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

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2020 and 2019

Indiana Orthopaedic Hospital, LLC
d/b/a OrthoIndy Hospital
December 31, 2020 and 2019

Contents

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Independent Auditor's Report

Board of Directors
Indiana Orthopaedic Hospital, LLC
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, 2020 and 2019, 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 consolidated financial position of Indiana Orthopaedic Hospital, LLC d/b/a OrthoIndy Hospital as of December 31, 2020 and 2019, 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
March 15, 2021

Indiana Orthopaedic Hospital, LLC
d/b/a OrthoIndy Hospital
Consolidated Balance Sheets
December 31, 2020 and 2019

Assets

	2020	2019
Current Assets		
Cash	$ 21,116,791	$ 14,059,978
Patient accounts receivable	25,146,663	23,031,337
Supplies	950,370	810,476
Prepaid expenses and other	3,548,185	4,382,808
Total current assets	50,762,009	42,284,599
Property and Equipment, at cost		
Land and land improvements	4,574,669	4,947,195
Buildings and improvements	53,853,653	3,753,536
Equipment	35,936,946	33,743,713
	94,365,268	42,444,444
Less accumulated depreciation	29,871,003	25,646,098
	64,494,265	16,798,346
Other Assets		
Investment in joint venture	4,567,560	-
Other	69,083	65,000
Total other assets	4,636,643	65,000
Total assets	$ 119,892,917	$ 59,147,945

Liabilities and Members' Equity

	2020	2019
Current Liabilities		
Accounts payable	$ 7,004,448	$ 6,934,314
Accrued expenses	3,726,318	4,024,997
Current maturities of debt and capital lease obligations	2,536,325	1,066,969
Current portion of Medicare advance payments	5,000,000	-
Total current liabilities	18,267,091	12,026,280
Long-Term Liabilities		
Long-term portion of debt and capital lease obligations	51,302,395	2,905,068
Long-term portion of Medicare advance payments	6,675,000	-
Other	181,732	
Total long-term liabilities	58,159,127	2,905,068
Total liabilities	76,426,218	14,931,348
Members' Equity	43,466,699	44,216,597
Total liabilities and members' equity	$ 119,892,917	$ 59,147,945

Indiana Orthopaedic Hospital, LLC
d/b/a OrthoIndy Hospital
Consolidated Statements of Income
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Revenues		
Patient service revenue	$ 170,259,389	$ 181,573,166
Grant revenue	4,767,906	-
Other revenue	1,971,136	571,182
Total operating revenues	176,998,431	182,144,348
Operating Expenses and Losses		
Salaries and wages	28,252,663	29,205,295
Employee benefits	6,436,654	6,411,918
Purchased services and professional fees	8,046,153	7,740,969
Medical supplies and pharmaceuticals	34,625,465	36,618,446
Facility expense	10,928,281	12,428,960
Management fees	10,271,907	9,902,933
Depreciation and amortization	5,580,496	3,001,494
Interest	1,544,590	119,620
Provider hospital assessment fee	2,229,742	2,516,734
Other expenses	2,829,528	2,610,830
Total operating expenses and losses	110,745,479	110,557,199
Operating Income	66,252,952	71,587,149
Equity in net income from joint venture investment - equity method	390,500	-
Net Income	$ 66,643,452	$ 71,587,149

Indiana Orthopaedic Hospital, LLC
d/b/a OrthoIndy Hospital
Consolidated Statements of Members' Equity
Years Ended December 31, 2020 and 2019

Balance, January 1, 2019	$ 39,467,522
Net income	71,587,149
Membership units redeemed	(527,200)
Distributions to members	(66,310,874)
Balance, December 31, 2019	44,216,597
Net income	66,643,452
Membership units redeemed	(32,000)
Distributions to members	(67,361,350)
Balance, December 31, 2020	$ 43,466,699

Indiana Orthopaedic Hospital, LLC
d/b/a OrthoIndy Hospital
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Activities		
Net income	$ 66,643,452	$ 71,587,149
Items not requiring (providing) cash		
Depreciation and amortization	5,580,496	3,001,494
Gain on sale of property and equipment	(214,093)	-
Equity in net income from joint venture investment - equity method	(390,500)	-
Changes in		
Patient accounts receivable, net	(2,115,326)	147,497
Accounts payable and accrued expenses	293,888	132,109
Medicare advance payments	11,675,000	-
Other current and noncurrent assets	690,646	(1,640,159)
Net cash provided by operating activities	82,163,563	73,228,090
Investing Activities		
Proceeds from sale of property and equipment	598,178	-
Purchase of property and equipment	(4,263,862)	(3,441,511)
Contributions to joint venture investment	(4,567,560)	-
Distributions from joint venture investment	390,500	-
Net cash used in investing activities	(7,842,744)	(3,441,511)
Financing Activities		
Borrowings on long-term obligations	2,637,171	354,000
Principal payments under long-term obligations	(2,507,827)	(1,083,354)
Distributions to members	(67,361,350)	(66,310,874)
Unit redemption	(32,000)	(527,200)
Net cash used in financing activities	(67,264,006)	(67,567,428)
Increase in Cash	7,056,813	2,219,151
Cash, Beginning of Year	14,059,978	11,840,827
Cash, End of Year	$ 21,116,791	$ 14,059,978
Supplemental Cash Flows Information		
Interest paid	$ 1,544,590	$ 119,620
Property and equipment purchases included in accounts payable	239,781	580,482
Capital lease obligations incurred for capital assets	49,737,339	-

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.

1260 IP Med, LLC was formed for the purpose of acquiring real estate.

Principles of Consolidation

The consolidated financial statements include the accounts of Indiana Orthopaedic Hospital, LLC d/b/a OrthoIndy Hospital, NNS, LLC and 1260 IP Med, LLC (until January 15, 2020), collectively referred to as 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, 2020, the Hospital’s cash accounts exceeded federally insured limits by approximately $21,300,000.

Patient Accounts Receivable

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 payors 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.

Contract Assets and Liabilities

Amounts related to health care services provided to patients which have not been billed and that do not meet the conditions of an unconditional right to payment at the end of the reporting period are contract assets. Contract assets consist primarily of health care services provided to patients who are still receiving inpatient care in the Hospital at the end of the year. Contract assets are included in patient accounts receivable on the consolidated balance sheets.

Amounts received related to health care services that have not yet been provided to patients are contract liabilities. Contract liabilities consist of payments made by patients and third-party payors for services not yet performed. At December 31, 2020, contract liabilities consist of advance payments received from Medicare and are separately identified within liabilities on the consolidated balance sheets.

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

At December 31, 2020 and 2019, respectively, the Hospital has $239,781 and $444,047 of costs related to construction in progress included within equipment.

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, 2020 and 2019.

Investment in Joint Venture

The Hospital's investment in a 25% owned affiliate, HP III Indianapolis, LLC, is accounted for using the equity method.

Patient Service Revenue

Patient service revenue is recognized as the Hospital satisfies performance obligations under its contracts with patients. Patient 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.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were $1,313,578 and $1,664,760 for 2020 and 2019, respectively. Total cost for these charges based on the Hospital's overall cost-to-charge ratio was approximately $334,000 and $460,000 for 2020 and 2019, respectively.

Grant Revenue

Support funded by grants is recognized as revenue when the Hospital performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by granting agency and, as a result of such audit, adjustments could be required.

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.

Note 2: Joint Venture Investment

On January 15, 2020, a wholly owned subsidiary of the Hospital, 1260 IP Med, LLC, acquired certain real estate from an unrelated third party at the Hospital's South Campus for approximately $51,800,000. This real estate was being leased by the Hospital through the point of acquisition. Simultaneous with the real estate acquisition, the Hospital entered into a Membership Interest Purchase and Sale Agreement whereby the Hospital's interest in 1260 IP Med, LLC was sold to HP III Indianapolis, LLC (HP III) for $15,500,000 ($3,800,000 paid by the Hospital and $11,700,000 paid by the 75% owner of the joint venture) in exchange for a 25% interest in HP III. Funding for the series of transactions was provided by a $36,800,000 loan from the 75% owner of HP III, which was guaranteed by the Hospital, as well as equity contributions from the owners of HP III. The loan was originally due June 30, 2020, and was refinanced, through a bank, in March 2020. The refinanced loan matures in March 2025. Under the terms of the refinanced loan, the Hospital is no longer a guarantor.

In connection with the real estate transactions described above, the Hospital entered into a master lease agreement with HP III requiring annual payments of $2,921,715 for 240 months beginning with the commencement of the lease in January 2020. The lease provides for annual inflation rent adjustments and provisions for future expansion funded by the landlord. Management has determined this lease is a capital lease arrangement.

The Hospital also entered into a sublease with Orthopaedics-Indianapolis, Inc. (OI), a related party of the Hospital through ownership (further described in Note 12). The sublease includes initial monthly rent of $113,731, which can be adjusted based upon square footage utilized by OI. The term of the sublease coincides with the master lease agreement described above.

Effective March 1, 2021 and in connection with the HP III master lease agreement described above, the Hospital expanded its leased space. The expansion agreement extends the lease term through February 2041 and increases annual payments by $653,715.

Note 3: 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 are due from patients, third-party payors (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 payors several days after the services are performed or the patient is discharged from the facility, and patient accounts receivable are due in full when billed. Revenue is recognized as performance obligations are satisfied.

Performance Obligations

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time 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. Generally, performance obligations satisfied over time relate to patients in the Hospital receiving inpatient acute care services or patients receiving services in its outpatient centers. The Hospital measures the performance obligation from inpatient admission, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Hospital does not believe it is required to provide additional goods related to the patient.

Transaction Price

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 policy and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Third-Party Payors

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

Medicare. Certain inpatient 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. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Medicaid. Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service or per covered member. These rates vary according to a patient classification system that is based on clinical diagnostic and other factors.

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 payors also provide for retroactive audit and review of claims.

Pursuant to Indiana Code (IC) 16-21-10, the State of Indiana operates a hospital assessment fee (HAF) program. The HAF is assessed by Indiana's Family and Social Services Administration (FSSA), of which proceeds are used to assist with the funding of the Medicaid program. The annual HAF assessment is subject to retroactive rate setting by FSSA. Total fees incurred by the Hospital under the program approximated $2,230,000 and $2,517,000 for the years ended December 31, 2020 and 2019, respectively.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price related to settlements of prior fiscal years' cost reports, Medicaid settlements, and the disposition of other payor audits were not significant in 2020 or 2019.

Refund Liabilities

From time to time, the Hospital will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of December 31, 2020 and 2019, the Hospital has a liability for refunds to third-party payors and patients included on the consolidated balance sheets as accounts payable of approximately $180,000 and $70,000, respectively.

Patient and Uninsured Payors

The Hospital has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Hospital expects to collect based on its collection history with those patients.

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.

Generally, patients who are covered by third-party payors 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 based on historical collection experience. 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. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

For the years ended December 31, 2020 and 2019, the Hospital recognized revenue of $1,800,000 and $2,300,000, respectively, for performance obligations satisfied in prior years, related to cash collections in excess of patient accounts receivable. The 2019 amount has been revised to $2,300,000; the amount was reported as "not significant" in the 2019 notes to the consolidated financial statements. The revision had no effect on the measurement of patient service revenue or net income.

Revenue Composition

The Hospital has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies
- Length of patient's service or episode of care
- Geography of the service location
- Method of reimbursement
- Hospital's line of business that provided the service (for example, hospital inpatient, hospital outpatient, outpatient therapy, etc.)

For the years ended December 31, 2020 and 2019, the Hospital recognized all of its revenue for goods and services transferred to the patient over time. Revenue for performance obligations satisfied over time 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. Generally, performance obligations satisfied over time relate to patients in the Hospital receiving inpatient acute care services or patients receiving services in its outpatient centers. The Hospital measures the performance obligation from inpatient admission, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services.

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% and 27% of the Hospital's receivables are due from a single commercial insurance carrier for each of the years ended December 31, 2020 and 2019, respectively.

The composition of patient service revenue recognized over time by primary payor for the years ended December 31, was:

	2020	2019
Medicaid	$ 652,651	$ 1,632,677
Medicare	34,593,865	37,752,767
Other third-party payors and self-pay	135,012,873	142,187,722
Total	$ 170,259,389	$ 181,573,166

Contract Balances

Contract assets consist primarily of health care services provided to patients who are still receiving inpatient care in the Hospital at the end of the year. Contract assets are included within patient accounts receivable and billed when the rights become unconditional.

Significant changes in contract assets are as follows:

	2020	2019
Balance, beginning of year	$ 5,500,000	$ 5,400,000
Effects of		
Transferred to receivables from contract assets recognized at the beginning of the year	(5,500,000)	(5,400,000)
Revenue recognized on contracts in process as of the end of the year	6,200,000	5,500,000
Balance, end of year	$ 6,200,000	$ 5,500,000

Contract liabilities represent the Hospital's obligation to provide services to patients when consideration has already been received from the patient or a third-party payor. The Hospital had contract liabilities of $11,675,000 and $0 at December 31, 2020 and 2019, respectively, related to Medicare advance payments.

The following table provides information about the Hospital's receivables from contracts with patients:

	2020	2019
Accounts receivable, net of contract assets, beginning of year	$ 17,531,337	$ 17,778,834
Accounts receivable, net of contract assets, end of year	18,946,663	17,531,337

Financing Component

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 payors 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 payor 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.

Note 4: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of which are area residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at December 31, 2020 and 2019 is:

	2020	2019
Medicaid	1%	3%
Medicare	12%	12%
Other third-party payors	72%	73%
Self-pay	15%	12%
Total	100%	100%

At December 31, 2020 and 2019, an immaterial amount of uninsured patient accounts receivable is included in self-pay.

Note 5: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were affected by COVID-19 as various policies were implemented by federal, state and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

While some of these policies have been eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and some state and local governments are re-imposing certain restrictions due to increasing rates of COVID-19 cases. The Hospital will continue to monitor the direct and indirect impacts of the pandemic and develop responses accordingly to maintain its operational and financial flexibility.

The Hospital experienced temporary negative impacts to its operational results during 2020. There is considerable uncertainty around the duration and financial impact of the market disruption by the COVID-19 pandemic in future periods and cannot be reasonably estimated at this time due to many factors, most of which are beyond the Hospital's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure. Because of these and other uncertainties, decreases in cash flows and operations could result, impacting the inputs and assumptions used in significant accounting estimates, including estimated implicit and explicit price concessions related to patient accounts receivable and potential impairments of long-lived assets, amongst other potential impacts.

Provider Relief Funds

During the year ended December 31, 2020, the Hospital received $3,639,690 of distributions from the *Coronavirus Aid, Relief, and Economic Security* (CARES) Act Provider Relief Fund (the Provider Relief Fund). These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses and lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS).

The Hospital accounts for such payments as conditional contributions in accordance with ASC Topic 958-605, *Revenue Recognition*. Payments are recognized as grant revenue once the applicable terms and conditions required to retain the funds have been substantially met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses through December 31, 2020, the Hospital recognized all distributions received from the Provider Relief Fund as grant revenue within the accompanying consolidated statements of income.

The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions received may be affected. Provider Relief Fund payments are subject to government oversight, including potential audits.

Medicare Advance Payments

As part of the CARES Act legislation, the Centers for Medicare & Medicaid Services (CMS) expanded the existing Accelerated and Advance Payments Program to a broad group of Medicare Part A providers as a means to provide additional cash flow at the onset of the COVID-19 pandemic in March 2020. The Hospital met the eligibility criteria and was approved for an advance payment, receiving $11,675,000 in April 2020. Under the terms of the program, the Hospital may repay the funding at any time. Otherwise, repayment will begin one year from the date the advance payment was issued (April 2021 for the Hospital); beginning then and for the next 11 months, the advance payments will be recouped at a rate of 25% of any Medicare payments owed to the Hospital; beginning with month 12, the recoupment rate increases to 50% for advance payments outstanding, with a lump-sum due for any remaining balance at the conclusion of month 17.

Medicare advance payments are considered contract liabilities in accordance with ASC Topic 606 and are separately identified in the consolidated balance sheets. Based on historical Medicare claims volumes, management believes approximately $5,000,000 of the funds will be recouped by December 31, 2021, and are thus included as current liabilities.

Employee Retention Credit

As part of the CARES Act legislation, certain employers are eligible for the Employee Retention Credit (ERC), which awards qualifying employers with a refundable tax credit against taxes paid. Those employers eligible for the ERC include private sector businesses and tax-exempt organizations operating during 2020 that either had operations fully or partially suspended due to government mandates or experienced a significant decline in gross receipts during a calendar quarter. Under the ERC program, the Hospital is eligible to receive a refundable tax credit for certain employment taxes equal to 50 percent of the qualified wages of certain employees.

The Hospital accounts for this tax credit in accordance with ASC Topic 958-605, *Revenue Recognition*. The credit is recognized as grant revenue once the applicable terms and conditions have been substantially met. Based on an analysis of the compliance and reporting requirements of the ERC program, the Hospital recognized its ERC benefit, of $1,128,216, as grant revenue within the accompanying consolidated statements of income.

The refundable tax credit is expected to be applied to the Hospital's taxes in April 2021, and as such, the balance has been netted against accrued expenses on the consolidated balance sheets.

Deferred Employer Payroll Taxes

Also, as part of the CARES Act legislation, organizations are eligible to defer payment of the employer's share of Social Security payroll taxes owed on wages paid for the year ended December 31, 2020. These deferred tax payments are due in two installments: 50 % due by December 31, 2021 and 50% due by December 31, 2022. Therefore, the Hospital has deferred taxes of $363,464, with $181,732 included in current liabilities (accrued expenses) and $181,732 included in long-term liabilities (other).

Note 6: 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 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 73.76% 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 4.66% 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 (NNS) 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 with complete authority, power and discretion to manage and control the business affairs and properties of NNS, 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's business. The Hospital holds 100 units of NNS.

Note 7: 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 8: 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, 2020 and 2019. Both agreements are with the same bank. The line of credit agreement expires July 29, 2021, and the equipment purchase line expires August 4, 2021. Interest on the line of credit and equipment purchase line varies with the bank's prime rate. At December 31, 2020, the interest rate was 3.00% and 2.25% on the line of credit and the equipment purchase line, respectively. At December 31, 2020 and 2019, there was nothing drawn on these lines of credit.

The Hospital had a $2,000,000 convertible line of credit, with a separate bank, which expired on September 30, 2020. The convertible line of credit was collateralized by certain equipment detailed within the security agreement, and interest varied with the Daily LIBOR rate plus 1.50%. During the years ended December 31, 2020 and 2019, nothing was drawn on the convertible line of credit.

Note 9: Long-Term Obligations

	2020	2019
Capital lease obligations (A)	$ 86,118	$ 422,871
Capital lease obligations (B)	-	43,979
Capital lease obligations (C)	497,857	727,637
Capital lease obligations (D)	148,635	214,695
Capital lease obligations (E)	48,377,531	-
Note payable to bank (F)	-	107,831
Note payable to bank (G)	1,786,419	1,920,391
Note payable to bank (H)	148,534	204,233
Note payable to bank (I)	259,600	330,400
Note payable to bank (J)	1,444,007	-
Note payable to bank (K)	1,090,019	-
Total long-term obligations	53,838,720	3,972,037
Less current maturities	2,536,325	1,066,969
	$ 51,302,395	$ 2,905,068

(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 $5,524 with an interest rate of 1.28%. The lease was governed by a master lease agreement from a leasing company and was secured by the leased equipment. The lease expired in 2020.

(C) 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.

(D) 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.

(E) Capital lease obligation arising from the South Campus transaction described in Note 2. The lease is governed by a master lease agreement from the landlord and is secured by the leased property. The lease is payable in monthly installments of $243,746, subject to annual inflation rent adjustments and provisions for future expansion. The lease has an initial 20-year term, beginning in January 2020 and expiring in December 2039.

(F) A promissory note payable in 60 monthly installments of $15,404 plus variable rate interest of prime, less one percent. The loan was 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 matured in August 2020.

(G) During 2019, the Hospital refinanced its outstanding promissory note. The amended and restated promissory note in the name of NNS is payable in monthly installments of $11,064 and matures in May 2029. Interest is payable monthly at a rate of LIBOR plus 1.25%. At December 31, 2020, this rate was 1.39%. 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, 2020, this rate was 2.25%. 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.

(I) A promissory note payable in 60 monthly installments of $5,900 plus variable rate interest of prime, less one percent. At December 31, 2020, this rate was 2.25%. The loan is secured by the Hospital's assets. The loan was originally a draw on the Hospital's equipment purchase line in early 2019 and converted into a promissory note in August 2019. The promissory note matures in August 2024.

(J) A promissory note payable in 60 monthly installments of $25,786 plus variable rate interest of prime, less one percent. At December 31, 2020, this rate was 2.25%. The loan is secured by the Hospital's assets. The loan was originally a draw on the Hospital's equipment purchase line in February 2020 and March 2020 and converted into a promissory note in August 2020. The promissory note matures in August 2025.

(K) A promissory note payable in 60 monthly installments of $18,167 plus variable rate interest of prime, less one percent. At December 31, 2020, this rate was 2.25%. The loan is secured by the Hospital's assets. The loan was originally a draw on the Hospital's equipment purchase line in November 2020 and matures in August 2026.

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

	2020	2019
Buildings	$ 49,737,339	$ -
Equipment	2,976,070	2,976,070
Less accumulated depreciation	5,412,486	2,566,073
	$ 47,300,923	$ 409,997

Aggregate annual payments on capital lease obligations and long-term debt at December 31, 2020, are:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2021	$ 660,737	$ 3,347,499
2022	787,906	3,305,864
2023	769,340	3,109,986
2024	708,606	3,101,002
2025	558,263	3,147,517
Thereafter	1,243,727	49,687,720
	$ 4,728,579	65,699,588
Less amount representing interest		16,589,447
Present value of future minimum lease payments		49,110,141
Less current maturities		1,875,588
Noncurrent portion		$ 47,234,553

Note 10: Operating Leases

The Hospital has entered into noncancellable operating leases for the primary hospital facility, several other facilities in the greater Indianapolis area and certain diagnostic equipment, which expire through 2029. 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. Total lease expense was $6,569,287 and $8,119,719 for the years ended December 31, 2020 and 2019, respectively.

Future minimum lease payments at December 31, 2020, were:

2021	$ 6,515,311
2022	6,614,535
2023	6,449,236
2024	5,924,160
2025	6,042,523
Later years	3,316,314
Future minimum lease payments	$ 34,862,079

Note 11: Lease Income

As discussed in Note 2, effective January 2020, the Hospital leases a portion of the South Campus premises to a related party, subject to the terms of the master lease agreement. The monthly payments can be adjusted based upon square footage utilized by the related party lessee. Total lease income was $1,417,996 and $159,257 for the years ended December 31, 2020 and 2019, respectively.

Future minimum lease receipts at December 31, 2020, were:

2021	$ 1,385,000
2022	1,406,000
2023	1,427,000
2024	1,449,000
2025	1,470,000
Later years	23,056,000
Future minimum lease receipts	$ 30,193,000

Note 12: Related Party Transactions

The Hospital and 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 $5,131,820 and $4,673,513 for the years ended December 31, 2020 and 2019, respectively. Reimbursed expenses and rental payments received from OI amounted to $3,605,508 and $2,889,123 for the years ended December 31, 2020 and 2019. Amounts due from and to OI are reported in the accompanying consolidated balance sheets as other current assets or accounts payable. Amounts due to OI were $592,476 and $675,000 at December 31, 2020 and 2019, 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 $10,755,746 and $10,409,404 for the years ended December 31, 2020 and 2019, respectively. Reimbursed expenses from OE amounted to $293,543 and $489,630 for the years ended December 31, 2020 and 2019. No amounts are due from or to OE at December 31, 2020 and 2019.

The Hospital actively subleases certain facilities from OI on the west side of Indianapolis. The lease expires in 2023 and requires annual rental payments of approximately $850,000.

Prior to 2020, the Hospital subleased certain facilities from OI on the south side of Indianapolis, which required annual rental payments of approximately $1,800,000, through 2025. However, as described in Note 2, this lease was terminated effective January 2020.

In relation to these leases, in 2020 and 2019, the Hospital recognized lease expense of approximately $825,000 and $2,600,000, respectively. Future minimum lease payments to OI are included within Note 10.

Effective January 2020, the Hospital subleases certain facilities to OI, as described in Note 11.

NNS, 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 13: 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 2020 and 2019 was $1,827,019 and $1,690,207, respectively.

Note 14: 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 12.

Put Option

As described in Note 6, the Class C member has a right to put its ownership to the Hospital at fair market value, in accordance with terms outlined in the operating agreement.

Note 15: 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:

Variable Consideration

Estimates of variable consideration in determining the transaction price for patient care service revenue are described in Notes 1 and 3.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 7.

Admitting Physicians

The Hospital is served by a group of admitting and surgical physicians that comprise nearly 100% of the Hospital's patient service revenue. The physician group is a related party of the Hospital through ownership as described in Note 12.

Note 16: Future Change in Accounting Principle

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 non-lease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. 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 17: Subsequent Events

Subsequent events have been evaluated through March 15, 2021, which is the date the consolidated financial statements were available to be issued.