The Methodist Hospitals, Inc.

Consolidated Financial Report

December 31, 2022

Contents

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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, 2022 and 2021 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, 2022 and 2021 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 19, 2023 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.

Plante & Moran, PLLC

April 19, 2023

Consolidated Balance Sheet

December 31, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	$ 63,303,439	$ 104,225,146
Short-term investments (Note 6)	613,661	617,043
Patient accounts receivable (Note 3)	48,287,666	39,511,357
Cost report settlements receivable (Note 4)	-	8,213,468
Other current assets (Note 9)	24,853,123	23,944,572
Total current assets	137,057,889	176,511,586
Assets Limited as to Use (Note 6)	110,998,468	125,929,550
Property and Equipment - Net (Note 10)	134,764,780	136,045,803
Right-of-use Operating Lease Assets (Note 14)	8,211,776	10,903,436
Other Assets	4,790,474	1,201,337
Total assets	**$ 395,823,387**	**$ 450,591,712**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 28,270,102	$ 26,753,250
Current portion of long-term debt (Note 12)	2,819,053	2,708,686
Right-of-use operating lease obligation - Current portion (Note 14)	2,526,309	2,576,459
Cost report settlements payable (Note 4)	9,486,795	8,552,980
Deferred revenue (Note 20)	-	1,433,246
Accrued liabilities and other (Note 11)	20,841,516	38,977,024
Total current liabilities	63,943,775	81,001,645
Long-term Debt - Net of current portion (Note 12)	64,045,705	67,101,852
Right-of-use Operating Lease Obligation - Net of current portion (Note 14)	5,644,438	8,259,025
Other Liabilities (Note 13)	5,853,449	15,340,199
Total liabilities	139,487,367	171,702,721
Net Assets		
Without donor restrictions	255,322,097	277,922,252
With donor restrictions	1,013,923	966,739
Total net assets	256,336,020	278,888,991
Total liabilities and net assets	**$ 395,823,387**	**$ 450,591,712**

Consolidated Statement of Operations

Years Ended December 31, 2022 and 2021

	2022	2021
Revenue, Gains, and Other Support		
Patient service revenue (Note 18)	$ 339,890,138	$ 316,484,194
Other operating revenue	14,098,332	28,212,335
Medicaid disproportionate share revenue	69,205,698	65,378,263
Net assets released from restrictions used for operations	2,206,350	571,519
Total revenue, gains, and other support	425,400,518	410,646,311
Operating Expenses		
Salaries and wages	150,072,670	149,750,105
Employee benefits and payroll taxes	36,213,442	36,093,257
Supplies	83,957,396	70,309,006
Outside services	99,540,389	82,312,002
Professional and other liability costs	3,149,777	3,071,681
Utilities	8,571,771	8,134,668
Repairs and maintenance	8,924,998	9,033,765
Medicaid assessment fee (Note 4)	17,298,541	18,001,228
Depreciation and amortization (Note 10)	17,707,328	16,582,183
Interest expense	2,486,197	2,341,346
Other	12,055,414	6,848,498
Total operating expenses (Note 19)	439,977,923	402,477,739
Operating (Loss) Income	(14,577,405)	8,168,572
Nonoperating (Loss) Income		
Investment (loss) income (Note 6)	(12,329,531)	8,864,795
Other loss	(1,257,010)	(2,041,586)
Total nonoperating (loss) income	(13,586,541)	6,823,209
Excess of Revenue (Under) Over Expenses	(28,163,946)	14,991,781
Pension-related Changes Other Than Net Periodic Cost (Note 16)	5,563,791	8,002,309
(Decrease) Increase in Net Assets without Donor Restrictions	**$ (22,600,155)**	**$ 22,994,090**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Years Ended December 31, 2022 and 2021

	2022	2021
Net Assets without Donor Restrictions		
Excess of revenue (under) over expenses	$ (28,163,946)	$ 14,991,781
Pension-related changes other than net periodic cost	5,563,791	8,002,309
(Decrease) increase in net assets without donor restrictions	(22,600,155)	22,994,090
Net Assets with Donor Restrictions		
Restricted contributions	2,253,534	596,697
Net assets released from restrictions	(2,206,350)	(571,519)
Increase in net assets with donor restrictions	47,184	25,178
(Decrease) Increase in Net Assets	(22,552,971)	23,019,268
Net Assets - Beginning of year	278,888,991	255,869,723
Net Assets - End of year	**$ 256,336,020**	**$ 278,888,991**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (22,552,971)	$ 23,019,268
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization	17,707,328	16,582,183
Net change in unrealized net losses (gains) on investments	17,502,903	(3,977,198)
Realized (gains) losses on investments	(971,504)	5,230
Pension-related changes other than net periodic costs	(5,563,791)	(8,002,309)
Gain on disposal of property and equipment	(193,582)	(59,301)
Amortization of bond premium	(318,677)	(318,677)
Amortization of debt issuance costs	81,583	311,807
Changes in assets and liabilities that (used) provided cash and cash equivalents:		
Accounts receivable	(8,776,309)	(3,087,391)
Other current assets	(908,551)	(2,315,711)
Costs report settlements receivable	6,713,468	4,404,074
Other assets	(3,589,137)	103,706
Accounts payable	1,516,852	5,363,618
Accrued liabilities and other	(18,135,508)	6,121,150
Cost report settlements payable	2,433,815	6,310,849
Other liabilities	(3,922,959)	(15,023,235)
Deferred revenue	(1,433,246)	(15,831,751)
Right-of-use operating lease assets and obligations	26,923	37,581
Net cash and cash equivalents (used in) provided by operating activities	(20,383,363)	13,643,893
Cash Flows from Investing Activities		
Purchase of property and equipment	(16,453,474)	(14,285,806)
Proceeds from sale of property and equipment	220,751	59,301
Purchases of investments and assets limited as to use	(17,374,186)	(10,429,381)
Proceeds from sales and maturities of investments and assets limited as to use	15,777,251	6,356,932
Net cash and cash equivalents used in investing activities	(17,829,658)	(18,298,954)
Cash Flows from Financing Activities		
Payments on finance lease obligations	(18,686)	(163,794)
Principal payments on long-term debt	(2,690,000)	(38,375,000)
Payment of debt issuance costs	-	(123,000)
Proceeds from bond issuance	-	35,805,000
Net cash and cash equivalents used in financing activities	(2,708,686)	(2,856,794)
Net Decrease in Cash and Cash Equivalents	(40,921,707)	(7,511,855)
Cash and Cash Equivalents - Beginning of year	104,225,146	111,737,001
Cash and Cash Equivalents - End of year	**$ 63,303,439**	**$ 104,225,146**
Supplemental Cash Flow Information		
Cash paid for interest	$ 2,605,616	$ 2,379,101
Right-of-use assets obtained via operating lease obligation	155,287	2,745,908
Right-of-use assets obtained via finance lease obligations	-	158,540

See notes to consolidated financial statements.

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, 2022 and 2021, there was approximately $77.2 million and $115.0 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 account 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 were $36,423,966 as of January 1, 2021.

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 (under) 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. No impairment charges were recognized during the years ended December 31, 2022 or 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. Also included in assets limited as to use 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.

Excess of Revenue (Under) Over Expenses

The consolidated statement of changes in net assets includes excess of revenue (under) over expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenue (under) 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.

Note 2 - Significant Accounting Policies (Continued)

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.

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.

Note 2 - Significant Accounting Policies (Continued)

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 Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes changes to the accounting and measurement of financial assets, including the Hospital's accounts receivable, by requiring the Hospital to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice where an allowance is not recognized until the losses are considered probable. The new guidance will be effective for the Hospital's year ending December 31, 2023. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the earliest period presented. Early adoption is permitted.

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 19, 2023, which is the date the consolidated financial statements were issued.

Note 3 - Patient Accounts Receivable

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

	2022	2021
Medicare	44 %	36 %
Medicaid	22	24
Commercial and managed care	29	36
Self-pay	5	4
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 2022 and 2021, the Hospital incurred $17,298,541 and $18,001,228, 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, 2022 and 2021, there is $5,231,903 and $6,607,857, 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 resulted in an increase in revenue of approximately $1,139,000; no such increase related to prior year settlements was recorded in 2022.

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.

Note 4 - Cost Report Settlements (Continued)

At December 31, 2022 and 2021, the Hospital recorded approximately $(3,300,000) and $8,200,000, respectively, in amounts due (to) from the State of Indiana under the DSH program. These amounts are reflected in cost report settlements payable and receivable in the accompanying consolidated balance sheet. The amounts recorded represent estimated reimbursement due to (from) the Hospital for services provided through December 31, 2022 and 2021. During the years ended December 31, 2022 and 2021, approximately $31,213,000 and $32,015,000, 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 $4.6 million and $5.5 million of services to indigent patients during 2022 and 2021, 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.

Note 6 - Assets Limited as to Use

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

	2022	2021
Funds designated by trustees under bond indenture	$ 3,181,926	$ 4,682,077
Funds held in trust for payment of professional and other liability claims	3,373,168	3,010,699
Funds designated by board for future capital improvements	104,418,374	118,211,774
Fund designated by donors for specific purposes	25,000	25,000
Total assets limited as to use	$ 110,998,468	$ 125,929,550

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

	2022	2021
Money market investments and cash equivalents	$ 5,016,514	$ 8,413,951
Government securities	5,203,633	9,229,562
Mutual funds	55,455,824	67,930,679
Corporate bonds and asset-backed securities	29,661,995	21,992,376
Pooled funds	7,125,844	8,212,835
Common stock	9,148,319	10,767,190
Total	$ 111,612,129	$ 126,546,593
Classified as:		
Short-term investments	$ 613,661	$ 617,043
Assets limited as to use	110,998,468	125,929,550
Total	$ 111,612,129	$ 126,546,593

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:

	2022	2021
Interest and dividends	$ 4,201,868	$ 4,892,827
Change in net unrealized (losses) gains	(17,502,903)	3,977,198
Realized gains (losses) - Net	971,504	(5,230)
Total	$ (12,329,531)	$ 8,864,795

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:

	2022	2021
Cash and cash equivalents	$ 63,303,439	$ 104,225,146
Short-term investments	613,661	617,043
Patient accounts receivable	48,287,666	39,511,357
Cost report settlements receivable	-	8,213,468
Other current assets	5,023,791	6,171,021
Assets limited as to use:		
Funds held by trustees under bond indenture	3,181,926	4,682,077
Funds held in trust for payment of professional and other liability claims	3,373,168	3,010,699
Funds held by board for future capital improvements	104,418,374	118,211,774
Fund held by donors for specific purposes	25,000	25,000
Financial assets - At year end	228,227,025	284,667,585
Less those unavailable for general expenditures within one year due to:		
Funds held by trustees under bond indenture	(3,181,926)	(4,682,077)
Funds held in trust for payment of professional and other liability claims	(3,373,168)	(3,010,699)
Funds held by board for future capital improvements	(104,418,374)	(118,211,774)
Fund held by donors for specific purposes	(25,000)	(25,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 117,228,557	$ 158,738,035

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 $614,000 and $617,000 at December 31, 2022 and 2021, respectively. This fund established by the board of directors may be drawn upon, if necessary, to meet unexpected liquidity needs.

As of December 31, 2022, 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, 2022 and 2021 and the valuation techniques used by the Hospital to determine those fair values.

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, 2022			
	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, 2022
Short-term Investments				
Money market investments	$ 366,900	$ -	$ -	$ 366,900
Assets Limited as to Use				
Money market investments	4,544,205	-	-	4,544,205
Common stock	9,148,319	-	-	9,148,319
Mutual funds:				
U.S. companies	17,824,985	-	-	17,824,985
International companies	12,992,458	-	-	12,992,458
Fixed income	3,779,222	-	-	3,779,222
Balanced funds	20,859,159	-	-	20,859,159
Fixed income:				
U.S. Treasurys	-	4,321,633	-	4,321,633
Governmental agency bonds	-	882,000	-	882,000
Pooled funds	-	7,125,844	-	7,125,844
Asset-backed securities	-	6,545,000	-	6,545,000
Mortgage-backed securities	-	7,342,000	-	7,342,000
Corporate - Domestic	-	14,115,995	-	14,115,995
Corporate - International	-	1,659,000	-	1,659,000
Total assets limited as to use	69,148,348	41,991,472	-	111,139,820
Total	$ 69,515,248	$ 41,991,472	$ -	$ 111,506,720

The assets limited as to use and short-term investments included in the consolidated balance sheet at December 31, 2022 included money market investments of $105,409, which are not measured at fair value on a recurring basis and, therefore, not in the table above.

Note 8 - Fair Value Measurements (Continued)

	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
Short-term Investments				
Money market investments	$ 352,113	$ -	$ -	$ 352,113
Assets Limited as to Use				
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.

The fair value of fixed-income securities at December 31, 2022 and 2021 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, 2022 and 2021 are as follows:

	2022	2021
Prepaid expenses	$ 5,015,664	$ 4,635,089
Inventory	14,810,071	13,138,461
Other	566,984	1,828,525
Contract assets	4,460,404	4,342,497
Total	$ 24,853,123	$ 23,944,572

Note 10 - Property and Equipment

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

	2022	2021	Depreciable Life - Years
Land	$ 5,800,874	$ 5,373,674	-
Buildings	323,973,370	317,546,099	2-40
Right-of-use finance lease assets	57,710	57,710	25-40
Equipment	206,150,330	201,008,426	3-5
Construction in progress	7,596,569	10,512,246	-
Total cost	543,578,853	534,498,155	
Accumulated depreciation	408,814,073	398,452,352	
Net property and equipment	$ 134,764,780	$ 136,045,803	

Depreciation and amortization expense, including assets under finance lease, totaled $17,707,328 and $16,582,183 in 2022 and 2021, respectively.

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 $3,824,000 as of December 31, 2022.

Note 11 - Accrued Liabilities and Other

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

	2022	2021
Payroll and related items	$ 11,309,313	$ 10,586,392
Compensated absences	8,818,701	9,912,288
Interest	602,536	484,861
Medicare advance payments - Current portion (Note 20)	-	17,479,770
Other	110,966	513,713
Total accrued liabilities	$ 20,841,516	$ 38,977,024

Note 12 - Long-term Debt

The following is a summary of long-term debt and finance lease obligations at December 31, 2022 and 2021:

	2022	2021
Indiana Finance Authority Hospital Revenue Refunding Bonds, Series 2014A, interest ranging from 4.0 percent to 5.0 percent, due in installments through 2031	$ 28,710,000	$ 31,400,000
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	35,805,000
Equipment finance lease obligation	6,145	24,830
Unamortized premium	2,761,866	3,080,543
Total	67,283,011	70,310,373
Less current portion	2,819,053	2,708,686
Less unamortized debt issuance costs	418,253	499,835
Long-term portion	$ 64,045,705	$ 67,101,852

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 interest rate on the bonds was the one-month LIBOR plus the applicable spread as defined in the debt agreement. The Series 2020 Bonds were refinanced in October 2021 with the Series 2021 Bonds.

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 effective interest rate was 5.95 percent and 1.70 percent at December 31, 2022 and 2021, respectively.

The Series 2014A and Series 2021 bonds were 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 rate of 4.25 percent for the year ended December 31, 2022.

Note 12 - Long-term Debt (Continued)

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

Years Ending December 31	Long-term Debt	Finance Lease Obligations
2023	$ 2,815,000	$ 4,053
2024	38,650,000	2,092
2025	2,975,000	-
2026	3,115,000	-
2027	3,255,000	-
Thereafter	13,705,000	-
Total	$ 64,515,000	$ 6,145

Note 13 - Other Liabilities

The detail of other liabilities is shown below:

	2022	2021
Accrued pension cost (Note 16)	$ -	$ 184,944
Insurance liabilities (Note 17)	4,992,497	5,802,293
Medicare advance payments - Long-term portion (Note 20)	-	8,594,080
Other	860,952	758,882
Total other liabilities	$ 5,853,449	$ 15,340,199

Note 14 - Operating Leases

The Hospital is obligated under operating leases primarily for facilities and equipment, expiring at various dates through October 2026, with a weighted-average remaining lease term of 3.3 years and 4.1 years at December 31, 2022 and 2021, respectively. The right-of-use asset and related lease liability have been calculated using a weighted-average discount rate of 4.92 percent and 4.98 percent at December 31, 2022 and 2021, respectively. The leases require the Hospital to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was $2,526,000 and $2,576,000 for 2022 and 2021, respectively.

The Hospital assesses whether it is reasonably 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.

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.

Note 14 - Operating Leases (Continued)

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

Years Ending December 31	Amount
2023	$ 2,870,515
2024	2,692,756
2025	2,136,871
2026	1,157,918
Total	8,858,060
Less net present value adjustment	687,313
Present value of net minimum lease payments	8,170,747
Less current obligations	2,526,309
Long-term obligations	$ 5,644,438

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, 2022 and 2021 was approximately $2,261,000 and $2,059,000, 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.

Note 16 - Pension Plan (Continued)

Obligations and Funded Status

	Pension Benefits	
	2022	2021
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 135,888,649	$ 143,919,789
Interest cost	3,859,752	3,643,636
Actuarial gain	(34,141,970)	(5,602,700)
Benefits paid	(5,892,235)	(6,072,076)
Benefit obligation at end of year	99,714,196	135,888,649
Change in plan assets:		
Fair value of plan assets at beginning of year	135,703,705	134,963,357
Actual return on plan assets	(26,373,137)	3,612,424
Employer contributions	-	3,200,000
Benefits paid	(5,892,235)	(6,072,076)
Fair value of plan assets at end of year	103,438,333	135,703,705
Funded status at end of year	$ 3,724,137	$ (184,944)

The net pension asset at December 31, 2022 is recorded within other long-term assets on the consolidated balance sheet; the net pension liability at December 31, 2021 is recorded within other long-term liabilities on the consolidated balance sheet. Components of net periodic benefit cost and other amounts recognized are as follows:

	Pension Benefits	
	2022	2021
Net Periodic Benefit Cost		
Interest cost	$ 3,859,752	$ 3,643,636
Expected return on plan assets	(4,859,634)	(4,579,121)
Amortization of net loss	2,654,592	3,366,306
Total cost	$ 1,654,710	$ 2,430,821

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

	Pension Benefits	
	2022	2021
Net loss	$ 27,594,490	$ 33,158,281

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

	Pension Benefits	
	2022	2021
Discount rate	5.50%	2.90%

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

	Pension Benefits	
	2022	2021
Discount rate	2.90%	2.60%
Expected long-term return on plan assets	3.75%	3.50%

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, 2022 and 2021.

The fair values of the Hospital's pension plan assets at December 31, 2022 and 2021 by major asset categories are as follows:

	Fair Value Measurements at December 31, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset Classes				
Equity securities:				
U.S. companies	$ 51,235,121	$ -	$ -	$ 51,235,121
International companies	8,843,764	-	-	8,843,764
Debt securities	-	9,291,507	-	9,291,507
Total	$ 60,078,885	$ 9,291,507	$ -	$ 69,370,392

	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
Asset Classes				
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
Total	$ 72,017,263	$ 31,450,308	$ -	$ 103,467,571

The pension plan assets shown above included cash and cash equivalents of $16,283 and $1,995 at December 31, 2022 and 2021, 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, 2022 and 2021 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.

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, 2022 and 2021 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 $34,051,658 and $32,234,139 at December 31, 2022 and 2021, 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 $3,200,000 to the pension plan in 2023.

Estimated Future Benefit Payments

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

Years Ending	Pension Benefits
2023	$ 6,324,154
2024	6,590,707
2025	6,833,012
2026	7,016,245
2027	7,197,907
2028-2032	37,599,842

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, 2022 and 2021.

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.

Note 18 - Patient Care Service Revenue (Continued)

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, 2022 and 2021, 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.

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:

	2022	2021
Payors:		
Blue Cross	$ 58,129,027	$ 58,571,726
Commercial	40,646,495	40,339,468
Medicaid	63,987,838	59,193,781
Medicare	146,573,198	129,618,636
Other	26,952,747	23,583,844
Uninsured	3,600,833	5,176,739
Total	$ 339,890,138	$ 316,484,194
Major service lines:		
Home health	$ 2,468,048	$ 2,706,301
Hospital	314,038,435	292,530,953
Provider services	23,383,655	21,246,940
Total	$ 339,890,138	$ 316,484,194

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 $4,460,404 and $4,342,497 of contract assets included within other current assets on the consolidated balance sheet as of December 31, 2022 and 2021, 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, 2022 and 2021 are as follows:

	2022		
	Program Services	Management and General	Total
Salaries and wages	$ 126,498,856	$ 23,573,814	$ 150,072,670
Employee benefits and payroll taxes	29,493,101	6,720,341	36,213,442
Supplies	78,714,085	5,243,312	83,957,397
Outside services	88,547,175	10,993,214	99,540,389
Professional and other liability costs	3,149,777	-	3,149,777
Utilities	5,764,234	2,807,537	8,571,771
Repairs and maintenance	4,255,570	4,669,429	8,924,999
Medicaid assessment fee	17,298,541	-	17,298,541
Depreciation and amortization	15,255,663	2,451,665	17,707,328
Interest expense	2,486,195	-	2,486,195
Other	5,439,799	6,615,615	12,055,414
Total	$ 376,902,996	$ 63,074,927	$ 439,977,923

Note 19 - Functional Expenses (Continued)

	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	$ 345,525,337	$ 56,952,402	$ 402,477,739

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 millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. Beginning in 2020 and through 2022, 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. 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.

Note 20 - COVID-19 Pandemic (Continued)

During the year ended December 31, 2021, the Hospital received payments of approximately $1.4 million as part of general and targeted distributions of the CARES Act Provider Relief Fund. 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, 2022, the Hospital believes there is reasonable assurance the applicable terms and conditions required to retain the funds are met as of December 31, 2022. The Hospital recorded $1.4 million as deferred revenue in the consolidated balance sheet as of December 31, 2021, where conditions for recognition have not yet been met. The Hospital has recognized $1.4 million and $17.3 million as other operating revenue on the consolidated statement of operations for the years ended December 31, 2022 and 2021, respectively.

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 operating revenue during the years ended December 31, 2022 and 2021. 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 was fully recouped during the year ended December 31, 2022.

As of December 31, 2021, the Hospital recorded a total liability of approximately $26 million, which is recorded as accrued liabilities on the consolidated balance sheet. No liability remained at December 31, 2022.