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# The Methodist Hospitals, Inc.

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**Consolidated Financial Report**  
**December 31, 2021**

<b>Independent Auditor's Report</b>	1-2
<b>Consolidated Financial Statements</b>	
Balance Sheet	3
Statement of Operations	4
Statement of Changes in Net Assets	5
Statement of Cash Flows	6-7
Notes to Consolidated Financial Statements	8-29

## **Independent Auditor's Report**

To the Board of Directors  
The Methodist Hospitals, Inc.

### **Report on the Audits of the Consolidated Financial Statements**

#### ***Opinion***

We have audited the consolidated financial statements of The Methodist Hospitals, Inc. (the "Hospital"), which comprise the consolidated balance sheet as of December 31, 2021 and 2020 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Hospital as of December 31, 2021 and 2020 and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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

#### ***Responsibilities of Management for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 within one year after the date that the consolidated financial statements are issued or available to be issued.

#### ***Auditor's Responsibilities for the Audits of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated 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 audits 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 consolidated financial statements.

To the Board of Directors  
The Methodist Hospitals, Inc.

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

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits 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 consolidated 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2022 on our consideration of The Methodist Hospitals, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Methodist Hospitals, Inc.'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 Methodist Hospitals, Inc.'s internal control over financial reporting and compliance.



April 22, 2022

## Consolidated Balance Sheet

December 31, 2021 and 2020

	2021	2020
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 104,225,146	\$ 111,737,001
Short-term investments (Note 6)	617,043	616,969
Patient accounts receivable (Note 3)	39,511,357	36,423,966
Cost report settlements receivable (Note 4)	8,213,468	12,617,542
Other current assets (Note 9)	23,944,572	21,628,861
Total current assets	176,511,586	183,024,339
<b>Assets Limited as to Use</b> (Note 6)	125,929,550	117,885,207
<b>Property and Equipment - Net</b> (Note 10)	136,045,803	138,183,640
<b>Right-of-use Operating Lease Assets</b> (Note 14)	10,903,436	10,827,643
<b>Other Assets</b>	1,201,337	1,305,043
Total assets	<b>\$ 450,591,712</b>	<b>\$ 451,225,872</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 26,753,250	\$ 21,389,632
Current portion of long-term debt (Note 12)	2,708,686	2,585,283
Right-of-use operating lease obligation - Current portion (Note 14)	2,576,459	2,238,497
Cost report settlements payable (Note 4)	8,552,980	2,242,131
Deferred revenue (Note 20)	1,433,246	17,264,997
Accrued liabilities and other (Note 11)	38,977,024	32,855,874
Total current liabilities	81,001,645	78,576,414
<b>Long-term Debt - Net of current portion</b> (Note 12)	67,101,852	69,930,379
<b>Right-of-use Operating Lease Obligation - Net of current portion</b> (Note 14)	8,259,025	8,483,613
<b>Other Liabilities</b> (Note 13)	15,340,199	38,365,743
Total liabilities	171,702,721	195,356,149
<b>Net Assets</b>		
Without donor restrictions	277,922,252	254,928,162
With donor restrictions	966,739	941,561
Total net assets	278,888,991	255,869,723
Total liabilities and net assets	<b>\$ 450,591,712</b>	<b>\$ 451,225,872</b>

## The Methodist Hospitals, Inc.

# Consolidated Statement of Operations

Years Ended December 31, 2021 and 2020

	2021	2020
<b>Revenue, Gains, and Other Support</b>		
Patient service revenue	\$ 316,484,194	\$ 282,765,881
Other operating revenue	28,212,335	40,266,414
Medicaid disproportionate share revenue	65,378,263	63,310,370
Net assets released from restrictions used for operations	571,519	91,969
Total revenue, gains, and other support	410,646,311	386,434,634
<b>Operating Expenses</b>		
Salaries and wages	149,750,105	149,144,645
Employee benefits and payroll taxes	36,093,257	36,051,185
Supplies	70,309,006	60,941,463
Outside services	82,312,002	65,281,841
Professional and other liability costs	3,071,681	2,795,919
Utilities	8,134,668	7,235,774
Repairs and maintenance	9,033,765	9,562,083
Medicaid assessment fee (Note 4)	18,001,228	16,695,496
Depreciation and amortization	16,582,183	17,884,495
Interest expense	2,341,346	2,611,544
Other	6,848,498	8,651,416
Total operating expenses (Note 19)	402,477,739	376,855,861
<b>Operating Income</b>	8,168,572	9,578,773
<b>Nonoperating Income (Loss)</b>		
Investment income (Note 6)	8,864,795	8,298,899
Other loss	(2,041,586)	(2,821,415)
Total nonoperating income	6,823,209	5,477,484
<b>Excess of Revenue Over Expenses</b>	14,991,781	15,056,257
<b>Pension-related Changes Other Than Net Periodic Cost</b> (Note 16)	8,002,309	(2,997,262)
<b>Increase in Net Assets without Donor Restrictions</b>	<b>\$ 22,994,090</b>	<b>\$ 12,058,995</b>

## The Methodist Hospitals, Inc.

# Consolidated Statement of Changes in Net Assets

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Net Assets without Donor Restrictions</b>		
Excess of revenue over expenses	\$ 14,991,781	\$ 15,056,257
Pension-related changes other than net periodic cost	<u>8,002,309</u>	<u>(2,997,262)</u>
Increase in net assets without donor restrictions	22,994,090	12,058,995
<b>Net Assets with Donor Restrictions</b>		
Restricted contributions	596,697	630,950
Net assets released from restrictions	<u>(571,519)</u>	<u>(91,969)</u>
Increase in net assets with donor restrictions	<u>25,178</u>	<u>538,981</u>
<b>Increase in Net Assets</b>	23,019,268	12,597,976
<b>Net Assets - Beginning of year</b>	<u>255,869,723</u>	<u>243,271,747</u>
<b>Net Assets - End of year</b>	<u><b>\$ 278,888,991</b></u>	<u><b>\$ 255,869,723</b></u>

## Consolidated Statement of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 23,019,268	\$ 12,597,976
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization	16,582,183	17,884,495
Net change in unrealized net gains on investments	(3,977,198)	(3,017,551)
Realized losses (gains) on investments	5,230	(2,174,118)
Pension-related changes other than net periodic costs	(8,002,309)	2,997,262
(Gain) loss on disposal of property and equipment	(59,301)	240,344
Amortization of bond premium	(318,677)	(318,676)
Amortization of debt issuance costs	311,807	290,569
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Accounts receivable	(3,087,391)	1,894,324
Other current assets	(2,315,711)	698,433
Costs report settlements receivable	4,404,074	14,556,274
Other assets	103,706	1,077,638
Accounts payable	5,363,618	5,569,330
Accrued liabilities and other	6,121,150	15,709,303
Cost report settlements payable	6,310,849	(3,817,694)
Other liabilities	(15,023,235)	20,225,836
Deferred revenue	(15,831,751)	17,264,997
Right-of-use operating lease assets and obligations	37,581	(242,990)
Net cash and cash equivalents provided by operating activities	13,643,893	101,435,752
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(14,285,806)	(25,256,304)
Proceeds from sale of property and equipment	59,301	21,729
Purchases of investments and assets limited as to use	(10,429,381)	(16,528,469)
Proceeds from sales and maturities of investments and assets limited as to use	6,356,932	14,094,266
Net cash and cash equivalents used in investing activities	(18,298,954)	(27,668,778)
<b>Cash Flows from Financing Activities</b>		
Payments on finance lease obligations	(163,794)	(19,247,418)
Principal payments on long-term debt	(38,375,000)	(2,455,000)
Payment of debt issuance costs	(123,000)	-
Proceeds from bond issuance	35,805,000	35,805,000
Net cash and cash equivalents (used in) provided by financing activities	(2,856,794)	14,102,582
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(7,511,855)	87,869,556
<b>Cash and Cash Equivalents - Beginning of year</b>	111,737,001	23,867,445
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 104,225,146</b>	<b>\$ 111,737,001</b>



**The Methodist Hospitals, Inc.**

**Consolidated Statement of Cash Flows (Continued)**

**Years Ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Supplemental Cash Flow Information</b>		
Cash paid for interest	\$ 2,379,101	\$ 2,335,682
Right-of-use assets via operating lease obligation	2,745,908	4,185,857
Right-of-use assets via finance lease obligations	158,540	30,085

## Notes to Consolidated Financial Statements

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December 31, 2021 and 2020

### **Note 1 - Nature of Business**

The Methodist Hospitals, Inc. (the "Hospital") is an Indiana nonprofit corporation operating a 251-staffed-bed general acute-care facility in Gary, Indiana (Northlake Campus) and a 283-staffed-bed general acute-care facility in Merrillville, Indiana (Southlake Campus). The Hospital also provides physician services to patients through the following wholly owned limited liability companies: Methodist Cardiographics, LLC; Methodist Anesthesia, LLC; Methodist Pathology, LLC; and Advanced Imaging Center, LLC.

The Hospital is the sole member of The Methodist Hospitals Foundation, Inc. (the "Foundation"), which was established to support and benefit the Hospital. The Foundation has been accounted for within the Hospital's consolidated financial statements.

### **Note 2 - Significant Accounting Policies**

#### ***Basis of Consolidation***

The consolidated financial statements include the accounts of The Methodist Hospitals, Inc.; The Methodist Hospitals Foundation, Inc.; Methodist Cardiographics, LLC; Methodist Anesthesia, LLC; Methodist Pathology, LLC; and Advanced Imaging Center, LLC. All intercompany accounts have been eliminated in consolidation.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents include cash and highly liquid investments with an original maturity of three months or less when purchased, excluding those amounts included in assets limited as to use.

The Hospital's cash balances are only insured up to the Federal Deposit Insurance Corporation limit. As of December 31, 2021 and 2020, there was approximately \$115.0 million and 124.6 million, respectively, of uninsured cash. The Hospital evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits. The Hospital has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

#### ***Accounts Receivable***

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges, reduced by explicit price concessions provided to third-party payors, discounts provided to qualifying individuals as part of our financial assistance policy, and implicit price concessions provided primarily to self-pay patients. Estimates for explicit price concessions are based on provider contracts, payment terms for relevant prospective payment systems, and historical experience adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts.

For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records significant implicit price concessions in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. Patient accounts receivable was \$38,318,290 as of January 1, 2020.

#### ***Investments***

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law.

**Note 2 - Significant Accounting Policies (Continued)**

The Hospital invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheet.

***Goodwill***

The recorded amounts of goodwill from prior business combinations are based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition. The Hospital assesses goodwill annually for impairment. Goodwill is recorded within other assets in the consolidated balance sheet.

During 2020, management determined that the carrying amount of the Hospital's investment in an infusion center exceeded fair value, which was estimated based on the present value of expected future cash inflows. Accordingly, a goodwill impairment loss of \$680,000 was recognized in 2020. No impairment charge was recognized during the year ended December 31, 2021.

***Inventories***

Inventories, which consist of medical and office supplies and pharmaceutical products, are stated at the lower of cost or net realizable value determined on a first-in, first-out basis.

***Assets Limited as to Use***

Assets limited as to use include assets designated by the governing board for future capital improvement, over which the board retains control and may, at its discretion, subsequently use for other purposes. Included in these investments are assets held by trustees under bond indenture agreements and assets held in self-insurance trust arrangements. Restricted foundation investments consist of assets whose use by the Hospital has been restricted by the donor.

***Property and Equipment***

Property and equipment amounts are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under finance lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. Repairs and maintenance costs are charged to expense as incurred.

***Unamortized Financing Costs***

Unamortized financing costs are amortized over the term of the related financing.

***Classification of Net Assets***

Net assets of the Hospital are classified as net assets without donor restrictions or net assets with donor restrictions depending on the presence and characteristics of donor-imposed restrictions limiting the Hospital's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions may expire with the passage of time or be removed by meeting certain requirements. Additionally, donor-imposed restrictions may limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as changes in net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

## Notes to Consolidated Financial Statements

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December 31, 2021 and 2020

### **Note 2 - Significant Accounting Policies (Continued)**

#### ***Excess of Revenue Over Expenses***

The consolidated statement of changes in net assets includes excess of revenue over expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenue over expenses, consistent with industry practice, include net assets released from restrictions for the acquisition of long-lived assets and pension-related changes other than periodic benefit costs.

#### ***Revenue Recognition***

Patient care service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Hospital bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. The majority of the Hospital's services represent a bundle of services that are not capable of being distinct and, as such, are treated as a single performance obligation satisfied over time as services are rendered.

The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's policy, and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

#### ***Contributions***

The Hospital reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the year in which the contribution is received are reported as contributions without donor restrictions in the accompanying consolidated financial statements.

The Hospital reports gifts of property and equipment as revenue, gains, and other support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Hospital reports the expiration of donor restrictions when the assets are placed in service.

#### ***Professional and Other Liability Insurance***

The Hospital accrues an estimate of the ultimate expense, including litigation and settlement expense, for incidents of potential improper professional service and other liability claims occurring during the year, as well as for those claims that have not been reported at year end. Amounts receivable from insurance related to stop-loss provisions are recorded as a receivable and included in other assets.

**December 31, 2021 and 2020**

**Note 2 - Significant Accounting Policies (Continued)**

***Accounting for Conditional Asset Retirement Obligation***

Management has considered its legal obligation to report asset retirement activities, such as asbestos removal, on its existing properties. Over the past 20 years, management has systematically renovated, replaced, or constructed the majority of the physical plant facilities, resulting in a relatively small portion of the facility with any remaining hazardous material. Management has calculated the present value of the retirement obligation, and the amount has been recognized as a liability on the consolidated balance sheet within other liabilities.

***Charity Care***

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions, and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on a calculation that applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients.

***Federal Income Tax***

The Internal Revenue Service (IRS) has ruled that the Hospital and its subsidiaries are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and, accordingly, no tax provision is reflected in the consolidated financial statements.

***Use of Estimates***

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Upcoming Accounting Pronouncement***

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU No. 2020-04 was issued to provide optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments of ASU No. 2020-04 only apply to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in ASU No. 2020-04 are effective for all entities as of March 12, 2020 through December 31, 2022. The Hospital does not expect ASU No. 2020-04 to have a material effect on the current financial position, results of operations, or financial statement disclosures.

***Subsequent Events***

The consolidated financial statements and related disclosures include evaluation of events up through and including April 22, 2022, which is the date the consolidated financial statements were issued.

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### Note 3 - Patient Accounts Receivable

The composition of receivables from patients and third-party payors was as follows as of December 31:

	2021	2020
Medicare	36 %	36 %
Medicaid	24	29
Commercial and managed care	36	30
Self-pay	4	5
Total	100 %	100 %

### Note 4 - Cost Report Settlements

A significant portion of the Hospital's revenue from patient services is received from the Medicare and Medicaid programs. A summary of the basis of reimbursement with these third-party payors is as follows:

#### **Medicare**

Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services related to Medicare beneficiaries are reimbursed based on a prospectively determined amount per episode of care.

#### **Medicaid and Hospital Assessment Fee**

Inpatient and outpatient services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge or per procedure.

The Indiana Hospital Association (IHA) and the Office of Medicaid Policy and Planning (OMPP) worked together to develop and implement a hospital assessment fee program, as enacted by the 2011 Session of the Indiana General Assembly. In 2012, the Centers for Medicare & Medicaid Services (CMS) approved the state plan amendment necessary to implement these changes with a retroactive effective date of July 1, 2011. This program has been extended through June 30, 2023. Under this program, OMPP will collect an assessment fee from eligible hospitals. The fee will be used in part to increase reimbursement to eligible hospitals for services provided in both fee-for-service (FFS) and managed-care programs and as the state share of Medicaid Disproportionate Share Hospital (DSH) payments. Starting in 2016, the Hospital will be assessed a hospital assessment fee on the Indiana HIP (Healthy Indiana Plan) 2.0 program based on the Medicaid DSH eligibility surveys. Due to the shift in Medicaid population from FFS to managed care, since 2017, the collection of the existing assessment fee is being made through a combination of offsets from claims payment and check payments. During 2021 and 2020, the Hospital incurred \$18,001,228 and \$16,695,496, respectively, in Medicaid assessment fees under this program, which is reflected in total operating expenses in the accompanying consolidated statement of operations. At December 31, 2021 and 2020, there is \$6,607,857 and \$326,313, respectively, included in cost report settlement payable in the consolidated balance sheet related to the hospital assessment fee program.

Final reimbursement under the Medicare and Medicaid programs is subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements. The effect of prior year settlements received in 2021 and 2020 resulted in an increase in revenue of approximately \$1,139,000 and \$1,424,000, respectively.

The Hospital qualifies as a Medicaid Disproportionate Share Hospital provider under Indiana law and, as such, is eligible to receive DSH payments linked to the State of Indiana's fiscal year end, which is June 30. The Hospital records DSH program revenue and receivables when the related amounts are determinable and when collectibility is reasonably assured.

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### **Note 4 - Cost Report Settlements (Continued)**

At December 31, 2021 and 2020, the Hospital recorded approximately \$8,200,000 and \$12,600,000, respectively, in amounts due from the State of Indiana under the DSH program. These amounts are reflected in cost report settlements receivable in the accompanying consolidated balance sheet. The amounts recorded represent estimated reimbursement due to the Hospital for services provided through December 31, 2021 and 2020. During the years ended December 31, 2021 and 2020, approximately \$32,015,000 and \$28,724,000, respectively, was received in cash related to the DSH program.

Cost report settlements result from the adjustment of interim payments to final reimbursement under the Medicare and Medicaid programs that are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Indiana Family and Social Services Administration (FSSA) has initiated a Medicaid Advisory Committee (MAC) initiative, where claims will be reviewed by contractors for validity, accuracy, and proper documentation. The Hospital is unable to determine the extent of liability for overpayments, if any. The potential exists for significant overpayment of claims liability for the Hospital at a future date.

#### ***Other Third-party Payors***

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

### **Note 5 - Charity Care**

In support of its mission, the Hospital's policy is to treat patients in need of medical services without regard to their ability to pay for such services. Charity care covers services provided to persons who cannot afford to pay. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on a calculation that applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total operating expenses divided by gross patient service charges. The Hospital estimates that it provided approximately \$5.5 million and \$8.3 million of services to indigent patients during 2021 and 2020, respectively.

In addition, the Hospital performs many activities of community benefit, including programs provided to persons with inadequate health care resources or for other groups within the community that need special services and support. Examples include programs related to the poor, the elderly, those suffering from substance abuse, victims of child abuse, and others with specific particular health care needs. They also include broader populations who benefit from health community initiatives, such as health promotion, education, and health screening.

The Hospital also participates in the Medicare and Medicaid programs. At present, the reimbursement rates for both programs do not fully cover the cost of providing care to these patients. This represents the estimated shortfall created when a facility receives payments below the costs of treating Medicare and Medicaid beneficiaries. These uncompensated costs are not included above.

**Notes to Consolidated Financial Statements**

**December 31, 2021 and 2020**

**Note 6 - Assets Limited as to Use**

The detail of assets limited as to use is summarized in the following schedule at December 31:

	<u>2021</u>	<u>2020</u>
Funds designated by trustees under bond indenture	\$ 4,682,077	\$ 4,672,246
Funds held in trust for payment of professional and other liability claims	3,010,699	3,308,633
Funds designated by board for future capital improvements	118,211,774	109,879,328
Fund designated by donors for specific purposes	<u>25,000</u>	<u>25,000</u>
Total assets limited as to use	<u>\$ 125,929,550</u>	<u>\$ 117,885,207</u>

Investments, including short-term investments, consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Money market investments	\$ 8,413,951	\$ 8,510,135
Government securities	9,229,562	9,126,353
Mutual funds	67,930,679	61,752,439
Corporate bonds	21,992,376	22,136,953
Pooled funds	8,212,835	7,796,593
Common stock	<u>10,767,190</u>	<u>9,179,703</u>
Total	<u>\$ 126,546,593</u>	<u>\$ 118,502,176</u>
Classified as:		
Short-term investments	\$ 617,043	\$ 616,969
Assets limited as to use	<u>125,929,550</u>	<u>117,885,207</u>
Total	<u>\$ 126,546,593</u>	<u>\$ 118,502,176</u>

Funds held by the trustee under a bond indenture are held for the purpose of making future bond principal and interest payments. Investment income accrues to the funds as earned.

Investment income and gains and losses are composed of the following for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 4,892,827	\$ 3,107,230
Change in net unrealized gains	3,977,198	3,017,551
Realized (losses) gains - Net	<u>(5,230)</u>	<u>2,174,118</u>
Total	<u>\$ 8,864,795</u>	<u>\$ 8,298,899</u>



## Notes to Consolidated Financial Statements

**December 31, 2021 and 2020**

### Note 7 - Liquidity

The following reflects the Hospital's financial assets as of December 31, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated balance sheet date:

	2021	2020
Cash and cash equivalents	\$ 104,225,146	\$ 111,737,001
Short-term investments	617,043	616,969
Patient accounts receivable	39,511,357	36,423,966
Cost report settlements receivable	8,213,468	12,617,542
Other current assets	6,171,021	4,991,341
Assets limited as to use:		
Funds held by trustees under bond indenture	4,682,077	4,672,246
Funds held in trust for payment of professional and other liability claims	3,010,699	3,308,633
Funds held by board for future capital improvements	118,211,774	109,879,328
Fund held by donors for specific purposes	25,000	25,000
Financial assets - At year end	284,667,585	109,904,328
Less those unavailable for general expenditures within one year due to:		
Funds held by trustees under bond indenture	(4,682,077)	(4,672,245)
Funds held in trust for payment of professional and other liability claims	(3,010,699)	(3,308,633)
Funds held by board for future capital improvements	(118,211,774)	(109,879,328)
Fund held by donors for specific purposes	(25,000)	(25,000)
Financial assets available to meet cash needs for general expenditures within one year	\$ 158,738,035	\$ 166,386,820

The Hospital has certain board-designated assets limited to use, which could be made available for general expenditure within one year in the normal course of operations upon appropriate board action. The Hospital has other assets limited to use for donor-restricted purposes, debt service, and the professional and general liability insurance program. Additionally, certain other board-designated assets are designated for future capital expenditures and an operating reserve. These assets limited to use, which are more fully described in Note 6, are not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary.

As part of the Hospital's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds. Occasionally, the board of directors designates a portion of any operating surplus to an operating reserve, which was \$617,000 at December 31, 2021 and 2020. This fund established by the board of directors may be drawn upon, if necessary, to meet unexpected liquidity needs.

As of December 31, 2021, the Hospital was in compliance with bond covenants, as more fully described in Note 12.

### Note 8 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Hospital's assets measured at fair value on a recurring basis at December 31, 2021 and 2020 and the valuation techniques used by the Hospital to determine those fair values.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 8 - Fair Value Measurements (Continued)

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Hospital has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Hospital's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2021				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2021
<b>Short-term Investments</b>				
Money market investments	\$ 352,113	\$ -	\$ -	\$ 352,113
<b>Assets Limited as to Use</b>				
Money market investments	7,692,785	-	-	7,692,785
Common stock	10,767,190	-	-	10,767,190
Mutual funds:				
U.S. companies	25,869,706	-	-	25,869,706
International companies	15,758,220	-	-	15,758,220
Fixed income	3,381,840	-	-	3,381,840
Balanced funds	22,920,913	-	-	22,920,913
Fixed income:				
U.S. Treasurys	-	9,229,562	-	9,229,562
Governmental agency bonds	-	387,268	-	387,268
Pooled funds	-	8,212,835	-	8,212,835
Asset-backed securities	-	8,256,622	-	8,256,622
Mortgage-backed securities	-	6,367,869	-	6,367,869
Corporate - Domestic	-	6,114,141	-	6,114,141
Corporate - International	-	866,476	-	866,476
Total assets limited as to use	86,390,654	39,434,773	-	125,825,427
Total	\$ 86,742,767	\$ 39,434,773	\$ -	\$ 126,177,540

The assets limited as to use and short-term investments included in the consolidated balance sheet at December 31, 2021 included money market investments of \$369,053, which are not measured at fair value on a recurring basis and, therefore, not in the table above.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 8 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2020
<b>Short-term Investments</b>				
Money market investments	\$ 360,539	\$ -	\$ -	\$ 360,539
<b>Assets Limited as to Use</b>				
Money market investments	7,779,986	-	-	7,779,986
Common stock	9,179,703	-	-	9,179,703
Mutual funds:				
U.S. companies	20,567,441	-	-	20,567,441
International companies	15,235,209	-	-	15,235,209
Fixed income	3,460,390	-	-	3,460,390
Balanced funds	22,489,399	-	-	22,489,399
Fixed income:				
U.S. Treasurys	-	9,126,353	-	9,126,353
Pooled funds	-	7,796,593	-	7,796,593
Asset-backed securities	-	8,281,485	-	8,281,485
Mortgage-backed securities	-	7,180,910	-	7,180,910
Corporate - Domestic	-	5,270,246	-	5,270,246
Corporate - International	-	1,404,312	-	1,404,312
Total assets limited as to use	78,712,128	39,059,899	-	117,772,027
Total	\$ 79,072,667	\$ 39,059,899	\$ -	\$ 118,132,566

The assets limited as to use and short-term investments included in the consolidated balance sheet at December 31, 2020 included money market investments of \$369,610, which are not measured at fair value on a recurring basis and, therefore, not in the table above.

The fair value of fixed-income securities at December 31, 2021 and 2020 was determined primarily based on Level 2 inputs. The Methodist Hospitals, Inc. estimates the fair value of these investments using the fair market values determined by the investment custodians.

Note 9 - Other Current Assets

The details of other assets at December 31, 2021 and 2020 are as follows:

	2021	2020
Prepaid expenses	\$ 4,635,089	\$ 3,898,397
Inventory	13,138,461	12,739,123
Other	4,341,172	1,115,210
Contract assets	1,829,850	3,876,131
Total	\$ 23,944,572	\$ 21,628,861

**Notes to Consolidated Financial Statements**

**December 31, 2021 and 2020**

**Note 10 - Property and Equipment**

The cost of property and equipment and depreciable lives are summarized as follows:

	2021	2020	Depreciable Life - Years
Land	\$ 5,373,674	\$ 5,373,674	-
Buildings	317,546,099	316,412,568	2-40
Right-of-use finance lease assets	57,710	45,813	25-40
Equipment	201,008,426	196,018,896	3-5
Construction in progress	10,512,246	4,447,292	-
Total cost	534,498,155	522,298,243	
Accumulated depreciation	398,452,352	384,114,603	
Net property and equipment	<u>\$ 136,045,803</u>	<u>\$ 138,183,640</u>	

Depreciation and amortization expense, including assets under finance lease, totaled \$16,582,183 and \$17,884,495 in 2021 and 2020, respectively.

The Hospital held a medical office building under a finance lease with an original cost of approximately \$20,500,000 at December 31, 2020. Accumulated amortization for this building was approximately \$7,175,000 at December 31, 2020. Effective February 12, 2020, the Hospital purchased its medical office building finance lease obligation.

Construction in progress consists primarily of costs incurred for building renovations and installation of various clinical equipment. Remaining costs to complete the project are approximately \$1,952,000 as of December 31, 2021.

**Note 11 - Accrued Liabilities and Other**

The details of accrued liabilities at December 31 are as follows:

	2021	2020
Payroll and related items	\$ 10,586,392	\$ 8,805,684
Compensated absences	9,912,288	9,205,101
Interest	484,861	544,598
Medicare advance payments - Current portion (Note 20)	17,479,770	13,676,718
Other	513,713	623,773
Total accrued liabilities	<u>\$ 38,977,024</u>	<u>\$ 32,855,874</u>

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 12 - Long-term Debt

The following is a summary of long-term debt and finance lease obligations at December 31, 2021 and 2020:

	2021	2020
Indiana Finance Authority Hospital Revenue Refunding Bonds, Series 2014A, interest ranging from 1.65 percent to 5.0 percent, due in installments through 2031	\$ 31,400,000	\$ 33,970,000
Indiana Finance Authority Hospital Revenue Refunding Bonds, Series 2020, variable interest at the one-month London Interbank Offered Rate (LIBOR) plus applicable spread ranging from 1.65 percent to 5.0 percent. Interest is payable monthly. The 2020 Series Bonds were refinanced in October 2021	-	35,805,000
Bank of New York Mellon Trust Company Bonds, Series 2021, variable interest at the Secured Overnight Financing Rate (SOFR) plus applicable spread of 1.65 percent. Interest is payable monthly. Principal is due at maturity in November 2024	35,805,000	-
Equipment finance lease obligation	24,830	30,085
Unamortized premium	3,080,543	3,399,220
Total	70,310,373	73,204,305
Less current portion	2,708,686	2,585,283
Less unamortized debt issuance costs	499,835	688,643
Long-term portion	<u>\$ 67,101,852</u>	<u>\$ 69,930,379</u>

The Indiana Health Facility Financing Authority (IHFFA) has issued bonds on behalf of The Methodist Hospitals, Inc. Obligated Group (the "Obligated Group") and has loaned the proceeds to the Obligated Group under the terms of the master indenture. The sole member of the Obligated Group is The Methodist Hospitals, Inc.

Hospital Obligated Group Bonds Payable, Series 2014A consist of hospital revenue bonds issued by the Indiana Finance Authority (previously, the IHFFA). The bonds consist of serial bonds payable in annual installments for 2015 through 2031, ranging from \$1,875,000 to \$3,465,000 at interest rates ranging from 4 percent to 5 percent and term bonds payable in annual installments through 2031, ranging from \$3,375,000 to \$3,555,000 at 5 percent interest.

Effective January 9, 2020, the Hospital issued \$35,805,000 as Taxable Hospital Revenue Bonds, Series 2020. The principal on the bonds is due upon maturity in January 2022. The interest rate on the bonds is the one-month LIBOR plus the applicable spread for the period beginning on (and including) the issuance date to (and including) January 2, 2021, 130 basis points (1.30 percent) and for the period beginning on (and including) January 3, 2021 to (but excluding) the maturity date, 185 basis points (1.85 percent), provided, however, that (i) in the event the rating assigned for the period beginning January 3, 2021 by S&P Global Ratings shall be BBB or better and the rating assigned by Fitch shall be BBB or better, the applicable spread shall be 155 basis points (1.55 percent); and (ii) in the event that the rating assigned by S&P Global Ratings shall be BB+ or the rating assigned by Fitch shall be BB+, the applicable spread shall be 250 basis points (2.50 percent). The Series 2020 Bonds were refinanced in October 2021 with the Series 2021 Bonds.

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### Note 12 - Long-term Debt (Continued)

The Series 2021 Hospital Revenue Refunding Bonds represent bonds issued by The Bank of New York Mellon Trust Company for the purpose of refinancing the Series 2020 Bonds. The principal on the bonds is due upon maturity in November 2024. The interest rate on the bonds is the SOFR plus the applicable spread for the period beginning on and including the issuance date, 1.65 percent, to (but excluding) the maturity date. The interest rate was 1.70 percent at December 31, 2021.

The Series 2014A, Series 2020, and Series 2021 bonds have been issued under a master trust indenture and are secured by the gross revenue of the Hospital. In connection with the bond indenture and loan agreements, the Obligated Group is subject to certain financial covenants related to, among others, transfer of assets, restrictions on additional indebtedness, and maintenance of certain financial covenants, including a minimum debt service coverage ratio and minimum debt service reserve funds.

During the year ended December 31, 2021, the Hospital entered into finance lease arrangements for medical equipment. The right-of-use asset and related lease liability are calculated using discount rates ranging from 4.25 percent to 5.75 percent.

Scheduled principal repayments on long-term debt are as follows as of December 31:

Years Ending December 31	Long-term Debt	Finance Lease Obligations
2022	\$ 2,690,000	\$ 18,686
2023	2,815,000	4,053
2024	38,650,000	2,091
2025	2,975,000	-
2026	3,115,000	-
Thereafter	16,960,000	-
Total	<u>\$ 67,205,000</u>	<u>\$ 24,830</u>

### Note 13 - Other Liabilities

The detail of other liabilities is shown below:

	2021	2020
Accrued pension cost (Note 16)	\$ 184,944	\$ 8,956,432
Insurance liabilities (Note 17)	5,802,293	6,416,732
Medicare advance payments - Long-term portion (Note 20)	8,594,080	22,285,888
Other	758,882	706,691
Total other liabilities	<u>\$ 15,340,199</u>	<u>\$ 38,365,743</u>

### Note 14 - Operating Leases

The Hospital is obligated under operating leases primarily for facilities and equipment, expiring at various dates through October 2026. The right-of-use asset and related lease liability have been calculated using discount rates ranging from 4.25 percent to 6.50 percent. The leases require the Hospital to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was \$2,576,000 and \$2,238,000 for 2021 and 2020, respectively.

The Hospital assesses whether it is reasonable certain to exercise an option to extend or terminate a lease at the lease commencement date. In this assessment, the Hospital considers all relevant factors that create economic incentive to exercise such options, including asset, contract, market, and entity-based factors.

**Notes to Consolidated Financial Statements**

**December 31, 2021 and 2020**

**Note 14 - Operating Leases (Continued)**

When readily determinable, the Hospital utilizes the interest rate implicit in a lease to determine the present value of future lease payments. For leases where the implicit rate is not readily determinable, the Hospital's incremental borrowing rate is used.

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2022	\$ 3,035,045
2023	2,953,967
2024	2,714,369
2025	2,119,663
2026	<u>1,164,062</u>
Total	11,987,106
Less amount representing interest	<u>1,151,622</u>
Present value of net minimum lease payments	10,835,484
Less current obligations	<u>2,576,459</u>
Long-term obligations	<u><u>\$ 8,259,025</u></u>

**Note 15 - Defined Contribution Plan**

The Hospital established a defined contribution retirement plan effective January 1, 2006, which allows for employee contributions and requires a matching employer contribution of 50 percent of the first 6 percent of employees' earnings. Expense for the years ended December 31, 2021 and 2020 was approximately \$2,059,000 and \$2,141,000, respectively.

**Note 16 - Pension Plan**

The Methodist Hospitals, Inc. sponsors a defined benefit pension plan covering certain employees.

The board of directors of the Hospital elected to freeze the employees' participation in the future accrual of benefits under the existing defined benefit plan effective December 31, 2005.

Effective June 1, 2007, the plan was amended to provide early retirement window benefits to participants who had attained age 50 and completed 10 or more years of service on or before June 30, 2007. Under the terms of the amendment, eligible participants who elected to participate received three years of additional benefits accrual based on 2006 compensation, and the early retirement reduction was calculated assuming a participant was 50 years or older. Participants were allowed to take their full benefit as a lump sum. A significant portion of participants eligible for the early retirement program elected to participate in the program.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 16 - Pension Plan (Continued)

*Obligations and Funded Status*

	Pension Benefits	
	2021	2020
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 143,919,789	\$ 135,537,852
Interest cost	3,643,636	4,493,339
Actuarial (gain) loss	(5,602,700)	12,977,651
Benefits paid	(6,072,076)	(9,089,053)
Benefit obligation at end of year	135,888,649	143,919,789
Change in plan assets:		
Fair value of plan assets at beginning of year	134,963,357	128,558,764
Actual return on plan assets	3,612,424	12,293,646
Employer contributions	3,200,000	3,200,000
Benefits paid	(6,072,076)	(9,089,053)
Fair value of plan assets at end of year	135,703,705	134,963,357
Funded status at end of year	\$ (184,944)	\$ (8,956,432)

Components of net periodic benefit cost and other amounts recognized are as follows:

	Pension Benefits	
	2021	2020
<b>Net Periodic Benefit Cost</b>		
Interest cost	\$ 3,643,636	\$ 4,493,339
Expected return on plan assets	(4,579,121)	(5,326,023)
Amortization of net loss	3,366,306	3,012,766
Total cost	\$ 2,430,821	\$ 2,180,082

Included in net assets without donor restrictions are the following amounts that have not yet been recognized in net periodic pension cost:

	Pension Benefits	
	2021	2020
Net (gain) loss	\$ (8,002,309)	\$ 2,997,262

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	Pension Benefits	
	2021	2020
Discount rate	2.90%	2.60%

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31 are as follows:

	Pension Benefits	
	2021	2020
Discount rate	2.60%	3.40%
Expected long-term return on plan assets	3.50%	4.25%



## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### Note 16 - Pension Plan (Continued)

In selecting the expected long-term rate of return on assets, the Hospital considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of this plan. This included considering the allocation of trust assets and the expected returns likely to be earned over the life of the plan.

#### Pension Plan Assets

The goals of the pension plan investment program are to fully fund the obligation to pay retirement benefits in accordance with the plan documents and to provide returns that, along with appropriate funding from the Hospital, maintain an asset/liability ratio that is in compliance with all applicable laws and regulations and ensures timely payment of retirement benefits. Pension funds are invested in growth-oriented securities up to 30 percent in equities, including international equities.

The target allocation range of percentages for plan assets is 14 percent equity securities and 86 percent debt securities as of December 31, 2021 and 2020.

The fair values of the Hospital's pension plan assets at December 31, 2021 and 2020 by major asset categories are as follows:

	Fair Value Measurements at December 31, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Asset Classes</b>				
Equity securities:				
U.S. companies	\$ 61,277,943	\$ -	\$ -	\$ 61,277,943
International companies	10,739,320	-	-	10,739,320
Debt securities	-	31,450,308	-	31,450,308
<b>Total</b>	<b>\$ 72,017,263</b>	<b>\$ 31,450,308</b>	<b>\$ -</b>	<b>\$ 103,467,571</b>
	Fair Value Measurements at December 31, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Asset Classes</b>				
Equity securities:				
U.S. companies	\$ 32,317,778	\$ -	\$ -	\$ 32,317,778
International companies	10,428,448	-	-	10,428,448
Debt securities	-	45,192,199	-	45,192,199
<b>Total</b>	<b>\$ 42,746,226</b>	<b>\$ 45,192,199</b>	<b>\$ -</b>	<b>\$ 87,938,425</b>

The pension plan assets shown above included cash and cash equivalents of \$1,995 and \$6,824 at December 31, 2021 and 2020, respectively. Cash and cash equivalents are not measured at fair value on a recurring basis and, therefore, are not included in the tables above.

The tables above present information about the pension plan assets measured at fair value at December 31, 2021 and 2020 and the valuation techniques used by the Hospital to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the plan has the ability to access.

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### Note 16 - Pension Plan (Continued)

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Hospital's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each plan asset.

The fair value of debt securities, fixed-income securities, and common collective trust fund at December 31, 2021 and 2020 was determined based on Level 2 inputs. The Methodist Hospitals, Inc. estimates the fair value of these investments using the fair market values determined by the investment custodians.

#### ***Investments in Entities that Calculate Net Asset Value per Share***

The Hospital has investments in a common collective trust fund and 103-12 investment totaling \$32,234,139 and \$47,018,108 at December 31, 2021 and 2020, respectively. The Hospital holds shares or interests in the common collective trust fund and 103-12 investment at year end where the fair value of the investment held is estimated based on net asset value per share (or its equivalent) of the common collective trust fund and 103-12 investment.

The common collective trust fund invests primarily in common stock of small-cap companies in the U.S. The fair value of this investment has been estimated using net asset value per share of the investment.

The 103-12 investment fund invests primarily in U.S. dollar-denominated investment-grade and government securities, U.S. high yield, non-U.S. bonds, and TIPS. The fair value of this investment has been estimated using net asset value per share of the investment.

The investments measured at net asset value per share (or its equivalent) of the common collective trust fund and 103-12 investment do not have unfunded commitments or redemption periods.

#### ***Cash Flow***

#### **Contributions**

The Hospital expects to contribute \$3.2 million to the pension plan in 2021.

#### **Estimated Future Benefit Payments**

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<u>Years Ending</u>	<u>Pension Benefits</u>
2022	\$ 5,963,343
2023	6,241,020
2024	6,501,677
2025	6,744,879
2026	6,974,796
2027-2030	37,494,463

## Notes to Consolidated Financial Statements

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**December 31, 2021 and 2020**

### **Note 17 - Professional Liability Self-insurance**

On April 2, 1983, the Hospital became qualified under the Indiana Medical Malpractice Act (the "Act"). The Act limits the amount of individual claims to \$1,250,000 (\$7,500,000 annual aggregate), of which \$1,000,000 would be paid by the State of Indiana Patient Compensation Fund and \$250,000 by the Hospital. The Hospital carries commercial insurance coverage for incidents that would exceed coverages specified by the self-insurance program. Prior to April 2, 1983, the Hospital carried commercial insurance for professional liability risks on an occurrence basis. The Hospital's liability for medical malpractice self-insurance is actuarially determined based upon the Hospital's estimated claims reserves and various assumptions and includes an estimate for claims incurred but not yet reported.

In connection with the self-insurance program, the Hospital established a trust. Under the trust agreement, the trust assets can only be used for payment of professional liability losses, related expenses, and the costs of administering the trust. The assets of the trust are included in funds and income from the trust assets, and administrative costs are included in the consolidated statement of operations.

### **Note 18 - Patient Care Service Revenue**

Patient care service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Hospital bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute-care services or patients receiving services in our outpatient centers or in their homes (home care). The Hospital measures the performance obligation from admission into the Hospital or the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Hospital does not believe it is required to provide additional goods or services related to that sale. The Hospital's revenue that is satisfied at a point in time is insignificant for both years ended December 31, 2021 and 2020.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute-care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

## Notes to Consolidated Financial Statements

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**December 31, 2021 and 2020**

### **Note 18 - Patient Care Service Revenue (Continued)**

The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's policy, and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Hospital. In addition, the contracts the Hospital has with commercial payors also provide for retroactive audit and review of claims.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2021 and 2020, changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Hospital expects to collect based on its collection history with those patients.

Patients who meet the Hospital's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

**Note 18 - Patient Care Service Revenue (Continued)**

The Hospital has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors and service lines. Tables providing details of these factors are presented below.

The composition of patient care service revenue by primary payor for the years ended December 31 is as follows:

	2021	2020
Payors:		
Blue Cross	\$ 58,571,726	\$ 54,297,374
Commercial	40,339,468	38,127,436
Medicaid	59,193,781	47,583,159
Medicare	129,618,636	117,474,815
Other	23,583,844	20,378,044
Uninsured	5,176,739	4,905,053
Total	<u>\$ 316,484,194</u>	<u>\$ 282,765,881</u>
Major service lines:		
Home health	\$ 2,706,301	\$ 3,376,805
Hospital	292,530,953	260,669,578
Provider services	21,246,940	18,719,498
Total	<u>\$ 316,484,194</u>	<u>\$ 282,765,881</u>

After a review of reimbursement methods and contract obligations, the Hospital deems all significant patient revenue to be fee for service, and the performance obligation is met over time.

There is \$4,342,497 and \$3,876,131 of contract assets included within other current assets on the consolidated balance sheet as of December 31, 2021 and 2020, respectively.

**Note 19 - Functional Expenses**

The Hospital is a general acute-care facility that provides inpatient and outpatient health care services to patients in Lake County and several surrounding counties. Expenses related to providing these services for the years ended December 31, 2021 and 2020 are as follows:

	2021		
	Program Services	Management and General	Total
Salaries and wages	\$ 127,339,285	\$ 22,410,820	\$ 149,750,105
Employee benefits and payroll taxes	29,664,867	6,428,390	36,093,257
Supplies	65,824,408	4,484,598	70,309,006
Outside services	72,236,611	10,075,391	82,312,002
Professional and other liability costs	3,071,681	-	3,071,681
Utilities	4,930,081	3,204,587	8,134,668
Repairs and maintenance	3,844,280	5,189,485	9,033,765
Medicaid assessment fee	18,001,228	-	18,001,228
Depreciation and amortization	14,434,426	2,147,757	16,582,183
Interest expense	2,236,239	105,107	2,341,346
Other	3,942,231	2,906,267	6,848,498
Total	<u>\$ 345,525,337</u>	<u>\$ 56,952,402</u>	<u>\$ 402,477,739</u>

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 19 - Functional Expenses (Continued)

	2020		
	Program Services	Management and General	Total
Salaries and wages	\$ 127,751,780	\$ 21,392,865	\$ 149,144,645
Employee benefits and payroll taxes	30,345,640	5,705,545	36,051,185
Supplies	57,235,947	3,705,516	60,941,463
Outside services	55,677,952	9,603,889	65,281,841
Professional and other liability costs	2,795,919	-	2,795,919
Utilities	4,463,800	2,771,974	7,235,774
Repairs and maintenance	4,349,007	5,213,076	9,562,083
Medicaid assessment fee	16,695,496	-	16,695,496
Depreciation and amortization	15,776,893	2,107,602	17,884,495
Interest expense	2,611,544	-	2,611,544
Other	4,695,892	3,955,524	8,651,416
Total	\$ 322,399,870	\$ 54,455,991	\$ 376,855,861

The consolidated financial statements report certain functions or expense categories that support both program and support functions. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including revenue cycle, patient services, purchasing, and information technology expenses, are allocated between program and support based on based pro rata percentage of expense to total expenses. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Note 20 - COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted hundreds of thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. During 2020, the Hospital's operations were significantly impacted, as shelter-in-place orders and a government mandate to suspend elective procedures reduced volumes during the period. The Hospital mitigated the impact by managing workforce productivity, delaying capital expenditures, actively managing cash disbursements, and implementing other cost-reduction measures. Throughout 2021, the Hospital's operations continued to be impacted as a result of the pandemic. The Hospital experienced staffing shortages, rising costs to retain and attract employees, and increases in operating expenses.

The CARES Act was enacted on March 27, 2020 and authorizes \$100 billion to be administered through grants and other mechanisms to hospitals, public entities, not-for-profit entities, and Medicare- and Medicaid-enrolled suppliers and institutional providers. The purpose of these funds is to reimburse providers for lost revenue attributable to the coronavirus disease pandemic, such as forgone revenue from canceled procedures, and to provide support for related health care expenses, such as constructing temporary structures or emergency operation centers; retrofitting facilities; purchasing medical supplies and equipment, including personal protective equipment and testing supplies; and increasing workforce. Further, these relief funds ensure uninsured patients are receiving testing and treatment for COVID-19.

## Notes to Consolidated Financial Statements

**December 31, 2021 and 2020**

### **Note 20 - COVID-19 Pandemic (Continued)**

During the years ended December 31, 2021 and 2020, the Hospital received payments of approximately \$1.4 million and \$50.1 million, respectively, as part of general and targeted distributions of the CARES Act Provider Relief Fund, which were distributed between April 2020 and December 2021. These payments 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 health care-related expenses or lost revenue attributed to COVID-19. Based on an analysis of compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on the Hospital's operating results through December 31, 2021, the Hospital believes there is reasonable assurance the applicable terms and conditions required to retain the funds are met as of December 31, 2021 and 2020. Therefore, the Hospital has recognized \$17.3 million and \$32.9 million as other operating revenue on the consolidated statement of operations for the years ended December 31, 2021 and 2020, respectively.

The initial estimate of the recognition of revenue related to the Provider Relief Fund was based upon guidance issued by HHS as of the date the consolidated financial statements were available to be issued for the year ended December 31, 2020. Subsequent to that period, HHS issued additional guidance to calculate lost revenue. These changes to the estimate are recorded prospectively as adjustments to other operating revenue. For the year ended December 31, 2021, changes in the estimate of the recognition of revenue related to the Provider Relief Fund resulted in an increase to other operating revenue of approximately \$5.5 million.

The Hospital recorded \$1.4 million and \$17.3 million as deferred revenue in the consolidated balance sheet as of December 31, 2021 and 2020, respectively, where conditions for recognition have not yet been met. The Hospital will continue to monitor the terms and conditions of the CARES Act funds and ARP Rural payments and the impact of the pandemic on revenue and expenses.

The requirements for the uses of the CARES Act funds are subject to change and are open to interpretation and clarification; therefore, there may be changes in the amounts recognized as other nonoperating revenue during the years ended December 31, 2021 and 2020. If the Hospital is unable to attest to or comply with future terms and conditions, the ability to retain some or all of the distributions received may be impacted. Any changes in amounts recognized as a result of new guidance, interpretation, or clarification will be recognized in the period in which the change occurred.

#### ***Medicare Advance Payments***

The Hospital requested accelerated Medicare payments, as provided for in the CARES Act, which allows for eligible health care facilities to request up to 6 months of advance Medicare payments.

During 2021, U.S. Congress and CMS extended the repayment terms of the accelerated Medicare payments to begin one year after the first payment was issued, at which point these amounts will be repaid at 25 percent of the Medicare payments to the Hospital for 11 months. After 11 months, the recoupment will increase to 50 percent of the Medicare payments for 6 additional months (or until all amounts are repaid). Any unapplied accelerated payment amounts that are unpaid after this 17-month period are due to CMS, plus interest at a rate of 4 percent on the outstanding balance. Repayment of the accelerated payments for the Hospital began during the year ended December 31, 2021 and will continue into the year ending December 31, 2023.

As of December 31, 2021 and 2020, the Hospital has recorded a total of approximately \$26 million and \$36 million, respectively, which is recorded as accrued liabilities and other and other liabilities on the consolidated balance sheet.