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November 23, 2022

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

We have reviewed the audit report of Johnson Memorial Hospital, which was opined upon by FORVIS, LLP, Independent Public Accountants, for the period January 1, 2021 to December 31, 2021. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of the Johnson Memorial Hospital as of December 31, 2021, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, FORVIS, LLP prepared the audit report 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.

A handwritten signature in cursive script that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Independent Auditor's Report and Financial Statements
December 31, 2021

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
December 31, 2021

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Independent Auditor's Report

Board of Trustees
Johnson Memorial Hospital
Franklin, Indiana

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Johnson Memorial Hospital, a component unit of Johnson County, Indiana (Hospital), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Hospital, as of December 31, 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) 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.

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 (detailed financial information), as well as the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (SEFA) are presented for purposes of additional analysis and are not required parts 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the detailed financial information and SEFA are 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 November 11, 2022, 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.

FORVIS,LLP

Indianapolis, Indiana
November 11, 2022

Johnson Memorial Hospital

A Component Unit of Johnson County, Indiana

Management's Discussion and Analysis

December 31, 2021

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, 2021 and 2020. The financial activities of the Hospital include those of its operated long-term care facilities (Extended Services), as well as the activity and financial position of Johnson County Health Foundation, Inc. (Foundation), JMH Resource Management Company, Inc. (Resource Management), Johnson Memorial Health Physician Network, LLC (Physician Network), and beginning in 2021, Johnson Memorial Hospital Pain Management, LLC (Pain 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 decreased in 2021 by \$11,131,989 (13 percent). The decrease in 2021 is attributable to the recoupment of cash advanced under the Medicare Accelerated Payments program, as well as delays in the billing and collection of patient accounts stemming from the cybersecurity breach.
- Total liabilities in 2021 decreased by \$26,812,145 (25 percent). The decrease is attributable to the aforementioned recoupment of Medicare Accelerated Payments, as well as a reduction in the amounts owed to managers of the Hospital's extended services (long-term care) operations.
- The Hospital reported an operating loss in 2021 and 2020 of \$(346,419) and \$(21,291,416), respectively. The operating loss in 2021 was 98 percent less than the operating loss reported in 2020. This improvement is attributable to fluctuations in operating revenue and expenses as a result of the COVID-19 pandemic, as certain operating factors and indicators were more heavily affected in 2020 than in 2021. The improvement is also attributable to changes in management agreements associated with nursing operations and the impact (reduction) to purchased services expenses.
- Net nonoperating revenues decreased by \$13,195,179 (51 percent) in 2021 compared to 2020. The decrease in 2021 was primarily driven by the timing of receipt and revenue recognition of funding received through the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act).

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.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Management's Discussion and Analysis
December 31, 2021

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 three 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 sheet. The Hospital's net position increased by \$12,249,647 (8 percent) in 2021 over 2020, as shown in Table 1.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Management's Discussion and Analysis
December 31, 2021

Table 1: Assets, Liabilities and Net Position

	2021	2020
Assets		
Patient accounts receivable, net	\$ 54,141,894	\$ 46,169,015
Other current assets	41,078,337	40,421,709
Capital assets, net	92,304,114	98,231,919
Other noncurrent assets	56,231,872	73,496,072
	<u>\$ 243,756,217</u>	<u>\$ 258,318,715</u>
Liabilities		
Long-term debt and note payable to banks	\$ 14,090,699	\$ 15,167,520
Other current and noncurrent liabilities	64,707,608	90,442,932
Total liabilities	<u>78,798,307</u>	<u>105,610,452</u>
Net Position		
Net investment in capital assets	77,843,415	80,798,484
Restricted	30,165	-
Unrestricted	87,084,330	71,909,779
Total net position	<u>164,957,910</u>	<u>152,708,263</u>
	<u>\$ 243,756,217</u>	<u>\$ 258,318,715</u>

Two significant changes in the Hospital's assets in 2021 include the increase in patient accounts receivable of \$7,972,879, and the decrease in other noncurrent assets of \$17,264,200. A significant change in the Hospital's liabilities in 2021 is the decrease in other current and noncurrent liabilities of \$25,735,324.

Operating Results and Changes in the Hospital's Net Position

In 2021, the Hospital's net position increased by \$12,249,647 compared to an increase in net position during 2020 of \$4,399,829, as shown in Table 2.

Johnson Memorial Hospital
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Management's Discussion and Analysis
December 31, 2021

Table 2: Operating Results and Change in Net Position

	2021	2020
Operating Revenues		
Net patient service revenue	\$ 283,573,639	\$ 281,356,649
Other operating revenues	33,562,234	42,041,240
Total operating revenues	<u>317,135,873</u>	<u>323,397,889</u>
Operating Expenses		
Salaries, wages and employee benefits	55,661,241	54,049,444
Purchased services	145,378,041	173,227,533
Depreciation and amortization	7,749,449	7,034,630
Other operating expenses	108,693,561	110,377,698
Total operating expenses	<u>317,482,292</u>	<u>344,689,305</u>
Operating Loss	(346,419)	(21,291,416)
Nonoperating COVID-19 Grant Revenue	<u>7,682,842</u>	<u>21,293,414</u>
Income Before Other Nonoperating Revenues (Expenses)	<u>7,336,423</u>	<u>1,998</u>
Other Nonoperating Revenues (Expenses)		
Investment income	3,533,420	4,262,638
Interest expense	(580,362)	(617,632)
Other	1,860,166	752,825
Total other nonoperating revenues (expenses)	<u>4,813,224</u>	<u>4,397,831</u>
Other Changes in Net Position	<u>100,000</u>	<u>-</u>
Increase in Net Position	<u>\$ 12,249,647</u>	<u>\$ 4,399,829</u>

Operating Loss

The first component of the overall change in the Hospital's net position is its operating loss — generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. During 2020, the operating loss was due to fluctuations in patient volumes and changes within the nursing operations management agreements. During 2021, while still operating at a slight loss, operations improved, particularly at the hospital-level driven by patient volumes, and for the overall organization, changes occurring to revenue outweighed changes occurring to expenses. As the Hospital was formed and is operated primarily to serve residents of Johnson County and the surrounding area, the Hospital has implemented strong cost controls to provide sufficient resources to enable the facility to serve lower income and other residents.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Management's Discussion and Analysis
December 31, 2021

The operating loss in 2021 totaled \$(346,419), which was an improvement of \$20,944,997 (98 percent) from operating loss reported in 2020 of \$(21,291,416). The primary component of the change in operating loss is a decrease in expenses related to purchased services, which decreased by \$27,849,492 (16 percent) in 2021. The decrease in purchased services is primarily due to the aforementioned changes in management agreements associated with nursing operations.

Nonoperating Revenues and Expenses

Historically, nonoperating revenues and expenses consist primarily of investment income and interest expense. The Hospital recognized a slight decrease in its investment return in 2021 compared to 2020.

In 2021, nonoperating activity also includes \$7,682,842 of grant revenue related to the COVID-19 pandemic, which is a decrease from the \$21,293,414 recognized in 2020. These grants relate to Provider Relief Funds from the Department of Health and Human Services (HHS).

The Hospital's Cash Flows

Another way to assess the financial health of an institution is to look at the statement of cash flows. The primary purpose of the statement of cash flows is to provide information about the cash receipts and cash payments made by the Hospital during the periods. The statement of cash flows also helps financial statement readers assess:

- The Hospital's ability to generate future net cash flows
- The Hospital's ability to meet obligations as they become due
- The Hospital's need for external financing

A major source of funds included in operating activities is receipts on and behalf of patients of \$269 million. The largest cash payments for operating activities were \$264 million for payments to suppliers and contractors and \$58 million to employees.

Cash provided by noncapital financing activities consists of governmental grants.

Cash used in capital and related financing activities is primarily due to the purchase of capital assets and repayments on long-term debt.

Cash used in investing activities primarily reflects purchases and sales of investments and investment income.

Johnson Memorial Hospital
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Management's Discussion and Analysis
December 31, 2021

Capital Asset and Debt Administration

Capital Assets

At the end of 2021 and 2020, the Hospital had \$92,304,114 and \$98,231,919, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2021, the Hospital's construction in progress decreased by \$41,210,498, as the Hospital placed into service the new emergency department and outpatient services building, which began construction in 2017. More detailed information about the Hospital's capital assets is presented in the notes to the financial statements.

Debt Administration

The Hospital issued revenue bonds of \$17,000,000 in July 2017. At December 31, 2021, the Hospital had \$13,902,602 outstanding related to the bonds. The bonds were issued through the Indiana Finance Authority. More detailed information about the Hospital's debt is presented in the notes to the financial statements.

Other Economic Factors

Management believes the health care industry's and the Hospital's operating margins will continue to be under pressure due to changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payment received for services rendered. The ongoing challenge facing the Hospital is to continue to provide quality patient care in a competitive environment, and to attain reasonable rates for services provided while managing costs.

Additionally, uncertainty and business disruption surrounding the COVID-19 pandemic have and could continue to impact the operations of the Hospital. The economic impact, contingent on the current and future ramifications of COVID-19, as well as other factors, may negatively impact the Hospital's payor and service mix and overall operating expenses.

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 Sheet
December 31, 2021

		2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 23,839,079	
Patient accounts receivable, net of allowance of \$18,094,307	54,141,894	
Other receivables	11,304,672	
Estimated amounts due from third-party payers	1,065,000	
Supplies	2,914,936	
Prepaid expenses and other	1,954,650	
Total current assets		\$ 95,220,231
Noncurrent Cash and Investments		
Internally designated	51,705,718	
Held by Foundation	2,164,921	
Total noncurrent cash and investments		53,870,639
Capital Assets, net		92,304,114
Investments in Affiliates		2,361,233
Total assets		\$ 243,756,217
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 1,107,076	
Accounts payable	49,660,539	
Accrued expenses	13,319,280	
Estimated amounts due to third-party payers	1,727,789	
Total current liabilities		\$ 65,814,684
Noncurrent Liabilities - Long-Term Debt		12,983,623
Total liabilities		78,798,307
Net Position		
Net investment in capital assets	77,843,415	
Restricted	30,165	
Unrestricted	87,084,330	
Total net position		164,957,910
Total liabilities and net position		\$ 243,756,217

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2021

		<u>2021</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of \$18,514,150	\$ 283,573,639	
Other operating revenues	<u>33,562,234</u>	
Total operating revenues		\$ 317,135,873
 Operating Expenses		
Salaries and wages	46,769,456	
Employee benefits	8,891,785	
Purchased services	145,378,041	
Medical supplies and drugs	29,115,758	
Facility and equipment leases	46,490,859	
Hospital assessment fee	4,327,253	
Other	28,759,691	
Depreciation and amortization	<u>7,749,449</u>	
Total operating expenses		<u>317,482,292</u>
 Operating Loss		(346,419)
 Nonoperating COVID-19 Grant Revenue		<u>7,682,842</u>
 Income Before Other Nonoperating Revenues (Expenses)		<u>7,336,423</u>
 Other Nonoperating Revenues (Expenses)		
Investment income	3,533,420	
Interest expense	(580,362)	
Gain on sale of capital assets	959,556	
Other nonoperating revenues	<u>900,610</u>	
Total other nonoperating revenues (expenses)		<u>4,813,224</u>
 Excess of Revenues Over Expenses Before Capital Contributions		12,149,647
 Capital Contributions		<u>100,000</u>
 Increase in Net Position		12,249,647
 Net Position, Beginning of Year		<u>152,708,263</u>
 Net Position, End of Year		<u><u>\$ 164,957,910</u></u>

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Statement of Cash Flows
Year Ended December 31, 2021

		2021
Operating Activities		
Receipts from and on behalf of patients	\$ 268,691,916	
Payments to suppliers and contractors	(263,496,296)	
Payments to employees	(57,756,650)	
Other operating activities, net	35,364,787	
Net cash used in operating activities		\$ (17,196,243)
Noncapital Financing Activity - noncapital grants, contributions and transfers		
		6,403,381
Capital and Related Financing Activities		
Principal paid on long-term debt	(1,005,283)	
Interest paid on long-term debt	(580,362)	
Principal paid on capital leases	(71,538)	
Proceeds from sale of capital assets	1,472,251	
Purchase of capital assets	(4,230,254)	
Net cash used in capital and related financing activities		(4,415,186)
Investing Activities		
Investment income	3,029,056	
Purchases of investments	(38,812,194)	
Proceeds from disposition of investments	32,027,032	
Contributions received from investments in affiliates	632,740	
Contributions paid for investments in affiliates	(990,711)	
Other investing activities, net	900,610	
Net cash used in investing activities		(3,213,467)
Decrease in Cash and Cash Equivalents		
		(18,421,515)
Cash and Cash Equivalents, Beginning of Year		
		53,197,173
Cash and Cash Equivalents, End of Year		
		\$ 34,775,658
Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash and cash equivalents	\$ 23,839,079	
Internally-designated cash included in noncurrent cash	10,936,579	
Total cash and cash equivalents		\$ 34,775,658
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (346,419)	
Depreciation and amortization	7,749,449	
Provision for uncollectible accounts	18,514,150	
Changes in operating assets and liabilities		
Patient accounts receivable	(26,487,029)	
Estimated amounts due from/to third-party payers	336,730	
Accounts payable and accrued expenses	(15,731,104)	
Medicare accelerated payments	(7,245,574)	
Other assets and liabilities	6,013,554	
Net cash used in operating activities		\$ (17,196,243)
Supplemental Cash Flow Information		
Capital assets in accounts payable		\$ 370,000

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2021

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 and surrounding areas. The Hospital also operates a home health agency.

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. Long-term care operations are more fully described in Note 12.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, the financial statements include the accounts of the following:

- Johnson County Health Foundation, Inc. (Foundation) – The Foundation's purpose is to provide philanthropic support through fundraising and other activities for the acquisition of equipment, facility development and support of programs at the Hospital and has therefore been reported as a blended component unit. Separate audited financial statements are not issued for the Foundation.
- JMH Resource Management Company, Inc. (Resource Management) – 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. Separate audited financial statements are not issued for Resource Management.
- Johnson Memorial Health Physician Network, LLC (Physician Network) – Physician Network's purpose is to own physician practices which provide outpatient services to patients in the Johnson County and surrounding areas. The Hospital holds a 95% ownership interest in Physician Network, and Resource Management holds a 5% ownership interest in Physician Network. Separate audited financial statements are not issued for Physician Network.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
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- Johnson Memorial Hospital Pain Management, LLC (Pain Management) – The Hospital holds a 51% ownership interest in Pain Management, which was organized to offer pain management services in the Hospital’s primary service area. In accordance with GASB Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*, the operations of Pain Management are reported as a blended component unit, as the Hospital holds a majority equity interest. Although it is legally separate from the Hospital, Pain Management is reported as if it were a part of the Hospital. All significant intercompany transactions have been eliminated for financial reporting purposes. Separate audited financial statements are not issued for Pain Management.

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, 2021 and 2020, 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.

Johnson Memorial Hospital
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Notes to Financial Statements
December 31, 2021

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. Certificates of deposit are stated at cost, plus accrued interest, which approximates fair value. Investments in affiliates are 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.

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

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Capital Assets Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the year ended December 31, 2021.

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 Compensated 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 three 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. Restricted net position consists of the minority equity ownership of Pain Management. Unrestricted net position is remaining assets, less remaining liabilities that do not meet the definition of net investment in capital assets or restricted net position.

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.

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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. For the year ended December 31, 2021, charges excluded from revenue under the Hospital's charity care policy were approximately \$1,231,000, and the estimated cost based on the Hospital's records was \$283,000.

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 exempted 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. The Foundation has been determined not to be a private foundation under Section 509(a)(2) of the Internal Revenue Code. Accordingly, donations made to the Foundation qualify as charitable contributions. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Resource Management is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. It is further classified as a public charity under Section 509(a)(3) of the Internal Revenue Code. However, Resource Management is subject to federal income tax on any unrelated business taxable income.

Physician Network and Pain Management, which are limited liability companies, are not directly subject to income taxes under the provisions of the Internal Revenue Code and applicable state laws. Taxable income or loss is allocated to their members in accordance with their respective percentage ownership for inclusion in their respective tax returns.

The Foundation and Resource Management file 990 information returns in the U.S. federal jurisdiction and applicable state returns in the State of Indiana. Physician Network and Pain Management file 1065 partnership federal income tax returns in the U.S. federal jurisdiction and applicable state returns in the State of Indiana. Generally, tax years before 2018 are no longer subject to examination by the tax authorities.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if they have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken and has concluded that as of December 31, 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements.

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Grants and Contributions

From time to time, the Hospital receives certain federal and state grants, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Future Accounting Standards

In fiscal year 2022, 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.

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

Certain 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. Certain inpatient nonacute services are paid based on a cost reimbursement methodology. 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. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through December 31, 2018.

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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 67 percent of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended December 31, 2021. 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 \$4,327,000 of fees related to the program in 2021 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 Hospital also qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the state of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized approximately \$1,970,000 within net patient service revenue related to this supplemental payment program for the year ended December 31, 2021. At December 31, 2021, approximately \$985,000 of the amounts due were 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 the current state fiscal year.

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 is included in other operating revenue. The Hospital recognized approximately \$30,400,000 related to this supplemental payment program for the year ended December 31, 2021, which is included in other operating revenue in the statement of revenues, expenses and changes in net position. At December 31, 2021, approximately \$5,795,000 related to these IGT funds are accrued and included in other receivables.

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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 2021:

	2021
Patient service revenue	
Inpatient	\$ 72,822,921
Outpatient	265,597,211
Long-term care operations	186,741,012
Gross patient service revenue	525,161,144
Deductions from revenue	
Contractual allowances	221,842,085
Bad debts	18,514,150
Charity care	1,231,270
Total deductions from revenue	241,587,505
Net patient service revenue	\$ 283,573,639

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.

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At December 31, 2021, the Hospital, Foundation and Resource Management had the following investments and maturities:

Type	December 31, 2021				
	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Debt securities	\$ 4,978,660	\$ 1,384,570	\$ 3,594,090	\$ -	\$ -
Mutual funds - equities	9,913,016	9,913,016	-	-	-
Equities	12,490,534	12,490,534	-	-	-
Mutual funds - fixed income	15,551,850	15,551,850	-	-	-
	\$ 42,934,060	\$ 39,339,970	\$ 3,594,090	\$ -	\$ -

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, 2021, 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.

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Summary of Carrying Values

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

	2021
Carrying value	
Deposits	\$ 34,775,658
Investments	42,934,060
	\$ 77,709,718
Included in the following balance sheets captions	
Cash and cash equivalents	\$ 23,839,079
Noncurrent cash and investments	
Internally designated	51,705,718
Held by Foundation	2,164,921
	\$ 77,709,718

Investment Income

Investment income for the year ended December 31 consisted of:

	2021
Interest, dividends and realized gains	\$ 3,029,056
Net increase in fair value of investments	504,364
	\$ 3,533,420

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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:

	2021
Medicare, net	\$ 15,559,355
Medicaid, net	11,002,917
Other third-party payers, net	27,711,233
Patients	17,962,696
	72,236,201
Less allowance for uncollectible accounts	(18,094,307)
	\$ 54,141,894

Note 5: Investments in Affiliates

The Hospital owns a 49 percent interest in CHN/JMH Ventures, LLC (CHN/JMH), 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.

Effective October 2021, the Hospital owns a 5 percent interest in St. Francis Radiation Therapy Centers, LLC (SFRTC), a company formed to provide radiation oncology services at outpatient sites in Indianapolis, Indiana, and Mooresville, Indiana. This investment is also accounted for under the equity method of accounting.

Financial position and results of operations of these joint venture investments for 2021 are summarized below:

	CHN/JMH	SFRTC
Current assets	\$ 3,070,964	\$ 7,797,881
Property and other long-term assets, net	375,291	5,841,362
Total assets	\$ 3,446,255	\$ 13,639,243
Current liabilities	\$ 794,935	\$ 6,453,408
Members' equity	2,651,320	7,185,835
Total liabilities and members' equity	\$ 3,446,255	\$ 13,639,243
Revenues	\$ 4,473,657	\$ 15,282,967
Net gain	\$ 275,185	\$ 7,874,120

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Note 6: Capital Assets

Capital assets activity for the year ended December 31 was:

	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 4,743,426	\$ 601,487	\$ (418,304)	\$ -	\$ 4,926,609
Land improvements	2,886,743	-	(159,127)	-	2,727,616
Buildings and leasehold improvements	69,291,605	-	(1,595,164)	36,957,986	104,654,427
Equipment	56,694,358	1,249,507	(1,282,204)	4,735,857	61,397,518
Construction in progress	41,613,854	483,345	-	(41,693,843)	403,356
Computer software	10,729,489	-	-	-	10,729,489
	<u>185,959,475</u>	<u>2,334,339</u>	<u>(3,454,799)</u>	<u>-</u>	<u>184,839,015</u>
Less accumulated depreciation					
Land improvements	1,543,163	111,706	(159,127)	-	1,495,742
Buildings and leasehold improvements	32,214,939	3,689,677	(1,500,773)	-	34,403,843
Equipment	49,319,256	2,435,140	(1,282,204)	-	50,472,192
Computer software	4,650,198	1,512,926	-	-	6,163,124
	<u>87,727,556</u>	<u>7,749,449</u>	<u>(2,942,104)</u>	<u>-</u>	<u>92,534,901</u>
Capital assets, net	<u>\$ 98,231,919</u>	<u>\$ (5,415,110)</u>	<u>\$ (512,695)</u>	<u>\$ -</u>	<u>\$ 92,304,114</u>

Note 7: Medical Malpractice Claims

The Hospital participates in the *Indiana Medical Malpractice Act*, which limits professional liability for claims. For claims on or after July 1, 2019, the maximum recovery is \$1,800,000 per occurrence, \$500,000 of which would be paid through malpractice insurance coverage, with the remainder due from the State of Indiana Patient Compensation Fund (Fund). Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

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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 year ended December 31, 2021. 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, included in accrued expenses on the balance sheet, during 2021 is summarized as follows:

	2021
Balance, beginning of year	\$ 630,270
Current year claims incurred and changes in estimates for claims incurred in prior years	(4,964,414)
Claims and expenses paid	5,129,414
Balance, end of year	\$ 795,270

Note 9: Note Payable to Bank

The Hospital has a \$15,000,000 revolving line of credit with a bank that automatically renews on an annual basis. The Hospital had no borrowings on this line during the year ended December 31, 2021. The line is collateralized by certain investments of the Hospital. The variable interest rate on the line of credit equals the one-month LIBOR, plus a margin ranging from 1.15 to 1.60 percent, depending on the outstanding balance. At December 31, 2021, the interest rate on the line of credit was 1.25 percent. The Hospital is required to maintain certain covenants as defined by the line of credit agreement.

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Note 10: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the year ended December 31, 2021:

	2021				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds payable Series 2017	\$ 14,907,885	\$ -	\$ (1,005,283)	\$ 13,902,602	\$ 1,036,118
Capital lease obligations	259,635	-	(71,538)	188,097	70,958
Total long-term debt	<u>15,167,520</u>	<u>-</u>	<u>(1,076,821)</u>	<u>14,090,699</u>	<u>1,107,076</u>
Other liabilities:					
Deferred FICA taxes	1,604,754	-	(802,377)	802,377	802,377
Medicare advance payments	14,116,179	-	(7,245,574)	6,870,605	6,870,605
Total other liabilities	<u>15,720,933</u>	<u>-</u>	<u>(8,047,951)</u>	<u>7,672,982</u>	<u>7,672,982</u>
Total long-term obligations	<u>\$ 30,888,453</u>	<u>\$ -</u>	<u>\$ (9,124,772)</u>	<u>\$ 21,763,681</u>	<u>\$ 8,780,058</u>

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. Effective November 27, 2018, the bonds converted to a fixed interest rate of 3.92 percent for a 10-year period, ending November 30, 2028, at which time the interest rate may be adjusted as more fully described in the bond agreements. 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.

The Hospital is required to comply with certain covenants related to the Series 2017 Bonds.

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Debt service requirements on long-term debt as of December 31, 2021, are as follows:

Year Ending December 31	Principal	Interest	Total
2022	\$ 1,036,118	\$ 537,852	\$ 1,573,970
2023	1,078,057	495,913	1,573,970
2024	1,120,379	453,591	1,573,970
2025	1,167,041	406,929	1,573,970
2026	1,214,279	359,691	1,573,970
2027 - 2031	6,848,782	1,021,068	7,869,850
2032	1,437,946	136,024	1,573,970
	<u>\$ 13,902,602</u>	<u>\$ 3,411,068</u>	<u>\$ 17,313,670</u>

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The following is a schedule by year of future minimum lease payments under capital leases including interest at rates of 3.5 percent to 4.4 percent together with the present value of the future minimum lease payments at December 31, 2021:

2022	\$ 77,834
2023	77,834
2024	60,593
Total minimum lease payments	<u>216,261</u>
Less amount representing interest	<u>(28,164)</u>
Present value of future minimum lease payments	<u>\$ 188,097</u>

The capital lease is secured by the related assets as collateral. Assets under capital leases at December 31, 2021, totaled:

	2021
Major moveable equipment	\$ 259,635
Accumulated depreciation	<u>(64,909)</u>
	<u>\$ 194,726</u>

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Note 11: Designated Net Position

At December 31, 2021, 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:

	2021
Funded depreciation	\$ 54,390
Other board-designated	51,651,328
Total designated net position	\$ 51,705,718

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 34 nursing homes, as of December 31, 2021. Along with each lease agreement, the Hospital has also entered into management agreements with the facilities' managers (Managers) to continue to operate the facilities. 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 leases shall automatically end at the termination of the management agreement between the Hospital and the Managers, and for certain nursing homes leased by the Managers with a sublease contract to the Hospital, upon termination of the Manager's leasehold interest. The lease agreements call for monthly base rent payments as outlined in the agreements. Several facilities include annual rent increases of 1-2 percent.

As of year-end, these agreements were scheduled to expire at various times through December 2022 and included optional one to two-year extensions. Subsequent to year-end, a Manager of 19 of the nursing homes began negotiating renewal terms of the Manager's leasehold interest in the facilities while the leases operate on a month-to-month basis, until renewal or termination.

Rental expense approximated \$25,000,000 in 2021. Future minimum rent payments at December 31 are as follows:

2022	\$ 18,528,279
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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 \$2,300,000 in 2021, 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 \$41,000,000 at December 31, 2021, for the 33 facilities operated by a single manager.

Note 13: Retirement Plans

Pension Plan

The Hospital contributes to a defined-contribution pension plan (Johnson Memorial Hospital Defined Contribution Retirement Plan), as authorized by Indiana Code 16-22-3-11, 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's assets are held by and administered through custody and other agreements with a third party appointed by the Hospital Board of Trustees. 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. In March 2020, as a result of the COVID-19 pandemic, the Hospital suspended employer contributions to the plan through the remainder of 2020. Employer contributions were resumed in January 2021. Hospital expense related to the employer contributions to the plan was approximately \$773,000 for 2021.

Deferred Compensation Plan

The Hospital maintains an IRS Code Section 457B deferred compensation plan that is available to certain highly compensated employees. The plan consists only of employee contributions. The Hospital serves as the nondiscretionary trustee of the plan, but has no access to the plan's assets, as these are held by a third party. The same third party serves as the administrator and custodian of the plan.

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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 table presents 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, 2021:

	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, 2021				
Investments by Fair Value Level				
Investments				
Debt securities	\$ 4,978,660	\$ -	\$ 4,978,660	\$ -
Corporate stocks				
Domestic	12,490,534	12,490,534	-	-
Mutual funds				
Equity	9,913,016	9,913,016	-	-
Fixed income	15,551,850	15,551,850	-	-
	<u>\$ 42,934,060</u>	<u>\$ 37,955,400</u>	<u>\$ 4,978,660</u>	<u>\$ -</u>
Total investments by fair value level	<u>\$ 42,934,060</u>	<u>\$ 37,955,400</u>	<u>\$ 4,978,660</u>	<u>\$ -</u>

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Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no Level 3 investments at December 31, 2021.

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.

Cyber Event

In October 2021, the Hospital experienced a cyber event by a malicious attacker. Upon discovery, the Hospital took immediate action to mitigate against further harm and to protect the integrity of patient and financial data. The Hospital is insured through a group policy for business interruption, including cyber liability and other matters, with coverage limits up to \$5,000,000 per group member. As of December 31, 2021, the Hospital had not recorded a receivable nor any revenue associated with proceeds from an insurance claim related to the cyber event, as the outcome of the claim was not yet known. Further, the outcome of any litigation related to the attack cannot be determined at this time but could have a material adverse effect on the financial position, results of operations and liquidity of the Hospital.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
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Note 16: Blended Component Units

The financial statements include the blended component unit accounts of the Foundation, Resource Management, Physician Network, and Pain Management, as discussed in Note 1. The following is a financial summary of the component units as of December 31, 2021:

	December 31, 2021						Total
	Hospital	Resource Management	Physician Network	Pain Management	Foundation	Eliminations	
Assets							
Current assets	\$ 187,227,143	\$ 10	\$ -	\$ 64,519	\$ 206,194	\$ (92,277,635)	\$ 95,220,231
Noncurrent cash and investments	10,134,438	41,571,280	-	-	2,164,921	-	53,870,639
Capital assets, net	92,304,114	-	-	-	-	-	92,304,114
Investments in affiliates	2,361,233	-	-	-	-	-	2,361,233
Total assets	\$ 292,026,928	\$ 41,571,290	\$ -	\$ 64,519	\$ 2,371,115	\$ (92,277,635)	\$ 243,756,217
Liabilities							
Current liabilities	\$ 122,348,965	\$ 42,735,102	\$ -	\$ 2,958	\$ 27,521	\$ (99,299,862)	\$ 65,814,684
Noncurrent liabilities	12,983,623	-	-	-	-	-	12,983,623
Total liabilities	135,332,588	42,735,102	-	2,958	27,521	(99,299,862)	78,798,307
Net Position							
Net investment in capital assets	77,843,415	-	-	-	-	-	77,843,415
Restricted	-	-	-	30,165	-	-	30,165
Unrestricted	78,850,925	(1,163,812)	-	31,396	2,343,594	7,022,227	87,084,330
Total net position	156,694,340	(1,163,812)	-	61,561	2,343,594	7,022,227	164,957,910
Total liabilities and net position	\$ 292,026,928	\$ 41,571,290	\$ -	\$ 64,519	\$ 2,371,115	\$ (92,277,635)	\$ 243,756,217

The following table includes condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its blended component units for the year ended December 31, 2021:

	December 31, 2021						Total
	Hospital	Resource Management	Physician Network	Pain Management	Foundation	Eliminations	
Operating Revenues							
Net patient service revenue	\$ 272,254,350	\$ -	\$ 10,894,400	\$ 424,889	\$ -	\$ -	\$ 283,573,639
Other operating revenues	33,545,804	-	16,430	-	-	-	33,562,234
Total operating revenues	305,800,154	-	10,910,830	424,889	-	-	317,135,873
Operating Expenses							
Salaries, wages, contract labor and employee benefits	41,008,023	-	14,387,346	265,872	-	-	55,661,241
Purchased services and professional fees	144,920,178	32,538	397,807	27,518	-	-	145,378,041
Depreciation and amortization	7,369,008	380,441	-	-	-	-	7,749,449
Other operating expenses	104,508,840	866,879	3,147,904	169,938	-	-	108,693,561
Total operating expenses	297,806,049	1,279,858	17,933,057	463,328	-	-	317,482,292
Operating Income (Loss)	7,994,105	(1,279,858)	(7,022,227)	(38,439)	-	-	(346,419)
Nonoperating COVID-19 Grant Revenue	7,682,842	-	-	-	-	-	7,682,842
Income (Loss) Before Other Nonoperating Revenues (Expenses)	15,676,947	(1,279,858)	(7,022,227)	(38,439)	-	-	7,336,423
Other Nonoperating Revenues (Expenses)							
Investment income	120,934	3,092,437	-	-	320,049	-	3,533,420
Interest expense	(579,361)	(1,001)	-	-	-	-	(580,362)
Gain on sale of capital assets	959,556	-	-	-	-	-	959,556
Change in investment in JMH Physician Network, LLC	(6,671,116)	(351,111)	-	-	-	7,022,227	-
Other nonoperating revenues	640,552	253,858	-	-	6,200	-	900,610
Total other nonoperating revenues (expenses)	(5,529,435)	2,994,183	-	-	326,249	7,022,227	4,813,224
Other Changes in Net Position	(6,671,116)	(351,111)	7,022,227	100,000	-	-	100,000
Increase in Net Position	\$ 3,476,396	\$ 1,363,214	\$ -	\$ 61,561	\$ 326,249	\$ 7,022,227	\$ 12,249,647

Johnson Memorial Hospital
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Notes to Financial Statements
December 31, 2021

Note 17: COVID-19 Pandemic & CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 as a global pandemic. Over the past two years, patient volumes and the related revenues have been affected by COVID-19 stemming from the implementation of various policies by federal, state, and local governments in response to the pandemic, as these policies led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

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

The Hospital's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Hospital has taken precautionary steps to enhance its operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to its business, including the following:

- Implementation of targeted cost reduction initiatives; and
- Reduction of certain planned projects and capital expenditures

The extent of the COVID-19 pandemic's adverse effect on the Hospital's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Hospital's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the Hospital cannot estimate the length or severity of the effect of the pandemic on the Hospital's business. Decreases in cash flows and results of operations may have an effect on debt covenant compliance and on the inputs and assumptions used in significant accounting estimates, including the allowance for uncollectible accounts related to patient accounts receivable, and potential impairments of long-lived and other assets.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
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December 31, 2021

Provider Relief Funds

During the year ended December 31, 2021, the Hospital received \$6.4 million of distributions from the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) Provider Relief Fund and the *American Rescue Plan Act* (ARPA) Relief Fund (collectively, Provider Relief Funds). These distributions from the Provider Relief Funds are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS).

The Hospital accounts for such payments as voluntary nonexchange transactions in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Payments are recognized as grant revenue once the applicable terms and conditions required to retain the funds have been substantially met. Revenue recognized is classified as nonoperating and the associated cash flows are included within noncapital financing activities.

Based on an analysis of the compliance and reporting requirements of the Provider Relief Funds and the effect of the pandemic on the Hospital's revenues and expenses through December 31, 2021, the Hospital recognized \$7.7 million into revenue, including \$1.3 million deferred at December 31, 2020. There is no unrecognized portion being deferred in the accompanying balance sheet at December 31, 2021.

The Hospital has recognized revenue from the Provider Relief Funds based upon guidance issued by HHS as of December 31, 2021, and any clarifications issued by HHS subsequent to year-end. The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Funds and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions, the Hospital's ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the Hospital's Provider Relief Funds reporting could differ. Provider Relief Funds payments are subject to government oversight, including potential audits.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2021

Medicare Accelerated and Advanced Payment Program

As part of the CARES Act legislation, the Centers for Medicare & Medicaid Services (CMS) expanded the existing Accelerated and Advanced Payments Program to a broad group of Medicare Part A providers as a means to provide additional cash flow at the onset of the COVID-19 pandemic in March 2020. The Hospital met the eligibility criteria and was approved for advance payments, receiving approximately \$14.1 million in April 2020. Under the terms of the program, repayment of the funds began one year from the date the advance payments were issued (April 2021 for the Hospital); beginning then and for the next 11 months, the advance payments are being recouped at a rate of 25 percent of any Medicare payments owed to the Hospital. Beginning with month 12 (March 2022), the recoupment rate increases to 50 percent, with a lump-sum due for any remaining balance at the conclusion of month 17 (August or September 2022).

As of December 31, 2021, approximately \$6.9 million of the advances remain outstanding, and the entire balance is recorded as a current liability (within accrued expenses) given repayment in full is expected in 2022.

Deferred Employer Payroll Taxes

As part of the CARES Act legislation, organizations were eligible to defer payment of the employer's share of Social Security payroll taxes owed on wages paid for the year ended December 31, 2020. These deferred tax payments are due in two installments: 50 percent due by December 31, 2021, and 50 percent due by December 31, 2022.

The Hospital originally deferred approximately \$1.6 million in employer payroll taxes, and at December 31, 2021, the remaining deferred balance is approximately \$800,000 and is included within accrued expenses.

Hospital Add-On and Sequestration Removal

As part of the CARES Act legislation, certain factors under the Medicare payment program associated with COVID-19 patients were changed, resulting in a 20 percent increase in payments for services associated with these patients. The income associated with these increased payments is included within net patient service revenue on the statement of revenues, expenses and changes in net position.

Also, as part of the CARES Act legislation, effective May 1, 2020 through December 31, 2021, a temporary removal of the two percent sequestration adjustment on Medicare fee-for-service claims was enacted, resulting in an increase in Medicare payments. This sequestration freeze led to approximately \$200,000 in additional revenue for the Hospital in 2021, which is included within net patient service revenue on the statement of revenues, expenses and changes in net position.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2021

Other COVID-19 Funding

During 2021, the Hospital received funding and/or recognized into revenue the following related to COVID-19 from other sources:

- The Hospital received approximately \$150,000 in connection with HHS funding for the COVID-19 Testing for the Uninsured program. The Hospital recognized the full amount within net patient service revenue on the statement of revenues, expenses and changes in net position, as this funding constitutes reimbursement for care or treatment provided by the Hospital.
- Beginning in 2020 and continuing through 2021, the federal government's response to COVID-19 temporarily reduced the non-federal share of Medicaid supplemental payments through the UPL program received by the nursing home operations of the Hospital, which increased supplemental payment revenue by \$3.1 million. All of this revenue is included within net patient service revenue on the statement of revenues, expenses and changes in net position, as this funding also constitutes reimbursement for care or treatment provided.
- The Hospital received approximately \$400,000 in state funding related to vaccine administration. These funds are recorded as other operating revenues within the accompanying statement of revenues, expenses and changes in net position, as this funding constitutes reimbursement related to the provision of care or treatment to individuals.

Supplementary Information

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Detailed Balance Sheet Information
December 31, 2021

	2021							
	Hospital	Extended Services	JMH Resource Management Company, Inc.	JMH Physician Network, LLC	JMH Pain Management, LLC	Foundation	Eliminations	Total
Assets								
Current Assets								
Cash and cash equivalents	\$ 23,690,248	\$ 66,616	\$ 10	\$ -	\$ 26,905	\$ 55,300	\$ -	\$ 23,839,079
Patient accounts receivable, net of allowance:								
Hospital - \$4,594,307 and Extended Services - \$13,500,000	24,951,139	29,190,755	-	-	-	-	-	54,141,894
Other receivables	3,465,586	7,839,086	-	-	-	-	-	11,304,672
Estimated amounts due from third-party payers	1,065,000	-	-	-	-	-	-	1,065,000
Supplies	2,914,936	-	-	-	-	-	-	2,914,936
Prepaid expenses and other	80,333,407	13,710,370	-	-	37,614	150,894	(92,277,635)	1,954,650
Total current assets	<u>136,420,316</u>	<u>50,806,827</u>	<u>10</u>	<u>-</u>	<u>64,519</u>	<u>206,194</u>	<u>(92,277,635)</u>	<u>95,220,231</u>
Noncurrent Cash and Investments								
Internally designated	10,134,438	-	41,571,280	-	-	-	-	51,705,718
Held by Foundation	-	-	-	-	-	2,164,921	-	2,164,921
Total noncurrent cash and investments	<u>10,134,438</u>	<u>-</u>	<u>41,571,280</u>	<u>-</u>	<u>-</u>	<u>2,164,921</u>	<u>-</u>	<u>53,870,639</u>
Capital Assets, net								
	<u>92,304,114</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,304,114</u>
Investments in Affiliates								
	<u>103,011</u>	<u>2,258,222</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,361,233</u>
Total assets	<u>\$ 238,961,879</u>	<u>\$ 53,065,049</u>	<u>\$ 41,571,290</u>	<u>\$ -</u>	<u>\$ 64,519</u>	<u>\$ 2,371,115</u>	<u>\$ (92,277,635)</u>	<u>\$ 243,756,217</u>
Liabilities and Net Position								
Current Liabilities								
Current maturities of long-term debt	\$ 1,107,076	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,107,076
Accounts payable	4,075,475	88,431,805	42,735,102	-	2,958	4,691	(85,589,492)	49,660,539
Accrued expenses	24,335,122	2,671,698	-	-	-	22,830	(13,710,370)	13,319,280
Estimated amounts due to third-party payers	1,727,789	-	-	-	-	-	-	1,727,789
Total current liabilities	<u>31,245,462</u>	<u>91,103,503</u>	<u>42,735,102</u>	<u>-</u>	<u>2,958</u>	<u>27,521</u>	<u>(99,299,862)</u>	<u>65,814,684</u>
Noncurrent Liabilities - Long-Term Debt								
	<u>12,983,623</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,983,623</u>
Total liabilities	<u>44,229,085</u>	<u>91,103,503</u>	<u>42,735,102</u>	<u>-</u>	<u>2,958</u>	<u>27,521</u>	<u>(99,299,862)</u>	<u>78,798,307</u>
Net Position								
Net investment in capital assets	77,843,415	-	-	-	-	-	-	77,843,415
Restricted	-	-	-	-	30,165	-	-	30,165
Unrestricted	116,889,379	(38,038,454)	(1,163,812)	-	31,396	2,343,594	7,022,227	87,084,330
Total net position	<u>194,732,794</u>	<u>(38,038,454)</u>	<u>(1,163,812)</u>	<u>-</u>	<u>61,561</u>	<u>2,343,594</u>	<u>7,022,227</u>	<u>164,957,910</u>
Total liabilities and net position	<u>\$ 238,961,879</u>	<u>\$ 53,065,049</u>	<u>\$ 41,571,290</u>	<u>\$ -</u>	<u>\$ 64,519</u>	<u>\$ 2,371,115</u>	<u>\$ (92,277,635)</u>	<u>\$ 243,756,217</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, 2021

	2021							
	Hospital	Extended Services	JMH Resource Management Company, Inc.	JMH Physician Network, LLC	JMH Pain Management, LLC	Foundation	Eliminations	Total
Operating Revenues								
Net patient service revenue, net of provision for uncollectible accounts; Hospital - \$8,931,021 and extended services - \$9,583,129	\$ 95,096,467	\$ 177,157,883	\$ -	\$ 10,894,400	\$ 424,889	\$ -	\$ -	\$ 283,573,639
Other operating revenues	1,415,280	32,130,524	-	16,430	-	-	-	33,562,234
Total operating revenues	<u>96,511,747</u>	<u>209,288,407</u>	<u>-</u>	<u>10,910,830</u>	<u>424,889</u>	<u>-</u>	<u>-</u>	<u>317,135,873</u>
Operating Expenses								
Salaries and wages	32,289,785	1,292,048	-	12,980,667	206,956	-	-	46,769,456
Employee benefits	7,360,194	65,996	-	1,406,679	58,916	-	-	8,891,785
Purchased services	8,999,095	135,921,083	32,538	397,807	27,518	-	-	145,378,041
Medical supplies and drugs	15,657,157	11,968,053	-	1,397,475	93,073	-	-	29,115,758
Facility and equipment leases	7,962,771	36,793,476	621,917	1,070,115	42,580	-	-	46,490,859
Hospital assessment fee	4,294,553	-	-	-	32,700	-	-	4,327,253
Other	2,692,997	25,139,833	244,962	680,314	1,585	-	-	28,759,691
Depreciation and amortization	7,369,008	-	380,441	-	-	-	-	7,749,449
Total operating expenses	<u>86,625,560</u>	<u>211,180,489</u>	<u>1,279,858</u>	<u>17,933,057</u>	<u>463,328</u>	<u>-</u>	<u>-</u>	<u>317,482,292</u>
Operating Income (Loss)	9,886,187	(1,892,082)	(1,279,858)	(7,022,227)	(38,439)	-	-	(346,419)
Nonoperating COVID-19 Grant Revenue	280,597	7,402,245	-	-	-	-	-	7,682,842
Income (Loss) Before Other Nonoperating Revenues (Expenses)	<u>10,166,784</u>	<u>5,510,163</u>	<u>(1,279,858)</u>	<u>(7,022,227)</u>	<u>(38,439)</u>	<u>-</u>	<u>-</u>	<u>7,336,423</u>
Other Nonoperating Revenues (Expenses)								
Investment income	120,934	-	3,092,437	-	-	320,049	-	3,533,420
Interest expense	(579,361)	-	(1,001)	-	-	-	-	(580,362)
Gain on sale of capital assets	959,556	-	-	-	-	-	-	959,556
Change in investment in JMH Physician Network, LLC	(6,671,116)	-	(351,111)	-	-	-	7,022,227	-
Other nonoperating revenues	640,552	-	253,858	-	-	6,200	-	900,610
Total other nonoperating revenues (expenses)	<u>(5,529,435)</u>	<u>-</u>	<u>2,994,183</u>	<u>-</u>	<u>-</u>	<u>326,249</u>	<u>7,022,227</u>	<u>4,813,224</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Contributions and Transfers	4,637,349	5,510,163	1,714,325	(7,022,227)	(38,439)	326,249	7,022,227	12,149,647
Capital Contributions	-	-	-	-	100,000	-	-	100,000
Transfers	1,361,474	(8,032,590)	(351,111)	7,022,227	-	-	-	-
Increase (Decrease) in Net Position	5,998,823	(2,522,427)	1,363,214	-	61,561	326,249	7,022,227	12,249,647
Net Position, Beginning of Year	<u>188,733,971</u>	<u>(35,516,027)</u>	<u>(2,527,026)</u>	<u>-</u>	<u>-</u>	<u>2,017,345</u>	<u>-</u>	<u>152,708,263</u>
Net Position, End of Year	<u>\$ 194,732,794</u>	<u>\$ (38,038,454)</u>	<u>\$ (1,163,812)</u>	<u>\$ -</u>	<u>\$ 61,561</u>	<u>\$ 2,343,594</u>	<u>\$ 7,022,227</u>	<u>\$ 164,957,910</u>

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services				
COVID-19 - Provider Relief Fund	93.498	Direct	\$ -	\$ 22,703,563
COVID-19 - COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured	93.461	Direct	-	153,381
<i>Total U.S. Department of Health and Human Services</i>			<u>\$ -</u>	<u>\$ 22,856,944</u>

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Johnson Memorial Hospital, a component unit of Johnson County, Indiana (the Hospital), under programs of the federal government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net position or cash flows of the Hospital.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3: Indirect Cost Rate

The Hospital has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4: Federal Loan Programs

The Hospital administered no federal loan programs for the year ended December 31, 2021.

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*

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, 2021, 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 November 11, 2022.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from 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 financial statements. 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 Hospital'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.

FORVIS,LLP

Indianapolis, Indiana
November 11, 2022



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Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Board of Trustees
Johnson Memorial Hospital
Franklin, Indiana

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Johnson Memorial Hospital's (Hospital) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Hospital's major federal program for the year ended December 31, 2021. The Hospital's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the "Auditor's Responsibilities for the Audit of Compliance" section of our report.

We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Hospital's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Hospital's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Hospital's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Hospital's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Hospital's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Hospital's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the "Auditor's Responsibilities for the Audit of Compliance" section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

FORVIS,LLP

Indianapolis, Indiana
November 11, 2022

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Schedule of Findings and Questioned Costs
Year Ended December 31, 2021

Section I - Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:
 Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:
 Significant deficiency(ies)? Yes None reported
 Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:
 Significant deficiency(ies)? Yes None reported
 Material weakness(es)? Yes No

5. Type of auditor's report issued on compliance for major the federal awards was:
 Unmodified Qualified Adverse Disclaimer

6. Any audit findings that are required to be reported by 2 CFR 200.516(a)? Yes No

7. Identification of the major program was:

Name of Federal Program or Cluster	Assistance Listing Number
COVID-19 – Provider Relief Fund	93.498

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2021

8. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

9. Auditee qualified as a low-risk auditee?

Yes

No

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2021

Section II – Financial Statement Findings

Reference Number	Finding
	No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

Reference Number	Finding
	No matters are reportable.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2021

Reference Number	Summary of Finding	Status
	No matters are reportable.	