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August 30, 2021

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 BKD, LLP, Independent Public Accountants, for the period January 1, 2020 to December 31, 2020. 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, 2020, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, BKD, 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 blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Independent Auditor's Report and Financial Statements
December 31, 2020 and 2019

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
December 31, 2020 and 2019

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Independent Auditor's Report

Board of Trustees
Johnson Memorial Hospital
Franklin, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Johnson Memorial Hospital (Hospital), a component unit of Johnson County, Indiana, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Johnson Memorial Hospital as of December 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated August 19, 2021, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
August 19, 2021

Johnson Memorial Hospital

A Component Unit of Johnson County, Indiana

Management's Discussion and Analysis

December 31, 2020 and 2019

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, 2020, 2019 and 2018. The financial activities of the Hospital include those of its owned physician practices (Physician Services) and its operated long-term care facilities (Extended Services). The financial statements also include the activity and financial position of Johnson County Health Foundation, Inc. (Foundation) and JMH Resource Management Company, Inc. (Resource Management), which have been reported as blended component units. This management discussion and analysis should be read in conjunction with the accompanying financial statements.

Financial Highlights

- Total cash and investments increased in 2020 by \$32,259,123 (57 percent) and decreased in 2019 by \$1,716,761 (3 percent). The increase in 2020 is attributed to receipt of provider relief funds from the Department of Health and Human Services and advances under the Medicare Accelerated Payments program.
- Total liabilities in 2020 increased \$30,888,170 (41 percent) and increased \$13,315,540 (22 percent) in 2019. The increase in 2020 is primarily attributed to advances received under the Medicare Accelerated Payments program and amounts owed to managers of the Hospital's extended services (long-term care) operations.
- The Hospital reported an operating loss in 2020 and operating income in 2019 of (\$21,291,416) and \$6,056,519, respectively. The operating loss in 2020 was a decrease of 451 percent over the operating income reported in 2019. The decrease is primarily attributed to fluctuations in operating revenue and expenses as a result of the COVID-19 pandemic and changes related to management agreements of nursing operations. The operating income in 2019 increased by 257 percent from the operating loss reported in 2018. The increase is attributed to continued improvements within the revenue cycle function, changes in patient volume levels during the year, and continued efforts related to monitoring costs.
- Net nonoperating revenues increased by \$20,409,475 (386 percent) in 2020 compared to 2019 and increased by \$6,405,628 (570 percent) in 2019 compared to 2018. The increase in 2020 was primarily driven by CARES Act grant funding. The increase in 2019 was primarily attributable to changes in market returns on investments.

Using This Annual Report

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

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Management's Discussion and Analysis
December 31, 2020 and 2019

The Balance Sheets and Statements of Revenues, Expenses and Changes in Net Position

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

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

The Statements of Cash Flows

The statements of cash flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from 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 sheets. The Hospital's net position increased by \$4,399,829 (3 percent) in 2020 over 2019, and increased by \$11,348,289 (8 percent) in 2019 over 2018, as shown in Table 1.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Management's Discussion and Analysis
December 31, 2020 and 2019

Table 1: Assets, Liabilities and Net Position

	2020	2019	2018
Assets			
Patient accounts receivable, net	\$ 46,169,015	\$ 50,058,033	\$ 34,287,093
Other current assets	40,421,709	16,043,605	17,175,870
Capital assets, net	98,231,919	100,710,982	90,740,536
Other noncurrent assets	73,496,072	56,218,096	56,163,388
Total assets	<u>\$ 258,318,715</u>	<u>\$ 223,030,716</u>	<u>\$ 198,366,887</u>
Liabilities			
Long-term debt and note payable to banks	\$ 15,167,520	\$ 17,874,578	\$ 21,360,463
Other current and noncurrent liabilities	90,442,932	56,847,704	40,046,279
Total liabilities	<u>105,610,452</u>	<u>74,722,282</u>	<u>61,406,742</u>
Net Position			
Net investment in capital assets	80,798,484	80,790,528	70,344,787
Unrestricted	71,909,779	67,517,906	66,615,358
Total net position	<u>152,708,263</u>	<u>148,308,434</u>	<u>136,960,145</u>
Total liabilities and net position	<u>\$ 258,318,715</u>	<u>\$ 223,030,716</u>	<u>\$ 198,366,887</u>

A significant change in the Hospital's assets in 2020 is the increase in cash and investments of \$32,259,123, from \$56,582,584 at December 31, 2019 to \$88,841,707 at December 31, 2020.

A significant change in the Hospital's assets in 2019 is the increase in patient accounts receivable of \$15,770,940 from \$34,287,093 at December 31, 2018, to \$50,058,033 at December 31, 2019. Capital assets increased \$9,970,446 from \$90,740,536 at December 31, 2018, to \$100,710,982 at December 31, 2019, as a result of significant continued capital investments on the Hospital's campus.

Operating Results and Changes in the Hospital's Net Position

In 2020, the Hospital's net position increased by \$4,399,829 (3 percent) compared to an increase in net position during 2019 of \$11,348,289 (8 percent), as shown in Table 2.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Management's Discussion and Analysis
December 31, 2020 and 2019

Table 2: Operating Results and Changes in Net Position

	2020	2019	2018
Operating Revenue			
Net patient service revenue	\$ 281,356,649	\$ 284,716,891	\$ 276,570,946
Other operating revenue	42,041,240	38,311,210	35,052,380
Total operating revenue	<u>323,397,889</u>	<u>323,028,101</u>	<u>311,623,326</u>
Operating Expenses			
Salaries and wages and employee benefits	54,049,444	52,445,538	52,060,200
Purchased services	173,227,533	143,323,675	139,188,488
Depreciation and amortization	7,034,630	6,705,247	7,074,036
Other operating expenses	110,377,698	114,487,122	117,162,311
Total operating expenses	<u>344,689,305</u>	<u>316,961,582</u>	<u>315,485,035</u>
Operating Income (Loss)	(21,291,416)	6,066,519	(3,861,709)
Nonoperating COVID-19 Grant Revenue	<u>21,293,414</u>	<u>-</u>	<u>-</u>
Income (Loss) Before Other Nonoperating Revenues (Expenses)	<u>1,998</u>	<u>6,066,519</u>	<u>(3,861,709)</u>
Other Nonoperating Revenues (Expenses)			
Investment income (loss)	4,262,638	4,561,914	(1,491,780)
Interest expense	(617,632)	(11,644)	(290,069)
Other	752,825	731,500	657,991
Total other nonoperating revenues (expenses)	<u>4,397,831</u>	<u>5,281,770</u>	<u>(1,123,858)</u>
Increase (Decrease) in Net Position	<u>\$ 4,399,829</u>	<u>\$ 11,348,289</u>	<u>\$ (4,985,567)</u>

Operating Income (Loss)

The first component of the overall change in the Hospital's net position is its operating income (loss) — generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Hospital had an operating income for 2019 and operating loss for 2020 and 2018. During 2020, due to fluctuations in patient volumes and changes within the nursing operations management agreements, the Hospital reported an operating loss. During 2019, due to increased patient volumes and ongoing improvements associated with a new electronic medical record system, the Hospital recorded operating income. The operating loss in 2018 was primarily due to the initial challenges associated with the implementation of a new electronic medical records systems. 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
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The operating loss in 2020 totaled (\$21,291,416), which was a decrease of \$27,357,935 (451 percent) from operating income reported in 2019 of \$6,066,519. The primary component of the change in operating income is an increase in expenses related to purchased services, which increased by \$29,903,858 (21 percent) in 2020. The increase in purchased services is primarily due to the aforementioned changes in management agreements associated with nursing operations.

Operating income in 2019 totaled \$6,066,519, which was an increase of \$9,928,228 (257 percent) from operating loss reported in 2018 of (\$3,861,709). The primary component of the changes in the operating income is an increase in operating revenues of \$11,404,775 (4 percent) from \$311,623,326 in 2018 to \$323,028,101 in 2019. The operating revenue increase is driven by the Hospital and Physician Services operating revenue increase of \$10,519,549 from 2018. Operating expenses increased by \$1,476,547 (less than 1 percent) from \$315,485,035 in 2018 to \$316,961,582 in 2019.

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 2020 compared to 2019, and an increase in 2019 compared to 2018.

In 2020, nonoperating activity also includes \$21,293,414 of grant revenue related to the COVID-19 pandemic, which relates to provider relief funds from the Department of Health and Human Services.

The Hospital's Cash Flows

Another way to assess the financial health of an institution is to look at the statements 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 statements of cash flows also help 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 \$300 million (2020) and \$268 million (2019). The largest cash payments for operating activities were \$263 million (2020) and \$236 million (2019) for payments to suppliers and contractors and \$52 million (2020) and \$53 million (2019) 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 the line of credit and long-term debt.

Johnson Memorial Hospital
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Management's Discussion and Analysis
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Cash provided by (used in) investing activities primarily reflects purchases and sales of investments and investment income.

Capital Asset and Debt Administration

Capital Assets

At the end of 2020 and 2019, the Hospital had \$98,231,919 and \$100,710,982, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2020 and 2019, the Hospital's construction in progress increased by \$3,053,613 and \$15,488,346 respectively. The Hospital broke ground at the end of the third quarter in 2017 to add a new emergency department and outpatient services building, which will be placed into service in 2021. The entire project is estimated to cost \$47 million. 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, 2020 and 2019, the Hospital had outstanding \$14,907,885 and \$15,874,578, respectively, related to the bonds. Bond issuance costs of approximately \$162,000 were incurred and immediately expensed. The bonds were issued through the Indiana Finance Authority. More detailed information about the Hospital's debt is presented in the notes to the financial statements.

Other Economic Factors

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 as a global pandemic. For healthcare providers, patient volumes and related revenues were affected by COVID-19 as various policies were implemented by federal, state and local governments in response to the pandemic that 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 non-emergent procedures, some restrictions remain in place. There is still considerable uncertainty around the duration and ultimate financial impacts of the COVID-19 pandemic. The Hospital continues to monitor the direct and indirect impacts of the pandemic and develop responses accordingly to maintain its operational and financial flexibility.

Aside from COVID-19, the healthcare industry continues to be challenged with ongoing healthcare reform and how it will impact the overall care delivery model for hospitals, physicians and other healthcare providers. Uncertainty with the fate of programs such as the Affordable Care Act requires healthcare organizations to remain vigilant and flexible. The Hospital continues to work toward operating in the most efficient manner possible to help mitigate rising costs. The Hospital collaborates with its physician practices to further incorporate patient-centered care and pay-for-performance practices that entail provider-recognition models for exemplary patient service and satisfaction.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Management's Discussion and Analysis
December 31, 2020 and 2019

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital's Chief Financial Officer by telephoning 317.736.3300.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Balance Sheets
December 31, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 17,114,056	\$ 1,978,123
Patient accounts receivable, net of allowance; 2020 - \$13,033,913 and 2019 - \$14,008,933	46,169,015	50,058,033
Other receivables	17,569,319	9,291,826
Estimated third-party settlements	985,000	756,097
Supplies	2,766,319	2,107,329
Prepaid expenses and other	1,987,015	1,910,230
Total current assets	86,590,724	66,101,638
Noncurrent Cash and Investments		
Internally designated	69,843,686	52,867,130
Held by Foundation	1,883,965	1,737,331
Total noncurrent cash and investments	71,727,651	54,604,461
Capital Assets, net	98,231,919	100,710,982
Investment in Affiliate	1,768,421	1,613,635
Total assets	\$ 258,318,715	\$ 223,030,716
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 1,058,419	\$ 955,369
Line of credit	-	2,000,000
Accounts payable	65,192,149	50,029,803
Accrued expenses	13,057,216	6,817,901
Estimated third-party settlements	1,311,059	-
Total current liabilities	80,618,843	59,803,073
Noncurrent Liabilities		
Other accrued liabilities	10,882,508	-
Long-term debt	14,109,101	14,919,209
Total noncurrent liabilities	24,991,609	14,919,209
Total liabilities	105,610,452	74,722,282
Net Position		
Net investment in capital assets	80,798,484	80,790,528
Unrestricted	71,909,779	67,517,906
Total net position	152,708,263	148,308,434
Total liabilities and net position	\$ 258,318,715	\$ 223,030,716

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts of \$15,350,533 in 2020 and \$8,789,801 in 2019	\$ 281,356,649	\$ 284,716,891
Other operating revenue	42,041,240	38,311,210
Total operating revenue	323,397,889	323,028,101
 Operating Expenses		
Salaries and wages	45,308,831	43,211,077
Employee benefits	8,740,613	9,234,461
Purchased services	173,227,533	143,323,675
Medical supplies and drugs	26,205,955	25,590,630
Facility and equipment leases	53,370,553	53,974,504
Hospital assessment fee	4,255,208	3,852,455
Other	26,545,982	31,069,533
Depreciation and amortization	7,034,630	6,705,247
Total operating expenses	344,689,305	316,961,582
 Operating Income (Loss)	(21,291,416)	6,066,519
 Nonoperating COVID-19 Grant Revenue	21,293,414	-
 Income Before Other Nonoperating Revenues (Expenses)	1,998	6,066,519
 Other Nonoperating Revenues (Expenses)		
Investment income	4,262,638	4,561,914
Interest expense	(617,632)	(11,644)
Other nonoperating revenue	752,825	731,500
Total other nonoperating revenues (expenses)	4,397,831	5,281,770
 Excess of Revenues Over Expenses and Increase in Net Position	4,399,829	11,348,289
 Net Position, Beginning of Year	148,308,434	136,960,145
 Net Position, End of Year	\$ 152,708,263	\$ 148,308,434

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 300,444,002	\$ 267,658,694
Payments to suppliers and contractors	(263,143,491)	(236,194,882)
Payments to employees	(52,323,262)	(52,886,400)
Other receipts, net	29,251,883	34,379,656
Net cash provided by operating activities	<u>14,229,132</u>	<u>12,957,068</u>
Noncapital Financing Activities		
Noncapital grants, contributions and transfers	22,572,876	-
Net cash provided by noncapital financing activities	<u>22,572,876</u>	<u>-</u>
Capital and Related Financing Activities		
Repayments on line of credit and long-term debt	(2,966,693)	(3,485,885)
Interest paid on long-term debt	(617,632)	(11,644)
Principal paid on capital leases	(51,699)	-
Proceeds from sale of capital assets	290,277	-
Purchase of capital assets and intangibles	(6,212,601)	(16,469,714)
Net cash used in capital and related financing activities	<u>(9,558,348)</u>	<u>(19,967,243)</u>
Investing Activities		
Investment income	1,661,176	1,078,619
Purchases of investments	(19,602,009)	(2,875,135)
Proceeds from disposition of investments	14,641,169	9,324,623
Other	752,825	731,500
Net cash provided by (used in) investing activities	<u>(2,546,839)</u>	<u>8,259,607</u>
Increase in Cash and Cash Equivalents	24,696,821	1,249,432
Cash and Cash Equivalents, Beginning of Year	<u>28,500,352</u>	<u>27,250,920</u>
Cash and Cash Equivalents, End of Year	<u>\$ 53,197,173</u>	<u>\$ 28,500,352</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 17,114,056	\$ 1,978,123
Internally-designated cash included in noncurrent cash	36,083,117	26,522,229
Total Cash and Cash Equivalents	<u>\$ 53,197,173</u>	<u>\$ 28,500,352</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (21,291,416)	\$ 6,066,519
Depreciation and amortization	7,034,630	6,705,247
Provision for uncollectible accounts	15,350,533	8,789,801
Changes in operating assets and liabilities		
Patient accounts receivable	(11,461,515)	(24,560,741)
Estimated amounts due from third-party payers	1,082,156	(1,287,257)
Accounts payable and accrued expenses	18,668,489	16,880,415
Medicare accelerated payments	14,116,179	-
Other assets	(9,269,924)	363,084
Net cash provided by operating activities	<u>\$ 14,229,132</u>	<u>\$ 12,957,068</u>
Supplemental Cash Flow Information		
Capital assets acquired through capital lease	\$ 311,334	\$ -
Capital assets in accounts payable	2,265,915	4,045,876

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2020 and 2019

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

Nature of Operations and Reporting Entity

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

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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, the financial statements include the financial statements of Johnson County Health Foundation, Inc. (Foundation) and JMH Resource Management Company, Inc. (Resource Management). The Foundation's purpose is to provide philanthropic support through fundraising and other activities for the acquisition of equipment, facility development and support of programs at the Hospital and has, therefore, been reported as a blended component unit. Resource Management's purpose is to operate for the exclusive benefit of the Hospital and the health care community served by the Hospital, and has been reported as a blended component unit.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Investment income, medical office building, rental activities and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Johnson Memorial Hospital
A Component Unit of Johnson County, Indiana
Notes to Financial Statements
December 31, 2020 and 2019

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2020 and 2019, cash equivalents consisted primarily of money market accounts with various financial institutions.

Risk Management

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

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

Investments and Investment Return

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

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

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an estimated allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

Supplies

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

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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

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred was:

	<u>2020</u>	<u>2019</u>
Interest costs capitalized	\$ -	\$ 646,505
Interest cost charged to expense	<u>617,632</u>	<u>11,644</u>
Total interest incurred	<u>\$ 617,632</u>	<u>\$ 658,149</u>

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 years ended December 31, 2020 and 2019.

Compensated Absences

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off; the policy does not allow for payment of accrued benefits at employment termination. The paid time off policy includes substantially all compensated absences including vacation leave, sick leave and other types of leave. Employees earn these benefits at different rates depending on their years of service. In accordance with Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensating Absences*, management does not accrue a liability for paid time off earned that can be categorized as sick leave. The compensated absence liabilities are computed using the regular pay and termination rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. The estimated compensated absences liability is expected to be paid within one year of the balance sheet date, and is, therefore, included in current liabilities.

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Net Position

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

Net Patient Service Revenue

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were approximately \$1,436,000 and \$2,544,000 for 2020 and 2019, respectively. Estimated cost based on the Hospital's records was \$436,000 and \$678,000 for 2020 and 2019, respectively.

Income Taxes

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

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

Resource Management is exempt status under Section 501(c)(3) of the U.S. Internal Revenue Code and a similar provision of state law.

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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.

Change in Accounting Principle – Fiduciary Activities

As of January 1, 2020, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Adoption of this Statement had no effect on the financial statements.

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

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

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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 70 percent of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2020 and 2019. 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 \$4,255,000 and \$3,850,000 of fees related to the program in 2020 and 2019, respectively, and is recorded as an operating expense. The provider assessment fee program is subject to retroactive rate setting by the state of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital.

The 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 years ended December 31, 2020 and 2019. At December 31, 2020 and 2019, 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 each fiscal year, which are typically paid in arrears.

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The long-term care operations of the Hospital qualify for supplemental Medicaid payments through the Upper Payment Limit (UPL) program. The UPL is established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid. The UPL is distributed through an intergovernmental transfer (IGT) arrangement. The Hospital is responsible for funding the IGT for the long-term care operations. Revenue associated with the UPL program is recorded net of IGT payments made to the program and are included in other operating revenue. The Hospital recognized approximately \$35,500,000 and \$32,969,000 and related to this supplemental payment program for the years ended December 31, 2020 and 2019, respectively, which is included in other operating revenue in the statements of revenues, expenses and changes in net position. At December 31, 2020 and 2019, respectively, approximately \$10,220,000 and \$7,476,000 related to these IGT funds are accrued and included in other receivables.

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

The following is a summary of net patient service revenue for 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Patient service revenue		
Inpatient	\$ 56,830,357	\$ 55,176,322
Outpatient	211,815,860	204,471,597
Long-term care operations	208,429,982	207,334,730
Gross patient service revenue	<u>477,076,199</u>	<u>466,982,649</u>
Deductions from revenue		
Contractual allowances	178,932,768	170,931,722
Bad debts	15,350,533	8,789,801
Charity care	1,436,249	2,544,235
Total deductions from revenue	<u>195,719,550</u>	<u>182,265,758</u>
Net patient service revenue	<u>\$ 281,356,649</u>	<u>\$ 284,716,891</u>

Note 3: Deposits, Investments and Investment Income

Deposits

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

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

Investments

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

At December 31, 2020 and 2019, the Hospital, Foundation and Resource Management had the following investments and maturities:

December 31, 2020					
Maturities in Years					
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Debt securities	\$ 4,811,730	\$ -	\$ 4,811,730	\$ -	\$ -
Mutual funds - equities	7,200,496	7,200,496	-	-	-
Equities	10,737,411	10,737,411	-	-	-
Mutual funds - fixed income	12,894,897	12,894,897	-	-	-
	<u>\$ 35,644,534</u>	<u>\$ 30,832,804</u>	<u>\$ 4,811,730</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2019					
Maturities in Years					
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Debt securities	\$ 4,476,180	\$ -	\$ 3,369,080	\$ 1,107,100	\$ -
Mutual funds - equities	5,968,938	5,968,938	-	-	-
Equities	7,705,284	7,705,284	-	-	-
Mutual Funds - Fixed income	2,990,420	2,990,420	-	-	-
	<u>\$ 21,140,822</u>	<u>\$ 16,664,642</u>	<u>\$ 3,369,080</u>	<u>\$ 1,107,100</u>	<u>\$ -</u>

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

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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, 2020 and 2019, the Hospital's investments were not rated.

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

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

Summary of Carrying Values

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

	<u>2020</u>	<u>2019</u>
Carrying value		
Deposits	\$ 53,197,173	\$ 35,441,762
Investments	<u>35,644,534</u>	<u>21,140,822</u>
	<u>\$ 88,841,707</u>	<u>\$ 56,582,584</u>
Included in the following balance sheets captions		
Cash and cash equivalents	\$ 17,114,056	\$ 1,978,123
Noncurrent cash and investments		
Internally designated	69,843,686	52,867,130
Held by Foundation	<u>1,883,965</u>	<u>1,737,331</u>
	<u>\$ 88,841,707</u>	<u>\$ 56,582,584</u>

Investment Income

Investment income for the years ended December 31 consisted of:

	<u>2020</u>	<u>2019</u>
Interest, dividends and realized gains	\$ 1,661,176	\$ 1,078,619
Net increase in fair value of investments	<u>2,601,462</u>	<u>3,483,295</u>
	<u>\$ 4,262,638</u>	<u>\$ 4,561,914</u>

Included in deposits are non-negotiable certificates of deposit of \$6,941,410 as of December 31, 2019. There were no non-negotiable certificates of deposit as of December 31, 2020.

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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:

	2020	2019
Medicare, net	\$ 15,289,691	\$ 9,585,253
Medicaid, net	9,532,790	20,705,963
Other third-party payers	17,828,458	14,570,685
Patients	16,551,989	19,205,065
	<u>59,202,928</u>	<u>64,066,966</u>
Less allowance for uncollectible accounts	<u>(13,033,913)</u>	<u>(14,008,933)</u>
	<u>\$ 46,169,015</u>	<u>\$ 50,058,033</u>

Note 5: Investment in Affiliate

The Hospital owns a 49 percent interest in CHN/JMH Ventures, LLC, a company formed to provide diagnostic imaging services and outpatient rehabilitative services at a medical office complex in Johnson County. This investment is accounted for under the equity method of accounting.

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

	2020	2019
Current assets	\$ 3,502,365	\$ 3,334,724
Property and other long-term assets, net	495,113	314,845
Total assets	<u>3,997,478</u>	<u>3,649,569</u>
Current liabilities	534,119	675,457
Long-term liabilities	-	-
Total liabilities	<u>534,119</u>	<u>675,457</u>
Members' equity	<u>\$ 3,463,359</u>	<u>\$ 2,974,112</u>
Revenues	<u>\$ 4,113,135</u>	<u>\$ 4,487,541</u>
Net gain	<u>\$ 489,246</u>	<u>\$ 785,203</u>

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Note 6: Capital Assets

Capital assets activity for the years ended December 31 was:

2020					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 4,743,426	\$ -	\$ -	\$ -	\$ 4,743,426
Land improvements	2,880,818	5,925	-	-	2,886,743
Buildings and leasehold improvements	68,523,048	12,862	-	755,695	69,291,605
Equipment	56,201,518	858,733	(365,893)	-	56,694,358
Construction in progress	38,560,241	3,809,308	-	(755,695)	41,613,854
Computer software	10,729,489	-	-	-	10,729,489
	<u>181,638,540</u>	<u>4,686,828</u>	<u>(365,893)</u>	<u>-</u>	<u>185,959,475</u>
Less accumulated depreciation					
Land improvements	1,422,184	120,979	-	-	1,543,163
Buildings and leasehold improvements	29,401,644	2,813,295	-	-	32,214,939
Equipment	47,006,558	2,665,755	(353,057)	-	49,319,256
Computer software	3,097,172	1,553,026	-	-	4,650,198
	<u>80,927,558</u>	<u>7,153,055</u>	<u>(353,057)</u>	<u>-</u>	<u>87,727,556</u>
Capital assets, net	<u>\$ 100,710,982</u>	<u>\$ (2,466,227)</u>	<u>\$ (12,836)</u>	<u>\$ -</u>	<u>\$ 98,231,919</u>
2019					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 4,743,426	\$ -	\$ -	\$ -	\$ 4,743,426
Land improvements	2,889,286	-	(8,468)	-	2,880,818
Buildings and leasehold improvements	69,624,718	549	(1,140,789)	38,570	68,523,048
Equipment	55,590,252	1,263,803	(783,153)	130,616	56,201,518
Construction in progress	23,071,895	15,657,532	-	(169,186)	38,560,241
Computer software	10,729,489	-	-	-	10,729,489
	<u>166,649,066</u>	<u>16,921,884</u>	<u>(1,932,410)</u>	<u>-</u>	<u>181,638,540</u>
Less accumulated depreciation					
Land improvements	1,293,077	137,574	(8,467)	-	1,422,184
Buildings and leasehold improvements	28,197,044	2,262,869	(1,058,269)	-	29,401,644
Equipment	44,870,374	2,885,195	(749,011)	-	47,006,558
Computer Software	1,548,035	1,549,137	-	-	3,097,172
	<u>75,908,530</u>	<u>6,834,775</u>	<u>(1,815,747)</u>	<u>-</u>	<u>80,927,558</u>
Capital assets, net	<u>\$ 90,740,536</u>	<u>\$ 10,087,109</u>	<u>\$ (116,663)</u>	<u>\$ -</u>	<u>\$ 100,710,982</u>

Depreciation expense totaling \$118,425 and \$129,528 for 2020 and 2019, respectively, was included in other nonoperating expense in the statements of revenues, expenses and changes in net position, as it related directly to rental activities.

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Note 7: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. In addition, the Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an individual employee amount of \$300,000 for the years ended December 31, 2020 and 2019. 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 statement of net position, during 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 539,365	\$ 551,432
Current year claims incurred and changes in estimates for claims incurred in prior years	(5,502,458)	(5,810,428)
Claims and expenses paid	<u>5,593,363</u>	<u>5,798,361</u>
Balance, end of year	<u>\$ 630,270</u>	<u>\$ 539,365</u>

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Note 9: Note Payable to Bank

The Hospital has a \$15,000,000 revolving bank line of credit that automatically renews on an annual basis. At December 31, 2019, there was \$2,000,000 borrowed against this line. The Hospital had no borrowings on this line at December 31, 2020. The line was collateralized by certain investments of the Hospital. Interest rate was equaled to one-month LIBOR, which was 0.15 percent on December 31, 2020, plus 1.15 – 1.60 percent depending on the outstanding balance. The Hospital is required to maintain certain covenants as defined by the line of credit agreement.

Note 10: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2020 and 2019

	2020				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable Series 2017	\$ 15,874,578	\$ -	\$ (966,693)	\$ 14,907,885	\$ 995,811
Capital lease obligations	-	311,334	(51,699)	259,635	62,608
Total long-term debt	<u>15,874,578</u>	<u>311,334</u>	<u>(1,018,392)</u>	<u>15,167,520</u>	<u>1,058,419</u>
Other liabilities:					
Deferred FICA taxes	-	1,604,754	-	1,604,754	802,377
Medicare Advance Payments	-	14,116,179	-	14,116,179	4,036,048
Total other liabilities	<u>-</u>	<u>15,720,933</u>	<u>-</u>	<u>15,720,933</u>	<u>4,838,425</u>
Total long-term obligations	<u>\$ 15,874,578</u>	<u>\$ 16,032,267</u>	<u>\$ (1,018,392)</u>	<u>\$ 30,888,453</u>	<u>\$ 5,896,844</u>
	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable Series 2017	\$ 16,802,043	\$ -	\$ (927,465)	\$ 15,874,578	\$ 955,369
Total long-term debt	<u>\$ 16,802,043</u>	<u>\$ -</u>	<u>\$ (927,465)</u>	<u>\$ 15,874,578</u>	<u>\$ 955,369</u>

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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.

Debt service requirements on long-term debt as of December 31, 2020, are as follows:

Year Ending December 31	Principal	Interest	Total
2021	\$ 995,811	\$ 578,159	\$ 1,573,970
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 - 2030	6,582,352	1,287,497	7,869,849
2031 - 2032	2,928,127	126,733	3,054,860
	<u>\$ 14,907,885</u>	<u>\$ 3,886,674</u>	<u>\$ 18,794,559</u>

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Capital Lease Obligations

The Hospital is obligated under lease for buildings and 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, 2020:

2021	\$ 71,347
2022	77,834
2023	77,834
2024	<u>60,593</u>
Total minimum lease payments	287,608
Less amount representing interest	<u>(27,973)</u>
Present value of future minimum lease payments	<u><u>\$ 259,635</u></u>

The capital lease is secured by the related assets as collateral. Assets under capital leases at December 31, 2020 and 2019, totaled:

	<u>2020</u>	<u>2019</u>
Major moveable equipment	\$ 259,635	\$ -
Accumulated depreciation	<u>-</u>	<u>-</u>
	<u><u>\$ 259,635</u></u>	<u><u>\$ -</u></u>

Note 11: Designated Net Position

At December 31, 2020 and 2019, 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:

	<u>2020</u>	<u>2019</u>
Funded depreciation	\$ 55,406	\$ 96,031
Other Board-designated	<u>69,788,280</u>	<u>52,771,099</u>
Total designated net position	<u><u>\$ 69,843,686</u></u>	<u><u>\$ 52,867,130</u></u>

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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, 2020. Along with each lease agreement, the Hospital has also entered into management agreements with the facilities' managers (Managers) to continue to operate the facilities. These agreements expire at various times through December 2022 and include optional one to two-year extensions. The management agreements include optional termination clauses by either party if material changes in circumstances, as defined in the agreement, occur. The leases include termination clauses where the lease shall automatically end at the termination of the management agreement between the Hospital and the Managers.

The lease agreements call for monthly base rent payments as outlined in the agreements. Several facilities include annual rent increases of 1-2 percent. Rental expense approximated \$34,000,000 in 2020 and 2019. Future minimum rent payments at December 31 are as follows:

2021		\$	17,830,892
2022			<u>650,953</u>
Future minimum lease payments		\$	<u><u>18,481,845</u></u>

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 \$31,350,000 and \$5,910,000 in 2020 and 2019, respectively, and are included in purchased services on the statements of revenues, expenses and changes in net position.

The Hospital has granted a security interest in all patient accounts receivable approximating \$37,000,000 and \$49,000,000 at December 31, 2020 and 2019, respectively, for the 34 facilities operated by a single manager.

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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. Hospital expense related to the employer contributions to the plan was approximately \$233,000 and \$1,003,000 for 2020 and 2019, respectively.

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 services as the nondiscretionary trustee of the plan, but has not 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.

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

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Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2020 and 2019:

	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, 2020				
Investments by Fair Value Level				
Investments				
Debt securities	\$ 4,811,730	\$ -	\$ 4,811,730	\$ -
Corporate stocks				
Domestic	10,737,411	10,737,411	-	-
Mutual funds				
Equity	7,200,496	7,200,496	-	-
Fixed income	12,894,897	12,894,897	-	-
	<u>\$ 35,644,534</u>	<u>\$ 30,832,804</u>	<u>\$ 4,811,730</u>	<u>\$ -</u>
Total investments by fair value level				
	<u>\$ 35,644,534</u>	<u>\$ 30,832,804</u>	<u>\$ 4,811,730</u>	<u>\$ -</u>
December 31, 2019				
Investments by Fair Value Level				
Investments				
Debt securities	\$ 4,476,180	\$ -	\$ 4,476,180	\$ -
Corporate stocks				
Domestic	7,705,284	7,705,284	-	-
Mutual funds				
Equity	5,968,938	5,968,938	-	-
Fixed income	2,990,420	2,990,420	-	-
	<u>\$ 21,140,822</u>	<u>\$ 16,664,642</u>	<u>\$ 4,476,180</u>	<u>\$ -</u>
Total investments by fair value level				
	<u>\$ 21,140,822</u>	<u>\$ 16,664,642</u>	<u>\$ 4,476,180</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, 2020 or 2019.

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.

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Note 16: Blended Component Units

The financial statements include the blended component unit accounts of the Foundation and Resource Management as discussed in Note 1. The following is a financial summary of the component units as of December 31, 2020 and 2019:

	December 31, 2020			Total
	Hospital	Foundation	Resource Management	
Assets				
Current assets	\$ 86,421,226	\$ 169,488	\$ 10	\$ 86,590,724
Noncurrent cash and investments	35,514,844	1,883,965	34,328,842	71,727,651
Capital assets, net	98,231,919	-	-	98,231,919
Investment in affiliate	1,768,421	-	-	1,768,421
Total assets	<u>\$ 221,936,410</u>	<u>\$ 2,053,453</u>	<u>\$ 34,328,852</u>	<u>\$ 258,318,715</u>
Liabilities				
Current liabilities	\$ 43,726,857	\$ 36,108	\$ 36,855,878	\$ 80,618,843
Long-term liabilities	24,991,609	-	-	24,991,609
Total liabilities	<u>68,718,466</u>	<u>36,108</u>	<u>36,855,878</u>	<u>105,610,452</u>
Net Position				
Net investment in capital assets	80,798,484	-	-	80,798,484
Unrestricted	72,419,460	2,017,345	(2,527,026)	71,909,779
Total net position	<u>153,217,944</u>	<u>2,017,345</u>	<u>(2,527,026)</u>	<u>152,708,263</u>
Total liabilities and net position	<u>\$ 221,936,410</u>	<u>\$ 2,053,453</u>	<u>\$ 34,328,852</u>	<u>\$ 258,318,715</u>
	December 31, 2019			Total
	Hospital	Foundation	Resource Management	
Assets				
Current assets	\$ 65,929,515	\$ 172,113	\$ 10	\$ 66,101,638
Noncurrent cash and investments	32,891,236	1,737,331	19,975,894	54,604,461
Capital assets, net	100,710,982	-	-	100,710,982
Investment in affiliate	1,613,635	-	-	1,613,635
Total assets	<u>\$ 201,145,368</u>	<u>\$ 1,909,444</u>	<u>\$ 19,975,904</u>	<u>\$ 223,030,716</u>
Liabilities				
Current liabilities	\$ 35,018,461	\$ 38,381	\$ 24,746,231	\$ 59,803,073
Long-term debt	14,919,209	-	-	14,919,209
Total liabilities	<u>49,937,670</u>	<u>38,381</u>	<u>24,746,231</u>	<u>74,722,282</u>
Net Position				
Net investment in capital assets	80,790,528	-	-	80,790,528
Unrestricted	70,417,170	1,871,063	(4,770,327)	67,517,906
Total net position	<u>151,207,698</u>	<u>1,871,063</u>	<u>(4,770,327)</u>	<u>148,308,434</u>
Total liabilities and net position	<u>\$ 201,145,368</u>	<u>\$ 1,909,444</u>	<u>\$ 19,975,904</u>	<u>\$ 223,030,716</u>

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The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its blended component unit for the years ended December 31, 2020 and 2019:

	December 31, 2020			Total
	Hospital	Foundation	Resource Management	
Operating Revenue				
Net patient service revenue	\$ 281,356,649	\$ -	\$ -	\$ 281,356,649
Other operating revenue	42,041,240	-	-	42,041,240
Total operating revenue	<u>323,397,889</u>	<u>-</u>	<u>-</u>	<u>323,397,889</u>
Operating Expenses				
Salaries, wages, contract labor and employee benefits	54,049,444	-	-	54,049,444
Purchased services and professional fees	173,185,725	-	41,808	173,227,533
Depreciation and amortization	6,612,398	-	422,232	7,034,630
Other operating expenses	109,435,325	-	942,373	110,377,698
Total operating expenses	<u>343,282,892</u>	<u>-</u>	<u>1,406,413</u>	<u>344,689,305</u>
Operating Loss	<u>(19,885,003)</u>	<u>-</u>	<u>(1,406,413)</u>	<u>(21,291,416)</u>
Nonoperating COVID-19 Grant Revenue	<u>21,293,414</u>	<u>-</u>	<u>-</u>	<u>21,293,414</u>
Income Before Other Nonoperating Revenues (Expenses)	<u>1,408,411</u>	<u>-</u>	<u>(1,406,413)</u>	<u>1,998</u>
Other Nonoperating Revenues (Expenses)				
Investment return	606,529	262,160	3,393,949	4,262,638
Interest expense	(615,164)	-	(2,468)	(617,632)
Other	610,470	(115,878)	258,233	752,825
	<u>601,835</u>	<u>146,282</u>	<u>3,649,714</u>	<u>4,397,831</u>
Increase in Net Position	<u>\$ 2,010,246</u>	<u>\$ 146,282</u>	<u>\$ 2,243,301</u>	<u>\$ 4,399,829</u>

	December 31, 2019			Total
	Hospital	Foundation	Resource Management	
Operating Revenue				
Net patient service revenue	\$ 284,716,891	\$ -	\$ -	\$ 284,716,891
Other operating revenue	38,311,210	-	-	38,311,210
Total operating revenue	<u>323,028,101</u>	<u>-</u>	<u>-</u>	<u>323,028,101</u>
Operating Expenses				
Salaries, wages, contract labor and employee benefits	52,430,538	-	15,000	52,445,538
Purchased services and professional fees	143,204,630	-	119,045	143,323,675
Depreciation and amortization	6,259,441	-	445,806	6,705,247
Other operating expenses	111,729,283	-	2,757,839	114,487,122
Total operating expenses	<u>313,623,892</u>	<u>-</u>	<u>3,337,690</u>	<u>316,961,582</u>
Operating Income (Loss)	<u>9,404,209</u>	<u>-</u>	<u>(3,337,690)</u>	<u>6,066,519</u>
Nonoperating Revenues (Expenses)				
Investment return	567,419	365,069	3,629,426	4,561,914
Interest expense	(4,357)	-	(7,287)	(11,644)
Other	579,739	(105,571)	257,332	731,500
	<u>1,142,801</u>	<u>259,498</u>	<u>3,879,471</u>	<u>5,281,770</u>
Increase in Net Position	<u>\$ 10,547,010</u>	<u>\$ 259,498</u>	<u>\$ 541,781</u>	<u>\$ 11,348,289</u>

Johnson Memorial Hospital
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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 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that 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 non-emergent procedures, some restrictions remain in place, and some state and local governments re-imposed 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 experienced temporary negative impacts to its operational results during 2020. There is considerable uncertainty around the duration and financial impact of the market disruption by the COVID-19 pandemic in future periods and cannot be reasonably estimated at this time due to 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, 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, decreases in cash flows and operations could result, impacting debt covenant compliance and 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.

Provider Relief Funds

During the year ended December 31, 2020, the Hospital received \$22,572,876 of distributions from the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) Provider Relief Fund (Provider Relief Fund). These distributions from the Provider Relief Fund 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 lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS).

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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 Fund and the effect of the pandemic on the Hospital's revenues and expenses through December 31, 2020, the Hospital recognized \$21,293,414 related to the distributions from the Provider Relief Fund as nonoperating COVID-19 grant revenue within the accompanying statements of revenues, expenses and changes in net position. The remaining unrecognized amount of distributions from the Provider Relief Fund of \$1,279,462 has been deferred and is included within the current portion of accrued liabilities on the accompanying balance sheets.

The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Fund 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 Advance 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 \$14,116,179 in April 2020. Under the terms of the program, the Hospital may repay the funding at any time. Otherwise, repayment will begin one year from the date the advance payment was issued (April 2021 for the Hospital); beginning then and for the next 11 months, the advance payments will be recouped at a rate of 25 percent of any Medicare payments owed to the Hospital; beginning with month 12, the recoupment rate increases to 50 percent for advance payments outstanding, with a lump-sum due for any remaining balance at the conclusion of month 17.

Medicare advance payments are recorded within accrued liabilities (short-term) and other accrued liabilities (long-term) on the balance sheets.

Deferred Employer Payroll Taxes

As part of the CARES Act legislation, organizations are 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. Therefore, the Hospital has deferred taxes of \$1,604,754, with \$802,377 included in current liabilities (accrued expenses) and \$802,377 included in noncurrent liabilities (other accrued liabilities).

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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 2020 statement of revenues, expenses and changes in net position.

Also, as part of the CARES Act legislation, effective May 1, 2020 through December 31, 2020, 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 \$130,000 in additional revenue for the Hospital, which is included within net patient service revenue on the 2020 statement of revenues, expenses and changes in net position.

Other COVID-19 Funding

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

- The Hospital received approximately \$135,000 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 2020 statement of revenues, expenses and changes in net position, as this funding constitutes reimbursement for care or treatment provided by the Hospital.
- The nursing home operations owned by the Hospital were subject to Medicaid rate increases instituted in response to the COVID-19 pandemic. Additionally, certain “COVID ready” facilities received additional increases in Medicaid rates and per diems during portions of 2020. Further, 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 Hospital associated with its nursing home operations, which increased supplemental payment revenue by \$3.1 million. All of this revenue is included within net patient service revenue on the 2020 statement of revenues, expenses and changes in net position, as this funding also constitutes reimbursement for care or treatment provided.

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

Independent Auditor's Report

Board of Trustees
Johnson Memorial Hospital
Franklin, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Johnson Memorial Hospital (Hospital), which comprise the balance sheet as of December 31, 2020, 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 August 19, 2021.

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 may exist that have not been identified.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Indianapolis, Indiana
August 19, 2021