



Johnson Memorial Hospital **A Component Unit of Johnson** **County, Indiana**

Independent Auditor's Report and Financial Statements

December 31, 2022



Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
December 31, 2022

Contents

Independent Auditor’s Report..... 1

Management’s Discussion and Analysis 4

Financial Statements

 Balance Sheet..... 10

 Statement of Revenues, Expenses and Changes in Net Position 11

 Statement of Cash Flows 12

 Notes to Financial Statements..... 13

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards – Independent Auditor’s Report..... 38**



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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 Johnson Memorial Hospital, a component unit of Johnson County, Indiana (Hospital), as of and for the year ended December 31, 2022, 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, 2022, 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 audit 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 (*Government Auditing Standards*). 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.

Emphasis of Matter

As described in Note 2 to the financial statements, in 2022, the Hospital adopted a new accounting standard, Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87). Our opinion is not modified with respect to this matter.

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 is the responsibility of management and, 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2023, 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
December 7, 2023

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Management's Discussion and Analysis
December 31, 2022

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 year ended December 31, 2022. 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 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 2022 by \$20,497,216 (26 percent). The decrease in 2022 is attributable to the continued recoupment of cash advanced under the Medicare Accelerated Payments program, as well as declines in the Hospital's investment portfolio and increases in operating costs.
- Total liabilities in 2022 decreased by \$17,012,278 (22 percent). The decrease is attributable to the aforementioned continued 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 operating income in 2022 of \$6,786,456 after reporting an operating loss in 2021 of \$346,419. This improvement is attributable to fluctuations in the long-term care operations, as revenues shifted from those related to COVID-19 grants (nonoperating) to those related to patient care and patient service (operating).
- Net nonoperating activity decreased by \$18,604,705 in 2022 compared to 2021. The decrease in 2022 was driven by two primary factors. First, in 2021, the Hospital recognized \$7,682,842 of revenue associated funding received through the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act), while the Hospital received and recognized no such revenue in 2022. Second, the broader financial markets saw steady declines throughout the majority of 2022, and as a result of this, the Hospital experienced a decrease of \$9,520,952 in its investment return.

Adoption of New Accounting Standard

Effective January 1, 2022, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87). Comparative information presented herein has not been restated for the adoption of GASB 87 because the basic financial statements present fiscal year 2022 only.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Management's Discussion and Analysis
December 31, 2022

Using This Annual Report

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

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

One of the most important questions asked about any hospital's finances is "Is the hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, all liabilities, and all deferred inflows of resources 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 it. The Hospital's total net position—the difference between assets, liabilities, and deferred inflows of resources—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients, and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

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

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Management's Discussion and Analysis
December 31, 2022

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 \$677,817 (0.4 percent) in 2022 over 2021, as shown in Table 1.

Table 1: Assets, Liabilities, Deferred Inflows of Resources and Net Position

	2022	2021
Assets		
Patient accounts receivable, net	\$ 50,676,366	\$ 54,141,894
Other current assets	30,864,937	41,078,337
Capital assets, net	89,212,718	92,304,114
Other noncurrent assets	58,320,135	56,231,872
	<u>\$ 229,074,156</u>	<u>\$ 243,756,217</u>
Liabilities and Deferred Inflows of Resources		
Long-term debt and note payable to banks	\$ 12,857,190	\$ 14,090,699
Other liabilities and deferred inflows of resources	50,581,239	64,707,608
Total liabilities and deferred inflows of resources	<u>63,438,429</u>	<u>78,798,307</u>
Net Position		
Net investment in capital assets	76,328,077	77,843,415
Restricted	194,955	30,165
Unrestricted	89,112,695	87,084,330
Total net position	<u>165,635,727</u>	<u>164,957,910</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 229,074,156</u>	<u>\$ 243,756,217</u>

One significant change in the Hospital's assets in 2022 includes the decrease in other current assets of \$10,213,400, which is substantially entirely attributed to a decline in cash and cash equivalents. A significant change in the Hospital's liabilities in 2022 is the decrease in other liabilities and deferred inflows of resources of \$14,126,369, which primarily relates to decreases in accounts payable and accrued expenses and other liabilities.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Management's Discussion and Analysis
December 31, 2022

Operating Results and Changes in the Hospital's Net Position

In 2022, the Hospital's net position increased by \$677,817 compared to an increase in net position during 2021 of \$12,249,647, as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Net patient service revenue	\$ 295,784,037	\$ 283,573,639
Other operating revenues	37,252,936	33,562,234
Total operating revenues	<u>333,036,973</u>	<u>317,135,873</u>
Operating Expenses		
Salaries, wages and employee benefits	61,251,120	55,661,241
Purchased services	160,006,934	145,378,041
Depreciation and amortization	7,380,693	7,749,449
Other operating expenses	97,611,770	108,693,561
Total operating expenses	<u>326,250,517</u>	<u>317,482,292</u>
Operating Income (Loss)	6,786,456	(346,419)
Nonoperating COVID-19 Grant Revenue	<u>-</u>	<u>7,682,842</u>
Income Before Other Nonoperating Revenues (Expenses)	<u>6,786,456</u>	<u>7,336,423</u>
Other Nonoperating Revenues (Expenses)		
Investment return	(5,987,532)	3,533,420
Interest expense	(646,490)	(580,362)
Other	525,383	1,860,166
Total other nonoperating revenues (expenses)	<u>(6,108,639)</u>	<u>4,813,224</u>
Other Changes in Net Position	<u>-</u>	<u>100,000</u>
Increase in Net Position	<u>\$ 677,817</u>	<u>\$ 12,249,647</u>

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Management's Discussion and Analysis
December 31, 2022

Operating Income (Loss)

The first component of the overall change in the Hospital's net position is its operating income or loss — generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. During 2021, the operating loss was due to the Hospital's long-term care operations, as a significant component of revenues related to nonoperating COVID-19 grant revenues. During 2022, overall performance improved resulting in operating income for the year, predominantly due to operational improvements within the long-term care portion of the business, while performance within the hospital remained relatively consistent. As the Hospital was formed and is operated primarily to serve residents of Johnson County and the surrounding area, the Hospital continues to implement strong cost controls to provide sufficient resources to enable the facility to serve lower income and other residents.

Nonoperating Revenues and Expenses

Historically, nonoperating revenues and expenses consist primarily of investment return and interest expense. The Hospital recognized a significant decline in its investment return in 2022 compared to 2021.

In 2021, nonoperating activity also included \$7,682,842 of grant revenue related to the COVID-19 pandemic. The grants related to Provider Relief Funds from the Department of Health and Human Services (HHS). No such revenues were received or recognized in 2022.

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 \$291 million. The largest cash payments for operating activities were \$265 million for payments to suppliers and contractors and \$64 million to employees.

For 2021, cash provided by noncapital financing activities consisted of governmental grants. No such funds were received in 2022.

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

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Management's Discussion and Analysis
December 31, 2022

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

Capital and Lease Assets

At the end of 2022 and 2021, the Hospital had \$89,212,718 and \$92,304,114, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 8 to the financial statements. In 2022, the Hospital purchased a variety of equipment, buildings and improvements, and other capital assets, and spent over \$1 million for construction projects to be completed beyond 2022. More detailed information about the Hospital's capital assets is presented in the notes to the financial statements.

Upon adoption of GASB 87 on January 1, 2022, the Hospital recognized lease assets of \$1.5 million, associated with leases of medical equipment, as well as medical and administrative office space.

As it pertains to capital and lease assets, the 2021 Management's Discussion and Analysis information has not been updated for the adoption of GASB 87.

Debt and Lease Liabilities

The Hospital issued revenue bonds of \$17,000,000 in July 2017. At December 31, 2022, the Hospital had \$12,857,190 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.

Upon adoption of GASB 87 on January 1, 2022, the Hospital recognized lease liabilities of \$1.5 million, associated with leases of medical equipment, as well as medical and administrative office space.

As it pertains to lease liabilities, the 2021 Management's Discussion and Analysis information has not been updated for the adoption of GASB 87.

Other Economic Factors

Management believes operating margins for the Hospital, and for the healthcare industry at large, will continue to be under pressure due to continuing changes in acuity, payor mix and other reimbursement-related matters, as well as growth in operating expenses, which may be in excess of the increases in contractually arranged and legally established payments received for services rendered. The ongoing challenge facing the Hospital is to continue to provide quality patient care in a highly competitive environment, and to attain reasonable rates for services provided while managing costs. Additionally, certain uncertainties stemming from the COVID-19 pandemic may continue to impact the operations of the Hospital.

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, 2022

		2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,084,180	
Patient accounts receivable, net of allowance of approximately \$33,900,000	50,676,366	
Other receivables	14,148,420	
Estimated amounts due from third-party payers	1,809,872	
Supplies	3,003,345	
Prepaid expenses and other	7,410,501	
Lease receivable, current portion	408,619	
Total current assets		\$ 81,541,303
Noncurrent Cash and Investments		
Internally designated	51,412,866	
Held by Foundation	1,715,456	
Total noncurrent cash and investments		53,128,322
Capital Assets, Net		
		89,212,718
Other Assets		
Investments in affiliates	2,648,579	
Lease assets, net	1,259,191	
Lease receivable, net of current portion	1,284,043	
Total other assets		5,191,813
Total assets		\$ 229,074,156
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 1,078,057	
Current maturities of lease liabilities	257,623	
Accounts payable	42,957,495	
Accrued expenses and other liabilities	3,934,702	
Estimated amounts due to third-party payers	750,000	
Total current liabilities		\$ 48,977,877
Noncurrent Liabilities		
Long-term debt, net of current portion	11,779,133	
Lease liabilities, net of current portion	1,029,019	
Total noncurrent liabilities		12,808,152
Total liabilities		61,786,029
Deferred Inflows of Resources - Leases		
		1,652,400
Net Position		
Net investment in capital assets	76,328,077	
Restricted	194,955	
Unrestricted	89,112,695	
Total net position		165,635,727
Total liabilities, deferred inflows of resources and net position		\$ 229,074,156

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2022

		<u>2022</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of approximately \$20,500,000	\$ 295,784,037	
Other operating revenues	<u>37,252,936</u>	
Total operating revenues		\$ 333,036,973
Operating Expenses		
Salaries and wages	50,476,287	
Employee benefits	10,774,833	
Purchased services	160,006,934	
Medical supplies and drugs	29,741,387	
Facilities, equipment, occupancy and other related	34,621,896	
Hospital assessment fee	4,193,280	
Other	29,055,207	
Depreciation and amortization	<u>7,380,693</u>	
Total operating expenses		<u>326,250,517</u>
Operating Income		6,786,456
Nonoperating Revenues (Expenses)		
Investment return	(5,987,532)	
Interest expense	(646,490)	
Loss on sale of capital assets	(210,381)	
Other nonoperating revenues	<u>735,764</u>	
Total nonoperating revenues (expenses)		<u>(6,108,639)</u>
Increase in Net Position		677,817
Net Position, Beginning of Year		<u>164,957,910</u>
Net Position, End of Year		<u><u>\$ 165,635,727</u></u>

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Statement of Cash Flows
Year Ended December 31, 2022

		<u>2022</u>
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	\$ 290,656,299	
Payments to suppliers and contractors	(265,490,825)	
Payments to employees	(63,765,093)	
Other operating activities, net	29,757,692	
Net cash used in operating activities		\$ (8,841,927)
Cash Flows from Capital and Related Financing Activities		
Principal paid on long-term debt	(1,045,412)	
Principal paid on lease liabilities	(253,034)	
Interest paid on long-term debt and lease liabilities	(646,490)	
Principal received on lease receivable	417,954	
Purchase of capital assets	(4,589,193)	
Net cash used in capital and related financing activities		(6,116,175)
Cash Flows from Investing Activities		
Investment income	1,006,647	
Purchases of investments	(7,202,219)	
Proceeds from disposition of investments	7,160,509	
Distributions received from investments in affiliates	521,233	
Other investing activities, net	(72,815)	
Net cash provided by investing activities		1,413,355
Decrease in Cash and Cash Equivalents		(13,544,747)
Cash and Cash Equivalents, Beginning of Year		34,775,658
Cash and Cash Equivalents, End of Year		<u>\$ 21,230,911</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash and cash equivalents	\$ 4,084,180	
Internally-designated cash included in noncurrent cash	17,146,731	
Total cash and cash equivalents		<u>\$ 21,230,911</u>
Reconciliation of Operating Income to Net Cash Used in Operating Activities		
Operating income	\$ 6,786,456	
Depreciation and amortization	7,380,693	
Provision for uncollectible accounts	20,473,562	
Changes in operating assets and liabilities		
Patient accounts receivable	(17,008,034)	
Estimated amounts due from/to third-party payers	(1,722,661)	
Accounts payable and accrued expenses	(9,035,114)	
Medicare accelerated payments	(6,870,605)	
Other assets and liabilities	(8,388,008)	
Deferred inflows of resources - leases	(458,216)	
Net cash used in operating activities		<u>\$ (8,841,927)</u>

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

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 and management 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 expenses and working capital requirements. Long-term care operations are more fully described in Note 15.

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
December 31, 2022

- 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, liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility or other requirements are met. 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.

Operating Activities

The Hospital defines operating activities, as reported in the statement of revenues, expenses and changes in net position, as those that generally result from exchange transactions, such as payments received in providing goods and services and payments made for goods and services received, as well as program-specific, government-mandated non exchange transactions.

Investment return, interest on capital assets-related debt, and gains and losses on the disposal or sale of capital assets, amongst other items, are included in nonoperating revenues and expenses.

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, liabilities, and deferred inflows of resources 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, 2022, cash equivalents consisted primarily of money market accounts with various financial institutions.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Risk Management

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

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

Investments and Investment Return

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition are carried at amortized cost. 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 return 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 (FIFO) method, or market.

Lease Receivable

Lease receivables are initially measured at the present value of lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectible amounts.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

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 amortized 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

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Capital and Lease Asset Impairment

The Hospital evaluates capital and lease assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of an applicable asset has occurred. If an asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation or amortization is increased by the amount of the impairment loss. No asset impairment was recognized during the year ended December 31, 2022.

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.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Deferred Inflows of Resources

The Hospital reports an acquisition of net assets that is applicable to a future reporting period as deferred inflows of resources in a separate section of its balance sheet. At December 31, 2022, deferred inflows of resources relate to leasing activity in which the Hospital serves as the lessor.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital and lease assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of borrowings and lease liabilities used to finance the purchase, construction, or rental 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, if any.

Net Patient Service Revenue

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. For the year ended December 31, 2022, charges excluded from revenue under the Hospital's charity care policy were approximately \$1,026,000, and the estimated cost based on the Hospital's records was \$223,000.

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.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

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 2019 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, 2022, 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.

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 or other 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.

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.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Future Adoption of Accounting Standards

In fiscal year 2023, the Hospital will implement GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The statement provides a new framework for accounting for subscription-based information technology arrangements (SBITAs) under the principle that SBITAs result in a right-to-use subscription asset (intangible asset) and a corresponding subscription liability.

In fiscal year 2024, the Hospital will be required to implement GASB Statement No. 100, *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62, which prescribes the accounting and reporting for each type of accounting change and error corrections. Also in fiscal year 2024, the Hospital will be required to implement GASB Statement No. 101, *Compensated Absences*, which updates the recognition and measurement guidance for compensated absences. The Hospital has not determined the impact of these new standards to its financial statements; however, they could have a material future impact.

Note 2: Adoption of New Accounting Standard – GASB Statement No. 87, Leases

During 2022, the Hospital implemented GASB Statement No. 87, *Leases* (GASB No. 87). This statement requires governments to recognize certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The adoption of GASB No. 87 did not result in any change to beginning net position. As of January 1, 2022, adoption of the standard resulted in the recognition of lease assets and liabilities of approximately \$1.5 million (for leases in which the Hospital is lessee), as well as recognition of a lease receivable and deferred inflows of resources of approximately \$2.1 million (for leases in which the Hospital is lessor). Leases have been recognized and measured using the facts and circumstances that existed at the beginning of the year. Refer to Notes 6, 8, and 13 for additional disclosures on these balances.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Note 3: Net Patient Service Revenue

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

Medicare

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.

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.

Other

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Medicaid Disproportionate Share Hospital (DSH) Revenue

The Hospital qualifies as a Medicaid DSH provider under Indiana Law (HEA 1095, Public Law 27-1992) and, as such, is eligible to receive certain supplemental Medicaid payments. The amounts of these supplemental Medicaid 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 (as defined) and various other factors. Supplemental Medicaid payments under this program 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 Medicaid payment program for the year ended December 31, 2022. At December 31, 2022, approximately \$985,000 of the amounts due are accrued as a receivable in estimated amounts due from third-party payers. This represents management's best estimate of the remaining DSH funds due to the Hospital for the current state fiscal year.

Hospital Assessment Fee (HAF) Program

The Hospital participates in a state-specific provider assessment program designed to increase Medicaid payments to hospitals. The Hospital incurred approximately \$4.2 million of fees related to the program in 2022, which 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.

At year-end, the Hospital has a receivable balance of approximately \$620,000 associated with fees assessed under the program, which is included in estimated amounts due from third-party payers.

There is no assurance this program will continue in the future or will not be materially altered.

Upper Payment Limit (UPL) Program – Long-Term Care Operations

The long-term care operations of the Hospital qualify for supplemental Medicaid payments through the 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 in the statement of revenues, expenses and changes in net position. The Hospital recognized approximately \$34,100,000 of revenue related to this supplemental payment program for the year ended December 31, 2022. At December 31, 2022, approximately \$6,640,000 related to these funds are accrued and included in other receivables in the balance sheet.

There is no assurance this program will continue in the future or will not be materially altered.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Approximately 63 percent of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended December 31, 2022. 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 following is a summary of net patient service revenue for 2022:

	2022
Gross patient charges	
Inpatient	\$ 72,222,868
Outpatient	312,371,678
Long-term care operations	188,197,516
Total	572,792,062
Deductions from revenue	
Contractual allowances	255,508,463
Bad debts	20,473,562
Charity care	1,026,000
Total	277,008,025
Net patient service revenue	\$ 295,784,037

Note 4: Deposits, Investments and Investment Income

Deposits

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

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

Investments

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

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

At December 31, 2022, the Hospital, Foundation and Resource Management had the following investments and maturities:

Type	December 31, 2022				
	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Debt securities	\$ 4,452,965	\$ 1,306,775	\$ 3,146,190	\$ -	\$ -
Mutual funds - equities	8,220,621	8,220,621	-	-	-
Equities	8,949,404	8,949,404	-	-	-
Mutual funds - fixed income	14,358,601	14,358,601	-	-	-
	<u>\$ 35,981,591</u>	<u>\$ 32,835,401</u>	<u>\$ 3,146,190</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk - Interest rate risk is the risk that 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, 2022, the Hospital's investments were not rated.

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

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

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Summary of Carrying Values

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

	2022
Carrying value	
Deposits	\$ 21,230,911
Investments	35,981,591
	\$ 57,212,502
Included in the following balance sheets captions	
Cash and cash equivalents	\$ 4,084,180
Noncurrent cash and investments	
Internally designated	51,412,866
Held by Foundation	1,715,456
	\$ 57,212,502

Investment Return

Investment return for the year ended December 31 consisted of:

	2022
Interest, dividends and realized gains	\$ 1,006,647
Net decrease in fair value of investments	(6,994,179)
	\$ (5,987,532)

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Note 5: Patient Accounts Receivable

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

	2022
Medicare, net	\$ 20,560,383
Medicaid, net	12,752,801
Other third-party payers, net	34,208,991
Patients	17,023,185
	84,545,360
Less allowance for uncollectible accounts	(33,868,994)
	\$ 50,676,366

Note 6: Lease Receivable

The Hospital leases portions of its office and medical space to various third parties, the terms of which expire at various dates through July 2028. Payments are either fixed or increased at fixed amounts defined in the lease agreements. Any usage-based payments included within these leases are not included in the measurement of lease receivable balances because they are not fixed in substance.

Revenue recognized under lease contracts during the year ended December 31, 2022, was approximately \$425,000, which includes both lease revenue and interest. Revenue recognized for variable and short-term rental amounts not included in the measurement of the lease receivable approximated \$400,000 for the year ended December 31, 2022.

Note 7: 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.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Financial position and results of operations of these joint venture investments for 2022 are summarized below:

	CHN/JMH	SFRTC
Current assets	\$ 3,075,867	\$ 2,760,358
Property and other long-term assets, net	284,415	5,835,072
Total assets	\$ 3,360,282	\$ 8,595,430
Current liabilities	\$ 529,196	\$ 1,030,983
Members' equity	2,831,086	7,564,447
Total liabilities and members' equity	\$ 3,360,282	\$ 8,595,430
Revenues	\$ 5,276,200	\$ 12,587,054
Net gain	\$ 770,998	\$ 5,009,212

Note 8: Capital and Lease Assets

Capital asset activity for the year ended December 31 was:

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 4,926,609	\$ -	\$ -	\$ -	\$ 4,926,609
Land improvements	2,727,616	368,603	-	-	3,096,219
Buildings and leasehold improvements	104,654,427	577,557	(3,521)	20,405	105,248,868
Equipment	61,397,518	2,138,388	(17,429,494)	289,399	46,395,811
Construction in progress	403,356	1,134,645	-	(309,804)	1,228,197
Computer software	10,729,489	-	(435,697)	-	10,293,792
	184,839,015	4,219,193	(17,868,712)	-	171,189,496
Less accumulated depreciation					
Land improvements	1,495,742	123,722	-	-	1,619,464
Buildings and leasehold improvements	34,403,843	2,233,695	(3,521)	-	36,634,017
Equipment	50,472,192	3,304,999	(17,429,494)	-	36,347,697
Computer software	6,163,124	1,437,792	(225,316)	-	7,375,600
	92,534,901	7,100,208	(17,658,331)	-	81,976,778
Capital assets, net	\$ 92,304,114	\$ (2,881,015)	\$ (210,381)	\$ -	\$ 89,212,718

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Lease asset activity for the year ended December 31 was:

	2022			
	Restated - Beginning Balance	Additions	Disposals	Ending Balance
Buildings and leasehold improvements	\$ 1,361,703	\$ -	\$ -	\$ 1,361,703
Equipment	177,973	-	-	177,973
	1,539,676	-	-	1,539,676
Less accumulated amortization:				
Buildings and leasehold improvements	-	206,841	-	206,841
Equipment	-	73,644	-	73,644
	-	280,485	-	280,485
Lease assets, net	\$ 1,539,676	\$ (280,485)	\$ -	\$ 1,259,191

Note 9: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance up to coverage limits under the *Indiana Malpractice Act* (the Act) under a claims-made policy on a fixed premium basis. The Hospital is covered under the Act, which limits professional liability for claims on or after July 1, 2019, to a maximum recovery is \$1,800,000 per occurrence, \$500,000 of which would be paid through commercial 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.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Note 10: 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, 2022. 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 and other liabilities on the balance sheet, during 2022 and 2021 is summarized as follows:

	2022	2021
Balance, beginning of year	\$ 795,270	\$ 630,270
Claims incurred and changes in estimates for claims previously incurred	(7,474,560)	(4,964,414)
Claims and expenses paid	7,224,560	5,129,414
Balance, end of year	\$ 545,270	\$ 795,270

Note 11: Revolving Line of Credit

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, 2022. 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, 2022, the interest rate on the line of credit was 5.54 percent. The Hospital is required to maintain certain covenants as defined by the line of credit agreement.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Note 12: Long-Term Debt

The following is a summary of long-term debt transactions for the Hospital for the year ended December 31, 2022:

	2022				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue Bonds Payable Series 2017	\$ 13,902,602	\$ -	\$ (1,045,412)	\$ 12,857,190	\$ 1,078,057

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 are divided into consecutive interest rate periods during each of which the bonds 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.

Debt service requirements on long-term debt as of December 31, 2022, are as follows:

Year Ending December 31	Principal	Interest	Total
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	1,263,429	310,541	1,573,970
2028 - 2032	7,014,005	855,845	7,869,850
	<u>\$ 12,857,190</u>	<u>\$ 2,882,510</u>	<u>\$ 15,739,700</u>

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Note 13: Lease Liabilities

The Hospital, as lessee, leases medical equipment and office space, the terms of which expire in various years through July 2028. Any variable payments on these leases based upon the use of the underlying asset are not included in the lease liability because they are not fixed in substance. During the year ended December 31, 2022, the Hospital recognized approximately \$930,000 of rental expense for variable payments and short-term rentals not included in the measurement of the lease liability.

As discussed further in Note 15, the long-term care facility leases include termination language in which either party can terminate the agreements. The Hospital recognized approximately \$13.0 million of rental expense under these agreements, which are excluded from the measurement of the lease liability.

The following is a summary of long-term lease transactions for the Hospital:

	2022				
	Restated - Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Various equipment and buildings	\$ 1,539,676	\$ -	\$ (253,034)	\$ 1,286,642	\$ 257,623

The following is a schedule of payments, by year, under the leases as of December 31, 2022:

Year Ending December 31,	Total to Be Paid	Principal	Interest
2023	\$ 314,174	\$ 257,623	\$ 56,551
2024	276,865	232,670	44,195
2025	244,435	210,470	33,965
2026	244,435	220,798	23,637
2027	244,434	231,632	12,802
2028 - 2032	135,703	133,449	2,254
	\$ 1,460,046	\$ 1,286,642	\$ 173,404

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Note 14: Designated Net Position

At December 31, 2022, 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:

	2022
Funded depreciation	\$ 16,742
Other board-designated	51,396,124
Total designated net position	\$ 51,412,866

Note 15: Long-Term Care Operations and Agreements

The Hospital has entered into various agreements to lease the facilities for the operation of 34 nursing homes. Along with the lease agreements, the Hospital has also entered into management agreements with the facilities' third-party managers (Managers) to continue to operate the facilities. These agreements include original terms ranging from 3 years to 7 years, with optional extension or renewal periods. The management agreements include optional termination clauses available to either party. The lease agreements 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 to 2 percent. Due to the existence of the termination clauses, these long-term leases are excepted from the adoption of GASB No. 87 as discussed in Note 13 (Lease Liabilities).

Effective November 1, 2022, the manager of 19 of the nursing homes changed through the establishment of new lease and management agreements with the Hospital.

Rental expense approximated \$13 million in 2022. Future minimum rent payments at December 31 are as follows:

2023	\$ 29,199,653
2024	14,607,780
2025	14,607,780
2026	14,607,780
2027	14,607,780
Thereafter	26,780,930
Future minimum lease payments	\$ 114,411,703

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

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 \$2,400,000 in 2022, and are included in purchased services on the statement of revenues, expenses and changes in net position.

The Hospital has granted a security interest in all patient accounts receivable approximating \$34.5 million, exclusive of allowances, at December 31, 2022, for the facilities operated by a single manager, 33 of which were operated from January 1, 2022 through October 31, 2022, and 14 of which continued to be operated by this manager from November 1, 2022 through December 31, 2022.

The Hospital has also granted a security interest in all patients accounts receivable approximating \$3.6 million, exclusive of allowances, at December 31, 2022, related to the 19 facilities that began operation under a new manager, effective November 1, 2022.

Note 16: 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. Hospital expense related to the employer contributions to the plan was approximately \$740,000 for 2022.

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.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Note 17: 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, 2022:

	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, 2022				
Investments by Fair Value Level				
Investments				
Debt securities	\$ 4,452,965	\$ -	\$ 4,452,965	\$ -
Corporate stocks				
Domestic	8,949,404	8,949,404	-	-
Mutual funds				
Equity	8,220,621	8,220,621	-	-
Fixed income	14,358,601	14,358,601	-	-
	<u>14,358,601</u>	<u>14,358,601</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>\$ 35,981,591</u>	<u>\$ 31,528,626</u>	<u>\$ 4,452,965</u>	<u>\$ -</u>

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

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. The Hospital does not have any Level 3 investments at December 31, 2022.

Note 18: 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 insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations. 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 policy for business interruption, including cyber liability and other matters, with coverage limits up to \$5 million per group member. As of December 31, 2022, the Hospital has recorded a receivable approximating the aforementioned coverage limit of \$5,000,000, which is included in other receivables on the balance sheet, as management has determined recoveries are realizable in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The associated revenues are included within net patient service revenue on the statement of revenues, expenses and changes in net position, as management has determined these revenues to be program-related, as also defined in GASB No. 42.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Events could occur that would cause the estimate of ultimate recoveries to differ materially in the near term. 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.

Note 19: 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, 2022:

	December 31, 2022						Total
	Hospital	Resource Management	Physician Network	Pain Management	Foundation	Eliminations	
Assets							
Current assets	\$ 158,447,394	\$ 10	\$ 8,956	\$ 409,510	\$ 206,946	\$ (77,531,513)	\$ 81,541,303
Noncurrent cash and investments	15,759,615	35,653,251	-	-	1,715,456	-	53,128,322
Capital assets, net	89,212,718	-	-	-	-	-	89,212,718
Other assets	5,191,813	-	-	-	-	-	5,191,813
Total assets	<u>\$ 268,611,540</u>	<u>\$ 35,653,261</u>	<u>\$ 8,956</u>	<u>\$ 409,510</u>	<u>\$ 1,922,402</u>	<u>\$ (77,531,513)</u>	<u>\$ 229,074,156</u>
Liabilities							
Current liabilities	97,707,036	43,513,379	-	11,643	33,910	(92,288,091)	48,977,877
Noncurrent liabilities	12,808,152	-	-	-	-	-	12,808,152
Total liabilities	<u>110,515,188</u>	<u>43,513,379</u>	<u>-</u>	<u>11,643</u>	<u>33,910</u>	<u>(92,288,091)</u>	<u>61,786,029</u>
Deferred Inflows of Resources - Leases	<u>1,652,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,652,400</u>
Net Position							
Net investment in capital assets	76,328,077	-	-	-	-	-	76,328,077
Restricted	-	-	-	194,955	-	-	194,955
Unrestricted	80,115,875	(7,860,118)	8,956	202,912	1,888,492	14,756,578	89,112,695
Total net position	<u>156,443,952</u>	<u>(7,860,118)</u>	<u>8,956</u>	<u>397,867</u>	<u>1,888,492</u>	<u>14,756,578</u>	<u>165,635,727</u>
Total liabilities and net position	<u>\$ 268,611,540</u>	<u>\$ 35,653,261</u>	<u>\$ 8,956</u>	<u>\$ 409,510</u>	<u>\$ 1,922,402</u>	<u>\$ (77,531,513)</u>	<u>\$ 229,074,156</u>

The following table includes a condensed combining statement of revenues, expenses and changes in net position information for the Hospital and its blended component units for the year ended December 31, 2022:

	December 31, 2022						Total
	Hospital	Resource Management	Physician Network	Pain Management	Foundation	Eliminations	
Operating Revenues							
Net patient service revenue	\$ 283,344,960	\$ -	\$ 11,261,336	\$ 1,177,741	\$ -	\$ -	\$ 295,784,037
Other operating revenues	37,246,778	-	6,158	-	-	-	37,252,936
Total operating revenues	<u>320,591,738</u>	<u>-</u>	<u>11,267,494</u>	<u>1,177,741</u>	<u>-</u>	<u>-</u>	<u>333,036,973</u>
Operating Expenses							
Salaries, wages, contract labor and employee benefits	45,460,011	-	15,293,486	497,623	-	-	61,251,120
Purchased services and professional fees	159,459,465	1,370	432,417	113,682	-	-	160,006,934
Depreciation and amortization	7,380,693	-	-	-	-	-	7,380,693
Other operating expenses	94,007,970	152,000	3,276,373	230,130	-	(54,703)	97,611,770
Total operating expenses	<u>306,308,139</u>	<u>153,370</u>	<u>19,002,276</u>	<u>841,435</u>	<u>-</u>	<u>(54,703)</u>	<u>326,250,517</u>
Operating Income (Loss)	<u>14,283,599</u>	<u>(153,370)</u>	<u>(7,734,782)</u>	<u>336,306</u>	<u>-</u>	<u>54,703</u>	<u>6,786,456</u>
Nonoperating Revenues (Expenses)							
Investment return	171,484	(5,768,029)	-	-	(390,987)	-	(5,987,532)
Interest expense	(646,490)	-	-	-	-	-	(646,490)
Loss on sale of capital assets	(210,381)	-	-	-	-	-	(210,381)
Change in investment in JMH Physician Network, LLC	(7,347,633)	(386,718)	-	-	-	7,734,351	-
Other nonoperating revenues (expenses)	855,175	(1,024)	431	-	(64,115)	(54,703)	735,764
Total other nonoperating revenues (expenses)	<u>(7,177,845)</u>	<u>(6,155,771)</u>	<u>431</u>	<u>-</u>	<u>(455,102)</u>	<u>7,679,648</u>	<u>(6,108,639)</u>
Transfers	<u>(7,356,142)</u>	<u>(387,165)</u>	<u>7,743,307</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>\$ (250,388)</u>	<u>\$ (6,696,306)</u>	<u>\$ 8,956</u>	<u>\$ 336,306</u>	<u>\$ (455,102)</u>	<u>\$ 7,734,351</u>	<u>\$ 677,817</u>

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Note 20: CARES Act and Other Related Funding

Provider Relief Fund

In response to the World Health Organization's designation of the SARS-CoV-2 virus and the incidence of COVID-19 as a global pandemic in March 2020, various legislation was enacted, including the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) and the *American Rescue Plan Act* (ARPA Act). During the years ended December 31, 2021 and 2020, the Hospital received approximately \$29 million, in total, of distributions from the CARES Act Provider Relief Fund and the ARPA Act Relief Fund (collectively, the Provider Relief Fund). These Provider Relief Fund distributions are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses and/or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services. The Hospital will continue to monitor compliance with the terms and conditions governing the Provider Relief Fund, which are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions received may be affected. Provider Relief Fund payments are subject to government oversight, including potential audits.

Medicare 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. 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 in April 2021 and continued through the majority of 2022. As of December 31, 2022, the entirety of the Hospital's advance payments have been recouped or repaid.

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.

During the year ended December 31, 2022, any remaining deferred balance (approximately \$800,000) was paid, and there is no outstanding liability.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2022

Other COVID-19 Funding

During 2022, the Hospital received funding and/or recognized into revenue the following related to COVID-19 from other sources:

- Beginning in 2020, the federal government's response to COVID-19 included temporary reductions to 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 \$3.6 million. All of this revenue is included within other operating revenues on the statement of revenues, expenses and changes in net position.



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

Independent Auditor's Report

Board of Trustees
Johnson Memorial Hospital
Franklin, Indiana

We have audited, in accordance with the 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 (*Government Auditing Standards*), the financial statements of Johnson Memorial Hospital (Hospital), which comprise the balance sheet as of December 31, 2022, 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 December 7, 2023, which contained an emphasis of matter paragraph related to the adoption of a new accounting standard.

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
December 7, 2023