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

Independent Auditor’s Report and Consolidated Financial Statements

December 31, 2023 and 2022

Contents

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Indiana Orthopaedic Hospital, LLC d/b/a OrthoIndy Hospital, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of OrthoIndy Hospital as of December 31, 2023 and 2022, and the consolidated 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.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OrthoIndy Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about OrthoIndy Hospital's ability to continue as a going concern for a reasonable period of time.

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

FORVIS, LLP

Indianapolis, Indiana
February 27, 2024

Indiana Orthopaedic Hospital, LLC d/b/a OrthoIndy Hospital
Consolidated Balance Sheets
December 31, 2023 and 2022

ASSETS	2023	2022
Current Assets		
Cash and cash equivalents	$ 8,394,616	$ 13,051,432
Patient accounts receivable	29,068,506	31,767,661
Supplies	899,043	859,014
Prepaid expenses and other	2,117,511	1,752,191
Total current assets	40,479,676	47,430,298
Property and Equipment, at cost, and Right-of-Use Assets - Finance Leases		
Land and land improvements	4,574,669	4,574,669
Buildings and improvements	74,305,204	74,035,287
Equipment	46,216,124	42,034,680
	125,095,997	120,644,636
Less accumulated depreciation and amortization	44,334,202	39,579,603
	80,761,795	81,065,033
Other Assets		
Investment in joint venture	3,537,978	3,412,398
Right-of-use assets - operating leases	33,398,232	23,793,160
Interest rate swap asset	108,440	-
Other	69,083	69,083
Total other assets	37,113,733	27,274,641
Total assets	$ 158,355,204	$ 155,769,972
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities		
Accounts payable	$ 10,154,785	$ 9,036,174
Accrued expenses	5,119,403	4,954,580
Current maturities of long-term debt	2,360,563	1,986,050
Current portion of lease liabilities - operating leases	6,445,641	6,244,997
Current portion of lease liabilities - finance leases	2,460,508	2,512,751
Total current liabilities	26,540,900	24,734,552
Long-Term Liabilities		
Long-term portion of debt	7,221,959	6,618,174
Long-term portion of lease liabilities - operating leases	27,362,599	17,780,542
Long-term portion of lease liabilities - finance leases	58,973,873	61,663,567
Total long-term liabilities	93,558,431	86,062,283
Total liabilities	120,099,331	110,796,835
Members' Equity	38,255,873	44,973,137
Total liabilities and members' equity	$ 158,355,204	$ 155,769,972

Indiana Orthopaedic Hospital, LLC d/b/a OrthoIndy Hospital
Consolidated Statements of Income
Years Ended December 31, 2023 and 2022

	2023	2022
Operating Revenues		
Patient service revenue	$ 214,903,562	$ 198,144,399
Other revenue	2,730,133	1,912,241
Total operating revenues	217,633,695	200,056,640
Operating Expenses and Losses		
Salaries and wages	39,954,012	35,347,348
Employee benefits	8,233,065	7,537,596
Purchased services and professional fees	9,422,464	9,131,069
Medical supplies and pharmaceuticals	46,676,702	43,043,425
Facility expense	12,806,003	11,884,633
Management fees	16,857,365	13,785,775
Depreciation and amortization	7,411,929	7,135,605
Interest	2,590,636	2,330,229
Provider hospital assessment fee	2,827,946	2,137,928
Other expenses	4,930,323	3,090,711
Total operating expenses and losses	151,710,445	135,424,319
Operating Income	65,923,250	64,632,321
Equity in net income from joint venture investment - equity method	173,161	206,154
Net Income	$ 66,096,411	$ 64,838,475

Indiana Orthopaedic Hospital, LLC d/b/a OrthoIndy Hospital
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2023 and 2022

	2023	2022
Net Income	$ 66,096,411	$ 64,838,475
Other Comprehensive Income		
Change in fair value of interest rate swap	108,440	-
Comprehensive Income	$ 66,204,851	$ 64,838,475

Indiana Orthopaedic Hospital, LLC d/b/a OrthoIndy Hospital
Consolidated Statements of Members' Equity
Years Ended December 31, 2023 and 2022

Balance, January 1, 2022	$	42,289,032
Net income		64,838,475
Membership units redeemed		(1,519,200)
Distributions to members		(60,635,170)
Balance, December 31, 2022		44,973,137
Net income		66,096,411
Change in fair value of interest rate swap		108,440
Membership units issued		203,780
Membership units redeemed		(480,000)
Distributions to members		(72,645,895)
Balance, December 31, 2023	$	38,255,873

Indiana Orthopaedic Hospital, LLC d/b/a OrthoIndy Hospital
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Operating Activities		
Comprehensive income	$ 66,204,851	$ 64,838,475
Items not requiring (providing) cash		
Depreciation and amortization	7,411,929	7,135,605
Noncash operating lease expense	6,439,769	6,297,687
(Gain) loss on sale of property and equipment	(351,890)	39,663
Gain on lease termination	(340,935)	-
Equity in net income from joint venture investment - equity method	(173,161)	(206,154)
Change in fair value of interest rate swap	(108,440)	-
Changes in		
Patient accounts receivable	2,699,155	(4,542,543)
Supplies, prepaid expenses, and other current assets	(405,349)	569,278
Accounts payable and accrued expenses	576,861	2,259,429
Operating lease liabilities	(6,262,140)	(6,065,308)
Medicare advance payments	-	(7,659,951)
Net cash provided by operating activities	75,690,650	62,666,181
Investing Activities		
Proceeds from sale of property and equipment	754,317	-
Purchase of property and equipment	(6,804,545)	(5,053,874)
Distributions from joint venture investment	47,581	755,434
Net cash used in investing activities	(6,002,647)	(4,298,440)
Financing Activities		
Borrowings on long-term obligations	3,069,461	1,838,209
Principal payments under long-term obligations	(2,091,163)	(1,660,929)
Principal payments on finance lease liabilities	(2,401,002)	(2,641,258)
Distributions to members	(72,645,895)	(60,635,170)
Issuance of membership units	203,780	-
Redemption of membership units	(480,000)	(1,519,200)
Net cash used in financing activities	(74,344,819)	(64,618,348)
Decrease in Cash and Cash Equivalents	(4,656,816)	(6,250,607)
Cash and Cash Equivalents, Beginning of Year	13,051,432	19,302,039
Cash and Cash Equivalents, End of Year	$ 8,394,616	$ 13,051,432
Supplemental Cash Flows Information		
Interest paid	$ 2,590,636	$ 2,330,229
Property and equipment purchases included in accounts payable	867,213	160,640
Operating lease liabilities incurred for right-of-use assets, at adoption	-	27,378,874
Operating lease liabilities incurred for right-of-use assets, during year	16,044,841	2,711,973
Finance lease liabilities incurred for right-of-use assets, during year	-	2,741,772

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

Nature of Operations

Indiana Orthopaedic Hospital, LLC d/b/a OrthoIndy Hospital (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 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 and Cash Equivalents

OrthoIndy Hospital considers liquid investments with original maturities of three months of less to be cash equivalents. At December 31, 2023, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit. At December 31, 2022, OrthoIndy Hospital had no cash equivalents.

In 2023, the Hospital opened an insured cash sweep (ICS) account. The ICS account is designed to diversify cash balances across a variety of insured financial institutions, with no single institution holding Hospital cash in excess of the federally insured limit of $250,000, as a means to mitigate exposure risk. Due to the timing of member distributions scheduled for January 2024, which are paid separately from the ICS account, the Hospital's cash accounts exceeded federally insured limits by approximately $10,300,000 at December 31, 2023. However, for a substantial portion of 2023, management believes it has actively monitored and managed balances in the ICS account to minimize the Hospital's exposure risk associated with cash balances exceeding federally insured limits.

Patient Accounts Receivable

Patient accounts receivable reflect 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, 2023 and 2022, the Hospital has no contract liabilities.

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 and Right-of-Use Assets - Finance Leases

Property and equipment are stated at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under finance lease arrangements and leasehold improvements are depreciated over the shorter of the estimated useful life or lease term. The following estimated useful lives are being used by the Hospital:

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

For the years ended December 31, 2023 and 2022, respectively, net right-of-use assets under finance leases of approximately $56.4 million and $60.4 million are included as part of property and equipment.

At December 31, 2023 and 2022, respectively, the Hospital has $867,213 and $160,640 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, 2023 and 2022.

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 $915,926 and $611,205 for 2023 and 2022, respectively. Total cost for these charges based on the Hospital's overall cost-to-charge ratio was approximately $232,000 and $157,000 for 2023 and 2022, respectively.

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

In January 2020, 1260 IP Med, LLC, which was a wholly owned subsidiary of the Hospital prior to being dissolved in January 2020, 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 loan from the 75% owner of HP III, as well as equity contributions from both owners of HP III.

In connection with the series of transactions described above, the Hospital entered into a master lease agreement with HP III, which requires annual payments ranging from approximately $4,100,000 (current) to $5,200,000 (during final year), through February 2041. The master lease provides for annual inflationary rent adjustments. The master lease is accounted for as a finance lease in accordance with FASB ASC 842, *Leases*.

The Hospital also entered into a sublease with Orthopaedics-Indianapolis, Inc. (OI), a related party of the Hospital through ownership (further described in Note 11). The sublease includes initial monthly rent of approximately $115,000, which can be adjusted based upon square footage utilized by OI. The term of the sublease coincides with the master lease agreement described above.

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 $2,828,000 and $2,138,000 for the years ended December 31, 2023 and 2022, 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 2023 or 2022.

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, 2023 and 2022, the Hospital has a liability for refunds to third-party payors and patients included on the consolidated balance sheets as accounts payable of approximately $113,000 and $417,000, 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, 2023 and 2022, the Hospital recognized revenue of $1,260,000 and $2,010,000, respectively, for performance obligations satisfied in prior years, related to cash collections in excess of patient accounts receivable.

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, 2023 and 2022, 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 26% and 23% of the Hospital's receivables are due from a single commercial insurance carrier for the years ended December 31, 2023 and 2022, respectively.

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

	2023	2022
Medicaid	$ 6,527,997	$ 4,983,971
Medicare	52,559,927	43,976,733
Other third-party payors and self-pay	155,815,638	149,183,695
Total	$ 214,903,562	$ 198,144,399

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:

	2023	2022
Balance, beginning of year	$ 7,700,000	$ 5,600,000
Effects of		
Transferred to receivables from contract assets recognized at the beginning of the year	(7,700,000)	(5,600,000)
Revenue recognized on contracts in process as of the end of the year	7,200,000	7,700,000
Balance, end of year	$ 7,200,000	$ 7,700,000

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 no contract liabilities at December 31, 2023 and 2022.

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

	2023	2022
Accounts receivable, net of contract assets, beginning of year	$ 24,067,661	$ 21,625,118
Accounts receivable, net of contract assets, end of year	21,868,506	24,067,661

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, 2023 and 2022 is:

	2023	2022
Medicaid	1%	2%
Medicare	14%	14%
Other third-party payors	72%	72%
Self-pay	13%	12%
Total	100%	100%

At December 31, 2023 and 2022, an immaterial amount of uninsured patient accounts receivable is included in self-pay.

Note 5. 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, and through subsequent amendments, 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 an additional entity, APM Holdings, LLC, to become a Class A member; total Class A shares represent approximately 73.86% of members' equity. The previous Class D member continues to own 20% as a Class C member. An irrevocable trust established by the Hospital owns a minority share as a Class D member, equal to approximately 1.58%.

Founding individual members of the Hospital continue to hold a founding member's interest approximating 4.56% 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 provide 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.

During the year ended December 31, 2023, the Hospital made distributions to members of approximately $72.6 million, certain Class A shares were redeemed by members for $480,000, and certain Class A shares were issued to members in exchange for approximately $204,000. During the year ended December 31, 2022, the Hospital made distributions to members of approximately $60.6 million, and certain Class A Shares were redeemed by members for approximately $1.5 million.

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 6. 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 7. Line of Credit

The Hospital is a party to a $5,000,000 line of credit agreement, with a bank, which expires on July 25, 2024. Interest on the line of credit varies with the bank's prime rate. At December 31, 2023, the interest rate was 7.00% on the line of credit. During the years ended December 31, 2023 and 2022, no withdrawals were made on the line of credit.

Note 8. Long-Term Obligations

	2023	2022
Note payable to bank (A)	$ 796,828	$ 1,019,197
Note payable to bank (B)	1,384,502	1,518,475
Note payable to bank (C)	-	37,134
Note payable to bank (D)	47,200	118,000
Note payable to bank (E)	515,718	825,148
Note payable to bank (F)	1,066,667	1,466,667
Note payable to bank (G)	1,360,493	1,795,357
Note payable to bank (H)	609,959	802,578
Note payable to bank (I)	824,956	1,021,668
Note payable to bank (J)	2,000,000	-
Note payable to bank (K)	976,199	-
Total long-term obligations	9,582,522	8,604,224
Less current maturities	2,360,563	1,986,050
	$ 7,221,959	$ 6,618,174

(A) A promissory note payable in 60 monthly installments of $14,156 plus variable rate interest of prime, less one percent. At December 31, 2023, this rate was 7.50%. The loan is secured by the Hospital's assets. The loan derived from draws made on the Hospital's equipment purchase line in December 2021 ($461,598) and April 2022 ($576,130). The promissory note matures in August 2027.

(B) 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 $11,164 and matures in May 2029. Interest is payable monthly at a rate equal to the secured overnight financing rate (SOFR), plus 1.25%. At December 31, 2023, this rate was 6.75%. The loan is secured by certain real estate.

In September 2021, the Hospital entered into an interest rate swap agreement in association with this note (see Note 9). The intention of the swap is to effectively change the Hospital's variable interest rate on this note to a synthetic fixed rate. The swap became effective September 2023 and terminates in May 2029. Under the swap agreement, the Hospital pays interest at a fixed rate of 1.62% and receives interest based on a SOFR. Amounts are settled monthly.

(C) A promissory note payable in 60 monthly installments of $4,642 plus variable rate interest of prime, less one percent. The loan was originally a draw on the Hospital's equipment purchase line in 2018 and was converted into a promissory note in August 2018. The promissory note matured in August 2023.

(D) A promissory note payable in 60 monthly installments of $5,900 plus variable rate interest of prime, less one percent. At December 31, 2023, this rate was 7.50%. The loan is secured by the Hospital's assets. The loan was originally a draw on the Hospital's equipment purchase line in 2019 and was converted into a promissory note in August 2019. The promissory note matures in August 2024.

(E) A promissory note payable in 60 monthly installments of $25,786 plus variable rate interest of prime, less one percent. At December 31, 2023, this rate was 7.50%. The loan is secured by the Hospital's assets. The loan was originally from draws on the Hospital's equipment purchase line in February 2020 and March 2020 and was converted into a promissory note in August 2020. The promissory note matures in August 2025.

(F) A promissory note payable in 60 monthly installments of $33,333 plus variable rate interest of prime, less one percent. At December 31, 2023, this rate was 7.50%. The loan is secured by the Hospital's assets. The loan was originally from draws on the Hospital's equipment purchase line in November 2020 and June 2021 and converted into a promissory note in August 2021. The promissory note matures in August 2026.

(G) A promissory note, with an original principal amount of $2,411,881, payable in 60 monthly installments of $42,574, including interest at a fixed rate of 2.25%. The loan matures in August 2026 and is secured by the Hospital's assets.

(H) An equipment financing arrangement with a bank, which initiated through an equipment line of credit note dated February 2021 and converted to a five-year term loan in February 2022. The Hospital made total draws of $963,094 associated with this arrangement. The term loan matures in February 2027 and is payable in 60 monthly installments of approximately $16,061, including interest at a variable rate of prime, less one percent. At December 31, 2023, this rate was 7.50%. The loan is secured by the medical equipment being financed.

(I) A promissory note associated with equipment financing, with an original principal amount of $1,069,461, payable in 60 monthly installments of $20,023, including interest at a fixed rate of 4.61%. The loan matures in September 2027 and is secured by the equipment being financed.

(J) A promissory note payable in 60 monthly installments of $33,333 plus variable rate interest of prime, less one percent. At December 31, 2023, this rate was 7.50%. The loan is secured by the Hospital's assets. The loan derived from draws made on the Hospital's equipment purchase line in October 2023. The promissory note matures in August 2029.

(K) A promissory note associated with equipment financing, with an original principal amount of $1,069,461, payable in 60 monthly installments of $20,635, including interest at a fixed rate of 5.83%. The loan matures in June 2028 and is secured by the equipment being financed.

Aggregate annual payments on long-term debt at December 31, 2023, are:

	Long-Term Debt
2024	$ 2,360,563
2025	2,476,294
2026	2,039,928
2027	1,104,529
2028	653,234
Thereafter	947,974
Total debt	9,582,522
Less current maturities	2,360,563
Noncurrent portion	$ 7,221,959

Note 9. Interest Rate Swap Agreement

Cash Flow Hedge

In September 2021, NNS entered into an interest rate swap agreement for a notional amount of $1,417,995, which became effective September 21, 2023. The swap is a fixed rate payor swap that terminates in May 2029 and is amortized in coordination with the related promissory note. Under the agreement, OrthoIndy Hospital pays a fixed rate of 1.62% and receives a floating rate equal to SOFR, plus 1.25%. The fair value of the swap represents a receivable from the counterparty and is recorded as an asset of $108,440 as of December 31, 2023. The change in the fair value of the swap is recorded on the consolidated statements of comprehensive income.

The table below presents certain information regarding OrthoIndy Hospital's interest rate swap agreement at December 31:

	2023	
Fair value of interest rate swap	$	108,440
Balance sheet location of fair value amount	Interest Rate Swap Asset	
Change in fair value of interest rate swap	$	108,440
Location of change in fair value	Other Comprehensive Income	

Note 10. Leases

Accounting Policies

The Hospital determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of right-of-use (ROU) assets and lease liabilities on the consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Hospital determines lease classification as operating or finance at the lease commencement date. Assets under finance leases are included in property and equipment in the consolidated balance sheets.

Under certain agreements, the Hospital directs the use of specific equipment and, therefore, controls the assets, in arrangements for which the Hospital also purchases supplies from the vendor. The equipment provided in these agreements is considered a lease component and is recognized as an embedded lease. For embedded leases, the Hospital accounts for the lease and nonlease components separately. The nonlease components consist of supply purchases and other services, as applicable. The Hospital allocates the consideration to the lease and nonlease components using their relative standalone values.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Hospital uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, the Hospital uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments. Incremental borrowing rates used to determine the present value of lease payments were derived by reference to the Hospital's most recent borrowings adjusted to correspond to lease commencement or adoption dates.

The lease term may include options to extend or to terminate the lease that the Hospital is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Hospital has elected not to record leases with an initial term of 12 months or less on the consolidated balance sheets. Lease expense on such leases is recognized on a straight-line basis over the lease term.

For building and real estate leases, in agreements which include certain nonlease components, the Hospital has also elected to account for nonlease components and the lease components to which they relate as a single lease component.

Nature of Leases

The Hospital has entered into the following lease arrangements:

Finance Leases

The Hospital's finance leases consist of real estate (described in Note 2), as well as clinical equipment for use in the Hospital's operations. The substantial majority of finance lease activity and balances pertain to the aforementioned real estate and building lease. As of December 31, 2023, the Hospital also has two finance leases for clinical equipment. Termination of the Hospital's finance leases generally are prohibited unless there is a violation under the lease agreement, or in the case of an embedded lease, termination may occur when established thresholds of supply purchases have been met.

In October 2023, the Hospital satisfied its purchase requirement related to an embedded lease for clinical equipment. As a result, title of the equipment was transferred to the Hospital, and the lease component of the agreement was terminated, resulting in a gain of approximately $340,000, which is included in other operating revenue within the consolidated statements of income.

Operating Leases

The Hospital leases administrative equipment, as well as buildings and real estate, that expire in various years through 2038. These leases generally require the Hospital to pay all executory costs (property taxes, maintenance and insurance). Certain leases contain renewal options covering future periods and are subject to escalating fee schedules, which generally range from a 1 to 2 percent increase each year. Termination of the Hospital's operating leases is generally prohibited unless there is a violation under the lease agreement.

Short-Term Leases

The Hospital leases certain equipment based on a seasonal or other short-term demands. The expected lease terms are less than 12 months.

All Leases

The Hospital has two active related-party leases, which are discussed in Note 12.

The Hospital's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

As of December 31, 2023, the Hospital has not entered into any additional operating and finance leases that have not yet commenced.

Quantitative Disclosures

The lease cost and other required information for the years ended December 31, 2023 and 2022, are as follows:

	2023	2022
Lease cost		
Finance lease cost		
Amortization of right-of-use asset	$ 3,677,284	$ 3,871,714
Interest on lease liabilities	1,953,821	2,015,312
Operating lease cost	7,520,239	7,109,695
Short-term lease cost	248,594	121,132
Variable lease cost	4,810,143	4,423,091
Sublease income - Note 11	(1,681,290)	(1,510,384)
Total lease cost	$ 16,528,791	$ 16,030,560
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	$ 1,953,821	$ 2,015,312
Financing cash flows from finance leases	2,401,002	2,641,258
Operating cash flows from operating leases	7,520,239	7,109,695
Right-of-use assets obtained in exchange for new finance lease liabilities	-	2,741,772
Right-of-use assets obtained in exchange for new operating lease liabilities	16,044,841	2,711,973
Weighted-average remaining lease term		
Finance leases	17.1 years	17.9 years
Operating leases	8.8 years	4.2 years
Weighted-average discount rate		
Finance leases	3.1%	3.1%
Operating leases	5.2%	3.1%

Future minimum lease payments and reconciliation to the consolidated balance sheets at December 31, 2023, are as follows:

	Finance Leases	Operating Leases
2024	$ 4,336,747	$ 8,216,648
2025	4,253,871	8,240,549
2026	4,238,863	5,204,049
2027	4,302,446	2,070,082
2028	4,366,983	2,111,001
Thereafter	58,635,321	20,036,443
Total future undiscounted lease payments	80,134,231	45,878,772
Less interest	18,699,850	12,070,532
Lease liabilities	$ 61,434,381	$ 33,808,240

Note 11. Lease Income

As discussed in Note 2, effective January 2020, the Hospital subleases a portion of the South Campus premises to OI, 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.

Effective October 2023, the Hospital subleases a portion of a leased facility on the west side of Indianapolis to OI. The sublease includes initial monthly rent of approximately $41,000, subject to inflationary increases of 2% each year. The term of the sublease coincides with the master lease agreement, which is 15 years.

Total lease income was $1,681,290 and $1,510,384 for the years ended December 31, 2023 and 2022, respectively.

Future minimum lease receipts at December 31, 2023, were:

2024	$ 1,941,000
2025	1,971,000
2026	2,003,000
2027	2,037,000
2028	2,069,000
Thereafter	24,292,000
Future minimum lease receipts	$ 34,313,000

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 $7,338,624 and $5,800,433 for the years ended December 31, 2023 and 2022, respectively. Reimbursed expenses and rental payments received from OI amounted to $10,333,445 and $7,775,051 for the years ended December 31, 2023 and 2022. Amounts due from and to OI are not material as of December 31, 2023 and 2022.

OrthoIndy Enterprises, LLC (OE) is a related party through common ownership. The Hospital entered into a management services 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 $17,808,668 and $15,947,806 for the years ended December 31, 2023 and 2022, respectively. Reimbursed expenses from OE amounted to $1,382,076 and $450,155 for the years ended December 31, 2023 and 2022. Amounts due from and to OE are not material as of December 31, 2023 and 2022.

The Hospital actively leases a facility on the north side of Indianapolis from OI Land Ventures II, LLC, a related party through common ownership. The lease commenced in October 2022 and expires in September 2032. The lease requires initial annual rental payments of approximately $290,000, subject to inflationary increases of 2% each year.

The Hospital also actively leases a facility on the west side of Indianapolis from OI Land Ventures II, LLC. The lease commenced in October 2023 and expires in September 2038. The lease requires initial annual rental payments of approximately $1,580,000, subject to inflationary increases of 2% each year.

Through September 2023, the Hospital actively subleased a facility on the west side of Indianapolis from OI. When the sublease expired, it was replaced by the west side of Indianapolis lease discussed directly above.

In relation to these leases, in 2023 and 2022, the Hospital recognized lease expense of approximately $1,450,000 and $930,000, respectively. At December 31, 2023, the leases in combination amounted to an operating lease ROU asset of $18,300,000, and an operating lease liability of $18,395,000. At December 31, 2022, the leases in combination amounted to an operating lease ROU asset of $3,225,000, and an operating lease liability of $3,235,000.

The Hospital also 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 2023 and 2022 was $2,225,785 and $2,025,335, 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 5, 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.

Loan Guarantee

The Hospital has guaranteed the repayment of a construction promissory note of OI Land Ventures III, LLC, a related party through common ownership. The promissory note was issued in June 2022 for $1.5 million, with an interest rate of SOFR plus 2.05%. The promissory note matures in June 2024. If, for any reason, OI Land Ventures III, LLC fails or is unable to pay the obligation, the Hospital becomes subject to repayment in full upon demand. As of December 31, 2023, the outstanding balance of the promissory note is $1,077,206.

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 6.

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. Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2023:

		Fair Value Measurements Using		
	Total Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 2023				
Assets				
Interest rate swap asset	$ 108,440	$ -	$ 108,440	$ -

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2023.

Interest Rate Swap

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Note 17. CARES Act Funding

In response to the World Health Organization's designation of the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic in March 2020, various legislation was enacted, including the *Coronavirus Aid, Relief and Economic Security* (CARES) *Act* and the *American Rescue Plan Act* (ARPA Act).

Provider Relief Funds

During 2020 and 2021, the Hospital received distributions from the CARES Act Provider Relief Fund and the ARPA Act Relief Fund (collectively, the Provider Relief Fund). These Provider Relief Fund distributions 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/or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS).

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. 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, repayment of the funds began in April 2021 and continued through September 2022, when the entirety of the Hospital's advance payment had been recouped or paid.

Employee Retention Credit

As part of the CARES Act legislation, certain employers were eligible for the Employee Retention Credit (ERC), which awarded qualifying employers, including the Hospital, with a refundable tax credit against taxes paid. During the year ended December 31, 2020, based on an analysis of the compliance and reporting requirements of the ERC program, the Hospital determined that all applicable terms and conditions had been substantially met, and as such, and in accordance with ASC Topic 958-605, *Revenue Recognition*, the Hospital recognized its ERC benefit of $1,128,216 as grant revenue. During the year ended December 31, 2022, the tax credit was applied against the Hospital's tax obligations.

Deferred Employer Payroll Taxes

Also, as part of the CARES Act legislation, organizations were 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 were due in two installments: 50% due by December 31, 2021, and 50% due by December 31, 2022. During the year ended December 31, 2022, the Hospital paid back its remaining amount outstanding for this program.

Note 18. Subsequent Events

In January 2024, the Hospital entered into a $3,000,000 promissory note payable with a bank. The note requires interest only payments through January 2025 and then includes principal payments beginning in February 2025, through maturity in January 2030. The stated interest rate of the note is equal to the one-month SOFR, plus 2.10%, which was approximately 7.43% upon inception. The note is secured by certain equipment of the Hospital.

In conjunction with the promissory note payable, the Hospital also entered into an interest rate swap agreement. The terms of the swap agreement, including the notional amount and maturity date, are identical to the note payable. The swap is a fixed rate payor swap, and under the agreement, the Hospital pays a fixed rate of 6.26% and receives a floating rate equal to the one-month SOFR, plus 2.10%.

Subsequent events have been evaluated through February 27, 2024, which is the date the consolidated financial statements were available to be issued.