Orthopaedic Hospital at Parkview North, LLC

Independent Accountant's Review Report
and Consolidated Financial Statements

December 31, 2018 and 2017

BKD LLP
CPAs & Advisors

Orthopaedic Hospital at Parkview North, LLC
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Contents

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Independent Accountant's Review Report

Board of Managers
Orthopaedic Hospital at Parkview North, LLC
Fort Wayne, Indiana

We have reviewed the accompanying consolidated financial statements of Orthopaedic Hospital at Parkview North, LLC (Hospital), a 60 percent owned subsidiary of Parkview Health Systems, Inc., and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Fort Wayne, Indiana
June 3, 2019

Orthopaedic Hospital at Parkview North, LLC
Consolidated Balance Sheets
December 31, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash	$ 14,369,961	$ 4,706,906
Patient accounts receivable, net of 2017 allowance of $4,815,176	24,670,729	22,046,718
Prepaid expenses and other	833,473	873,645
Total current assets	39,874,163	27,627,269
Property and Equipment, At Cost		
Buildings and leasehold improvements	24,379,394	24,379,264
Equipment	15,761,774	13,813,463
Less accumulated depreciation	(21,356,416)	(18,460,927)
	18,784,752	19,731,800
Other Assets		
Goodwill	56,661,707	56,661,707
Prepaid rent, less current portion	574,757	586,291
	57,236,464	57,247,998
Total assets	$ 115,895,379	$ 104,607,067
Liabilities and Members' Equity		
Current Liabilities		
Current maturities of long-term debt	$ 1,070,475	$ 1,567,335
Accounts payable	6,040,558	4,485,034
Accrued distribution to member	4,920,000	-
Accounts payable to member	5,391,575	5,191,564
Estimated amounts due to third-party payors	763,002	375,555
Total current liabilities	18,185,610	11,619,488
Long-Term Debt	1,903,971	5,742,915
Members' Equity	95,805,798	87,244,664
Total liabilities and members’ equity	$ 115,895,379	$ 104,607,067

Orthopaedic Hospital at Parkview North, LLC
Consolidated Statements of Income
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Revenue		
Patient service revenue (net of contractual discounts and allowances)		$ 164,046,678
Provision for uncollectible accounts		(3,147,869)
Net patient service revenue, less provision for uncollectable accounts	$ 184,492,231	160,898,809
Other	889,086	513,881
Total operating revenue	185,381,317	161,412,690
Operating Expenses		
Salaries and wages	22,902,142	20,500,902
Employee benefits	7,527,414	6,587,438
Medical supplies	31,946,968	29,134,665
Drugs	1,696,857	1,341,176
Depreciation and amortization	3,084,591	4,114,843
Rent and utilities expense	4,856,957	4,319,847
Purchased services and professional fees	18,928,675	16,364,834
Repairs and maintenance	1,030,023	823,785
Other expenses	2,127,757	3,840,719
Total operating expenses	94,101,384	87,028,209
Operating Income	91,279,933	74,384,481
Other Expense		
Interest expense	(191,569)	(436,685)
Gain (loss) on disposal of assets	(37,600)	1,000
Other	10,370	(2,061)
Total other expense	(218,799)	(437,746)
Net Income	$ 91,061,134	$ 73,946,735

Orthopaedic Hospital at Parkview North, LLC
Consolidated Statements of Members' Equity
Years Ended December 31, 2018 and 2017

	2018	2017
Balance, Beginning of Year	$ 87,244,664	$ 76,697,929
Net income	91,061,134	73,946,735
Distributions to members	(82,500,000)	(63,400,000)
Balance, End of Year	$ 95,805,798	$ 87,244,664

Orthopaedic Hospital at Parkview North, LLC
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Net income	$ 91,061,134	$ 73,946,735
Items not requiring cash		
Depreciation and amortization	3,084,591	4,114,843
(Gain) loss on disposal of assets	37,600	(1,000)
Changes in		
Patient accounts receivable	(2,624,011)	(1,825,195)
Prepaid expenses and other assets	51,706	(72,078)
Accounts payable	1,194,654	(318,151)
Accounts payable to member	200,011	1,530,163
Estimated amounts to/from third party	387,447	114,181
Net cash provided by operating activities	93,393,132	77,489,498
Investing Activity		
Purchase of property and equipment	(1,814,273)	(2,410,576)
Net cash used in investing activities	(1,814,273)	(2,410,576)
Financing Activities		
Principal payments on long-term debt	(4,335,804)	(11,058,996)
Principal payments on notes payable to member	-	(112,483)
Distributions to members	(77,580,000)	(63,400,000)
Net cash used in financing activities	(81,915,804)	(74,571,479)
Increase in Cash	9,663,055	507,443
Cash, Beginning of Year	4,706,906	4,199,463
Cash, End of Year	$ 14,369,961	$ 4,706,906
Supplemental Cash Flows Information		
Interest paid, net of amount capitalized	$ 191,569	$ 436,685
Fixed assets in account payable	799,011	438,141
Accrued distributions to member	4,920,000	

Orthopaedic Hospital at Parkview North, LLC
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

Orthopaedic Hospital at Parkview North, LLC (Hospital) primarily earns revenue by providing inpatient and outpatient musculoskeletal and related surgical services to patients in the greater Fort Wayne, Indiana area. The consolidated financial statements include the accounts of the Hospital and its wholly-owned subsidiaries, Parkview Ortho Center, LLC and Parkview Ortho Performance Center, LLC.

Parkview Ortho Center, LLC (POC) acquired the operations of the SurgeryONE surgery center operated by Orthopaedics NorthEast, LLC on December 31, 2012. Doing business as Parkview SurgeryONE, the ambulatory surgery center, located near the Hospital, compliments the orthopedic hospital by treating a high number of lower acuity cases in an ambulatory setting. The facility, which opened in 2010 and is owned by the Hospital, is a state of the art surgery center offering the latest in ambulatory orthopedic care in an environmentally and aesthetically friendly setting. The Hospital is the sole member of POC.

Parkview Ortho Performance Center, LLC (PPC) acquired the operations of the TherapyONE division of Orthopaedics NorthEast, P.C. on May 19, 2016. Doing business as Parkview Ortho Performance Center, the additional therapy division specializes in both physical and occupational therapy in providing patients with high quality rehabilitation care.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Limited Liability Company

The Hospital is organized as an Indiana limited liability company and was formed on March 30, 2007. The Hospital is owned by two corporate members, Parkview Health System, Inc. (Parkview) and Northeast Orthopaedic Hospital Investors, LLC (NOHI).

The Hospital is owned 60 percent by Parkview and 40 percent by NOHI. Control of most operating decisions of the Hospital is vested in a Board of Managers appointed by the members with some major decisions controlled by one or both members directly. The Hospital will continue until terminated by agreement of the members.

Cash distributions and earnings are allocated to the members based upon their percentage of ownership, as specified in the operating agreement.

Use of Estimates

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

Cash

At December 31, 2018, the Hospital's cash accounts exceeded federally insured limits by approximately $14,375,000.

Patient Accounts Receivable

For the year ended December 31, 2018, patient accounts receivable reflects the outstanding amount of consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others. As a service to the patient, the Hospital bills third-party payers directly and bills the patient when the patient's responsibility for co-pays, coinsurance and deductibles is determined. Patient accounts receivable are due in full when billed.

For the year ended December 31, 2017, accounts receivable were reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzed its past history and identified trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviewed data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzed contractually due amounts and provided an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid or for payers who were known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital recorded a significant provision for bad debts in the period of service on the basis of its past experience, which indicated that many patients are unable or unwilling to pay the portion of their bill for which they were financially responsible. The difference between the standard rates (or the discounted rates, if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted was charged off against the allowance for doubtful accounts.

As a result of the Hospital's adoption during the year ended December 31, 2018, of the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (ASU 2014-09), the Hospital no longer records a material amount of allowance for doubtful accounts from patients. For the year ended December 31, 2017, the allowance was approximately 22 percent of net accounts receivable. In addition, the Hospital's write-offs were approximately $3,150,000 for the year ended December 31, 2017

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Long-Lived Asset Impairment

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2018 and 2017.

Goodwill

Goodwill is tested annually for impairment or more frequently if impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

Charity Care

The Hospital provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue.

Estimated Malpractice Costs

Estimated malpractice costs, if any, include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes

The Hospital is organized as a pass-through limited liability corporation under the Internal Revenue Code. As such, the Hospital is not taxed at the entity level and income is passed through to the members of the Hospital at the individual level. Accordingly, the Hospital does not recognize income taxes in the accompanying consolidated financial statements.

Patient Care Service Revenue

For the year ended December 31, 2018, patient care service revenue is recognized as the Hospital satisfies performance obligations under its contracts with patients. Patient care service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's policies and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and historical experience by payor groups. The Hospital determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payors.

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 consolidated financial statement presentation. These reclassifications had no effect on the consolidated change in net assets.

Revisions

Certain immaterial revisions have been made to the 2017 consolidated statements for the accrual of invoices related to property and equipment. These revisions did not have a significant impact on the financial statement line items impacted.

Change in Accounting Principle

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The Hospital adopted ASU 2014-09 on January 1, 2018, using the modified retrospective method of transition. The effect on the Hospital's consolidated financial statements of adopting ASU 2014-09 is considered immaterial as revenue recognition under the new standard is not materially different compared to the Hospital's current practice. The primary effect is certain amounts previously reported as provision for bad debts are now considered implicit price concessions reported as a reduction of patient care service revenue. The remaining provision for bad debts is reported as an operating expense under the new revenue recognition standard rather than as a reduction of net patient care service revenue. See Note 2.

Note 2: Net Patient Service Revenue

Patient care service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts, representing the transaction price, are due from patients, third-party payers (including health insurers and government programs) and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Hospital bills the patients and third-party payers several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Hospital. Substantially all of the Hospital's patient care service revenue relates to performance obligations satisfied over time and is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. For patients receiving inpatient acute care services the Hospital measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. For most outpatient services, the patient simultaneously receives and consumes the benefits of the services as the services are provided.

Because all of the performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in FASB ASC 606-10-50-114(a) and, therefore, is not required to 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. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Hospital determines the transaction price based on standard charges for goods and services provided to patients, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Hospital's policy and/or implicit price concessions based on historical collection experience.

Agreements with third-party payers typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payers follows:

Medicare: Certain in patient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Outpatient services are paid using prospectively determined rates.

Medicaid: Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service or per covered member.

Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Hospital. In addition, the contracts the Hospital has with commercial payers also provide for retroactive audit and review of claims.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient care service revenue in the period of the change.

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

Patients who meet the Hospital's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

In 2017, the Hospital determined, based on an assessment at the reporting-entity level, that the patient care service revenue is primarily recorded prior to assessing the patient's ability to pay, and as such, the entire provision for bad debts is recorded as a deduction from net patient care service revenue in the accompanying 2017 consolidated statement of operations and changes in net assets.

Hospital revenue includes services mainly covering inpatient procedures requiring overnight stays or outpatient operations that require anesthesia or use of complex diagnostic and surgical equipment.

The composition of patient care service revenue based on the area the Hospital operates in for the year ended December 31, 2018, is as follows:

	Total
Hospital patient care service revenue	
Inpatient	$ 77,559,494
Outpatient	106,932,737
Total patient care service revenue	184,492,231

The allowance for bad debts was $4,815,176 as of December 31, 2017. This balance as a percentage of accounts receivable, net of contractual adjustments and other discounts, was approximately 18 percent as of December 31, 2017.

The Hospital has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to the Hospital's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payers pays for that service will be one year or less. However, the Hospital does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Net patient service revenue for the year ended December 31, 2018, and patient service revenue, net of contractual allowance and discounts (but before the provision for bad debts), recognized for the year ended December 31, 2017, was approximately:

	2018	2017
Medicare	$ 29,629,000	$ 25,096,000
Medicaid	7,263,000	5,654,000
Other third-party payers	146,866,000	132,979,000
Self-pay	734,000	317,000
	$ 184,492,000	$ 164,046,000

Note 3: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are area residents and insured under third-party payer agreements. The mix of receivables from patients and third-party payers at December 31, 2018 and 2017, is:

	2018	2017
Medicare	17%	22%
Medicaid	7%	9%
Commercial/private insurance and self-pay	76%	69%
	100%	100%

Orthopaedic Hospital at Parkview North, LLC
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Note 4: Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2018 and 2017, were:

	2018	2017
Balance as of January 1		
Goodwill	$ 56,661,707	$ 56,661,707
Goodwill acquired during the year	-	-
Balance as of December 31	$ 56,661,707	$ 56,661,707

There was no impairment of goodwill as of December 31, 2018 or 2017.

Note 5: Professional Liability Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. There were no reserves for professional liability claims expected insurance recoveries in the consolidated statements of income at December 31, 2018 and 2017. Professional liability reserve estimates represent the estimated ultimate cost of all reported and unreported losses incurred through the respective balance sheet dates. The reserve for unpaid losses and loss expenses are estimated using individual case-basis valuations. 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 time period required to resolve these claims can vary depending upon whether the claim is settled or litigated. The estimation of the timing of payments beyond a year can vary significantly. Although considerable variability is inherent in professional liability reserve estimates, we believe the reserves for losses and loss expenses are adequate based on information currently known. It is reasonably possible that this estimate could change materially in the near term.

Our professional liability risks, in excess of certain per claim and aggregate deductible amounts, are insured through unrelated commercial insurance carriers. At December 31, 2018 and 2017, there were no amounts receivable under these insurance contracts.

Note 6: Long-Term Debt

	2018	2017
Mortgage loan, issued June 9, 2011, and maturing June 9, 2021, with interest paid monthly at a fixed rate (3.58%) on the outstanding principal balance. The mortgage loan is collateralized by the ASC Surgery Center building. This This loan initially bore interest at the seven-year federal home loan bank rate plus 250 basis points. Effective Effective November 4, 2014, the loan was modified to a fixed rate of 3.58%. Effective November 9, 2019, the rate will be adjusted to be the three-year Federal Home Loan Bank - Indianapolis rate plus 1.65% through maturity. The loan is guaranteed by both Members at an amount equal to their respective ownership in the Hospital. Certain covenants exist, including a debt service coverage ratio requirement.	$ 2,974,446	$ 6,678,584
Term loan, issued December 31, 2012, and maturing December, 31, 2017, with interest paid monthly at a variable rate (2.0% at December 31, 2017) on the outstanding principal balance. The term loan was collateralized by the Parkview SurgeryONE equipment and inventories. Certain covenants existed on the term loan. The loan was paid in full in January 2018.	-	631,666
	2,974,446	7,310,250
Less current maturities	(1,070,475)	(1,567,335)
	$ 1,903,971	$ 5,742,915

Aggregate annual maturities of debt at December 31, 2018, are:

2019	$ 1,070,475
2020	1,200,108
2021	703,863
	$ 2,974,446

Note 7: Operating Leases With Members

The Hospital leases its facility from Parkview. A noncancellable operating lease for the Hospital facility, which includes approximately 41,000 square feet of building space plus a five foot perimeter area around the building, expires in October 2022. The original lease amount was $88,364 per month and is adjusted at the start of each lease year by an inflationary factor based on the Consumer Price Index. In 2010, the Hospital amended the lease and added an additional 26,000 square feet of space from Parkview in the amount of $92,391 per month. The lease contains renewal options for periods ranging from 5 to 10 years and requires the Hospital to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments (without consideration of future inflation adjustments) at December 31, 2018, were:

2019	$ 2,583,235
2020	2,583,235
2021	2,583,235
2022	2,152,695
Future minimum lease payments	$ 9,902,400

Total lease expense for 2018 and 2017 totaled $4,254,337 and $3,608,159, respectively.

Note 8: Ground Lease With Member

The Hospital entered into a ground lease, expiring December 2069, with Parkview to lease 4.18 acres of land at Parkview's North Campus. The Hospital paid Parkview $692,015 upon commencement of the construction of the new facility. This amount represents the full payment of the net rent associated with the ground lease and is being amortized on a straight-line basis over the life of the lease. In addition to the net rent described above, the Hospital has also agreed to pay certain additional rent and common area rent to Parkview as defined in the ground lease, which were less than $20,000 for 2018 and 2017.

Ownership of the land reverts to Parkview at the conclusion of the lease term.

Note 9: Note Payable to Member

The Hospital purchased all hospital operations and certain equipment from Parkview on November 8, 2007, for $26,042,231, and issued a note to Parkview for the entire purchase amount of which $24,917,248 was paid on February 25, 2008. The note was secured by all purchased assets. The remaining balance of $1,124,983 as of February 25, 2008, was due ratably over a 10 year period and was fully repaid in 2017. The note was interest free.

Note 10: Related Party Transactions

The Hospital has entered into a Purchased Services Agreement with Parkview to provide certain staffing, management, administrative and payroll related services for the Hospital. The agreement had an initial term of three years beginning in October 2007 and is automatically extended in one-year increments after the initial term unless terminated by either party. Costs associated with the services are set by various methodologies designed to approximate fair market value amounts for the services. Expenses incurred by the Hospital to Parkview under this arrangement represent approximately 40 percent of the total operating expenses of the Hospital for 2018 and 2017. Associated amounts outstanding in accounts payable to the member were $5,391,575 and $5,191,564 at December 31, 2018 and 2017, respectively.

See also Notes 7, 8 and 9 for a description of other related party transactions.

Note 11: Commitments and Contingencies

Litigation

The Hospital is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, results of operations and cash flows of the Hospital. As such, no accrual for such losses has been recognized in the accompanying financial statements. It is reasonably possible this estimate could change materially in the near term.

Note 12: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 5.

Admitting Physicians

The Hospital is served by a group of admitting and surgical physicians that comprise nearly 100 percent of the Hospital's net patient service revenue. The physician group is a related party of the Hospital through common ownership of NOHI.

Note 13: Future Changes in Accounting Principles

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2019. The Hospital is evaluating the impact the standards will have on the consolidated financial statements; however, the standard is expected to have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

Note 14: Subsequent Events

Subsequent events have been evaluated through June 3, 2019, which is the date the consolidated financial statements were available to be issued.