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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

March 12, 2015

Board of Directors
Johnson Memorial Hospital
1125 W. Jefferson Street
P.O. Box 549
Franklin, IN 46131

We have reviewed the audit report prepared by BKD CPA's & Advisors, Independent Public Accountants, for the period January 1, 2013 to December 31, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Johnson Memorial Hospital, as of December 31, 2013 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Auditor's Report and Financial Statements
December 31, 2013 and 2012

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
December 31, 2013 and 2012

Contents

**Independent Auditor’s Report on Financial Statements and
Supplementary Information 1**

Management’s Discussion and Analysis 3

Financial Statements

 Balance Sheets 8

 Statements of Revenues, Expenses and Changes in Net Position..... 9

 Statements of Cash Flows 10

 Notes to Financial Statements..... 11

Supplementary Information

 Detailed Balance Sheet Information 30

 Detailed Statement of Revenues, Expenses and Changes in Net Position Information..... 31

Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees
Johnson Memorial Hospital
Franklin, Indiana

We have audited the accompanying financial statements of Johnson Memorial Hospital, a component unit of Johnson County, Indiana, which comprise the balance sheet as of December 31, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Johnson Memorial Hospital, a component unit of Johnson County, Indiana, as of December 31, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2012 financial statements were audited by other auditors and their report thereon, dated April 23, 2013, expressed an unmodified opinion.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The detailed balance sheet and statement of revenues, expenses and changes in net position information listed in the table of contents are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Indianapolis, Indiana
April 25, 2014

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Management's Discussion and Analysis
December 31, 2013 and 2012

Introduction

This management's discussion and analysis of the financial performance of Johnson Memorial Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2013 and 2012. The financial activities of the Hospital include those of its owned physician practices (Physician Services) and its operated long-term care facilities (Extended Services). This management discussion and analysis should be read in conjunction with the accompanying financial statements.

Financial Highlights

- Total cash and investments increased in 2013 by \$9,171,497 (29%) and decreased in 2012 by \$4,396,244 (12%).
- The Hospital reported operating income in 2013 and 2012 of \$9,741,344 and \$4,624,219, respectively. The operating income in 2013 increased by 111% over the operating income reported in 2012. The operating income in 2012 increased by 173% from the operating income reported in 2011. In 2013 and 2012, the Hospital experienced significant growth in its long-term care operations.
- Net nonoperating revenues increased by \$162,731 (29%) in 2013 compared to 2012 and by \$1,128,678 (196%) in 2012 compared to 2011. Both increases were primarily attributable to increased market returns on investments.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any hospital's finances is "Is the hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's total net position—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients, and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the balance sheets. The Hospital's net position increased by \$10,458,147 (12%) in 2013 over 2012, and by \$5,178,291 (6%) in 2012 over 2011, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2013	2012	2011
Assets			
Patient accounts receivable, net	\$ 34,361,582	\$ 18,388,794	\$ 11,235,581
Other current assets	25,429,484	19,894,077	17,784,655
Capital assets, net	46,784,783	47,747,196	43,318,510
Other noncurrent assets	36,421,694	21,273,656	23,122,210
	<u>\$ 142,997,543</u>	<u>\$ 107,303,723</u>	<u>\$ 95,460,956</u>
Liabilities			
Long-term debt	\$ 1,166,583	\$ 1,969,597	\$ 2,751,453
Other current and noncurrent liabilities	40,775,897	14,737,210	7,290,878
Total liabilities	<u>41,942,480</u>	<u>16,706,807</u>	<u>10,042,331</u>
Net Position			
Net investment in capital assets	45,618,200	45,777,599	40,567,057
Unrestricted	55,436,863	44,819,317	44,851,568
Total net position	<u>101,055,063</u>	<u>90,596,916</u>	<u>85,418,625</u>
Total liabilities and net position	<u>\$ 142,997,543</u>	<u>\$ 107,303,723</u>	<u>\$ 95,460,956</u>

A significant change in the Hospital's assets in 2013 is the increase in patient accounts receivable of \$15,972,788 from \$18,388,794 at December 31, 2012 to \$34,361,582 at December 31, 2013. Net patient service revenues increased in 2013 by \$126,004,936 (114%) compared to 2012. These increases led to a decrease of seven days of revenue at December 31, 2013 versus December 31, 2012. The increase in net patient service revenues and related increase in net patient accounts receivable were attributed to increases in the Extended Services operations. The decrease in days of revenue is attributable to changes in payer mix with the increase in Extended Services operations.

Other changes in the Hospital's assets in 2013 included an increase in other receivables of \$9,221,400 (187%) compared to 2012. This increase is attributed to amounts due under supplemental Medicaid payment programs for the long-term care operations of the Hospital.

Operating Results and Changes in the Hospital's Net Position

In 2013, the Hospital's net position increased by \$10,458,147 (12%) compared to an increase in net position during 2012 of \$5,178,291 (6%), as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2013	2012	2011
Operating Revenue			
Net patient service revenue	\$ 236,698,560	\$ 110,693,624	\$ 67,210,870
Other operating revenue	36,158,496	9,406,456	9,788,174
Total operating revenue	<u>272,857,056</u>	<u>120,100,080</u>	<u>76,999,044</u>
Operating Expenses			
Salaries and wages and employee benefits	44,962,639	45,544,827	42,162,386
Purchased services and professional fees	112,571,813	29,908,873	6,100,916
Depreciation and amortization	4,487,617	4,396,179	4,188,850
Other operating expenses	101,093,643	35,625,982	22,850,336
Total operating expenses	<u>263,115,712</u>	<u>115,475,861</u>	<u>75,302,488</u>
Operating Income	<u>9,741,344</u>	<u>4,624,219</u>	<u>1,696,556</u>
Nonoperating Revenue (Expenses)			
Investment income	1,524,648	1,119,599	63,137
Interest expense	(67,836)	(14,992)	(134,279)
Other	(740,009)	(550,535)	(503,464)
Total nonoperating revenue	<u>716,803</u>	<u>554,072</u>	<u>(574,606)</u>
Increase in Net Position	<u>\$ 10,458,147</u>	<u>\$ 5,178,291</u>	<u>\$ 1,121,950</u>

Operating Income

The first component of the overall change in the Hospital's net position is its operating income—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported operating income. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Johnson County and the surrounding area. The Hospital implements strong cost controls to provide sufficient resources to enable the facility to serve lower income and other residents.

Operating losses derived from Hospital and Physician Services in 2013 totaled \$1,373,454, which was a decrease of \$3,511,082 (164%) from operating income reported in 2012 of \$2,137,628. Operating income for 2012 increased by \$441,072 (26%) as compared to 2011. The primary components of the changes in operating income and loss of the Hospital and Physician Services are:

- A decrease in net patient service revenue of \$5,773,341 (7%) in 2013 compared to an increase in 2012 of \$2,686,597 (4%).
- A decrease in salaries and wages and employee benefits of \$1,049,655 (2%) in 2013 compared to an increase in salaries and wages and employee benefits in 2012 of \$3,382,411 (8%).
- A decrease in all other operating expenses of \$2,207,235 (7%) in 2013 compared to an increase in all other operating expenses in 2012 of \$534,945 (2%).

The changes in net patient service revenues above are a result of changes in the Hospital's volumes during the respective years. Additionally, in 2012, Indiana implemented a new supplemental payment mechanism for the Medicaid program. This program allowed for increased reimbursement approximating \$2,411,000 in 2013 and \$4,705,000 in 2012. These increases in net patient service revenue were partially offset by additional provider assessment fees of approximately \$2,603,000 in 2013 and \$4,653,000 in 2012. Changes in operating expenses were direct result of the Hospital managing expenses to fluctuations in patient volume.

Operating income derived from Extended Services in 2013 totaled \$11,114,798, which was an increase of \$8,628,207 (347%) from operating income reported in 2012 of \$2,486,591. The primary components of the changes in operating income for Extended Services are:

- An increase in net patient services revenue of \$131,778,277 (402%) from \$32,809,214 in 2012 to \$164,587,491 in 2013.
- An increase in other operating revenues of \$27,746,671 (468%) from \$5,933,364 in 2012 to \$33,680,635 in 2013. This increase is primarily attributed to an increase in supplemental Medicaid payments to the nursing facilities.
- An increase in purchased services of \$83,193,650 (317%) from \$26,230,303 in 2012 to \$109,423,953 in 2013.
- An increase in facility and equipment lease expense of \$20,933,846 (661%) from \$4,056,411 in 2012 to \$24,990,257 in 2013.

The changes above are a result of the Hospital's expansion in Extended Services operations beginning in 2012 and continuing throughout 2013. This expansion included the acquisition of the operations of 25 nursing facilities in 2013 and 8 facilities in 2012.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income and interest expense, all of which remained relatively constant in 2013 as compared to 2012. The Hospital recognized an increase in its investment return in 2012 compared to 2011, resulting primarily from improved overall return rates in the market.

The Hospital's Cash Flows

Changes in the Hospital's operating cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2013 and 2012, discussed earlier. Cash used by investing activities increased in 2013 due to the excess cash generated from operating activities, which was invested for future uses.

Capital Asset and Debt Administration

Capital Assets

At the end of 2013 and 2012, the Hospital had \$46,784,783 and \$47,747,196 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2013 and 2012, the Hospital purchased new equipment costing \$4,160,629 and \$9,114,353, respectively.

Debt

At December 31, 2013 and 2012, the Hospital had \$1,166,583 and \$1,969,597 in the form of a commercial bank loan and capital lease obligations outstanding. The Hospital issued no new debt in 2013 or 2012. The commercial bank loan with an outstanding balance of \$1,032,329 and maturity date in May 2014 was paid in full subsequent to December 31, 2013.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital's Chief Financial Officer by telephoning (317) 736-3300.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Balance Sheets
December 31, 2013 and 2012

Assets

	<u>2013</u>	<u>2012</u>
Current Assets		
Cash and cash equivalents	\$ 6,665,832	\$ 10,608,099
Patient accounts receivable, net of allowance; 2013 - \$5,636,727 and 2012 - \$5,550,000	34,361,582	18,388,794
Other receivables	14,153,255	4,931,855
Estimated amounts due from third-party payers	1,251,552	1,205,340
Supplies	1,653,162	1,765,920
Prepaid expenses and other	1,705,683	1,382,863
Total current assets	<u>59,791,066</u>	<u>38,282,871</u>
Noncurrent Cash and Investments		
Internally designated	32,677,099	19,622,078
Held by Foundation	1,649,042	1,590,299
	<u>34,326,141</u>	<u>21,212,377</u>
Capital Assets, Net	<u>46,784,783</u>	<u>47,747,196</u>
Investment in Affiliate	<u>2,095,553</u>	<u>61,279</u>
Total assets	<u>\$ 142,997,543</u>	<u>\$ 107,303,723</u>

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 785,323	\$ 799,782
Accounts payable	33,066,377	8,843,548
Accrued expenses	7,709,520	5,893,662
Total current liabilities	<u>41,561,220</u>	<u>15,536,992</u>
Long-Term Debt	<u>381,260</u>	<u>1,169,815</u>
Total liabilities	<u>41,942,480</u>	<u>16,706,807</u>
Net Position		
Net investment in capital assets	45,618,200	45,777,599
Unrestricted	55,436,863	44,819,317
Total net position	<u>101,055,063</u>	<u>90,596,916</u>
Total liabilities and net position	<u>\$ 142,997,543</u>	<u>\$ 107,303,723</u>

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts of \$8,595,010 in 2013 and \$6,051,302 in 2012	\$ 236,698,560	\$ 110,693,624
Other operating revenue	36,158,496	9,406,456
Total operating revenue	272,857,056	120,100,080
Operating Expenses		
Salaries and wages	36,737,090	36,335,798
Employee benefits	8,225,549	9,209,029
Medical professional fees	869,090	624,789
Purchased services	111,702,723	29,284,084
Medical supplies and drugs	16,502,293	9,329,559
Other supplies	1,150,054	1,115,688
Facility and equipment leases	25,465,343	4,451,638
Insurance	8,287,621	981,200
Repairs and maintenance	4,811,381	2,464,514
Utilities	4,432,433	1,512,319
Hospital assessment fee	2,603,101	4,652,532
Other	37,841,417	11,118,532
Depreciation and amortization	4,487,617	4,396,179
Total operating expenses	263,115,712	115,475,861
Operating Income	9,741,344	4,624,219
Nonoperating Income (Expenses)		
Investment income	1,524,648	1,119,599
Interest expense	(67,836)	(14,992)
Rental expense, net	(518,999)	(401,440)
Foundation expense	(159,630)	(122,584)
Other nonoperating expense	(61,380)	(26,511)
Total nonoperating income	716,803	554,072
Excess of Revenues Over Expenses and Increase in Net Position	10,458,147	5,178,291
Net Position, Beginning of Year	90,596,916	85,418,625
Net Position, End of Year	\$ 101,055,063	\$ 90,596,916

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Operating Activities		
Receipts from and on behalf of patients	\$ 220,725,772	\$ 103,540,411
Payments to suppliers and contractors	(186,833,818)	(54,497,761)
Payments to employees	(43,146,781)	(44,715,045)
Other receipts, net	25,044,764	471,598
Net cash provided by operating activities	15,789,937	4,799,203
Capital and Related Financing Activities		
Principal paid on long-term debt	(803,014)	(781,856)
Interest paid on long-term debt	(67,836)	(14,992)
Purchase of capital assets	(4,160,629)	(9,114,353)
Other	-	146,690
Net cash used in capital and related financing activities	(5,031,479)	(9,764,511)
Investing Activities		
Investment income	223,139	641,599
Purchase of investments	(12,897,255)	(4,139,346)
Proceeds from disposition of investments	1,085,000	7,477,074
Purchase of equity investment in affiliate	(2,371,600)	-
Other	(740,009)	(550,535)
Net cash provided by (used in) investing activities	(14,700,725)	3,428,792
Decrease in Cash and Cash Equivalents	(3,942,267)	(1,536,516)
Cash and Cash Equivalents, Beginning of Year	10,608,099	12,144,615
Cash and Cash Equivalents, End of Year	\$ 6,665,832	\$ 10,608,099
Reconciliation of Operating Income to		
Net Cash		
Operating income	\$ 9,741,344	\$ 4,624,219
Depreciation and amortization	4,487,617	4,396,179
Provision for uncollectible accounts	8,595,010	6,051,302
Changes in operating assets and liabilities:		
Patient accounts receivable	(24,567,798)	(13,204,515)
Estimated amounts due from third-party payers	(46,212)	(1,026,428)
Accounts payable and accrued expenses	26,254,457	7,230,562
Other assets and liabilities	(8,674,481)	(3,272,116)
Net cash provided by operating activities	\$ 15,789,937	\$ 4,799,203
Supplemental Cash Flow Information		
Property and equipment included in accounts payable	\$ -	\$ 215,770

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

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

Nature of Operations and Reporting Entity

Johnson Memorial Hospital (Hospital) is an acute care hospital located in Franklin, Indiana. The Hospital is a component unit of Johnson County, Indiana (County) and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital pursuant to the provision of Indiana Code 16-22-2-2. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Johnson County area. It also operates a home health agency and owns several physician practices (Physician Services), which provide outpatient services to patients in the same geographic area.

The Hospital operates 33 long-term care facilities through various lease agreements, which are reported in the Hospital's extended services division (Extended Services). These facilities provide inpatient and therapy services throughout their respective geographic areas and support the Hospital's mission to provide quality care and services to the facilities' residents. The facilities are managed by third parties under various management agreements. The revenues from operations are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements.

In accordance with GASB Statement No. 61, the financial statements include the financial statements of Johnson County Health Foundation, Inc. (Foundation). The Foundation's purpose is to provide philanthropic support through fundraising and other activities for the acquisition of equipment, facility development and support of programs at the Hospital, and has therefore been reported as a blended component unit.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income, rental activities and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013 and 2012, cash equivalents consisted primarily of money market accounts with brokers.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition are carried at amortized cost. The investment in affiliate is reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income and the net change for the year in the fair value of investments carried at fair value.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an estimated allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Adjustments to the provision for uncollectible accounts in 2013 related to prior periods decreased net patient service revenue by \$1,200,000.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method 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:

Land improvements	15 years
Buildings and leasehold improvements	4 - 50 years
Equipment	5 - 15 years

Compensated Absences

Hospital policies permit most employees to accumulate vacation benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. These cash payments are limited based upon existing Hospital paid time off policies that restrict the amount of earned vacation pay that can be paid out at the time of termination. Employees earn these benefits at different rates depending on their years of service. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. The estimated compensated absences liability is expected to be paid within one year of the balance sheet date, and is therefore included in current liabilities.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

Net Position

Net position of the Hospital is classified in two components. Net investment in capital assets consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets.

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 net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were approximately \$5,854,000 and \$6,160,000 for 2013 and 2012, respectively. Estimated cost based on the Hospital's records was \$2,000,000 and \$2,105,000 for 2013 and 2012, respectively.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. In addition, the Hospital has been exempt from taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

During 2013, the Internal Revenue Service revoked the Hospital's federal exemption under Code Section 501(c)(3) for not properly filing an annual Form 990. As of December 31, 2013, the Hospital had filed a request for retroactive reinstatement of its 501(c)(3) status, but had not received confirmation of whether this request was accepted.

The Foundation is exempt from federal income taxes under Section 501(c)(3) and 509(a)(2) of the U.S. Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation files federal tax returns in the U.S. federal jurisdiction.

Foundation

The Foundation is a legally separate, tax-exempt component unit of the Hospital. The Foundation's primary function is to raise and hold funds to support the Hospital and its programs. The board of the Foundation is self-perpetuating. Separate financial statements of the Foundation may be obtained through contacting their office at 1101 W. Jefferson Street, Suite V, Franklin, IN 46131.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. During 2013 and 2012, the Hospital recognized approximately \$1,355,000 and \$1,937,000, respectively, which are included in other operating revenues in the statements of revenues, expenses and changes in net position.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. The reclassifications had no effect on the changes in financial position.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

Note 2: Net Patient Service Revenue

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

Medicare

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

Long-term care services rendered to Medicare program beneficiaries are paid under a prospectively determined payment system on a per diem basis based on each resident's health at admission. Medicare reimburses for 100 days of skilled nursing facility care subject to certain eligibility requirements.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to the service provided and the patient diagnosis.

Long-term care services rendered to Medicaid program beneficiaries are paid on a per diem basis.

Approximately 65% and 53% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2013 and 2012, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

The Hospital received approximately \$2,411,000 and \$4,705,000 during 2013 and 2012, respectively, due to the enactment of a state specific provider assessment program to increase Medicaid payments to hospitals. This revenue is recorded within net patient service revenue in the statements of revenues, expenses and changes in net position for 2013 and 2012. The Hospital paid approximately \$2,603,000 and \$4,653,000 into this Medicaid program for 2013 and 2012, which is recorded as an operating expense in the statements of revenues, expenses and changes in net position. There is no assurance this program will continue to be implemented in the future, and as of December 31, 2013, this provider assessment program was awaiting federal approval to be continued past June 30, 2013. As a result, no estimate has been recorded for this program for possible additional revenue and expenses that could be applicable to the Hospital for the period beginning July 1, 2013.

In March 2014, the Centers for Medicare and Medicaid Services approved the provider assessment fee program retroactively to July 1, 2013. Had approval been received prior to December 31, 2013, the Hospital would have recognized an estimated \$2,411,000 of Medicaid reimbursement and \$1,920,000 of provider assessment fee pertaining to the period July 1, 2013 to December 31, 2013. The net estimated benefit of \$491,000 will be reported in the Hospital's 2014 financial statements, upon retroactive application of the program.

The aforementioned provider assessment fee program is subject to retroactive rate setting by the State of Indiana and its Medicaid program. Management has recorded an accrual for an anticipated provider assessment expense approximating \$516,000 pertaining to the state fiscal period ended June 30, 2013.

The Hospital also qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized approximately \$4,565,000 and \$1,083,000 within patient service revenue related to this supplemental payment program for the years ended December 31, 2013 and 2012, respectively. At December 31, 2013, \$1,536,000 of the \$4,565,000 is accrued as receivable in other current assets. This represents management's best estimate of DSH funds due to the Hospital as of December 31, 2013, which are typically paid in arrears.

The long-term care operations of the Hospital qualify for supplemental Medicaid payments through the Upper Payment Limit (UPL) program. The UPL is established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid. The UPL is distributed through an intergovernmental transfer (IGT) arrangement. The Hospital is responsible for funding the IGT for the long-term care operations. Revenue associated with the UPL program is recorded net of IGT payments made to the program and are included in other operating revenue. The Hospital recognized approximately \$34,240,000 and \$5,933,000 related to this supplement payment program for the years ended December 31, 2013 and 2012, respectively, which is included in other operating revenue in the statements of revenues, expenses and changes in net position. At December 31, 2013 and 2012, \$12,690,000 and \$2,353,000 are accrued and included in other receivables.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

The Hospital has also entered into payment agreements with certain commercial insurance carriers, HMOs 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.

The following is a summary of net patient service revenue for 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Patient service revenue		
Inpatient	\$ 48,142,269	\$ 50,973,204
Outpatient	129,014,068	130,593,473
Long-term care operations	<u>165,812,821</u>	<u>32,809,214</u>
Gross patient service revenue	<u>342,969,158</u>	<u>214,375,891</u>
Deductions from revenue		
Contractual allowances	91,821,220	91,471,259
Bad debts	8,595,010	6,051,302
Charity care	<u>5,854,368</u>	<u>6,159,706</u>
Total deductions from revenue	<u>106,270,598</u>	<u>103,682,267</u>
Net patient service revenue	<u>\$ 236,698,560</u>	<u>\$ 110,693,624</u>

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation (FDIC) or by the Indiana Public Deposit Insurance Fund (IPDIF). This includes any deposit accounts issued or offered by a qualifying financial institution. Accordingly, all deposits in excess of FDIC levels are covered by the IPDIF and are considered collateralized.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest in certain deposit accounts, mutual funds, repurchase agreements and pooled investment funds as authorized by Indiana Code 16-22-3-20.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

At December 31, 2013 and 2012, the Hospital had the following investments and maturities:

December 31, 2013					
Type	Fair Value	Maturities in Years			
		Less	1-5	6-10	More
		Than 1			
Money market mutual funds	\$ 27,949	\$ 27,949	\$ -	\$ -	\$ -
Mutual funds - equities	7,177,011	7,177,011	-	-	-
Equities	1,489,547	1,489,547	-	-	-
Fixed income	25,723	25,723	-	-	-
	<u>\$ 8,720,230</u>	<u>\$ 8,720,230</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2012					
Type	Fair Value	Maturities in Years			
		Less	1-5	6-10	More
		Than 1			
U.S. Government obligations	\$ 1,990,841	\$ 83,138	\$ 444,554	\$ 188,432	\$ 1,274,717
Money market mutual funds	245,982	245,982	-	-	-
Mutual funds - equities	5,859,211	5,859,211	-	-	-
Equities	1,201,271	1,201,271	-	-	-
Fixed income	143,046	-	96,865	31,220	14,961
	<u>\$ 9,440,351</u>	<u>\$ 7,389,602</u>	<u>\$ 541,419</u>	<u>\$ 219,652</u>	<u>\$ 1,289,678</u>

Interest Rate Risk - Interest rate risk is the risk that the changes in interest rates will adversely affect the fair value of an investment. The Hospital does not have a formal investment policy for interest rate risk.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital does not have a formal investment policy for credit risk. At December 31, 2013 and 2012, the Hospital's investments were not rated.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Hospital's investment policy does not address how securities underlying repurchase agreements are to be held.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2013	2012
Carrying value:		
Deposits	\$ 32,271,743	\$ 22,380,125
Investments	8,720,230	9,440,351
	\$ 40,991,973	\$ 31,820,476
Included in the following balance sheets captions:		
Cash and cash equivalents	\$ 6,665,832	\$ 10,608,099
Noncurrent cash and investments		
Internally designated	32,677,099	19,622,078
Held by Foundation	1,649,042	1,590,299
	\$ 40,991,973	\$ 31,820,476

Investment Income

Investment income for the years ended December 31 consisted of:

	2013	2012
Interest, dividends and realized gains	\$ 223,139	\$ 641,599
Net increase in fair value of investments	1,301,509	478,000
	\$ 1,524,648	\$ 1,119,599

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	<u>2013</u>	<u>2012</u>
Medicare	\$ 8,564,539	\$ 6,702,862
Medicaid	5,562,414	1,436,328
Other third-party payers	9,053,598	5,745,311
Patients	<u>16,817,758</u>	<u>10,054,293</u>
	39,998,309	23,938,794
Less allowance for uncollectible accounts	<u>5,636,727</u>	<u>5,550,000</u>
	<u>\$ 34,361,582</u>	<u>\$ 18,388,794</u>

Note 5: Investment in Affiliate

In 2013, the Hospital invested \$2,371,600 for a 49% ownership in CHN/JMH Ventures, LLC, a company formed to provide diagnostic imaging services and outpatient rehabilitative services at a medical office complex in Johnson County. This investment is accounted for under the equity method of accounting.

Financial position and results of operations of CHN/JMH Ventures, LLC are summarized below:

	<u>2013</u>
Current assets	\$ 2,018,968
Property and other long-term assets, net	<u>4,356,328</u>
Total assets	6,375,296
Current liabilities	<u>2,228,041</u>
Members' equity	<u>\$ 4,147,255</u>
Revenues	\$ 542,805
Net loss	\$ (692,345)

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

Note 7: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims 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 claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an individual employee amount of \$300,000 per year. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 600,000	\$ 525,000
Current year claims incurred and changes in estimates for claims incurred in prior years	4,502,479	4,817,234
Claims and expenses paid	<u>(4,652,479)</u>	<u>(4,742,234)</u>
Balance, end of year	<u>\$ 450,000</u>	<u>\$ 600,000</u>

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

Note 9: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Commercial bank loan	\$ 1,724,397	\$ -	\$ (692,068)	\$ 1,032,329	\$ 717,358
Capital lease obligations	245,200	-	(110,946)	134,254	67,965
	<u>\$ 1,969,597</u>	<u>\$ -</u>	<u>\$ (803,014)</u>	<u>\$ 1,166,583</u>	<u>\$ 785,323</u>

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Commercial bank loan	\$ 2,385,554	\$ -	\$ (661,157)	\$ 1,724,397	\$ 688,836
Capital lease obligations	365,899	-	(120,699)	245,200	110,946
	<u>\$ 2,751,453</u>	<u>\$ -</u>	<u>\$ (781,856)</u>	<u>\$ 1,969,597</u>	<u>\$ 799,782</u>

Commercial Bank Loan

The commercial bank loan was amended in November 2013, with a total outstanding balance of \$1.1 million at the time of refinance. The loan bears interest at a fixed rate of 3.99%. The loan is payable in monthly principal and interest payments of \$62,409 through May 2015. The loan is secured by accounts receivable of the Hospital. Subsequent to December 31, 2013, this obligation was paid in full.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 6.5% to 9.5% together with the present value of the future minimum lease payments as of December 31, 2013:

2014	\$ 74,690
2015	74,690
Total minimum lease payments	149,380
Less amount representing interest	15,126
 Present value of future minimum lease payments	 \$ 134,254

Assets under capital leases at December 31, 2013 and 2012, totaled:

	2013	2012
Equipment cost	\$ 302,204	\$ 396,372
Accumulated depreciation	(176,125)	(94,652)
	\$ 126,079	\$ 301,720

Revolving Line of Credit

At December 31, 2013, the Hospital has a \$4.0 million line of credit with a local bank, which expires in November 2014. Interest on outstanding draws accrues at the bank's prime rate, which was 3.25% at December 31, 2013. The line of credit is secured by certain Hospital assets. No amounts were outstanding under this agreement as of December 31, 2013 and 2012.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

Note 10: Designated Net Position

At December 31, 2013 and 2012, unrestricted net position amounts have been designated by the Hospital's Board for funded depreciation and other matters. Designated net position amounts remain under the control of the Board, which may, at its discretion, later use these net position amounts for other purposes. Designated net position at December 31 consisted of:

	2013	2012
Funded depreciation	\$ 12,893,523	\$ 15,914,724
Other board designated	19,783,576	3,707,354
Total designated net position	\$ 32,677,099	\$ 19,622,078

Note 11: Long-Term Care Operating Leases and Management Agreements

The Hospital has entered into various agreements to lease the facilities and equipment for the operation of 33 nursing homes. Along with each lease agreement, the Hospital has also entered into management agreements with the facilities' previous managers (Managers) to continue to operate the facilities. These agreements expire at various times through February 2018 and include optional one to two year extensions. The management agreements include optional termination clauses by either party if material changes in circumstances, as defined in the agreement, occur. The leases include termination clauses where the lease shall automatically end at the termination of the management agreement between the Hospital and the Managers.

The lease agreements call for monthly base rent payments as outlined in the agreements. Several facilities include annual rent increases of 2%. Rental expense approximated \$24,990,000 and \$4,056,000 in 2013 and 2012, respectively. Future minimum rent payments at December 31 are as follows:

2014	\$ 29,943,415
2015	29,066,767
2016	28,658,817
2017	18,733,546
2018	2,722,964
Future minimum lease payments	\$ 109,125,509

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

The management agreements include management fees consisting of base management fees, subordinated management fees and incentive management fees. These amounts are based on the net patient service revenue of the individual facilities. Subordinate and incentive management fees are to be paid only if sufficient working capital exists on an aggregate basis for each group of homes managed by an individual Managers. The agreements also call for quality, royalty and capital improvement fees to be paid to the Managers at amounts based on the occupancy of each facility. Management and other fees approximated \$21,520,000 and \$3,768,000 in 2013 and 2012, respectively.

In 2013, the Hospital has entered into an agreement with a third-party to monitor quality measures at all of its nursing facilities. The agreement calls for fees to be paid at 2.25% of net patient service revenue. Expenses incurred under this agreement in 2013 and 2012 approximated \$3,367,000 and \$709,000, respectively. These expenses are included with expenses of Extended Services as they pertain to the operations of the nursing facilities.

Note 12: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Hospital Board. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. The Hospital is required to match 50% of the employee contribution up to 3% of employee's compensation. In addition, the Hospital may make a discretionary contribution as determined by the Hospital Board. Hospital expense related to the employer contributions to the plan was \$1,056,000 and \$911,000 for 2013 and 2012, respectively.

Note 13: 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. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

Note 14: Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The State of Indiana has not affirmatively indicated whether or not it will participate in the expansion of the Medicaid program. The impact of that decision on the overall reimbursement to the Hospital cannot be quantified at this point.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2013 and 2012

Note 15: Blended Component Unit

The financial statements include the blended component unit accounts of the Foundation as discussed in Note 1. The following is a financial summary of the component unit as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Current assets	\$ 143,625	\$ -
Noncurrent cash and investments	<u>1,649,042</u>	<u>1,590,299</u>
Total assets	<u>\$ 1,792,667</u>	<u>\$ 1,590,299</u>
Total liabilities	\$ 4,162	\$ 1,779
Net position	<u>1,788,505</u>	<u>1,588,520</u>
Total liabilities and net position	<u>\$ 1,792,667</u>	<u>\$ 1,590,299</u>
Revenues	\$ 489,306	\$ 297,326
Expenses	<u>(289,321)</u>	<u>(249,561)</u>
Change in net position	199,985	47,765
Net position, beginning of year	<u>1,588,520</u>	<u>1,540,755</u>
Net position, end of year	<u>\$ 1,788,505</u>	<u>\$ 1,588,520</u>

Supplementary Information

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Detailed Balance Sheet Information
December 31, 2013

Assets	2013				
	Hospital and Physician Services	Extended Services	Foundation	Eliminations	Total
Current Assets					
Cash and cash equivalents	\$ 4,421,768	\$ 2,219,108	\$ 24,956	\$ -	\$ 6,665,832
Patient accounts receivable, net of allowance; Hospital - \$4,274,797 and Extended Services - \$1,361,930	10,335,608	24,025,974	-	-	34,361,582
Other receivables	2,564,730	12,942,563	-	(1,354,038)	14,153,255
Estimated amounts due from third-party payers	1,251,552	-	-	-	1,251,552
Supplies	1,653,162	-	-	-	1,653,162
Prepaid expenses and other	5,054,101	-	118,669	(3,467,087)	1,705,683
Total current assets	<u>25,280,921</u>	<u>39,187,645</u>	<u>143,625</u>	<u>(4,821,125)</u>	<u>59,791,066</u>
Noncurrent Cash and Investments					
Internally designated	32,677,099	-	-	-	32,677,099
Held by Foundation	-	-	1,649,042	-	1,649,042
	<u>32,677,099</u>	<u>-</u>	<u>1,649,042</u>	<u>-</u>	<u>34,326,141</u>
Capital Assets, Net	<u>46,309,962</u>	<u>474,821</u>	<u>-</u>	<u>-</u>	<u>46,784,783</u>
Investment in Affiliate	<u>2,095,553</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,095,553</u>
Total assets	<u>\$ 106,363,535</u>	<u>\$ 39,662,466</u>	<u>\$ 1,792,667</u>	<u>\$ (4,821,125)</u>	<u>\$ 142,997,543</u>
Liabilities and Net Position					
Current Liabilities					
Current maturities of long-term debt	\$ 785,323	\$ -	\$ -	\$ -	\$ 785,323
Accounts payable	1,347,054	35,182,248	4,162	(3,467,087)	33,066,377
Accrued expenses	4,422,999	4,640,559	-	(1,354,038)	7,709,520
Total current liabilities	<u>6,555,376</u>	<u>39,822,807</u>	<u>4,162</u>	<u>(4,821,125)</u>	<u>41,561,220</u>
Long-Term Debt	<u>381,260</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>381,260</u>
Total liabilities	<u>6,936,636</u>	<u>39,822,807</u>	<u>4,162</u>	<u>(4,821,125)</u>	<u>41,942,480</u>
Net Position					
Net investment in capital assets	45,143,379	474,821	-	-	45,618,200
Unrestricted	54,283,520	(635,162)	1,788,505	-	55,436,863
Total net position	<u>99,426,899</u>	<u>(160,341)</u>	<u>1,788,505</u>	<u>-</u>	<u>101,055,063</u>
Total liabilities and net position	<u>\$ 106,363,535</u>	<u>\$ 39,662,466</u>	<u>\$ 1,792,667</u>	<u>\$ (4,821,125)</u>	<u>\$ 142,997,543</u>

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Detailed Statement of Revenues, Expenses and
Changes in Net Position Information
Year Ended December 31, 2013

	2013				
	Hospital	Physician Services	Extended Services	Foundation	Total
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts; Hospital - \$7,369,680 and Extended Services - \$1,225,330	\$ 63,759,003	\$ 8,352,066	\$ 164,587,491	\$ -	\$ 236,698,560
Other operating revenues	2,478,461	-	33,680,035	-	36,158,496
Total operating revenues	<u>66,237,464</u>	<u>8,352,066</u>	<u>198,267,526</u>	<u>-</u>	<u>272,857,056</u>
Operating Expenses					
Salaries and wages	27,489,494	8,832,619	414,977	-	36,737,090
Employee benefits	7,201,471	971,588	52,490	-	8,225,549
Medical professional fees	839,090	30,000	-	-	869,090
Purchased services	2,271,533	7,237	109,423,953	-	111,702,723
Medical supplies and drugs	9,317,081	378,367	6,806,845	-	16,502,293
Other supplies	1,081,292	68,762	-	-	1,150,054
Facility and equipment lease	348,438	126,648	24,990,257	-	25,465,343
Insurance	530,698	440,809	7,316,114	-	8,287,621
Repairs and maintenance	2,688,738	60,272	2,062,371	-	4,811,381
Utilities	1,533,320	16,375	2,882,738	-	4,432,433
Hospital assessment fee	2,603,101	-	-	-	2,603,101
Other	3,482,388	1,156,046	33,202,983	-	37,841,417
Depreciation and amortization	4,487,617	-	-	-	4,487,617
Total operating expenses	<u>63,874,261</u>	<u>12,088,723</u>	<u>187,152,728</u>	<u>-</u>	<u>263,115,712</u>
Operating Income (Loss)	<u>2,363,203</u>	<u>(3,736,657)</u>	<u>11,114,798</u>	<u>-</u>	<u>9,741,344</u>
Nonoperating Revenues (Expenses)					
Investment income	1,165,033	-	-	359,615	1,524,648
Interest expense	(67,836)	-	-	-	(67,836)
Rental revenue (expense), net	(530,023)	11,024	-	-	(518,999)
Foundation expense	-	-	-	(159,630)	(159,630)
Other nonoperating income (expense)	(61,380)	-	-	-	(61,380)
Total nonoperating revenues (expenses)	<u>505,794</u>	<u>11,024</u>	<u>-</u>	<u>199,985</u>	<u>716,803</u>
Excess (Deficiency) of Revenues Over Expenses Before Transfers	2,868,997	(3,725,633)	11,114,798	199,985	10,458,147
Transfers	12,476,137	-	(12,476,137)	-	-
Increase (Decrease) in Net Position	<u>\$ 15,345,134</u>	<u>\$ (3,725,633)</u>	<u>\$ (1,361,339)</u>	<u>\$ 199,985</u>	<u>\$ 10,458,147</u>