7	—	—
Income from continuing operations before income tax (benefit) expense	166.5	456.8	255.0	(381.9)	496.4
Provision for income tax (benefit) expense	(105.0)	182.3	68.5	—	145.8
Income from continuing operations	271.5	274.5	186.5	(381.9)	350.6
Loss from discontinued operations, net of tax	(0.4)	—	—	—	(0.4)
Net income	271.1	274.5	186.5	(381.9)	350.2
Less: Net income attributable to noncontrolling interests	—	—	(79.1)	—	(79.1)
Net income attributable to Encompass Health	$ 271.1	$ 274.5	$ 107.4	$ (381.9)	$ 271.1
Comprehensive income	$ 271.0	$ 274.5	$ 186.5	$ (381.9)	$ 350.1
Comprehensive income attributable to Encompass Health	$ 271.0	$ 274.5	$ 107.4	$ (381.9)	$ 271.0

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Encompass Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Condensed Consolidating Statement of Operations

	For the Year Ended December 31, 2016				
	Encompass Health Corporation	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	Encompass Health Consolidated
			(In Millions)		
Net operating revenues	$ 20.1	$ 2,129.9	$ 1,610.5	$ (117.9)	$ 3,642.6
Operating expenses:					
Salaries and benefits	45.5	1,006.1	952.6	(18.3)	1,985.9
Other operating expenses	27.4	309.8	199.7	(46.3)	490.6
Occupancy costs	2.9	89.8	31.9	(53.3)	71.3
Supplies	—	89.9	50.1	—	140.0
General and administrative expenses	126.7	—	6.7	—	133.4
Depreciation and amortization	9.4	102.8	60.4	—	172.6
Total operating expenses	211.9	1,598.4	1,301.4	(117.9)	2,993.8
Loss on early extinguishment of debt	7.4	—	—	—	7.4
Interest expense and amortization of debt discounts and fees	147.3	21.6	23.1	(19.9)	172.1
Other income	(19.6)	(0.4)	(2.8)	19.9	(2.9)
Equity in net income of nonconsolidated affiliates	—	(9.0)	(0.8)	—	(9.8)
Equity in net income of consolidated affiliates	(347.2)	(41.2)	—	388.4	—
Management fees	(136.2)	103.1	33.1	—	—
Income from continuing operations before income tax (benefit) expense	156.5	457.4	256.5	(388.4)	482.0
Provision for income tax (benefit) expense	(91.1)	182.6	72.4	—	163.9
Income from continuing operations	247.6	274.8	184.1	(388.4)	318.1
Income from discontinued operations, net of tax	—	—	—	—	—
Net income	247.6	274.8	184.1	(388.4)	318.1
Less: Net income attributable to noncontrolling interests	—	—	(70.5)	—	(70.5)
Net income attributable to Encompass Health	$ 247.6	$ 274.8	$ 113.6	$ (388.4)	$ 247.6
Comprehensive income	$ 247.6	$ 274.8	$ 184.1	$ (388.4)	$ 318.1
Comprehensive income attributable to Encompass Health	$ 247.6	$ 274.8	$ 113.6	$ (388.4)	$ 247.6

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Encompass Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Condensed Consolidating Balance Sheet

	As of December 31, 2018				
	Encompass Health Corporation	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	Encompass Health Consolidated
			(In Millions)		
Assets					
Current assets:					
Cash and cash equivalents	$ 41.5	$ 2.9	$ 24.8	$ —	$ 69.2
Restricted cash	—	—	59.0	—	59.0
Accounts receivable, net	—	268.1	199.6	—	467.7
Prepaid expenses and other current assets	36.3	17.5	31.2	(18.8)	66.2
Total current assets	77.8	288.5	314.6	(18.8)	662.1
Property and equipment, net	123.9	1,015.3	495.6	—	1,634.8
Goodwill	—	854.6	1,246.2	—	2,100.8
Intangible assets, net	21.4	94.6	327.4	—	443.4
Deferred income tax assets	47.9	28.9	—	(33.9)	42.9
Other long-term assets	47.9	101.3	141.8	—	291.0
Intercompany notes receivable	535.3	—	—	(535.3)	—
Intercompany receivable and investments in consolidated affiliates	2,904.4	515.7	—	(3,420.1)	—
Total assets	$ 3,758.6	$ 2,898.9	$ 2,525.6	$ (4,008.1)	$ 5,175.0
Liabilities and Shareholders' Equity					
Current liabilities:					
Current portion of long-term debt	$ 35.0	$ 6.8	$ 11.5	$ (17.5)	$ 35.8
Accounts payable	8.9	46.1	35.0	—	90.0
Accrued payroll	35.0	68.5	84.9	—	188.4
Accrued interest payable	22.3	2.2	0.2	(0.3)	24.4
Other current liabilities	154.5	4.8	175.6	(1.0)	333.9
Total current liabilities	255.7	128.4	307.2	(18.8)	672.5
Long-term debt, net of current portion	2,188.7	235.2	54.7	—	2,478.6
Intercompany notes payable	—	—	535.3	(535.3)	—
Self-insured risks	16.1	—	103.5	—	119.6
Other long-term liabilities	21.4	17.1	80.9	(33.8)	85.6
Intercompany payable	—	—	44.7	(44.7)	—
	2,481.9	380.7	1,126.3	(632.6)	3,356.3
Commitments and contingencies					
Redeemable noncontrolling interests	—	—	261.7	—	261.7
Shareholders' equity:					
Encompass Health shareholders' equity	1,276.7	2,518.2	857.3	(3,375.5)	1,276.7
Noncontrolling interests	—	—	280.3	—	280.3
Total shareholders' equity	1,276.7	2,518.2	1,137.6	(3,375.5)	1,557.0
Total liabilities and shareholders' equity	$ 3,758.6	$ 2,898.9	$ 2,525.6	$ (4,008.1)	$ 5,175.0

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Encompass Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Condensed Consolidating Balance Sheet

	As of December 31, 2017				
	Encompass Health Corporation	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	Encompass Health Consolidated
			(In Millions)		
Assets					
Current assets:					
Cash and cash equivalents	$ 34.3	$ 2.9	$ 17.2	$ —	$ 54.4
Restricted cash	—	—	62.4	—	62.4
Accounts receivable, net	—	285.2	186.9	—	472.1
Prepaid expenses and other current assets	61.4	21.7	48.7	(18.5)	113.3
Total current assets	95.7	309.8	315.2	(18.5)	702.2
Property and equipment, net	101.8	991.5	423.8	—	1,517.1
Goodwill	—	854.6	1,118.0	—	1,972.6
Intangible assets, net	11.8	105.1	286.2	—	403.1
Deferred income tax assets	68.2	8.4	—	(42.2)	34.4
Other long-term assets	49.2	100.5	85.4	—	235.1
Intercompany notes receivable	486.2	—	—	(486.2)	—
Intercompany receivable and investments in consolidated affiliates	2,839.1	311.3	—	(3,150.4)	—
Total assets	$ 3,652.0	$ 2,681.2	$ 2,228.6	$ (3,697.3)	$ 4,864.5
Liabilities and Shareholders' Equity					
Current liabilities:					
Current portion of long-term debt	$ 32.8	$ 7.4	$ 9.6	$ (17.5)	$ 32.3
Accounts payable	10.4	43.5	24.5	—	78.4
Accrued payroll	36.1	63.8	72.2	—	172.1
Accrued interest payable	21.9	2.6	0.2	—	24.7
Other current liabilities	108.8	15.6	86.6	(1.0)	210.0
Total current liabilities	210.0	132.9	193.1	(18.5)	517.5
Long-term debt, net of current portion	2,258.5	242.2	44.7	—	2,545.4
Intercompany notes payable	—	—	486.2	(486.2)	—
Self-insured risks	9.6	—	100.5	—	110.1
Other long-term liabilities	21.4	17.8	78.1	(42.1)	75.2
Intercompany payable	—	—	144.8	(144.8)	—
	2,499.5	392.9	1,047.4	(691.6)	3,248.2
Commitments and contingencies					
Redeemable noncontrolling interests	—	—	220.9	—	220.9
Shareholders' equity:					
Encompass Health shareholders' equity	1,152.5	2,288.3	717.4	(3,005.7)	1,152.5
Noncontrolling interests	—	—	242.9	—	242.9
Total shareholders' equity	1,152.5	2,288.3	960.3	(3,005.7)	1,395.4
Total liabilities and shareholders' equity	$ 3,652.0	$ 2,681.2	$ 2,228.6	$ (3,697.3)	$ 4,864.5

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Encompass Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Condensed Consolidating Statement of Cash Flows

	For the Year Ended December 31, 2018				
	Encompass Health Corporation	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	Encompass Health Consolidated
			(In Millions)		
Net cash (used in) provided by operating activities	$ (10.6)	$ 417.8	$ 355.2	$ —	$ 762.4
Cash flows from investing activities:					
Acquisition of businesses, net of cash acquired	(131.4)	—	(12.5)	—	(143.9)
Purchases of property and equipment	(34.1)	(133.0)	(87.4)	—	(254.5)
Additions to capitalized software costs	(14.1)	(0.1)	(1.8)	—	(16.0)
Proceeds from disposal of assets	—	—	0.4	—	0.4
Proceeds from sale of restricted investments	—	—	11.6	—	11.6
Purchases of restricted investments	—	—	(13.3)	—	(13.3)
Proceeds from repayment of intercompany note receivable	87.0	—	—	(87.0)	—
Other	(8.5)	2.8	(3.1)	—	(8.8)
Net cash used in investing activities	(101.1)	(130.3)	(106.1)	(87.0)	(424.5)
Cash flows from financing activities:					
Principal payments on debt, including pre-payments	(17.6)	—	(3.0)	—	(20.6)
Principal borrowings on notes	—	—	13.2	—	13.2
Principal payments on intercompany note payable	—	—	(87.0)	87.0	—
Borrowings on revolving credit facility	325.0	—	—	—	325.0
Payments on revolving credit facility	(390.0)	—	—	—	(390.0)
Principal payments under capital lease obligations	—	(7.6)	(10.3)	—	(17.9)
Dividends paid on common stock	(100.7)	—	(0.1)	—	(100.8)
Purchase of equity interests in consolidated affiliates	(65.1)	—	—	—	(65.1)
Distributions paid to noncontrolling interests of consolidated affiliates	—	—	(75.4)	—	(75.4)
Taxes paid on behalf of employees for shares withheld	(7.4)	—	(0.9)	—	(8.3)
Contributions from consolidated affiliates	—	—	12.6	—	12.6
Other	3.0	—	3.1	—	6.1
Change in intercompany advances	371.7	(279.9)	(91.8)	—	—
Net cash provided by (used in) financing activities	118.9	(287.5)	(239.6)	87.0	(321.2)
Increase in cash, cash equivalents, and restricted cash	7.2	—	9.5	—	16.7
Cash, cash equivalents, and restricted cash at beginning of year	34.3	2.9	79.6	—	116.8
Cash, cash equivalents, and restricted cash at end of year	$ 41.5	$ 2.9	$ 89.1	$ —	$ 133.5
Reconciliation of Cash, Cash Equivalents, and Restricted Cash					
Cash and cash equivalents at beginning of period	$ 34.3	$ 2.9	$ 17.2	$ —	$ 54.4
Restricted cash at beginning of period	—	—	62.4	—	62.4
Cash, cash equivalents, and restricted cash at beginning of period	$ 34.3	$ 2.9	$ 79.6	$ —	$ 116.8
Cash and cash equivalents at end of period	$ 41.5	$ 2.9	$ 24.8	$ —	$ 69.2
Restricted cash at end of period	—	—	59.0	—	59.0
Restricted cash included in other long-term assets at end of period	—	—	5.3	—	5.3
Cash, cash equivalents, and restricted cash at end of period	$ 41.5	$ 2.9	$ 89.1	$ —	$ 133.5
Supplemental schedule of noncash financing activity:					
Intercompany note activity	$ (136.8)	$ —	$ 136.8	$ —	$ —

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Encompass Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Condensed Consolidating Statement of Cash Flows

	For the Year Ended December 31, 2017				
	Encompass Health Corporation	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	Encompass Health Consolidated
			(In Millions)		
Net cash provided by operating activities	$ 28.7	$ 381.3	$ 248.3	$ —	$ 658.3
Cash flows from investing activities:					
Acquisition of businesses, net of cash acquired	(10.9)	—	(27.9)	—	(38.8)
Purchases of property and equipment	(39.4)	(106.1)	(80.3)	—	(225.8)
Additions to capitalized software costs	(16.3)	(0.2)	(2.7)	—	(19.2)
Proceeds from disposal of assets	—	11.7	0.6	—	12.3
Proceeds from sale of restricted investments	—	—	4.2	—	4.2
Purchases of restricted investments	—	—	(8.5)	—	(8.5)
Proceeds from repayment of intercompany note receivable	51.0	—	—	(51.0)	—
Other	(3.7)	—	(3.5)	—	(7.2)
Net cash used in investing activities	(19.3)	(94.6)	(118.1)	(51.0)	(283.0)
Cash flows from financing activities:					
Principal payments on debt, including pre-payments	(126.9)	—	(3.0)	—	(129.9)
Principal payments on intercompany notes payable	—	—	(51.0)	51.0	—
Borrowings on revolving credit facility	273.3	—	—	—	273.3
Payments on revolving credit facility	(330.3)	—	—	—	(330.3)
Principal payments under capital lease obligations	—	(6.8)	(8.5)	—	(15.3)
Repurchases of common stock, including fees and expenses	(38.1)	—	—	—	(38.1)
Dividends paid on common stock	(91.5)	—	—	—	(91.5)
Proceeds from exercising stock warrants	26.6	—	—	—	26.6
Distributions paid to noncontrolling interests of consolidated affiliates	—	—	(51.9)	—	(51.9)
Taxes paid on behalf of employees for shares withheld	(19.5)	—	(0.3)	—	(19.8)
Contributions from consolidated affiliates	—	—	20.8	—	20.8
Other	(3.1)	—	(0.7)	—	(3.8)
Change in intercompany advances	313.8	(278.6)	(35.2)	—	—
Net cash provided by (used in) financing activities	4.3	(285.4)	(129.8)	51.0	(359.9)
Increase in cash, cash equivalents, and restricted cash	13.7	1.3	0.4	—	15.4
Cash, cash equivalents, and restricted cash at beginning of year	20.6	1.6	79.2	—	101.4
Cash, cash equivalents, and restricted cash at end of year	$ 34.3	$ 2.9	$ 79.6	$ —	$ 116.8
Reconciliation of Cash, Cash Equivalents, and Restricted Cash					
Cash and cash equivalents at beginning of period	$ 20.6	$ 1.6	$ 18.3	$ —	$ 40.5
Restricted cash at beginning of period	—	—	60.9	—	60.9
Cash, cash equivalents, and restricted cash at beginning of period	$ 20.6	$ 1.6	$ 79.2	$ —	$ 101.4
Cash and cash equivalents at end of period	$ 34.3	$ 2.9	$ 17.2	$ —	$ 54.4
Restricted cash at end of period	—	—	62.4	—	62.4
Cash, cash equivalents, and restricted cash at end of period	$ 34.3	$ 2.9	$ 79.6	$ —	$ 116.8
Supplemental schedule of noncash financing activities:					
Intercompany note activity	$ (8.8)	$ —	$ 8.8	$ —	$ —
Conversion of convertible debt	$ 319.4	$ —	$ —	$ —	$ 319.4

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Encompass Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Condensed Consolidating Statement of Cash Flows

	For the Year Ended December 31, 2016				
	Encompass Health Corporation	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	Encompass Health Consolidated
			(In Millions)		
Net cash provided by operating activities	$ 60.3	$ 327.4	$ 252.5	$ —	$ 640.2
Cash flows from investing activities:					
Acquisition of businesses, net of cash acquired	—	—	(48.1)	—	(48.1)
Purchases of property and equipment	(21.8)	(77.4)	(78.5)	—	(177.7)
Additions to capitalized software costs	(22.8)	(0.2)	(2.2)	—	(25.2)
Proceeds from disposal of assets	—	0.7	23.2	—	23.9
Proceeds from sale of restricted investments	—	—	0.1	—	0.1
Purchases of restricted investments	—	—	(1.3)	—	(1.3)
Funding of intercompany note receivable	(22.5)	—	—	22.5	—
Proceeds from repayment of intercompany note receivable	52.0	—	—	(52.0)	—
Other	(3.7)	(0.2)	2.2	—	(1.7)
Net cash provided by investing activities of discontinued operations	0.1	—	—	—	0.1
Net cash used in investing activities	(18.7)	(77.1)	(104.6)	(29.5)	(229.9)
Cash flows from financing activities:					
Principal payments on debt, including pre-payments	(198.5)	(1.3)	(2.3)	—	(202.1)
Principal borrowings on intercompany notes payable	—	—	22.5	(22.5)	—
Principal payments on intercompany notes payable	—	—	(52.0)	52.0	—
Borrowings on revolving credit facility	335.0	—	—	—	335.0
Payments on revolving credit facility	(313.0)	—	—	—	(313.0)
Principal payments under capital lease obligations	(0.1)	(5.9)	(7.3)	—	(13.3)
Repurchases of common stock, including fees and expenses	(65.6)	—	—	—	(65.6)
Dividends paid on common stock	(83.8)	—	—	—	(83.8)
Distributions paid to noncontrolling interests of consolidated affiliates	—	—	(64.9)	—	(64.9)
Taxes paid on behalf of employees for shares withheld	(11.6)	—	—	—	(11.6)
Contributions from consolidated affiliates	—	—	3.5	—	3.5
Other	1.1	—	(1.7)	—	(0.6)
Change in intercompany advances	274.3	(242.7)	(31.6)	—	—
Net cash used in financing activities	(62.2)	(249.9)	(133.8)	29.5	(416.4)
(Decrease) increase in cash, cash equivalents, and restricted cash	(20.6)	0.4	14.1	—	(6.1)
Cash, cash equivalents, and restricted cash at beginning of year	41.2	1.2	65.1	—	107.5
Cash, cash equivalents, and restricted cash at end of year	$ 20.6	$ 1.6	$ 79.2	$ —	$ 101.4
Reconciliation of Cash, Cash Equivalents, and Restricted Cash					
Cash and cash equivalents at beginning of period	$ 41.2	$ 1.2	$ 19.2	$ —	$ 61.6
Restricted cash at beginning of period	—	—	45.9	—	45.9
Cash, cash equivalents, and restricted cash at beginning of period	$ 41.2	$ 1.2	$ 65.1	$ —	$ 107.5
Cash and cash equivalents at end of period	$ 20.6	$ 1.6	$ 18.3	$ —	$ 40.5
Restricted cash at end of period	—	—	60.9	—	60.9
Cash, cash equivalents, and restricted cash at end of period	$ 20.6	$ 1.6	$ 79.2	$ —	$ 101.4
Supplemental schedule of noncash financing activities:					
Intercompany note activity	$ (11.7)	$ —	$ 11.7	$ —	$ —

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EXHIBIT LIST

Effective as of January 1, 2018, we changed our name to Encompass Health Corporation. By operation of law, any reference to "HealthSouth" in these exhibits should be read as "Encompass Health" as set forth in the Exhibit List below.

No.	Description
2.1	Stock Purchase Agreement, dated as of November 23, 2014, by and among EHHI Holdings, Inc., the sellers party thereto, Encompass Health Corporation, Encompass Health Home Health Corporation, and the sellers' representative named therein (incorporated by reference to Exhibit 2.1 to Encompass Health's Annual Report on Form 10-K filed on March 2, 2015).#
3.1.1	Amended and Restated Certificate of Incorporation of Encompass Health Corporation, effective as of January 1, 2018 (incorporated by reference to Exhibit 3.1 to Encompass Health's Current Report on Form 8-K filed on October 25, 2017).
3.1.2	Certificate of Designations of 6.50% Series A Convertible Perpetual Preferred Stock, as filed with the Secretary of State of the State of Delaware on March 7, 2006 (incorporated by reference to Exhibit 3.1 to Encompass Health's Current Report on Form 8-K filed on March 9, 2006).
3.2	Amended and Restated Bylaws of Encompass Health Corporation, effective as of January 1, 2018 (incorporated by reference to Exhibit 3.2 to Encompass Health's Current Report on Form 8-K filed on October 25, 2017).
4.1.1	Indenture, dated as of December 1, 2009, between Encompass Health Corporation and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York, relating to Encompass Health's 5.125% Senior Notes due 2023, 5.75% Senior Notes due 2024, and 5.75% Senior Notes due 2025 (incorporated by reference to Exhibit 4.7.1 to Encompass Health's Annual Report on Form 10-K filed on February 23, 2010).
4.1.2	First Supplemental Indenture, dated December 1, 2009, among Encompass Health Corporation, the Subsidiary Guarantors (as defined therein) and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York (incorporated by reference to Exhibit 4.7.2 to Encompass Health's Annual Report on Form 10-K filed on February 23, 2010)
4.1.3	Second Supplemental Indenture, dated as of October 7, 2010, among Encompass Health Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York (incorporated by reference to Exhibit 4.2 to Encompass Health's Current Report on Form 8-K filed on October 12, 2010).
4.1.4	Third Supplemental Indenture, dated October 7, 2010, among Encompass Health Corporation, the Subsidiary Guarantors (as defined therein) and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York (incorporated by reference to Exhibit 4.3 to Encompass Health's Current Report on Form 8-K filed on October 12, 2010)
4.1.5	Fourth Supplemental Indenture, dated September 11, 2012, among Encompass Health Corporation, the Subsidiary Guarantors (as defined therein) and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York, relating to Encompass Health's 5.75% Senior Notes due 2024 (incorporated by reference to Exhibit 4.2 to Encompass Health's Current Report on Form 8-K filed on September 11, 2012).
4.1.6	Fifth Supplemental Indenture, dated as of March 12, 2015, among Encompass Health Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee, relating to Encompass Health's 5.125% Senior Notes due 2023 (incorporated by reference to Exhibit 4.2 to Encompass Health's Current Report on Form 8-K filed on March 12, 2015).
4.1.7	Sixth Supplemental Indenture, dated as of August 7, 2015, among Encompass Health Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee, relating to Encompass Health's 5.75% Senior Notes due 2024 (incorporated by reference to Exhibit 4.4 to Encompass Health's Current Report on Form 8-K filed on August 12, 2015).
4.1.8	Seventh Supplemental Indenture, dated as of September 16, 2015, among Encompass Health Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York, relating to Encompass Health's 5.75% Senior Notes due 2025 (incorporated by reference to Exhibit 4.2 to Encompass Health's Current Report on Form 8-K filed on September 21, 2015).
10.1.1	Encompass Health Corporation Amended and Restated 2004 Director Incentive Plan (incorporated by reference to Exhibit 10.12.1 to Encompass Health's Annual Report on Form 10-K filed on March 29, 2006).+

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10.1.2	Form of Restricted Stock Unit Agreement (Amended and Restated 2004 Director Incentive Plan)(incorporated by reference to Exhibit 10.12.2 to Encompass Health's Annual Report on Form 10-K filed on March 29, 2006).+
10.2	Form of Indemnity Agreement entered into between Encompass Health Corporation and the directors of Encompass Health (incorporated by reference to Exhibit 10.31 to Encompass Health's Annual Report on Form 10-K filed on June 27, 2005).+
10.3	Encompass Health Corporation Fourth Amended and Restated Change in Control Benefits Plan (incorporated by reference to Exhibit 10.1 to Encompass Health's Quarterly Report on Form 10-Q filed on October 31, 2018).+
10.4	Description of the Encompass Health Corporation Senior Management Compensation Recoupment Policy (incorporated by reference to Item 5, "Other Matters," in Encompass Health's Quarterly Report on Form 10-Q filed on November 4, 2009).+
10.5	Description of the Encompass Health Corporation Senior Management Bonus and Long-Term Incentive Plans (incorporated by reference to the section captioned "Executive Compensation – Compensation Discussion and Analysis – Elements of Executive Compensation" in Encompass Health's Definitive Proxy Statement on Schedule 14A filed on March 23, 2018).+
10.6	Description of the annual compensation arrangement for non-employee directors of Encompass Health Corporation (incorporated by reference to the section captioned "Corporate Governance and Board Structure – Compensation of Directors" in Encompass Health's Definitive Proxy Statement on Schedule 14A, filed on March 23, 2018).+
10.7	Encompass Health Corporation Fifth Amended and Restated Executive Severance Plan (incorporated by reference to Exhibit 10.2 to Encompass Health's Quarterly Report on Form 10-Q filed on October 31, 2018).+
10.8	Encompass Health Corporation Nonqualified 401(k) Plan (incorporated by reference to Exhibit 10.1 to Encompass Health's Quarterly Report on Form 10-Q filed on July 29, 2014).+
10.9.1	Encompass Health Corporation Amended and Restated 2008 Equity Incentive Plan (incorporated by reference to Exhibit 4(d) to Encompass Health's Registration Statement on Form S-8 filed on August 2, 2011).+
10.9.2	Form of Non-Qualified Stock Option Agreement (2008 Equity Incentive Plan)(incorporated by reference to Exhibit 10.10.2 to Encompass Health's Annual Report on Form 10-K filed on February 22, 2017).+
10.9.3	Form of Non-Qualified Stock Option Agreement (Amended and Restated 2008 Equity Incentive Plan)(incorporated by reference to Exhibit 10.10.3 to Encompass Health's Annual Report on Form 10-K filed on February 22, 2017).+
10.9.4	Form of Restricted Stock Unit Award (Amended and Restated 2008 Equity Incentive Plan)(incorporated by reference to Exhibit 10.1.5 to Encompass Health's Quarterly Report on Form 10-Q filed on August 4, 2011).+
10.10	Encompass Health Corporation Directors' Deferred Stock Investment Plan (incorporated by reference to Exhibit 10.15 to Encompass Health's Annual Report on Form 10-K filed on February 19, 2013).+
10.11.1	Encompass Health Corporation 2016 Omnibus Performance Incentive Plan (incorporated by reference to Exhibit 10.1.1 to Quarterly Report on Form 10-Q filed on July 29, 2016).+
10.11.2	Form of Non-Qualified Stock Option Agreement (2016 Omnibus Performance Incentive Plan)(incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on December 12, 2016).+
10.11.3	Form of Restricted Stock Award (2016 Omnibus Performance Incentive Plan)(incorporated by reference to Exhibit 10.1.3 to Quarterly Report on Form 10-Q filed on July 29, 2016).+
10.11.4	Form of Performance Share Unit Award (2016 Omnibus Performance Incentive Plan)(incorporated by reference to Exhibit 10.1.4 to Quarterly Report on Form 10-Q filed on July 29, 2016).+
10.11.5	Form of Restricted Stock Unit Award (2016 Omnibus Performance Incentive Plan)(incorporated by reference to Exhibit 10.1.5 to Quarterly Report on Form 10-Q filed on July 29, 2016).+
10.12	Amended and Restated Collateral and Guarantee Agreement, dated as of October 26, 2010, among Encompass Health Corporation, its subsidiaries identified herein, and Barclays Bank PLC, as collateral agent (incorporated by reference to Exhibit 10.3 to Encompass Health's Current Report on Form 8-K/A filed on November 23, 2010).

Attachment 33

10.13	Fourth Amended and Restated Credit Agreement, dated as of September 29, 2017, by and among the Encompass Health Corporation, certain of its subsidiaries, Barclays Bank PLC, as administrative agent and collateral agent, Citigroup Global Markets Inc., as syndication agent, Bank of America, N.A., Goldman Sachs Lending Partners LLC, and Morgan Stanley Senior Funding, Inc., as co-documentation agents, and various other lenders from time to time (incorporated by reference to Exhibit 10.1 to Encompass Health's Quarterly Report on Form 10-Q filed on October 31, 2017).
10.14	Homecare Homebase, L.L.C. Restated Client Service and License Agreement, dated December 31, 2014, by and between Homecare Homebase, L.L.C. and EHHI Holdings, Inc. (incorporated by reference to Exhibit 10.19 to Encompass Health's Annual Report on Form 10-K filed on March 2, 2015).*
10.15	Rollover Stock Agreement, dated as of November 23, 2014, by and among Encompass Health Corporation, Encompass Health Home Health Holdings, Inc., and the selling stockholders of EHHI Holdings, Inc. named therein (incorporated by reference to Exhibit 2.2 to Encompass Health's Annual Report on Form 10-K filed on March 2, 2015).#
10.16	Stockholders' Agreement relating to Encompass Health Home Health Holdings, Inc., dated as of December 31, 2014, by and among Encompass Health Corporation, Encompass Health Home Health Holdings, Inc., and the selling stockholders of EHHI Holdings, Inc. named therein (incorporated by reference to Exhibit 10.15 to Encompass Health's Annual Report on Form 10-K filed on February 22, 2017).+
10.17	Amended and Restated Senior Management Agreement, dated as of November 23, 2014, by and among EHHI Holdings, Inc., April Anthony, Encompass Health Corporation, and solely for purposes of Sections 6(b) and 6(j) thereof, Thoma Cressey Fund VIII, L.P. (incorporated by reference to Exhibit 10.20 to Encompass Health's Annual Report on Form 10-K filed on March 2, 2015).+
10.18	Non-Competition and Non-Solicitation Agreement, effective as of December 31, 2014, by and among April Anthony, Encompass Health Corporation, and Encompass Health Home Health Corporation (incorporated by reference to Exhibit 10.17 to Encompass Health's Annual Report on Form 10-K filed on February 22, 2017).+
21.1	Subsidiaries of Encompass Health Corporation
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
24.1	Power of Attorney (included as part of signature page).
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Sections of the Encompass Health Corporation Annual Report on Form 10-K for the year ended December 31, 2018, formatted in XBRL (eXtensible Business Reporting Language), submitted in the following files:
	101.INS XBRL Instance Document
	101.SCH XBRL Taxonomy Extension Schema Document
	101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
	101.DEF XBRL Taxonomy Extension Definition Linkbase Document
	101.LAB XBRL Taxonomy Extension Label Linkbase Document
	101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule will be furnished supplementally to the Securities and Exchange Commission upon request.

Attachment 33

Table of Contents

+ Management contract or compensatory plan or arrangement.

* Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment. The nonpublic information has been filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

Financial Viability
Encompass Health Rehabilitation Hospital of Libertyville, LLC

The Income Statement for the Applicant entity, Encompass Libertyville follows.

	CON Year 1	CON Year 2
Revenue		
Gross Patient Revenue	$ 30,976,800	$ 44,145,700
Contractual Adjustments	9,153,700	13,118,800
Other Deductions from Revenue	711,700	1,022,100
Deductions from Revenue	9,865,400	14,140,900
Net Patient Revenue	$ 21,111,400	$ 30,004,800
Other Revenue	3,614,900	3,687,200
Total Revenue	**$ 24,726,300**	**$ 33,692,000**
Operating Expenses		
Salaries and Benefits	$ 11,447,200	$ 14,844,800
Supplies	890,500	1,269,000
Administrative Services	1,055,700	1,500,300
Depreciation and Amortization	2,488,200	2,500,700
Other Operating Expenses	8,276,300	8,931,000
Total Operating Expenses	24,157,900	29,045,800
Income from Project Operations	**$ 568,400**	**$ 4,646,200**
Taxes	153,600	1,254,500
Net Income from Project Operations	$ 414,800	$ 3,391,700

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Financial Viability
Encompass Health Rehabilitation Hospital of Libertyville, LLC

The Balance Statement for the Applicant entity, Encompass Libertyville follows.

	CON Year 1	CON Year 2
Cash	$ 2,572,531	$ 6,814,294
Accounts Receivable	4,858,518	6,329,786
Other Current Assets		
Total Current Assets	7,431,049	13,144,080
PP&E	52,234,384	52,334,384
Accumulated Depreciation	(3,943,407)	(6,444,130)
PP&E, net	48,290,977	45,890,254
Other Assets		
TOTAL ASSETS	$ 55,722,025	$ 59,034,334
CURRENT LIABILITIES		
Accounts Payable	651,670	764,092
Accrued Salaries	752,086	975,311
Other Current Liabilities		
TOTAL CURRENT LIABILITIES	1,403,756	1,739,403
L/T LIABILITIES		
EQUITY		
Equity	53,903,044	53,903,044
Retained Earnings	415,226	3,391,887
NET EQUITY	$ 54,318,270	$ 57,294,932
TOTAL LIAB AND EQUITY	$ 55,722,025	$ 59,034,334

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Page 2

Financial Viability
Encompass Health Rehabilitation Hospital of Libertyville, LLC

The Financial Viability Ratios for the Applicant entity, Encompass Libertyville follows.

	CON Year 1	CON Year 2
Current Ratio:	**5.29**	**7.56**
Current Assets /	7,431,049	13,144,080
Current Liabilities	1,403,756	1,739,403
Net Margin Percentage	**2.7%**	**15.5%**
Income b/f Tax /	568,802	4,646,421
Net Patient Revenue	21,111,417	30,004,830
Percent Debt to Capitalization	**N/A**	**N/A**
Note: Licensee has no long term debt		
Projected Debt Service Coverage	**N/A**	**N/A**
Note: Licensee has no long term debt		
Days Cash on Hand	**52.0**	**108.8**
Cash	2,572,531	6,814,294
Total Expenses excl Deprec., Lease	18,054,392	22,857,686
Expenses per Day	49,464	62,624
Cushion Ratio	**N/A**	**N/A**
Note: Licensee has no long term debt		

Financial Viability
Encompass Health Rehabilitation Hospital of Libertyville, LLC

The assumptions supporting the income statement for Encompass Libertyville follows.

Patient Utilization
As explained and supported throughout this application, patient days are projected to reach 18,636 in CON Year 2, the first full fiscal year when the project achieves the target utilization of 85% of average annual occupancy.

Gross Patient Revenues
The proposed charges are based upon the expected diagnostic and acuity levels of the patients treated and average charges per patient day experienced by Encompass Health. Gross patient revenues include patient room, therapeutic, and ancillary service charges. Average charges per patient day are projected to be $2,369 in CON Year 2.

Contractual Allowances
Contractual allowances are the difference between the gross patient charge and anticipated third-party payment rate. Projected contractual allowances are based upon anticipated payor mix and third-party payment rates for the anticipated diagnostic and acuity levels of the patients treated.

Proposed patient payor mix was developed from the service area payor mix and Encompass Health experience, and is summarized below as follows:

Payor	Payor Mix
Medicare	60.9%
Medicaid	11.4%
BCBS	8.4%
Managed Care	16.3%
Self-Pay/Other (incl. Charity)	3.0%
Total	100.0%

Other Deductions from Revenue
Other Deductions are predominately comprised of self-pay discount, free care, bad debt, charity care, and write-offs for patients unable to meet their financial obligations for services already provided. These deductions are based on Encompass Libertyville's anticipated services and payor mix, as well as experiences in other Encompass facilities.

Expenses
The projected expenses are based on historical expenses incurred at other Encompass Health hospitals and Encompass Health's vast operations knowledge and experience opening new hospitals in similar markets. Explanations of significant expense assumptions are provided below.

Salaries and Benefits
Clinical nursing staffing levels are based upon Encompass Health experience and standard hours of care, applied to anticipated patient volumes and patient acuity mix. Nursing staffing levels are sufficient to meet the medical and rehabilitation needs of the patients and to achieve service excellence.

Financial Viability
Encompass Health Rehabilitation Hospital of Libertyville, LLC

Salaries and benefit expenses are based on projected patient census, staffing mix, area labor market conditions, and Encompass Health experience in recruiting employees.

Supplies and Drugs
Supplies and drugs expenses are based on projected patient case mix and Encompass experience. Supplies and drug expenses for the proposed hospital will approximate $68 per patient day in CON Year 2.

Administrative Services
These expenses, estimated to be 5% of net patient revenues, represent service fees that will be paid by Encompass Libertyville to Encompass Health for administrative support and assistance in areas such as financial, accounting, payroll, management information systems, human resources, insurance, risk management, cash management and other related support services.

Depreciation and Amortization
Depreciation and amortization expenses are based upon project costs depreciated over asset average useful lives using the straight-line method.

Other Operating Expenses
Other operating expenses are comprised of maintenance costs, utilities, contract and directorship fees, ground lease expense, and other services. These expenses are based on projected patient utilization and Encompass Health experience.

Taxes
Projected income taxes represent estimated federal and state taxes related to projected income. Although income taxes on an LLC are paid at the member level, taxes paid are estimated at an effective rate of 27%.

9001 Liberty Parkway
Birmingham, AL 35242

205.967.7116
encompasshealth.com

July 19, 2019

Courtney Avery
Board Administrator
Illinois Health Facilities and Services Review Board
525 W. Jefferson St., Second Floor
Springfield, IL 62761

RE: Encompass Health Rehabilitation Hospital of Libertyville, LLC
Application for Permit to Establish a New Rehabilitation Hospital
Criterion 1120.120(a) Available Funds Certification
Criterion 1120.140A. Reasonableness of Financing Arrangements

Dear Ms. Avery:
In accordance with the verification requirements of 735 ILCS 5/1-109 of the Illinois Code of Civil Procedure, I hereby certify under the penalty of perjury the following:

1. The Encompass Health Rehabilitation Hospital of Libertyville, LLC Project costs will be funded entirely by Encompass Health Corporation, an Applicant, from internal cash resources including cash and equivalents or borrowings under its revolving credit facility.

2. Encompass Health Corporation, an Applicant, will fund the necessary working capital and operating deficits through the first full fiscal year when the project achieves the target utilization of 85% of average annual occupancy.

3. Encompass Health Corporation, an Applicant, has sufficient and readily accessible internal resources to fund the obligations required by the Project. In 2018, Encompass Health Corporation's operating activities generated $762 Million and as of the end of 2018, the company had $69 Million of unrestricted cash on its balance sheet. In addition, Encompass Health Corporation has at its discretion a $700 Million Revolving Credit Facility, of which approximately $630 Million was available as of March 31, 2019. Existing cash, cash flow from operations, and funds available under the credit facility offer more than adequate funds for the proposed Project. We have sufficient resources to fund these expenditures in addition to our other ongoing obligations.

This letter shall also serve as a confirmation of our analysis of the funding options for this Project. Funding the Project through cash and cash equivalents is the lowest cost option.

I hereby certify this is true and based upon my personal knowledge and under the penalty of perjury and in accordance with 735 ILCS 5/1-109.

Attachment 36

Encompass Health

9001 Liberty Parkway
Birmingham, AL 35242

205.967.7116
encompasshealth.com

Sincerely yours,

Edmund Hay
Senior Vice President and Treasurer
Encompass Health Corporation

Subscribed and Sworn before me this 19th day of July, 2019.

Notary Public

MIA K. HAYNES
My Commission Expires
May 9, 2023

Economic Feasibility
Encompass Health Rehabilitation Hospital of Libertyville, LLC

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE									
Department (list below)	A	B	C	D	E	F	G	H	Total Cost (G + H)
	Cost/Square Foot New Mod.		Gross Sq. Ft. New Circ.*		Gross Sq. Ft. Mod. Circ.*		Const. $ (A x C)	Mod. $ (B x E)	
New Construction	$ 543.19		60,730				$ 32,988,000		
Contingency	$ 43.72		60,730				$ 2,655,000		
TOTALS	$ 586.91		60,730				$ 35,643,000		
* Include the percentage (%) of space for circulation									

Projected Operating Costs

The projected operating costs for Encompass Libertyville in the first full fiscal year when the Project achieves target utilization are as follows:

Factor	CON Year 2
Salaries and Wages	$ 11,866,300
Benefits	2,978,500
Supplies	1,269,000
Total Operating Costs	$ 16,113,800
Patient Days	18,636
Cost per Day	$ 864.67

Total Effect of the Project on Capital Costs

The projected capital costs for Encompass Libertyville in the first full fiscal year when the Project achieves target utilization are as follows:

Factor	CON Year 2
Depreciation	$ 2,500,700
Total Capital Costs	$ 2,500,700
Patient Days	18,636
Cost per Day	$ 134.19

Safety Net Impact Statement
Encompass Health Rehabilitation Hospital of Libertyville, LLC

The proposed project is a new entity that will be wholly-owned by Encompass Health, a national health care organizations that serves patients in need, regardless of ability to pay. Thus, the establishment of a new 60-bed comprehensive inpatient physical rehabilitation hospital in Libertyville will have a positive impact on community safety net services.

No existing safety net services offered by other providers will be impacted by the proposed project.

Project Safety Net Table		
	CON Year 1	**CON Year 2**
Charity Care		
# of Patients		
Inpatient	12	17
Outpatient		
Total	12	17
Cost		
Inpatient	$238,265	$285,798
Outpatient		
Total	$238,265	$285,798
Medicaid		
# of Patients		
Inpatient	122	170
Outpatient		
Total	122	170
Net Revenue		
Inpatient	$2,033,442	$2,896,738
Outpatient		
Total	$2,033,442	$2,896,738

Charity Care Information
Encompass Health Rehabilitation Hospital of Libertyville, LLC

Project Charity Care		
	CON Year 1	**CON Year 2**
Net Patient Revenue	$ 21,111,400	$ 30,004,800
Amount of Charity Care (Charges)	$ 305,523	$ 434,376
Cost of Charity Care	$ 238,265	$ 285,798
Charity Care Cost % of Net Pat Rev	1.1%	1.0%

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Page 1

Encompass Health Rehabilitation Hospital of Libertyville, LLC

After paginating the entire completed application indicate, in the chart below, the page numbers for the included attachments:

INDEX OF ATTACHMENTS

#19-036

Benesch

Mark J. Silberman
333 West Wacker Drive, Suite 1900
Chicago, Illinois 60606-2211
Direct Dial: 312.212.4952
Fax: 877.357.4913
msilberman@beneschlaw.com

July 15, 2019

VIA FEDERAL EXPRESS
Courtney Avery
Board Administer
Health Facilities and Services Review Board Illinois Department of Public Health
525 West Jefferson Street
2nd Floor
Springfield, Illinois 62761

Re: Encompass Health Rehabilitation Hospital of Libertyville, LLC - CON Application

Dear Ms. Avery:

Enclosed please find the CON application to establish a 60 Bed Comprehensive Physical Rehabilitation Hospital in Libertyville, Illinois along with the initial application fee in the amount of $2500.

If you have any questions or need any additional information regarding the project, please feel free to contact me via phone at 312-212-4952 or via email at msilberman@beneschlaw.com You can also contact my colleague Juan Morado Jr., via phone at 312-212-4967 or via email at jmorado@beneschlaw.com with any questions.

Very truly yours,

BENESCH, FRIEDLANDER,
COPLAN & ARONOFF LLP

Mark J. Silberman

MJS:tj

Enclosures

Encompass Health Rehabilitation Hospital of Libertyville, LLC

CON Application to Establish a New 60-Bed Comprehensive Physical Rehabilitation Hospital in Libertyville, Illinois (Lake County, HSA 8)

Applicant: **Encompass Health Rehabilitation Hospital of Libertyville, LLC**
9001 Liberty Parkway
Birmingham, AL 35242

Authorized Representative: **Walter Smith**
Director, State Regulatory Affairs
Encompass Health
9001 Liberty Parkway
Birmingham, AL 35242
(205) 970-7926

Primary Contacts: **Mark Silberman and Juan Morado Jr.**
Benesch Law
71 S. Wacker, Suite 1600
Chicago, IL 60606
(312) 212-4952 and (312) 212-4967

July 25, 2019