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June 15, 2017

Board of Directors
Johnson Memorial Hospital
1125 W Jefferson Street
Franklin IN 46131

We have reviewed the audit report prepared by BKD, LLP Independent Public Accountants, for the period January 1, 2016 to December 31, 2016. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Report of Independent Auditors, the financial statements included in the report present fairly the financial condition of the Johnson Memorial Hospital, as of December 31, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* includes a reference to Finding 2016-001 that is deemed a material weakness in internal control. This finding is included in the report in the Schedule of Findings and Responses.

The audit report is filed with this letter in our office as a matter of public record.


Paul D. Joyce, CPA
State Examiner

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Independent Auditor's Report and Financial Statements
December 31, 2016 and 2015

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
December 31, 2016 and 2015

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Independent Auditor's Report

Board of Trustees
Johnson Memorial Hospital
Franklin, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Johnson Memorial Hospital (Hospital), a component unit of Johnson County, Indiana, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, as listed on the table of contents.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Johnson County Health Foundation and JMH Resource Management Company, Inc., which are included in the Hospital's financial statements, were not audited in accordance with *Government Auditing Standards*.

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 the Johnson Memorial Hospital, a component unit of Johnson County, Indiana as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the 2015 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

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 a 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 audits 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The detailed balance sheet and statement of revenues, expenses and changes in net position information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2017, on our consideration of Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hospital's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
May 12, 2017

Johnson Memorial Hospital

A Component Unit of Johnson County, Indiana

Management's Discussion and Analysis

December 31, 2016 and 2015

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, 2016 and 2015. The financial activities of the Hospital include those of its owned physician practices (Physician Services) and its operated long-term care facilities (Extended Services). The financial statements also include the activity and financial position of Johnson County Health Foundation, Inc. (Foundation) and JMH Resource Management Company, Inc. (Resource Management), which have been reported as blended component units. This management discussion and analysis should be read in conjunction with the accompanying financial statements.

Financial Highlights

- Total cash and investments increased in 2016 by \$9,071,711 (15%) and increased in 2015 by \$5,869,976 (11%).
- The Hospital reported operating income in 2016 and 2015 of \$9,733,431 and \$13,637,140, respectively. The operating income in 2016 decreased by 29% over the operating income reported in 2015. The operating income in 2015 increased by 22% from the operating income reported in 2014. In 2016 and 2015, the Hospital experienced continued growth in its long-term care operations.
- Net nonoperating revenues increased by \$2,936,672 (148%) in 2016 compared to 2015 and decreased by \$1,870,444 (-1,742%) in 2015 compared to 2014. Both decreases were primarily attributable to changes in 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 \$10,691,965 (9%) in 2016 over 2015, and increased by \$11,659,002 (10%) in 2015 over 2014, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2016	2015	2014
Assets			
Patient accounts receivable, net	\$ 42,473,066	\$ 40,604,772	\$ 36,216,693
Other current assets	23,582,116	25,938,924	24,531,867
Capital assets, net	65,127,618	52,690,434	46,991,040
Other noncurrent assets	64,436,402	51,372,785	48,956,327
	<u>\$ 195,619,202</u>	<u>\$ 170,606,915</u>	<u>\$ 156,695,927</u>
Liabilities			
Long-term debt	\$ 9,634,718	\$ -	\$ -
Other current and noncurrent liabilities	51,503,490	46,817,886	44,565,900
Total liabilities	<u>61,138,208</u>	<u>46,817,886</u>	<u>44,565,900</u>
Net Position			
Net investment in capital assets	65,127,618	52,690,434	46,991,040
Unrestricted	69,353,376	71,098,595	65,138,987
	<u>134,480,994</u>	<u>123,789,029</u>	<u>112,130,027</u>
Total net position	<u>134,480,994</u>	<u>123,789,029</u>	<u>112,130,027</u>
Total liabilities and net position	<u>\$ 195,619,202</u>	<u>\$ 170,606,915</u>	<u>\$ 156,695,927</u>

A significant change in the Hospital's assets in 2016 is the increase in patient accounts receivable of \$1,868,294 from \$40,604,772 at December 31, 2015 to \$42,473,066 at December 31, 2016. Net patient service revenues increased in 2016 by \$17,564,135 (6%) compared to 2015. These changes led to a decrease of one day of revenue at December 31, 2016 versus December 31, 2015. The increase in net patient service revenues and the 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 2016 included an increase in other noncurrent assets of \$13,063,617 (25%) compared to 2015. This increase is primarily attributed to increases in noncurrent cash and investments from supplemental Medicaid payments for the long-term care operations of the Hospital. Additionally, capital assets increased in 2016 by \$12,437,184 (24%) compared to 2015. This increase is attributed to new construction projects, such as the cafeteria, main entrance and enhancements to the east end campus, that were still in progress as of December 31, 2016 and land purchases in Greenwood and Whiteland.

Operating Results and Changes in the Hospital's Net Position

In 2016, the Hospital's net position increased by \$10,691,965 (9%) compared to increased in net position during 2015 of \$11,659,002 (10%), as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2016	2015	2014
Operating Revenue			
Net patient service revenue	\$ 305,125,784	\$ 287,561,649	\$ 275,178,969
Other operating revenue	40,621,608	41,472,689	43,386,242
Total operating revenue	<u>345,747,392</u>	<u>329,034,338</u>	<u>318,565,211</u>
Operating Expenses			
Salaries and wages and employee benefits	51,029,190	41,585,854	41,994,668
Purchased services	152,772,725	151,327,916	141,827,666
Depreciation and amortization	4,818,068	4,727,253	4,622,538
Other operating expenses	127,393,978	117,756,175	118,937,981
Total operating expenses	<u>336,013,961</u>	<u>315,397,198</u>	<u>307,382,853</u>
Operating Income	<u>9,733,431</u>	<u>13,637,140</u>	<u>11,182,358</u>
Nonoperating Revenue (Expenses)			
Investment income	1,507,211	(971,152)	478,194
Interest expense	(15,651)	(2,177)	(11,286)
Other	(533,026)	(1,004,809)	(574,302)
Total nonoperating revenue (expense)	<u>958,534</u>	<u>(1,978,138)</u>	<u>(107,394)</u>
Increase in Net Position	<u>\$ 10,691,965</u>	<u>\$ 11,659,002</u>	<u>\$ 11,074,964</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 income in 2016 totaled \$9,733,431, which was a decrease of \$3,903,709 (29%) from operating income reported in 2015 of \$13,637,140. The primary component of the changes in operating income is increase in operating expenses of \$20,616,763 (7%) from \$315,397,198 in 2015 to \$336,013,961 in 2016. The increase in operating expenses was partially offset by increase in operating revenues of \$16,713,054 (5%) from \$329,034,338 in 2015 to \$345,747,392 in 2016.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income and interest expense. The Hospital recognized an increase in its investment return in 2016 compared to 2015, resulting primarily from changes in overall market returns.

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 2016 and 2015, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2016 and 2015, the Hospital had \$65,127,618 and \$52,690,434 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2016 and 2015, the Hospital's construction in progress increased by \$2,636,703 and \$5,876,708, respectively.

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, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,683,284	\$ 9,717,101
Patient accounts receivable, net of allowance; 2016 - \$9,541,569 and 2015 - \$7,559,346	42,473,066	40,604,772
Other receivables	12,673,821	12,292,904
Estimated amounts due from third-party payers	2,353,409	990,450
Supplies	1,533,137	1,452,912
Prepaid expenses and other	1,338,465	1,485,557
Total current assets	66,055,182	66,543,696
Noncurrent Cash and Investments		
Internally designated	61,422,153	48,501,937
Held by Foundation	1,460,998	1,275,686
	62,883,151	49,777,623
Capital Assets, net	65,127,618	52,690,434
Investment in Affiliate	1,553,251	1,595,162
Total assets	\$ 195,619,202	\$ 170,606,915
Liabilities and Net Position		
Current Liabilities		
Note payable to bank	\$ 9,634,718	\$ -
Accounts payable	39,471,745	37,121,314
Accrued expenses	12,031,745	9,696,572
Total current liabilities	61,138,208	46,817,886
Net Position		
Net investment in capital assets	65,127,618	52,690,434
Unrestricted	69,353,376	71,098,595
Total net position	134,480,994	123,789,029
Total liabilities and net position	\$ 195,619,202	\$ 170,606,915

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts of \$10,238,898 in 2016 and \$11,205,981 in 2015	\$ 305,125,784	\$ 287,561,649
Other operating revenue	40,621,608	41,472,689
Total operating revenue	<u>345,747,392</u>	<u>329,034,338</u>
Operating Expenses		
Salaries and wages	41,465,016	34,507,474
Employee benefits	9,564,174	7,078,380
Purchased services	152,772,725	151,327,916
Medical supplies and drugs	22,843,404	22,552,126
Facility and equipment leases	52,009,487	49,622,898
Hospital assessment fee	2,291,176	2,317,798
Other	50,249,911	43,263,353
Depreciation and amortization	4,818,068	4,727,253
Total operating expenses	<u>336,013,961</u>	<u>315,397,198</u>
Operating Income	<u>9,733,431</u>	<u>13,637,140</u>
Nonoperating Revenues (Expenses)		
Investment income (loss)	1,507,211	(971,152)
Interest expense	(15,651)	(2,177)
Other nonoperating income (expense)	(533,026)	(1,004,809)
Total nonoperating expense	<u>958,534</u>	<u>(1,978,138)</u>
Increase in Net Position	10,691,965	11,659,002
Net Position, Beginning of Year	<u>123,789,029</u>	<u>112,130,027</u>
Net Position, End of Year	<u>\$ 134,480,994</u>	<u>\$ 123,789,029</u>

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015 - Restated
Operating Activities		
Receipts from and on behalf of patients	\$ 301,894,531	\$ 287,964,142
Payments to suppliers and contractors	(275,458,229)	(268,309,387)
Payments to employees	(48,694,017)	(40,445,270)
Other receipts, net	38,434,107	39,960,396
Net cash provided by operating activities	<u>16,176,392</u>	<u>19,169,881</u>
Capital and Related Financing Activities		
Borrowings on line of credit	9,634,718	-
Purchase of capital assets	(17,697,933)	(11,321,767)
Net cash used in capital and related financing activities	<u>(8,063,215)</u>	<u>(11,321,767)</u>
Investing Activities		
Investment income	451,756	389,284
Purchase of investments	(6,406,198)	(23,247,062)
Proceeds from disposition of investments	3,798,939	5,894,778
Other	(548,677)	(1,006,986)
Net cash used in investing activities	<u>(2,704,180)</u>	<u>(17,969,986)</u>
Increase (Decrease) in Cash and Cash Equivalents	5,408,997	(10,121,872)
Cash and Cash Equivalents, Beginning of Year	<u>29,244,245</u>	<u>39,366,117</u>
Cash and Cash Equivalents, End of Year	<u>\$ 34,653,242</u>	<u>\$ 29,244,245</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 5,683,284	\$ 9,717,101
Internally-designated cash included in noncurrent cash	28,969,958	19,527,144
Total cash and cash equivalents	<u>\$ 34,653,242</u>	<u>\$ 29,244,245</u>
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities		
Operating income	\$ 9,733,431	\$ 13,637,140
Depreciation and amortization	4,818,068	4,727,253
Provision for uncollectible accounts	10,238,898	11,205,981
Changes in operating assets and liabilities:		
Patient accounts receivable	(12,107,192)	(12,907,268)
Estimated amounts due from third-party payers	(1,362,959)	2,103,780
Accounts payable and accrued expenses	4,685,604	(434,806)
Other assets	170,542	837,801
Net cash provided by operating activities	<u>\$ 16,176,392</u>	<u>\$ 19,169,881</u>

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2016 and 2015

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 a number of 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 Governmental Accounting Standards Board (GASB) Statement No. 61, the financial statements include the financial statements of Johnson County Health Foundation, Inc. (Foundation) and JMH Resource Management Company, Inc. (Resource Management). 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. Resource Management's purpose is to operate for the exclusive benefit of the Hospital and the Health Care Community served by the Hospital, and has 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. Investment income, medical office building, 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.

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.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2016 and 2015

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, cash equivalents consisted primarily of money market accounts with various financial institutions.

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 Return

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.

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.

Supplies

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

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2016 and 2015

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. 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 paid time off benefits that may be realized as paid time off; the policy does not allow for payment of accrued benefits at employment termination. The paid time off policy includes substantially all compensated absences including vacation leave, sick leave and other types of leave. Employees earn these benefits at different rates depending on their years of service. In accordance with Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensating Absences*, management does not accrue a liability for paid time off earned that can be categorized as sick leave. At December 31, 2015, the Hospital had concluded an accrued liability for paid time off earned that can be categorized as vacation leave was not material to the financial statements; therefore, no accrued liability for compensated absences was recognized in the financial statements as of this date. At December 31, 2016, the compensated absence liabilities are computed using the regular pay and termination 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.

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.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2016 and 2015

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.

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 \$3,806,000 and \$3,356,000 for 2016 and 2015, respectively. Estimated cost based on the Hospital's records was \$1,132,000 and \$1,112,000 for 2016 and 2015, 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.

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.

Resource Management has applied for exempt status under Section 501(c)(3) of the U.S. Internal Revenue Code and a similar provision of state law. As of the date of the auditor's report, Internal Revenue Service approval has not been received.

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 the chief financial officer of the Hospital.

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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 2015, the Hospital recognized approximately \$290,000 which is included in other operating revenues in the statements of revenues, expenses and changes in net position. The Hospital did not recognize any income during 2016.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. These reclassifications had no effect on the change in net position.

Note 2: Restatement of Prior Year's Financial Statements

The Hospital's 2015 statement of cash flows has been restated for an error. The Hospital did not include in cash and cash equivalents certain internally-designated demand deposit accounts in the prior year. The impact of the restatement was to increase purchases of investments, net cash used in investing activities and decrease in cash and cash equivalents by \$13,333,743. In addition, the balance of cash and cash equivalents as of January 1, 2015, on the statement of cash flows was increased to reflect these demand deposits of \$32,860,887, and the cash equivalents balance as of December 31, 2015, increased by \$19,527,144 as a result of the above changes. This restatement did not have an impact on the total net position or change in net position of the Hospital.

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Note 3: Net Patient Service Revenue

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

Medicare

Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare 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 71 percent and 69 percent of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2016 and 2015, 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.

The Hospital participates in a state specific provider assessment program designed to increase Medicaid payments to hospitals. The Hospital incurred approximately \$2.3 million of fees related to the program in each of 2016 and 2015, and is recorded as an operating expense. The provider assessment fee program is subject to retroactive rate setting by the state of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital. The program is scheduled to sunset on June 30, 2017. There is no assurance this program will continue to be implemented in the future.

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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 \$1,969,788 and \$2,077,058 within net patient service revenue related to this supplemental payment program for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, respectively, approximately \$2,955,000 and \$1,379,000 of the amounts due are accrued as a receivable in estimated amounts due from third-party payers. This represents management's best estimate of the remaining DSH funds due to the Hospital for each fiscal year, 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 \$41,443,000 and \$41,379,000 related to this supplement payment program for the years ended December 31, 2016 and 2015, respectively, which is included in other operating revenue in the statements of revenues, expenses and changes in net position. At December 31, 2016 and 2015, approximately \$10,174,000 and \$10,106,000 are accrued and included in other receivables.

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 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Patient service revenue		
Inpatient	\$ 49,826,250	\$ 41,006,358
Outpatient	152,026,458	141,702,926
Long-term care operations	<u>234,430,089</u>	<u>223,230,487</u>
Gross patient service revenue	<u>436,282,797</u>	<u>405,939,771</u>
Deductions from revenue		
Contractual allowances	117,111,947	103,815,730
Bad debts	10,238,898	11,205,981
Charity care	<u>3,806,168</u>	<u>3,356,411</u>
Total deductions from revenue	<u>131,157,013</u>	<u>118,378,122</u>
Net patient service revenue	<u>\$ 305,125,784</u>	<u>\$ 287,561,649</u>

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Note 4: 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.

At December 31, 2016 and 2015, the Hospital had the following investments and maturities:

December 31, 2016					
Type	Fair Value	Maturities in Years			
		Less	1-5	6-10	More
		Than 1			
Money market mutual funds	\$ 705,486	\$ 705,486	\$ -	\$ -	\$ -
Mutual funds - equities	14,628,222	14,628,222	-	-	-
Equities	3,558,501	3,558,501	-	-	-
Fixed income	1,814,590	1,814,590	-	-	-
	<u>\$ 20,706,799</u>	<u>\$ 20,706,799</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2015					
Type	Fair Value	Maturities in Years			
		Less	1-5	6-10	More
		Than 1			
Money market mutual funds	\$ 896,680	\$ 896,680	\$ -	\$ -	\$ -
Mutual funds - equities	8,817,058	8,817,058	-	-	-
Equities	7,080,682	7,080,682	-	-	-
Fixed income	387,622	387,622	-	-	-
	<u>\$ 17,182,042</u>	<u>\$ 17,182,042</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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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, 2016 and 2015, 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.

Summary of Carrying Values

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

	<u>2016</u>	<u>2015</u>
Carrying value		
Deposits	\$ 47,859,636	\$ 42,312,682
Investments	<u>20,706,799</u>	<u>17,182,042</u>
	<u>\$ 68,566,435</u>	<u>\$ 59,494,724</u>
 Included in the following balance sheets captions		
Cash and cash equivalents	\$ 5,683,284	\$ 9,717,101
Noncurrent cash and investments		
Internally designated	61,422,153	48,501,937
Held by Foundation	<u>1,460,998</u>	<u>1,275,686</u>
	<u>\$ 68,566,435</u>	<u>\$ 59,494,724</u>

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Investment Income (Loss)

Investment income (loss) for the years ended December 31 consisted of:

Interest, dividends and realized gains	\$ 451,756	\$ 389,284
Net increase (decrease) in fair value of investments	<u>1,055,455</u>	<u>(1,360,436)</u>
	<u>\$ 1,507,211</u>	<u>\$ (971,152)</u>
	-	-

Note 5: 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>2016</u>	<u>2015</u>
Medicare	\$ 8,355,102	\$ 9,470,202
Medicaid	12,023,149	10,591,624
Other third-party payers	16,778,263	16,381,572
Patients	<u>14,858,121</u>	<u>11,720,720</u>
	52,014,635	48,164,118
Less allowance for uncollectible accounts	<u>9,541,569</u>	<u>7,559,346</u>
	<u>\$ 42,473,066</u>	<u>\$ 40,604,772</u>

Note 6: Investment in Affiliate

The Hospital owns a 49 percent interest 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.

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

	2016	2015
Current assets	\$ 2,647,512	\$ 1,157,953
Property and other long-term assets, net	798,457	2,662,388
Total assets	3,445,969	3,820,341
Current liabilities	604,478	710,973
Members' equity	\$ 2,841,491	\$ 3,109,368
Revenues	\$ 3,775,480	\$ 3,235,472
Net loss	\$ (267,877)	\$ (493,158)

Note 7: Capital Assets

Capital assets activity for the years ended December 31 was:

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 4,743,329	\$ -	\$ -	\$ -	\$ 4,743,329
Land improvements	1,463,185	1,311,055	(28,034)	-	2,746,206
Buildings and leasehold improvements	58,483,193	2,617,603	-	7,871,849	68,972,645
Equipment	51,345,716	3,260,724	(1,612,039)	-	52,994,401
Construction in progress	8,342,512	10,508,551	-	(7,871,849)	10,979,214
	124,377,935	17,697,933	(1,640,073)	-	140,435,795
Less accumulated depreciation					
Land improvements	974,670	73,913	(26,360)	-	1,022,223
Buildings and leasehold improvements	30,223,896	2,041,495	-	-	32,265,391
Equipment	40,488,935	3,130,407	(1,598,779)	-	42,020,563
	71,687,501	5,245,815	(1,625,139)	-	75,308,177
Capital assets, net	\$ 52,690,434	\$ 12,452,118	\$ (14,934)	\$ -	\$ 65,127,618

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	2015				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 3,141,963	\$ 1,764,926	\$ (163,560)	\$ -	\$ 4,743,329
Land improvements	1,603,865	19,836	(160,516)	-	1,463,185
Buildings and leasehold improvements	66,154,520	615,197	(8,286,524)	-	58,483,193
Equipment	48,598,905	422,876	(298,289)	2,622,224	51,345,716
Construction in progress	2,465,804	8,498,932	-	(2,622,224)	8,342,512
	<u>121,965,057</u>	<u>11,321,767</u>	<u>(8,908,889)</u>	<u>-</u>	<u>124,377,935</u>
Less accumulated depreciation:					
Land improvements	1,063,900	66,861	(156,091)	-	974,670
Buildings and leasehold improvements	36,341,385	1,897,294	(8,014,783)	-	30,223,896
Equipment	37,568,732	3,213,136	(292,933)	-	40,488,935
	<u>74,974,017</u>	<u>5,177,291</u>	<u>(8,463,807)</u>	<u>-</u>	<u>71,687,501</u>
Capital assets, net	<u>\$ 46,991,040</u>	<u>\$ 6,144,476</u>	<u>\$ (445,082)</u>	<u>\$ -</u>	<u>\$ 52,690,434</u>

Depreciation expense totaling \$427,747 and \$450,038 for 2016 and 2015, respectively, was included in other nonoperating expense in the statements of revenues, expenses and changes in net position as it related directly to rental activities.

Note 8: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. In addition, 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 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.

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Note 9: 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 for the years ended December 31, 2016 and 2015. 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 2016 and 2015 is summarized as follows:

	2016	2015
Balance, beginning of year	\$ 362,791	\$ 450,000
Current year claims incurred and changes in estimates for claims incurred in prior years	5,589,741	3,506,367
Claims and expenses paid	(5,486,366)	(3,593,576)
Balance, end of year	\$ 466,166	\$ 362,791

Note 10: Note Payable to Bank

During the year, the Hospital entered into a \$10,000,000 revolving bank line of credit expiring in 2017. At December 31, 2016, there was \$9,634,718 borrowed against this line. The line is collateralized by certain investments of the Hospital. Interest varies with the bank’s prime rate, which was 2.38 percent on December 31, 2016, and is payable monthly. The balance of this note was paid off subsequent to year-end.

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Note 11: Designated Net Position

At December 31, 2016 and 2015, 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:

	2016	2015
Funded depreciation	\$ 9,121,999	\$ 8,483,111
Other board designated	52,300,154	40,018,826
Total designated net position	\$ 61,422,153	\$ 48,501,937

Note 12: 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 39 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 October 2020 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. Leases were terminated with three of the facilities as of December 31, 2016.

The lease agreements call for monthly base rent payments as outlined in the agreements. Several facilities include annual rent increases of 2 percent. Rental expense approximated \$37,024,000 and \$35,077,000 in 2016 and 2015, respectively. Future minimum rent payments at December 31 are as follows:

2017	\$ 33,382,322
2018	7,691,663
2019	2,652,655
2020	1,408,614
Future minimum lease payments	\$ 45,135,254

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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. 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, quality, royalty and capital improvement fees are to be paid only if sufficient working capital exists on an aggregate basis for each group of homes managed by individual managers. Management and other fees approximated \$9,725,000 and \$13,108,000 in 2016 and 2015, respectively, and are included in purchased services on the statements of revenues, expenses and changes in net position.

The Hospital has granted a security interest in all patient accounts receivable approximating \$24,980,000 at December 31, 2016 for the 33 facilities operated by a single manager.

In 2013, the Hospital entered into an agreement with a third-party to monitor quality measures at all of its nursing facilities. Expenses incurred under this agreement in 2016 and 2015 approximated \$4,053,000 and \$3,864,000, respectively. These expenses are included with expenses of Extended Services as they pertain to the operations of the nursing facilities.

Note 13: 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 percent of the employee contribution up to 3 percent 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 \$958,631 and \$900,490 for 2016 and 2015, respectively.

Note 14: 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. There is a hierarchy of 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

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

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying financial statements 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, 2016 and 2015:

	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, 2016				
Investments by Fair Value Level				
Investments				
Debt securities	\$ 1,814,590	\$ 1,814,590	\$ -	\$ -
Corporate stocks				
Domestic	3,558,501	3,558,501	-	-
Mutual funds				
Money market	705,486	705,486		
Equity	14,628,222	14,628,222	-	-
	<u>\$ 20,706,799</u>	<u>\$ 20,706,799</u>	<u>\$ -</u>	<u>\$ -</u>
Total investments by fair value level	<u>\$ 20,706,799</u>	<u>\$ 20,706,799</u>	<u>\$ -</u>	<u>\$ -</u>

	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, 2015				
Investments by Fair Value Level				
Investments				
Debt securities	\$ 387,622	\$ 387,622	\$ -	\$ -
Corporate stocks				
Domestic	7,080,682	7,080,682	-	-
Mutual funds				
Money market	896,680	896,680	-	-
Equity	8,817,058	8,817,058	-	-
	<u>\$ 17,182,042</u>	<u>\$ 17,182,042</u>	<u>\$ -</u>	<u>\$ -</u>
Total investments by fair value level	<u>\$ 17,182,042</u>	<u>\$ 17,182,042</u>	<u>\$ -</u>	<u>\$ -</u>

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Note 15: 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.

Note 16: Blended Component Units

The financial statements include the blended component unit accounts of the Foundation and Resource Management as discussed in Note 1. The following is a financial summary of the component units as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Current assets	\$ 158,824	\$ 551,317
Noncurrent cash and investments	<u>20,706,799</u>	<u>8,722,219</u>
Total assets	<u>\$ 20,865,623</u>	<u>\$ 9,273,536</u>
Total liabilities	\$ 19,673,667	\$ 8,265,601
Net position	<u>1,191,956</u>	<u>1,007,935</u>
Total liabilities and net position	<u>\$ 20,865,623</u>	<u>\$ 9,273,536</u>
Revenues	\$ 1,335,526	\$ (330,795)
Expenses	<u>(1,151,505)</u>	<u>(452,577)</u>
Change in net position	184,021	(783,372)
Net position, beginning of year	<u>1,007,935</u>	<u>1,791,307</u>
Net position, end of year	<u>\$ 1,191,956</u>	<u>\$ 1,007,935</u>

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Trustees
Johnson Memorial Hospital
Franklin, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Johnson Memorial Hospital (Hospital), a component unit of Johnson County, Indiana, which comprise the balance sheet as of December 31, 2016, 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, and have issued our report thereon dated April 25, 2017, which contained an emphasis of matter paragraph regarding a misstatement. The financial statements of Johnson County Health Foundation and JMH Resource Management Company, Inc., which are included in the Hospital's financial statements, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Hospital's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's Response to Findings

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain matters that we reported to the Hospital's management in a separate letter dated May 12, 2017.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Indianapolis, Indiana
May 12, 2017

Supplementary Information

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Schedule of Findings and Responses
Year Ended December 31, 2016

Reference Number	Finding	Status
2016-001	<p><i>Criteria or Specific Requirement</i> – Governmental Accounting Standards Board Statement Number 9 requires that a statement of cash flows to explain the change during the period in cash and cash equivalents, regardless of whether there are restrictions on their use. The Hospital did not include internally-designated cash balances in the total cash and cash equivalents in its 2015 financial statements.</p> <p><i>Condition</i> – The Hospital reflected internally-designated cash and the activity in these cash balances in investing activities on the statement of cash flows.</p> <p><i>Context</i> – The Hospital’s management considered the internally-designated cash balances to be unavailable for use in Hospital operations.</p> <p><i>Effect</i> – Internally-designated cash balances and the activity in these cash balances were not appropriately reflected in the statement of cash flows.</p> <p><i>Cause</i> – Internally-designated cash balances have grown substantially with the increase in long-term care operating leases.</p> <p><i>Recommendation</i> – Management should ensure all cash and cash equivalents are properly reflected in the statement of cash flows.</p> <p><i>Views of Responsible Officials and Planned Corrective Action</i> – Management agrees appropriate disclosure is necessary within the audited financial statements and has taken steps to ensure the appropriate disclosures are made.</p>	

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Detailed Balance Sheet Information
December 31, 2016

	2016					
	Hospital and Physician Services	Extended Services	JMH Resource Management Company, Inc.	Foundation	Eliminations	Total
Assets						
Current Assets						
Cash and cash equivalents	\$ 2,336,076	\$ 3,300,283	\$ 836	\$ 46,089	\$ -	\$ 5,683,284
Patient accounts receivable, net of allowance; Hospital - \$3,519,274 and Extended Services - \$6,022,295	12,540,883	29,932,183	-	-	-	42,473,066
Other receivables	4,800,527	10,227,332	-	-	(2,354,038)	12,673,821
Estimated amounts due from third-party payers	2,353,409	-	-	-	-	2,353,409
Supplies	1,533,137	-	-	-	-	1,533,137
Prepaid expenses and other	34,024,754	15,638	-	111,899	(32,813,826)	1,338,465
Total current assets	<u>57,588,786</u>	<u>43,475,436</u>	<u>836</u>	<u>157,988</u>	<u>(35,167,864)</u>	<u>66,055,182</u>
Noncurrent Cash and Investments						
Internally designated	42,176,352	-	19,245,801	-	-	61,422,153
Held by Foundation	-	-	-	1,460,998	-	1,460,998
	<u>42,176,352</u>	<u>-</u>	<u>19,245,801</u>	<u>1,460,998</u>	<u>-</u>	<u>62,883,151</u>
Capital Assets, net	<u>64,937,406</u>	<u>190,212</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,127,618</u>
Investment in Affiliate	<u>71,375</u>	<u>1,481,876</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,553,251</u>
Total assets	<u>\$ 164,773,919</u>	<u>\$ 45,147,524</u>	<u>\$ 19,246,637</u>	<u>\$ 1,618,986</u>	<u>\$ (35,167,864)</u>	<u>\$ 195,619,202</u>
Liabilities and Net Position						
Current Liabilities						
Note payable to bank	\$ -	\$ -	\$ 9,634,718	\$ -	\$ -	\$ 9,634,718
Accounts payable	3,622,786	58,643,178	10,019,031	576	(32,813,826)	39,471,745
Accrued expenses	5,157,575	9,208,866	-	19,342	(2,354,038)	12,031,745
Total current liabilities	<u>8,780,361</u>	<u>67,852,044</u>	<u>19,653,749</u>	<u>19,918</u>	<u>(35,167,864)</u>	<u>61,138,208</u>
Net Position						
Net investment in capital assets	64,937,406	190,212	-	-	-	65,127,618
Unrestricted	91,056,152	(22,894,732)	(407,112)	1,599,068	-	69,353,376
Total net position	<u>155,993,558</u>	<u>(22,704,520)</u>	<u>(407,112)</u>	<u>1,599,068</u>	<u>-</u>	<u>134,480,994</u>
Total liabilities and net position	<u>\$ 164,773,919</u>	<u>\$ 45,147,524</u>	<u>\$ 19,246,637</u>	<u>\$ 1,618,986</u>	<u>\$ (35,167,864)</u>	<u>\$ 195,619,202</u>

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Detailed Balance Sheet Information
December 31, 2015

	2015					
	Hospital and Physician Services	Extended Services	JMH Resource Management Company, Inc.	Foundation	Eliminations	Total
Assets						
Current Assets						
Cash and cash equivalents	\$ 4,834,738	\$ 4,460,841	\$ 260,232	\$ 161,290	\$ -	\$ 9,717,101
Patient accounts receivable, net of allowance:						
Hospital - \$2,878,642 and Extended Services - \$4,680,704	12,120,634	28,484,138	-	-	-	40,604,772
Other receivables	3,881,099	10,764,742	-	1,101	(2,354,038)	12,292,904
Estimated amounts due from third-party payers	990,450	-	-	-	-	990,450
Supplies	1,452,912	-	-	-	-	1,452,912
Prepaid expenses and other	26,248,867	2,471	-	128,694	(24,894,475)	1,485,557
Total current assets	<u>49,528,700</u>	<u>43,712,192</u>	<u>260,232</u>	<u>291,085</u>	<u>(27,248,513)</u>	<u>66,543,696</u>
Noncurrent Cash and Investments						
Internally designated	41,055,404	-	7,446,533	-	-	48,501,937
Held by Foundation	-	-	-	1,275,686	-	1,275,686
	<u>41,055,404</u>	<u>-</u>	<u>7,446,533</u>	<u>1,275,686</u>	<u>-</u>	<u>49,777,623</u>
Capital Assets, Net	<u>52,310,010</u>	<u>380,424</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,690,434</u>
Investment in Affiliate	<u>71,375</u>	<u>1,523,787</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,595,162</u>
Total assets	<u>\$ 142,965,489</u>	<u>\$ 45,616,403</u>	<u>\$ 7,706,765</u>	<u>\$ 1,566,771</u>	<u>\$ (27,248,513)</u>	<u>\$ 170,606,915</u>
Liabilities and Net Position						
Current Liabilities						
Note payable to bank	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	1,206,767	52,562,446	8,241,167	5,409	(24,894,475)	37,121,314
Accrued expenses	3,087,969	8,943,616	-	19,025	(2,354,038)	9,696,572
Total liabilities	<u>4,294,736</u>	<u>61,506,062</u>	<u>8,241,167</u>	<u>24,434</u>	<u>(27,248,513)</u>	<u>46,817,886</u>
Net Position						
Net investment in capital assets	52,310,010	380,424	-	-	-	52,690,434
Unrestricted	86,360,743	(16,270,083)	(534,402)	1,542,337	-	71,098,595
Total net position	<u>138,670,753</u>	<u>(15,889,659)</u>	<u>(534,402)</u>	<u>1,542,337</u>	<u>-</u>	<u>123,789,029</u>
Total liabilities and net position	<u>\$ 142,965,489</u>	<u>\$ 45,616,403</u>	<u>\$ 7,706,765</u>	<u>\$ 1,566,771</u>	<u>\$ (27,248,513)</u>	<u>\$ 170,606,915</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, 2016

	2016					Total
	Hospital	Physician Services	Extended Services	JMH Resource Management	Foundation	
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts; Hospital - \$4,224,390 and extended services - \$6,014,508	\$ 64,540,656	\$ 12,169,547	\$ 228,415,581	\$ -	\$ -	\$ 305,125,784
Other operating revenues	2,680,699	-	37,940,909	-	-	40,621,608
Total operating revenues	<u>67,221,355</u>	<u>12,169,547</u>	<u>266,356,490</u>	<u>-</u>	<u>-</u>	<u>345,747,392</u>
Operating Expenses						
Salaries and wages	30,940,495	9,476,984	1,047,537	-	-	41,465,016
Employee benefits	8,247,807	1,042,468	273,899	-	-	9,564,174
Purchased services	3,634,608	1,773,358	147,364,759	-	-	152,772,725
Medical supplies and drugs	9,269,006	1,315,206	12,259,192	-	-	22,843,404
Facility equipment costs	6,037,064	509,855	45,462,568	-	-	52,009,487
Hospital assessment fee	2,291,176	-	-	-	-	2,291,176
Other	1,691,054	613,057	46,903,292	1,042,508	-	50,249,911
Depreciation and amortization	4,627,856	-	190,212	-	-	4,818,068
Total operating expenses	<u>66,739,066</u>	<u>14,730,928</u>	<u>253,501,459</u>	<u>1,042,508</u>	<u>-</u>	<u>336,013,961</u>
Operating Income (Loss)	<u>482,289</u>	<u>(2,561,381)</u>	<u>12,855,031</u>	<u>(1,042,508)</u>	<u>-</u>	<u>9,733,431</u>
Nonoperating Revenues (Expenses)						
Investment income	171,685	-	-	1,169,798	165,728	1,507,211
Interest expense	(15,651)	-	-	-	-	(15,651)
Other nonoperating expense	(424,029)	-	-	-	(108,997)	(533,026)
Total nonoperating revenues (expenses)	<u>(267,995)</u>	<u>-</u>	<u>-</u>	<u>1,169,798</u>	<u>56,731</u>	<u>958,534</u>
Excess (Deficiency) of Revenues Over Expenses Before Transfers	214,294	(2,561,381)	12,855,031	127,290	56,731	10,691,965
Transfers	<u>19,669,892</u>	<u>-</u>	<u>(19,669,892)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>\$ 19,884,186</u>	<u>\$ (2,561,381)</u>	<u>\$ (6,814,861)</u>	<u>\$ 127,290</u>	<u>\$ 56,731</u>	<u>\$ 10,691,965</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, 2015

	2015					Total
	Hospital	Physician Services	Extended Services	JMH Resource Management	Foundation	
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts: Hospital - \$5,331,463 and extended services - \$5,874,518	\$ 60,785,093	\$ 9,420,587	\$ 217,355,969	\$ -	\$ -	\$ 287,561,649
Other operating revenues	1,813,019	-	39,659,670	-	-	41,472,689
Total operating revenues	<u>62,598,112</u>	<u>9,420,587</u>	<u>257,015,639</u>	<u>-</u>	<u>-</u>	<u>329,034,338</u>
Operating Expenses						
Salaries and wages	24,931,736	8,821,814	753,924	-	-	34,507,474
Employee benefits	6,082,795	970,400	25,185	-	-	7,078,380
Purchased services	4,682,799	107,378	146,537,739	-	-	151,327,916
Medical supplies and drugs	9,290,177	726,764	12,535,185	-	-	22,552,126
Facility equipment costs	5,118,115	1,261,218	43,243,565	-	-	49,622,898
Hospital assessment fee	2,317,798	-	-	-	-	2,317,798
Other	911,215	1,172,157	40,885,373	294,608	-	43,263,353
Depreciation and amortization	4,537,041	-	190,212	-	-	4,727,253
Total operating expenses	<u>57,871,676</u>	<u>13,059,731</u>	<u>244,171,183</u>	<u>294,608</u>	<u>-</u>	<u>315,397,198</u>
Operating Income (Loss)	<u>4,726,436</u>	<u>(3,639,144)</u>	<u>12,844,456</u>	<u>(294,608)</u>	<u>-</u>	<u>13,637,140</u>
Nonoperating Revenues (Expenses)						
Investment income	(640,357)	-	-	(239,794)	(91,001)	(971,152)
Interest expense	(2,177)	-	-	-	-	(2,177)
Other nonoperating expense	(852,352)	5,512	-	-	(157,969)	(1,004,809)
Total nonoperating revenues (expenses)	<u>(1,494,886)</u>	<u>5,512</u>	<u>-</u>	<u>(239,794)</u>	<u>(248,970)</u>	<u>(1,978,138)</u>
Excess (Deficiency) of Revenues Over Expenses Before Transfers	3,231,550	(3,633,632)	12,844,456	(534,402)	(248,970)	11,659,002
Transfers	<u>19,248,752</u>	<u>-</u>	<u>(19,248,752)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>\$ 22,480,302</u>	<u>\$ (3,633,632)</u>	<u>\$ (6,404,296)</u>	<u>\$ (534,402)</u>	<u>\$ (248,970)</u>	<u>\$ 11,659,002</u>