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August 3, 2018

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

We have reviewed the audit report opined on by BKD, LLP Independent Public Accountants, for the period January 1, 2017 to December 31, 2017. 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, 2017, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts

The audit 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

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
December 31, 2017 and 2016

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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, 2017 and 2016, and the related and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, as listed in 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.

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.

Praxity
MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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, 2017 and 2016, 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.

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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated June 15, 2018, on our consideration of the 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 solely 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 effectiveness of the Hospital's 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 the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
June 15, 2018

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Management's Discussion and Analysis
December 31, 2017 and 2016

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, 2017 and 2016. 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 2017 by $1,772,563 (3%) and increased in 2016 by $9,071,711 (15%).
- The Hospital reported operating income in 2017 and 2016 of $4,211,754 and $9,733,431, respectively. The operating income in 2017 decreased by 57% over the operating income reported in 2016. The decrease is attributed to increased physician integration costs, reduced collections on patient accounts receivable compared to historical accounting estimates, and the termination of operating licenses for three of its long-term care facilities. The operating income in 2016 decreased by 29% from the operating income reported in 2015. The decrease is attributed to increased physician integration costs and a change in accounting estimate surrounding the Hospital's uncompensated vacation liability.
- Net nonoperating revenues increased by $2,294,430 (239%) in 2017 compared to 2016 and increased by $2,936,672 (148%) in 2016 compared to 2015. Both increases 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 Sheets and Statements 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 sheets and the statements 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 Statements of Cash Flows

The statements 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 $7,464,718 (6%) in 2017 over 2016, and an increase by $10,691,965 (9%) in 2016 over 2015, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2017	2016	2015
Assets			
Patient accounts receivable, net	$ 44,626,233	$ 42,473,066	$ 40,604,772
Other current assets	25,246,918	23,582,116	25,938,924
Capital assets, net	76,033,676	65,127,618	52,690,434
Other noncurrent assets	64,588,814	64,436,402	51,372,785
Total assets	$ 210,495,641	$ 195,619,202	$ 170,606,915
Liabilities			
Long-term debt and note payable to banks	$ 13,994,704	$ 9,634,718	$ -
Other current and noncurrent liabilities	54,555,225	51,503,490	46,817,886
Total liabilities	68,549,929	61,138,208	46,817,886
Net Position			
Net investment in capital assets	75,871,972	65,127,618	52,690,434
Unrestricted	66,073,740	69,353,376	71,098,595
Total net position	141,945,712	134,480,994	123,789,029
Total liabilities and net position	$ 210,495,641	$ 195,619,202	$ 170,606,915

A significant change in the Hospital's assets in 2017 is the increase in patient accounts receivable of $2,153,167 from $42,473,066 at December 31, 2016 to $44,626,233 at December 31, 2017. Net patient service revenues decreased in 2017 by $30,003,857 (10%) compared to 2016. These changes led to an increase of eleven days of revenue at December 31, 2017 versus December 31, 2016. The decrease in net patient service revenues was attributed to decreases in the Extended Services operations and the increase in net patient accounts receivable was attributed to an increase in patient revenues due to changes in Hospital and the Extended Services operations. The increase in days of revenue is attributable to changes in payer mix with the decreases in Extended Services operations.

Other changes in the Hospital's assets in 2017 included an increase in capital assets, net, of $10,906,058 (17%) compared to 2016. This increase is primarily attributed to the implementation of a new electronic medical record system and continued construction projects.

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 2017, the Hospital's net position increased by $7,464,718 (6%) compared to an increase in net position during 2016 of $10,691,965 (9%), as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2017	2016	2015
Operating Revenue			
Net patient service revenue	$ 275,121,927	$ 305,125,784	$ 287,561,649
Other operating revenue	36,998,832	40,621,608	41,472,689
Total operating revenue	312,120,759	345,747,392	329,034,338
Operating Expenses			
Salaries and wages and employee benefits	50,618,161	51,029,190	41,585,854
Purchased services	146,962,430	152,772,725	151,327,916
Depreciation and amortization	5,524,318	4,818,068	4,727,253
Other operating expenses	104,804,096	127,393,978	117,756,175
Total operating expenses	307,909,005	336,013,961	315,397,198
Operating Income	4,211,754	9,733,431	13,637,140
Nonoperating Revenue (Expenses)			
Investment income	3,548,825	1,507,211	(971,152)
Interest expense	(31,010)	(15,651)	(2,177)
Other	(264,851)	(533,026)	(1,004,809)
Total nonoperating revenue (expense)	3,252,964	958,534	(1,978,138)
Increase in Net Position	$ 7,464,718	$ 10,691,965	$ 11,659,002

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 2017 totaled $4,211,754, which was a decrease of $5,521,677 (57%) from operating income reported in 2016 of $9,733,431. The primary component of the changes in operating income is a decrease in operating revenues of $33,626,633 (10%) from $345,747,392 in 2016 to $312,120,759 in 2017. The decrease is attributed to the termination of operating licenses for three of the Hospital's long-term care facilities effective December 31, 2016. The decrease in operating revenues was partially offset by a decrease in operating expenses of $28,104,956 (8%) from $336,013,961 in 2016 to $307,909,005 in 2017 related to the termination of the operating licenses for three of the Hospital's long-term care facilities effective December 31, 2016.

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 2017 compared to 2016 and 2017 compared to 2015, resulting primarily from positive 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 2017, 2016 and 2015, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2017 and 2016, the Hospital had $76,033,676 and $65,127,618 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2017 and 2016, the Hospital's construction in progress increased by $834,264 and $2,636,703, respectively. The Hospital broke ground at the end of the third quarter in 2017 to add a new emergency department, and outpatient services building, while completing construction of a new physical rehabilitation center in December 2017. The entire project is estimated to cost $47 million. Additionally, the Hospital implemented a new electronic medical record (EMR) system in August 2017.

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.

Debt Administration

The Hospital issued revenue bonds of up to $17,000,000 in July 2017. At December 31, 2017, the Hospital has drawn down approximately $162,000 related to the bonds. Bond issuance costs of approximately $162,000 were incurred and immediately expensed. The bonds were issued through the Indiana Finance Authority.

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, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	$ 7,303,435	$ 5,683,284
Patient accounts receivable, net of allowance; 2017 - $13,644,017 and 2016 - $9,541,569	44,626,233	42,473,066
Other receivables	12,446,057	12,673,821
Estimated amounts due from third-party payers	1,636,579	2,353,409
Supplies	1,982,885	1,533,137
Prepaid expenses and other	1,877,962	1,338,465
Total current assets	69,873,151	66,055,182
Noncurrent Cash and Investments		
Internally designated	61,395,177	61,422,153
Held by Foundation	1,640,386	1,460,998
	63,035,563	62,883,151
Capital Assets, net	76,033,676	65,127,618
Investment in Affiliate	1,553,251	1,553,251
Total assets	$ 210,495,641	$ 195,619,202
Liabilities and Net Position		
Current Liabilities		
Note payable to bank	$ 13,833,000	$ 9,634,718
Accounts payable	46,761,540	39,471,745
Accrued expenses	7,793,685	12,031,745
Total current liabilities	68,388,225	61,138,208
Long-Term Debt	161,704	-
Total liabilities	68,549,929	61,138,208
Net Position		
Net investment in capital assets	75,871,972	65,127,618
Unrestricted	66,073,740	69,353,376
Total net position	141,945,712	134,480,994
Total liabilities and net position	$ 210,495,641	$ 195,619,202

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts of $16,378,059 in 2017 and $10,238,898 in 2016	$ 275,121,927	$ 305,125,784
Other operating revenue	36,998,832	40,621,608
Total operating revenue	312,120,759	345,747,392
Operating Expenses		
Salaries and wages	41,528,711	41,465,016
Employee benefits	9,089,450	9,564,174
Purchased services	146,962,430	152,772,725
Medical supplies and drugs	21,855,147	22,843,404
Facility and equipment leases	51,013,994	52,009,487
Hospital assessment fee	3,094,842	2,291,176
Other	28,840,113	50,249,911
Depreciation and amortization	5,524,318	4,818,068
Total operating expenses	307,909,005	336,013,961
Operating Income	4,211,754	9,733,431
Nonoperating Revenues (Expenses)		
Investment income	3,548,825	1,507,211
Interest expense	(31,010)	(15,651)
Other nonoperating expense	(264,851)	(533,026)
Total nonoperating revenues	3,252,964	958,534
Excess of Revenues Over Expenses and Increase in Net Position	7,464,718	10,691,965
Net Position, Beginning of Year	134,480,994	123,789,029
Net Position, End of Year	$ 141,945,712	$ 134,480,994

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Receipts from and on behalf of patients	$ 273,685,590	$ 301,894,531
Payments to suppliers and contractors	(242,371,134)	(275,458,229)
Payments to employees	(54,856,221)	(48,694,017)
Other receipts, net	34,658,385	38,434,107
Net cash provided by operating activities	11,116,620	16,176,392
Capital and Related Financing Activities		
Borrowings on line of credit and issuance of long-term debt	13,994,704	9,634,718
Repayments on line of credit	(9,634,718)	-
Purchase of capital assets and intangibles	(16,957,007)	(17,697,933)
Net cash used in capital and related financing activities	(12,597,021)	(8,063,215)
Investing Activities		
Investment income	672,684	451,756
Purchase of investments	(6,529,354)	(6,406,198)
Proceeds from disposition of investments	5,251,270	3,798,939
Other	(295,861)	(548,677)
Net cash used in investing activities	(901,261)	(2,704,180)
Increase (Decrease) in Cash and Cash Equivalents	(2,381,662)	5,408,997
Cash and Cash Equivalents, Beginning of Year	34,653,242	29,244,245
Cash and Cash Equivalents, End of Year	$ 32,271,580	$ 34,653,242
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 7,303,435	$ 5,683,284
Internally-designated cash included in noncurrent cash	24,968,145	28,969,958
Total Cash and Cash Equivalents	$ 32,271,580	$ 34,653,242
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 4,211,754	$ 9,733,431
Depreciation and amortization	5,524,318	4,818,068
Provision for uncollectible accounts	16,378,059	10,238,898
Changes in operating assets and liabilities:		
Patient accounts receivable	(18,531,226)	(12,107,192)
Estimated amounts due from third-party payers	716,830	(1,362,959)
Accounts payable and accrued expenses	3,051,735	4,685,604
Other assets	(234,850)	170,542
Net cash provided by operating activities	$ 11,116,620	$ 16,176,392

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

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.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017 and 2016, 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. Certificates of deposit are stated at cost, plus accrued interest, which approximates fair value. 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.

Capital Assets (Including Intangible 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
Computer software	7 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. 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.

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 $3,835,000 and $3,806,000 for 2017 and 2016, respectively. Estimated cost based on the Hospital's records was $1,163,000 and $1,132,000 for 2017 and 2016, 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.

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. 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 very 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 70 percent of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2017 and 2016. 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 $3.1 million and $2.3 million of fees related to the program in 2017 and 2016, respectively, 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, 2019. There is no assurance this program will continue to be implemented in the future.

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 within net patient service revenue related to this supplemental payment program for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, respectively, approximately $984,894 and $2,955,000 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 $35,979,000 and $41,443,000 related to this supplemental payment program for the years ended December 31, 2017 and 2016, respectively, which is included in other operating revenue in the statements of revenues, expenses and changes in net position. At December 31, 2017 and 2016, approximately $8,702,000 and $10,174,000 related to these IGT funds are accrued and included in other receivables, respectively.

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 2017 and 2016:

	2017	2016
Patient service revenue		
Inpatient	$ 49,327,000	$ 49,826,250
Outpatient	163,871,876	152,026,458
Long-term care operations	208,815,727	234,430,089
Gross patient service revenue	422,014,603	436,282,797
Deductions from revenue		
Contractual allowances	126,679,668	117,111,947
Bad debts	16,378,059	10,238,898
Charity care	3,834,949	3,806,168
Total deductions from revenue	146,892,676	131,157,013
Net patient service revenue	$ 275,121,927	$ 305,125,784

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 and money market funds, as authorized by Indiana Code 16-22-3-20.

At December 31, 2017 and 2016, the Hospital, Foundation and Resource Management had the following investments and maturities:

	December 31, 2017				
		Maturities in Years			
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	$ 736,938	$ 736,938	$ -	$ -	$ -
Mutual funds - equities	14,939,512	14,939,512	-	-	-
Equities	4,449,796	4,449,796	-	-	-
Fixed income	4,559,139	4,559,139	-	-	-
	$ 24,685,385	$ 24,685,385	$ -	$ -	$ -

	December 31, 2016				
		Maturities in Years			
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
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	-	-	-
	$ 20,706,799	$ 20,706,799	$ -	$ -	$ -

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, 2017 and 2016, 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:

	2017	2016
Carrying value		
Deposits	$ 45,653,613	$ 47,859,636
Investments	24,685,385	20,706,799
	$ 70,338,998	$ 68,566,435
Included in the following balance sheets captions		
Cash and cash equivalents	$ 7,303,435	$ 5,683,284
Noncurrent cash and investments		
Internally designated	61,395,177	61,422,153
Held by Foundation	1,640,386	1,460,998
	$ 70,338,998	$ 68,566,435

Investment Income

Investment income for the years ended December 31 consisted of:

	2017	2016
Interest, dividends and realized gains	$ 672,684	$ 451,756
Net increase in fair value of investments	2,876,141	1,055,455
	$ 3,548,825	$ 1,507,211

Included in deposits are non-negotiable certificates of deposit of $13,382,033 and $13,206,394 as of December 31, 2017 and 2016, respectively.

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:

	2017	2016
Medicare, net	$ 8,429,626	$ 8,355,102
Medicaid, net	15,875,237	12,023,149
Other third-party payers	18,314,189	16,778,263
Patients	15,651,198	14,858,121
	58,270,250	52,014,635
Less allowance for uncollectible accounts	(13,644,017)	9,541,569
	$ 44,626,233	$ 42,473,066

Note 5: 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.

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

	2017	2016
Current assets	$ 1,970,622	$ 2,647,512
Property and other long-term assets, net	828,972	798,457
Total assets	2,799,594	3,445,969
Current liabilities	148,991	604,478
Long-term liabilities	1,632	-
Total liabilities	150,623	604,478
Members' equity	$ 2,648,971	$ 2,841,491
Revenues	$ 3,836,081	$ 3,775,480
Net loss	$ (192,519)	$ (267,877)

Note 6: Capital Assets

Capital assets activity for the years ended December 31 was:

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 4,743,329	$ 97	$ -	$ -	$ 4,743,426
Land improvements	2,746,206	60,860	-	-	2,807,066
Buildings and leasehold improvements	68,972,645	-	-	3,492,112	72,464,757
Equipment	52,994,401	1,262,019	(2,817,945)	720,893	52,159,368
Construction in progress	10,979,214	15,634,031	-	(14,799,767)	11,813,478
Computer software	-	-	-	10,586,762	10,586,762
	140,435,795	16,957,007	(2,817,945)	-	154,574,857
Less accumulated depreciation					
Land improvements	1,022,223	133,711	-	-	1,155,934
Buildings and leasehold improvements	32,265,391	2,343,933	-	-	34,609,324
Equipment	42,020,563	2,613,103	(2,291,314)	-	42,342,352
Computer software	-	433,571	-	-	433,571
	75,308,177	5,524,318	(2,291,314)	-	78,541,181
Capital assets, net	$ 65,127,618	$ 11,432,689	$ (526,631)	$ -	$ 76,033,676

	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

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

Construction commitments at December 31, 2017, related to various projects were approximately $35,000,000.

Note 7: 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.

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 for the years ended December 31, 2017 and 2016. 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 2017 and 2016 is summarized as follows:

	2017	2016
Balance, beginning of year	$ 466,166	$ 362,791
Current year claims incurred and changes in estimates for claims incurred in prior years	5,562,399	5,589,741
Claims and expenses paid	(5,591,394)	(5,486,366)
Balance, end of year	$ 437,171	$ 466,166

Note 9: Long-Term Obligations

Revenue Bonds Payable – Series 2017

The Series 2017 revenue bonds payable consist of Health Facility Revenue Bonds in the original amount of $17,000,000 dated July 1, 2017, and issued through the Indiana Finance Authority. The terms of the bonds shall be divided into consecutive interest rate periods during each of which the bonds shall bear interest at the daily interest rate, weekly interest rate, bond interest term rates, index interest rate or long-term interest rate. The bonds are payable through January 1, 2033. The bonds will initially bear interest at a variable rate equal to the Prime Index Rate through the date on which the bonds have been redeemed in full. Thereafter, the bonds will convert to a fixed rate. All of the bonds still outstanding may be redeemed at the Hospital's option on or after July 1, 2019, at a redemption price of 101 percent, decreasing to 100 percent on or after July 1, 2024. The Bonds are secured by the net revenues of the Hospital and the assets restricted under the bond indenture agreement. Payments of bond principal are also secured by an insurance policy issued by a commercial insurer. Bond redemptions may be made in whole or in part through the maturity date.

At December 31, 2017, the Hospital has drawn down $161,704, which was used to pay issuance costs. The Hospital is permitted to draw down up to $17,000,000 under the Loan Agreement and Trust Indenture (Agreements), as defined by the Agreements. Payments required for the bonds are interest-only (3.75 percent) until converted to a longer-term bond, at which time principal and interest payments will be determined. Subsequent to year-end, the Hospital has drawn down approximately $6,000,000 of borrowings against this bond.

Note 10: Note Payable to Bank

The Hospital has a $15,000,000 revolving bank line of credit expiring in 2018. At December 31, 2017 and 2016, there was $13,833,000 and $9,634,718 borrowed against this line, respectively. The line is collateralized by certain investments of the Hospital. Interest rate is equaled to one month LIBOR, which was 1.57 percent on December 31, 2017, plus 1.15 – 1.60 percent depending on the outstanding balance. The Hospital is required to maintain certain covenants as defined by the line of credit agreement.

Note 11: Designated Net Position

At December 31, 2017 and 2016, 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:

	2017	2016
Funded depreciation	$ 8,080,675	$ 9,121,999
Other Board designated	53,314,502	52,300,154
Total designated net position	$ 61,395,177	$ 61,422,153

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 36 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 $34,469,000 and $37,024,000 in 2017 and 2016, respectively. Future minimum rent payments at December 31 are as follows:

2018	$ 19,245,709
2019	2,652,655
2020	1,408,614
Future minimum lease payments	$ 23,306,978

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 $14,339,000 and $9,725,000 in 2017 and 2016, 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 $30,740,000 at December 31, 2017, 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 2017 and 2016 approximated $2,403,000 and $4,053,000, 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 $879,808 and $958,631 for 2017 and 2016, 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

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, 2017 and 2016:

	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, 2017				
Investments by Fair Value Level				
Investments				
Debt securities	$ 4,559,139	$ 4,559,139	$ -	$ -
Corporate stocks				
Domestic	4,449,796	4,449,796	-	-
Mutual funds				
Money market	736,938	736,938	-	-
Equity	14,939,512	14,939,512	-	-
Total investments by fair value level	$ 24,685,385	$ 24,685,385	$ -	$ -

	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	-	-
Total investments by fair value level	$ 20,706,799	$ 20,706,799	$ -	$ -

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, 2017 and 2016:

	2017	2016
Current assets	$ 195,042	$ 158,824
Noncurrent cash and investments	24,685,385	20,706,799
Total assets	$ 24,880,427	$ 20,865,623
Total liabilities	$ 22,315,503	$ 19,673,667
Net position	2,564,924	1,191,956
Total liabilities and net position	$ 24,880,427	$ 20,865,623
Revenues	$ 3,307,216	$ 1,335,526
Expenses	(1,934,248)	(1,151,505)
Change in net position	1,372,968	184,021
Net position, beginning of year	1,191,956	1,007,935
Net position, end of year	$ 2,564,924	$ 1,191,956

Note 17: Future Accounting Principles

Leases

In fiscal year 2020, the Hospital will implement GASB Statement No. 87, *Leases*. The statement provides a new framework for accounting for leases under the principal that leases are financings and lessees should recognize an intangible asset and a corresponding liability while the lessor will recognize a lease receivable and related deferred inflow of resources. The Hospital has not determined the impact of this new standard on its financial statements; however, it could have a material future impact.

Post-employment Benefits

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* (GASB 75), as they relate to governments that provide postemployment benefits other than pensions administered as trusts or similar arrangements that meet certain criteria. GASB 75 requires governments providing postemployment benefits to recognize their long-term obligation for postemployment benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of postemployment benefits. GASB 75 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions in GASB 75 are effective for fiscal years beginning after June 15, 2017; therefore, the Hospital's fiscal year 2018. The impact of applying this statement has not been determined.

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

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), which comprise the balance sheet as of December 31, 2017, 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 June 15, 2018. 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

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (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.

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 *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 entity's financial statements will not be prevented or detected and corrected 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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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*.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Indianapolis, Indiana
June 15, 2018