Indiana Orthopaedic Hospital, LLC
d/b/a OrthoIndy Hospital

Independent Auditor’s Report and Consolidated Financial Statements

December 31, 2018 and 2017

Indiana Orthopaedic Hospital, LLC
d/b/a OrthoIndy Hospital
December 31, 2018 and 2017

Contents

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Independent Auditor's Report

Board of Managers
Indiana Orthopaedic Hospital
d/b/a OrthoIndy Hospital
Indianapolis, Indiana

We have audited the accompanying consolidated financial statements of Indiana Orthopaedic Hospital, LLC d/b/a OrthoIndy Hospital, 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 consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Indiana Orthopaedic Hospital, LLC d/b/a OrthoIndy Hospital as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Indianapolis, Indiana
February 18, 2019

Indiana Orthopaedic Hospital, LLC
d/b/a OrthoIndy Hospital
Consolidated Balance Sheets
December 31, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash	$ 11,840,827	$ 8,802,979
Patient accounts receivable, net of allowance: 2018 - $3,600,000, 2017 - $3,900,000	23,178,834	23,841,639
Supplies	910,754	925,099
Prepaid expenses and other	2,642,371	1,608,688
Total current assets	38,572,786	35,178,405
Property and Equipment, at cost		
Land and land improvements	4,947,195	5,992,046
Buildings and improvements	3,337,909	3,114,586
Equipment	32,708,481	30,863,695
	40,993,585	39,970,327
Less accumulated depreciation	24,793,629	23,295,527
	16,199,956	16,674,800
Other Assets		
Other	65,000	68,862
Total assets	$ 54,837,742	$ 51,922,067

Liabilities and Members' Equity

	2018	2017
Current Liabilities		
Accounts payable	$ 6,818,370	$ 7,083,147
Accrued expenses	3,850,459	3,604,797
Current maturities of long-term obligations	2,980,157	762,601
Total current liabilities	13,648,986	11,450,545
Long-Term Obligations	1,721,234	3,203,448
Total liabilities	15,370,220	14,653,993
Members' Equity	39,467,522	37,268,074
Total liabilities and members' equity	$ 54,837,742	$ 51,922,067

Indiana Orthopaedic Hospital, LLC
d/b/a OrthoIndy Hospital
Consolidated Statements of Income
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Revenues		
Net patient service revenue (net of contractual discounts and allowance	$ 175,210,438	$ 171,174,061
Provision for uncollectible accounts	(3,868,397)	(3,852,028)
Net patient service revenue less provision for uncollectible accounts	171,342,041	167,322,033
Other	582,510	525,912
Total operating revenues	171,924,551	167,847,945
Expenses and Losses		
Salaries and wages	28,517,469	27,483,757
Employee benefits	6,581,023	5,234,251
Purchased services and professional fees	7,782,428	8,254,867
Medical supplies and pharmaceuticals	37,000,111	36,035,504
Facility expense	12,050,262	11,922,638
Management fees	9,903,740	8,233,189
Depreciation and amortization	2,661,677	2,458,079
Interest	128,253	116,632
Provider hospital assessment fee	2,077,389	1,752,476
Other expenses	2,830,731	2,629,124
Total operating expenses	109,533,083	104,120,517
Net Income	$ 62,391,468	$ 63,727,428

Indiana Orthopaedic Hospital, LLC
d/b/a OrthoIndy Hospital
Consolidated Statements of Members' Equity
Years Ended December 31, 2018 and 2017

Balance, January 1, 2017	$ 29,688,666
Net income	63,727,428
Membership units issued	6,571,980
Membership units redeemed	(720,000)
Distributions to members	(62,000,000)
Balance, December 31, 2017	37,268,074
Net income	62,391,468
Membership units issued	287,980
Membership units redeemed	(480,000)
Distributions to members	(60,000,000)
Balance, December 31, 2018	$ 39,467,522

Indiana Orthopaedic Hospital, LLC
d/b/a OrthoIndy Hospital
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Net income	$ 62,391,468	$ 63,727,428
Items not requiring cash		
Depreciation and amortization	2,661,677	2,458,079
Provision for uncollectible accounts	3,868,397	3,852,028
Changes in		
Patient accounts receivable, net	(3,205,592)	(7,836,332)
Accounts payable and accrued expenses	(19,115)	476,728
Other current and noncurrent assets	(1,015,476)	817,869
Net cash provided by operating activities	64,681,359	63,495,800
Investing Activities		
Proceeds from sale of property and equipment	1,045,000	-
Purchase of property and equipment	(1,752,633)	(3,921,461)
Net cash used in investing activities	(707,633)	(3,921,461)
Financing Activities		
Borrowings on long-term obligations	278,500	-
Principal payments under long-term obligations	(1,022,358)	(869,145)
Proceeds from issuance of membership units	287,980	6,571,980
Distributions to members	(60,000,000)	(62,000,000)
Unit redemption	(480,000)	(720,000)
Net cash used in financing activities	(60,935,878)	(57,017,165)
Increase in Cash	3,037,848	2,557,174
Cash, Beginning of Year	8,802,979	6,245,805
Cash, End of Year	$ 11,840,827	$ 8,802,979
Supplemental Cash Flows Information		
Interest paid	$ 128,253	$ 116,632
Capital lease obligations incurred for capital assets	1,479,200	-

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

Nature of Operations

Indiana Orthopaedic Hospital, LLC d/b/a OrthoIndy Hospital primarily earns revenues by providing inpatient and outpatient musculoskeletal and related surgical services to patients in the greater Indianapolis, Indiana area.

NNS, LLC was formed for the purpose to own, manage, invest, develop, lease and otherwise deal in real property.

Principles of Consolidation

The consolidated financial statements include the accounts of Indiana Orthopaedic Hospital, LLC d/b/a OrthoIndy Hospital and NNS, LLC (collectively, the Hospital). All material inter-organizational accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues 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 $15,100,000.

Investment Return

Investment return is comprised primarily of interest income earned on the operating cash accounts.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies 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 reviews 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 analyzes contractually due amounts and provides 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 are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are 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 is charged off against the allowance for doubtful accounts.

Supplies

The Hospital states supply inventories at the lower of cost, determined using the first-in, first-out (FIFO) method or net realizable value.

Property and Equipment

Property and equipment is stated at cost and is 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. The following estimated useful lives are being used by the Hospital:

Buildings and leasehold improvements	5-40 years
Equipment	2-20 years

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.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known.

Substantially all of the net patient service revenue received by the Hospital is from third-party payer sources.

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 and is not separately classified from the provision for uncollectible accounts.

Estimated Malpractice Costs

The Hospital recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Malpractice claims are described more fully later in these notes.

Income Taxes

The Hospital is organized as a pass-through limited liability company 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. Accordingly, the Hospital does not recognize income taxes in the accompanying consolidated financial statements. The Hospital's tax years still subject to examination by taxing authorities are years subsequent to December 31, 2015.

Note 2: Net Patient Service Revenue

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. This provision for bad debts is presented on the consolidated statements of income as a component of net patient service revenue.

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid. Inpatient acute care services and substantially all outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates. Approximately 29% of the Hospital's receivables are due from a single commercial insurance carrier for each of the years ended December 31, 2018 and 2017.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the years ended December 31, was approximately:

	2018	2017
Medicaid	$ 1,606,192	$ 2,162,969
Medicare	36,855,570	31,967,590
Other third-party payers and self-pay	136,748,676	137,043,502
Total	$ 175,210,438	$ 171,174,061

Note 3: Limited Liability Company

The Hospital is organized as an Indiana limited liability company and is owned by four classes of units and members, referred to as Classes A, B, C and D.

Effective January 1, 2013, the Hospital's individual Class A and Class B members, which are more fully described below, entered into an agreement with Orthopaedics-Indianapolis, Inc. (OI). The terms of the agreements provided that the Class A and Class B individual members exchanged their units of the Hospital for additional shares of OI, thereby, resulting in OI becoming the majority member in the Hospital. In connection with this agreement, the Hospital amended its Operating Agreement permitting the exchange of units and permitting OI to become a Class A member of the Hospital. The Hospital's Amended and Restated Operating Agreement also permits a new entity, APM Holdings, LLC, to become a Class A member; total Class A shares represent approximately 73.85% of members' equity. The previous Class D member will continue to own 20% as a Class C member (a new Class of units) and an irrevocable trust established by the Hospital will own approximately 1.58% as a Class D member. Founding individual members of the Hospital continue to hold a founding member's interest approximating 4.57% profits interest in the Hospital as Class B members as set forth in the Amended and Restated Operating Agreement.. Classes A and C vote their respective ownership interests, while Class B have certain reserve powers, as defined in the operating agreement. The Class D member does not have a vote.

The Class C member owns 20% of the Hospital's outstanding units, and is entitled to a single vote equal to 20% interest in all of the Hospital's issues other than issues related to the issuance or redemption of Class A units or any of the Hospital's solely owned subsidiaries. Effective May 1, 2016, the Class C member acquired from Class A members a 20% profits interest attributed to the South Campus. The purchase of the profits interest of the South Campus required the Hospital's amended and restated Operating Agreement to prospectively provide for the change in pro-rata profit distribution. In connection with the purchase of the profits interest and the associated Amended and Restated Operating Agreement, the Hospital has certain call rights that provides the Hospital the right to repurchase the profits interest in the South Side Campus. Under the terms of the Class C units, for any reason, the Class C member may elect to require the Hospital to purchase the Class C units. Additionally, voting Class A members may elect to call the outstanding Class C units. Such transactions will be based upon the then fair market value, as defined in the operating agreement.

NNS, LLC (Company) was organized as a limited liability company and was formed in October 2008. Indiana Orthopaedic Hospital, LLC d/b/a OrthoIndy Hospital is the sole member of NNS, LLC with complete authority, power and discretion to manage and control the business affairs and properties of the Company, to make all decisions regarding those matters and to perform any and all other acts or activities customary or incident to the management of NNS, LLC's business. The Hospital holds 100 units of the Company.

Note 4: Medical Malpractice Coverage and Claims

Medical Malpractice Claims

The Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 5: Line of Credit

The Hospital is a party to a $5,000,000 line of credit agreement and a $2,000,000 equipment purchase line agreement, as of December 31, 2018 and 2017. The line of credit agreement expires July 31, 2019, and the equipment purchase line expires August 5, 2019. Interest on the line of credit and equipment purchase line varies with the bank's prime rate. At December 31, 2018, the interest rate was 4.00% and 4.50% on the line of credit and the equipment purchase line, respectively. At December 31, 2018 and 2017, there was nothing drawn on the equipment purchase line or the line of credit.

Note 6: Long-Term Obligations

	2018	2017
Capital lease obligations (A)	$ 747,609	$ 1,060,760
Capital lease obligations (B)	-	67,826
Capital lease obligations (C)	109,242	173,674
Capital lease obligations (D)	957,416	-
Capital lease obligations (E)	280,755	-
Note payable to bank (F)	292,686	477,539
Note payable to bank (G)	2,053,750	2,186,250
Note payable to bank (H)	259,933	-
Total long-term obligations	4,701,391	3,966,049
Less current maturities	2,980,157	762,601
	$ 1,721,234	$ 3,203,448

(A) Capital lease obligation payable in monthly installments of $28,880 with an interest rate of 3.64%. The lease is governed by a master lease agreement from a leasing company and is secured by the leased equipment. The lease was amended on March 30, 2016 and is scheduled to expire in 2021.

(B) Capital lease obligation payable in monthly installments of $11,330 with an interest rate of .78%. The lease is governed by a master lease agreement from a leasing company and is secured by the leased equipment. At December 31, 2018, the lease was paid in full.

(C) Capital lease obligation payable in monthly installments of $5,524 with an interest rate of 1.28%. The lease is governed by a master lease agreement from a leasing company and is secured by the leased equipment. The lease is scheduled to expire in 2020.

(D) Capital lease obligation payable in monthly installments of $19,148. The lease is governed by an equipment lease and purchase option agreement and is secured by the leased equipment. In conjunction with leasing the equipment, the Hospital agreed to an annual minimum purchase commitment of $4,226,722 for supplies to be used in operating the equipment. The lease is scheduled to expire in 2023.

(E) Capital lease obligation payable in monthly installments of $5,505. The lease is governed by a master lease agreement from a leasing company is secured by the leased equipment. In conjunction with leasing the equipment, the Hospital agreed to a quarterly minimum purchase commitment of $39,518 for supplies to be used in operating the equipment. The lease is scheduled to expire in 2023.

(F) A promissory note payable in 60 monthly installments of $15,404 plus variable rate interest of prime, less one percent. At December 31, 2018, this rate was 4.50%. The loan is secured by the Hospital's assets. The loan was originally a draw on the Hospital's equipment purchase line in early 2015, and converted into a promissory note in August 2015. The promissory note matures in August 2020.

(G) During 2014, the Hospital refinanced two of its promissory notes. The new promissory note in the name of NNS, LLC is payable in monthly installments of $11,042 and matures in June 2019. Interest is payable monthly at a rate of LIBOR plus 1.25%. At December 31, 2018, this rate was 3.62%. The loan is secured by certain real estate.

(H) A promissory note payable in 60 monthly installments of $4,642 plus variable rate interest of prime, less one percent. At December 31, 2018, this rate was 4.50%. The loan is secured by the Hospital's assets. The loan was originally a draw on the Hospital's equipment purchase line in early 2018, and converted into a promissory note in August 2018. The promissory note matures in August 2023.

Property and equipment include the following property under capital lease arrangements:

	2018	2017
Equipment	$ 3,382,168	$ 2,976,070
Less accumulated depreciation	1,347,572	1,782,111
	$ 2,034,596	$ 1,193,959

Aggregate annual payments on capital lease obligations and long-term debt at December 31, 2018, are:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2019	$ 2,294,304	$ 708,686
2020	163,531	686,585
2021	55,700	382,393
2022	55,700	295,840
2023	37,134	54,812
	$ 2,606,369	2,128,316
Less amount representing interest		33,294
Present value of future minimum lease payments		2,095,022
Less current maturities		685,853
Noncurrent portion		$ 1,409,169

Note 7: Operating Leases

Noncancellable operating leases for the primary Hospital facility, several other facilities in the greater Indianapolis area and certain diagnostic equipment expire through 2025. The facility leases generally contain renewal options for periods ranging from five to ten years and require the Hospital to pay all executory costs (property taxes, maintenance and insurance). The leases are secured by certain assets, as defined in the lease agreements.

Future minimum lease payments at December 31, 2018, were:

2019	$ 8,288,880
2020	8,367,654
2021	8,421,203
2022	8,526,737
2023	8,145,561
Later years	15,348,168
Future minimum lease payments	$ 57,098,203

Total lease expense was $11,779,591 and $11,580,952 for the years ended December 31, 2018 and 2017, respectively.

Note 8: Related Party Transactions

The Hospital and Orthopaedics-Indianapolis, Inc. (OI) are related parties through OI's ownership of the Hospital. OI provides certain management, administrative and payroll related services for the Hospital. Amounts paid to OI for these services were $4,659,259 and $3,669,748 for the years ended December 31, 2018 and 2017, respectively. Reimbursed expenses from OI amounted to $6,144,459 and $6,647,127 for the years ended December 31, 2018 and 2017. Amounts due from and to OI, are reported in the accompanying consolidated balance sheets as other current assets or liabilities. Amounts due to OI was $600,391 and $677,937 at December 31, 2018 and 2017, respectively.

OrthoIndy Enterprises, LLC (OE) is a related party through common ownership. The Hospital entered into a management service agreement with OE to provide management services, including certain management, administrative and payroll related services for an initial period of five years, renewing automatically for one-year terms unless terminated by either party. Amounts paid to OE for these services were $9,897,721 and $8,542,708 for the years ended December 31, 2018 and 2017, respectively. Amounts due from and to OE are reported in the accompanying consolidated balance sheets as other current assets or liabilities.

The Hospital subleases certain facilities from OI on the west and south sides of Indianapolis. The west and south side leases expire in 2023 and 2025, respectively, and provide annual rental payments of approximately $2,550,000. Lease expense recognized in 2018 and 2017 approximated $2,550,000 and $2,500,000, respectively. Future minimum lease payment to OI are included at Note 7.

NNS, LLC, a consolidated entity of the Hospital, owns certain property the Hospital rents for its use. The intercompany rent has been eliminated in the consolidated financial statements.

Note 9: Pension Plan

In March 2007, the Hospital joined the retirement benefit plan of OI. The plan provides for a matching component for up to 6% of the employees' salary and also allows a discretionary profit-sharing contribution from the Hospital. Substantially all of the Hospital's full-time employees are covered by the plan. Pension expense in 2018 and 2017 was $1,518,547 and $1,411,115, respectively.

Note 10: Commitments and Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Self-Insurance of Employee Health Claims

The Hospital pools its share of health insurance claims with OI, a related party. Any such accrual is included in the related party accrual described in Note 8.

Put Option

As described in Note 3, the Class C member has a right to put its ownership to the Company at fair market value, in accordance with terms outlined in the operating agreement.

Note 11: 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 4.

Admitting Physicians

The Hospital is served by a group of admitting and surgical physicians that comprise nearly 100% of the Hospital's net patient service revenue. The physician group is a related party of the Hospital through ownership as described in Note 8.

Note 12: Future Changes in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities, and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic. The Hospital is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

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 standard 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 13: Subsequent Events

Subsequent events have been evaluated through February 18, 2019, which is the date the consolidated financial statements were available to be issued.