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April 5, 2010

Board of Directors
Johnson Memorial Hospital
1125 West Jefferson Street
P.O. Box 549
Franklin, Indiana 46131

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2009 to December 31, 2009. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Johnson Memorial Hospital, as of December 31, 2009, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

JOHNSON MEMORIAL HOSPITAL

COMBINED FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2009 AND 2008

CPAs / ADVISORS



JOHNSON MEMORIAL HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Johnson Memorial Hospital
Franklin, Indiana

We have audited the accompanying combined balance sheets of Johnson Memorial Hospital (Hospital) as of December 31, 2009 and 2008 and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above, present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2009 and 2008, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Blue & Co., LLC

March 18, 2010

JOHNSON MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

This section of Johnson Memorial Hospital's (Hospital) annual combined financial statements presents background information and management's discussion and analysis of the Hospital's financial performance during the year ended December 31, 2009. This MD&A also includes an analysis of the activities and results of the Johnson County Health Foundation (blended component unit).

This MD&A should be read together with the combined financial statements included in this report.

FINANCIAL HIGHLIGHTS

- The Hospital's net assets increased by \$2.2 million, and include operating income of \$894,000 in 2009.
- The Hospital's total net operating revenue decreased by 6.8% to \$77.2 million while expenses decreased by 5.3% to \$76.3 million. The resulting income from operations of \$894,000 represents a decrease of 60.2% from 2008 operations.
- The Hospital's total non-operating revenue increased from a loss of \$1.7 million in 2008 to a gain of \$1.3 million in 2009 due mainly to improvements in the stock market in the second half of the year.

FINANCIAL STATEMENTS

The Hospital's combined financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses and Changes in Net Assets; and a Statement of Cash Flows. The Balance Sheet includes all of the Hospital's assets and liabilities, including assets held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation. The Balance Sheet provides a basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. The Statement of Revenues, Expenses and Changes in Net Assets includes all revenues and expenses of the Hospital. This statement measures the financial results of the Hospital's operations and presents revenue earned and expenses incurred. The Statement of Cash Flows provides information about the Hospital's cash flows from operating activities, capital and related financing activities, and investing activities, and provides information on the sources and uses of cash during the year.

JOHNSON MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

FINANCIAL ANALYSIS

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

These two statements report the Hospital's net assets and changes in them. Think of the Hospital's net assets — the difference between assets and liabilities — as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

A summary of the Hospital's Balance Sheets as of December 31, 2009 and 2008 is presented below (in thousands):

	2009	2008	\$ Change	% Change
Cash and investments	\$ 36,958	\$ 37,376	\$ (418)	-1.1%
Capital assets	40,079	41,272	(1,193)	-2.9%
Other assets	17,130	19,254	(2,124)	-11.0%
Total assets	<u>\$ 94,167</u>	<u>\$ 97,902</u>	<u>\$ (3,735)</u>	-3.8%
Current and other liabilities	\$ 7,974	\$ 12,559	\$ (4,585)	-36.5%
Long term debt	3,083	4,451	(1,368)	-30.7%
Total liabilities	11,057	17,010	(5,953)	-35.0%
Net assets				
Invested in capital assets, net of related debt	35,619	35,477	142	0.4%
Restricted	25,887	23,043	2,844	12.3%
Unrestricted	21,604	22,372	(768)	-3.4%
Total net assets	<u>83,110</u>	<u>80,892</u>	<u>2,218</u>	2.7%
Total liabilities and net assets	<u>\$ 94,167</u>	<u>\$ 97,902</u>	<u>\$ (3,735)</u>	-3.8%

JOHNSON MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

As displayed above, total net assets increased to \$83.1 million in 2009, up from \$80.9 million in 2008. The change in net assets resulted from a combination of both operating gains and investment income. Investment income had a positive impact on total excess revenues during 2009, which was the opposite effect of that experienced during 2008.

A summary of the Hospital's Statement of Revenues, Expenses and Changes in Net Assets for 2009 and 2008 is presented below (in thousands):

	2009	2008	\$ Change	% Change
Revenue				
Net patient service revenue	\$ 67,089	\$ 72,598	\$ (5,509)	-7.6%
Other	10,088	10,181	(93)	-0.9%
Total revenue	<u>77,177</u>	<u>82,779</u>	<u>(5,602)</u>	-6.8%
Expenses				
Salary and benefits	40,493	43,068	(2,575)	-6.0%
Supplies and other	30,897	32,663	(1,766)	-5.4%
Depreciation and amortization	4,893	4,801	92	1.9%
Total operating expenses	<u>76,283</u>	<u>80,532</u>	<u>(4,249)</u>	-5.3%
Operating income	894	2,247	(1,353)	-60.2%
Non-operating income	1,324	(1,748)	3,072	175.7%
Change in net assets	<u>\$ 2,218</u>	<u>\$ 499</u>	<u>\$ 1,719</u>	344.5%

STATEMENTS OF CASH FLOWS

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

A summary of cash flows for 2009 and 2008 follows (in thousands):

	2009	2008	\$ Change
Cash flow from activities			
Operating	\$ 3,098	\$ 6,592	\$ (3,494)
Capital and related financing	(5,290)	(4,012)	(1,278)
Investing	6,719	(1,280)	7,999
Change in cash equivalents	<u>\$ 4,527</u>	<u>\$ 1,300</u>	<u>\$ 3,227</u>

JOHNSON MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

Total cash and cash equivalents increased by \$4.6 million in 2009. Operating activities generated cash and cash equivalents of \$3.1 million during 2009 mainly from strong operating income. Capital and related financing impacted cash and cash equivalents by \$5.3 million during 2009 mainly as the result of property and equipment additions combined with principal payments on long-term debt. Investing activities increased cash and cash equivalents by \$6.7 million mainly as a result of investment income.

Sources of Revenue

During 2009, the Hospital derived substantially all of its revenue from patient services and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

The table below presents the percentages of gross revenue for patient services, by payor, for 2009 and 2008.

<u>Payor Mix</u>	<u>2009</u>	<u>2008</u>
Medicare	42%	46%
Medicaid	10%	9%
Blue Cross/Anthem	17%	18%
Commercial insurance	21%	16%
Self-pay	9%	9%
Other	1%	2%
Total	<u>100%</u>	<u>100%</u>

The Hospital entered into agreements with third party payers, including government programs and managed care health plans, under which payments for healthcare services provided to patients are based upon predetermined rates or discounts from gross charges. Provisions have been made in the financial statements for contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payment.

JOHNSON MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

OPERATING AND FINANCIAL PERFORMANCE

Overall, the Hospital's financial performance in 2009 was not as strong as that experienced in 2008. This section discusses highlights of 2009 operations and changes in activities.

(a) Revenue

- Net patient revenues decreased by 7.6% in 2009 compared to 2008. This is attributable to (a) the fact that the spike in inpatient and outpatient volumes during the second half of 2008 was an anomaly due to the influx of patients associated with the temporary closure of Columbus Regional Hospital; (b) the fact that in 2009 there was a full-year impact related to the closure of the Hospital's Skilled Nursing Unit; and (c) the increase in the commercial payer mix involved certain payers whose reimbursement was more in line with that received from Medicare and/or Medicaid (i.e., the Indiana HIP program and Tri-Care accounts).
 - Acute inpatient volume, as measured in terms of admissions, decreased to 3,232 in 2009 from 3,862 in 2008, or (16.3%).
 - Acute rehabilitation volume, as measured in terms of admissions, decreased to 150 in 2009 from 200 in 2008, or (25.0%).
 - The Hospital discontinued its skilled nursing services in October 2008, which accounted for 4,340 patient days through that date.
 - There was growth experienced in outpatient volumes. Gross outpatient charges increased by 14.3% over 2008, which is a combination of increased utilization and an 8% rate increase.
 - Excluded from net patient revenue are charges for patient services waived under the Hospital's charity policy. Charity care represents unreimbursed charges incurred by the Hospital in providing uncompensated care to indigent patients. Based on established rates, gross charges of \$4.9 million were waived in 2009 compared to \$2.7 million in 2008. This increase is primarily attributable to the overall economic conditions facing hospitals not only in Indiana but across the country.

(b) Expenses

- Total operating expenses decreased \$4.2 million or 5.3% in 2009 primarily due to the discontinuation of unprofitable service lines as well as the focused attention to controlling general inflationary pressures. The resulting impact of these efforts was obscured due to the significant increase in bad debt during the year. Further discussion follows:
-

JOHNSON MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

- Employee labor and benefit expenses decreased \$2.6 million or 6% over 2008. With the closure of the Hospital's Skilled Nursing Facility unit in October 2008, labor expenses were not as high as would have been experienced otherwise. Supplies and other expenses decreased \$1.8 million or 5.4% over 2008. The decrease is mostly attributable to lower inpatient volumes and utilization.
- Provision for bad debt expenses increased \$1.4 million or 21.5% over 2008, primarily related to the change in economic conditions in the hospital's service area. The combined charity care/bad debt write-offs as a percent of hospital gross patient revenues increased from 5.9% in FY 2008 to 7.7% in FY 2009.
- Depreciation and amortization expenses increased slightly over 2008 due to new capital assets being placed in service in 2009.

CAPITAL ASSETS

During 2009, the Hospital's capital assets decreased by \$1.2 million due to depreciation outpacing capital additions and construction in progress. The below table summarizes the broad categories (in thousands):

	2009	2008	\$ Change	% Change
Land and improvements	\$ 4,533	\$ 4,353	\$ 179	4.1%
Buildings and improvements	56,249	50,843	5,406	10.6%
Equipment	38,238	37,465	772	2.1%
Total capital assets	99,019	92,662	6,357	6.9%
Less accumulated depreciation	60,621	57,727	2,894	5.0%
Construction in progress	1,681	6,338	(4,657)	-73.5%
Capital assets - net	<u>\$ 40,079</u>	<u>\$ 41,272</u>	<u>\$ (1,194)</u>	-2.9%

As stated above, the decrease in capital assets and corresponding accumulated depreciation is attributable to depreciation outpacing capital additions during the 2009 fiscal year.

JOHNSON MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

LONG TERM DEBT

As of December 31, 2009, the Hospital had \$4.5 million in short term and long term notes and bonds, a decrease of \$1.3 million from the \$5.8 million as of December 31, 2008. More detailed information about the Hospital's debt position is presented in the Notes to the Combined Financial Statements.

ECONOMIC FACTORS AND 2010 BUDGET

The Hospital's Board and management considered many factors when establishing the 2010 Budget. Included was the continued stagnation of the local and surrounding county economy. Factors considered included, among other things, the following items:

- Population growth of Johnson County, Indiana and the Hospital's current market share of county residents
- Advances in medical equipment and information systems technology and the need to replace obsolete equipment and improve our IT infrastructure and electronic health record capability
- Decreasing reimbursement from governmental and commercial insurance payers as well as the increasingly unfavorable governmental payer mix the Hospital is experiencing
- Increasing number of uninsured, underinsured and/or indigent patients
- Increasing costs of technology, medical supplies, pharmaceuticals, and medical malpractice insurance
- The increasing need to partner with a tertiary-level Indianapolis hospital(s) for services the Hospital is not capable of implementing on its own
- Increasing awareness and expectations from the public on the quality of services
- Increased competition from niche and physician providers as well as the continued expansion of the major Indianapolis providers of healthcare into the Johnson County market (i.e., St. Francis, Community Health Network and Clarian)

JOHNSON MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED)
DECEMBER 31, 2009 AND 2008

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital's Chief Financial Officer, Elizabeth A. Hedden, at Johnson Memorial Hospital, P.O. Box 549, Franklin, Indiana 46131.

JOHNSON MEMORIAL HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,766,691	\$ 2,849,804
Investments	5,304,210	11,482,168
Assets whose use is limited, current portion	1,377,184	1,344,260
Patient accounts receivable, net of allowance for uncollectible accounts of \$3,830,000 in 2009 and \$3,908,000 in 2008	12,477,299	13,806,722
Other accounts receivable	1,613,650	2,380,619
Inventory and other current assets	2,626,160	2,438,708
Current portion of notes receivable	56,447	97,692
Total current assets	<u>29,221,641</u>	<u>34,399,973</u>
Assets whose use is limited		
Internally designated	23,799,944	21,200,747
Held by Foundation	1,412,130	1,170,089
Held by trustee for debt service	674,612	673,643
Total assets whose use is limited	<u>25,886,686</u>	<u>23,044,479</u>
Less current portion	1,377,184	1,344,260
Noncurrent assets whose use is limited	<u>24,509,502</u>	<u>21,700,219</u>
Capital assets		
Land	3,141,963	3,141,963
Depreciable capital assets, net	<u>36,937,276</u>	<u>38,130,188</u>
Total capital assets, net	40,079,239	41,272,151
Other assets		
Notes receivable, net of current portion	78,566	118,137
Investment in affiliated companies	277,746	394,042
Other assets	-0-	17,755
Total other assets	<u>356,312</u>	<u>529,934</u>
Total assets	<u>\$ 94,166,694</u>	<u>\$ 97,902,277</u>

See accompanying notes to combined financial statements.

JOHNSON MEMORIAL HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2009 AND 2008

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
Current liabilities		
Accounts payable and accrued expenses	\$ 1,618,697	\$ 2,249,976
Accrued wages and related liabilities	4,819,306	7,861,919
Estimated third-party settlements	134,800	731,749
Current portion of long term debt	1,377,184	1,344,260
Other current liabilities	<u>23,755</u>	<u>371,484</u>
Total current liabilities	7,973,742	12,559,388
Long term debt, net of current portion		
Capital lease obligations	70,301	149,577
Other long term debt	<u>3,012,902</u>	<u>4,301,876</u>
Total long term debt	3,083,203	4,451,453
Total liabilities	11,056,945	17,010,841
Net assets		
Invested in capital assets, net of related debt	35,618,852	35,476,438
Restricted		
For debt service	674,612	673,643
Expendable - funded depreciation	10,185,232	8,225,602
Expendable - capital improvements	7,678,051	7,114,629
Expendable - other board designated	5,936,661	5,860,516
Held by Foundation	<u>1,412,130</u>	<u>1,168,710</u>
Total restricted net assets	25,886,686	23,043,100
Unrestricted	<u>21,604,211</u>	<u>22,371,898</u>
Total net assets	83,109,749	80,891,436
Total liabilities and net assets	<u>\$ 94,166,694</u>	<u>\$ 97,902,277</u>

See accompanying notes to combined financial statements.

JOHNSON MEMORIAL HOSPITAL

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Revenues		
Net patient service revenue	\$ 67,089,433	\$ 72,598,213
Other revenue	10,087,923	10,181,416
Total revenues	77,177,356	82,779,629
Expenses		
Salaries and wages	32,842,235	34,131,582
Employee benefits	7,650,270	8,936,091
Medical professional fees	948,047	916,151
Other professional fees	6,415,880	8,312,748
Medical supplies and drugs	10,196,290	10,304,615
Other supplies	893,365	954,877
Depreciation and amortization	4,893,435	4,800,552
Insurance	1,023,825	1,094,651
Other expenses	11,419,409	11,080,173
Total expenses	76,282,756	80,531,440
Operating income	894,600	2,248,189
Nonoperating revenues (expenses)		
Investment income (loss)	1,275,926	(1,046,950)
Foundation - primarily investment income (loss)	243,420	(626,860)
Interest expense	(217,653)	(68,096)
Other nonoperating income (expense)	22,020	(6,545)
Nonoperating revenues (expenses), net	1,323,713	(1,748,451)
Change in net assets	2,218,313	499,738
Net assets		
Beginning of year	80,891,436	80,391,698
End of year	\$ 83,109,749	\$ 80,891,436

See accompanying notes to combined financial statements.

JOHNSON MEMORIAL HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Operating activities		
Cash received from patient services	\$ 67,821,907	\$ 70,700,760
Cash paid for salaries, wages and benefits	(43,535,118)	(41,007,581)
Cash paid to vendors and suppliers	(30,929,444)	(33,629,751)
Other receipts, net	9,740,194	10,528,616
Net cash flows from operating activities	3,097,539	6,592,044
Capital and related financing activities		
Receipts on notes receivable, net	80,816	93,142
Proceeds from long term debt	-0-	4,500,000
Payments on long term debt, net	(1,335,326)	(4,138,147)
Interest on long term debt	(217,653)	(68,096)
Purchases of capital assets	(3,850,025)	(4,466,429)
Proceeds from disposal of equipment	32,283	67,606
Net cash flows from capital and related financing activities	(5,289,905)	(4,011,924)
Investing activities		
Other nonoperating income (expense)	22,020	(6,545)
Investment income (loss)	1,275,926	(1,046,950)
Other changes in investments	6,411,473	(441,837)
Other changes in assets whose use is limited	(990,885)	215,678
Net cash flows from investing activities	6,718,534	(1,279,654)
Net change in cash and cash equivalents	4,526,168	1,300,466
Cash and cash equivalents		
Beginning of year	6,436,351	5,135,885
End of year	\$ 10,962,519	\$ 6,436,351
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 5,766,691	\$ 2,849,804
In assets whose use is limited	5,195,828	3,586,547
Total cash and cash equivalents	\$ 10,962,519	\$ 6,436,351

See accompanying notes to combined financial statements.

JOHNSON MEMORIAL HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ 894,600	\$ 2,248,189
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	4,893,435	4,800,552
Bad debts	8,093,624	6,659,886
Changes in operating assets and liabilities		
Patient accounts receivable	(6,764,201)	(8,952,310)
Other accounts receivable	766,969	(1,135,194)
Inventory and other current assets	(187,452)	1,338
Other assets	17,755	19,231
Accounts payable and accrued expenses	(629,900)	123,805
Accrued wages and related liabilities	(3,042,613)	2,060,092
Estimated third-party settlements	(596,949)	394,971
Other current liabilities	(347,729)	371,484
Net cash from operating activities	<u>\$ 3,097,539</u>	<u>\$ 6,592,044</u>
Supplemental disclosure of cash flows		
Cash paid for interest	\$ 217,653	\$ 68,096
Assets acquired through capital lease	\$ -0-	\$ 31,963

See accompanying notes to combined financial statements.

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Johnson Memorial Hospital (Hospital) is an acute-care hospital located in Franklin, Indiana, organized for the purpose of providing healthcare services to the residents of Johnson County and the surrounding communities. The Hospital is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care, skilled nursing and intermediate care and emergency care.

The Board of County Commissioners of Johnson County appoints the Governing Board of the Hospital. The Hospital is considered a component unit of Johnson County.

The combined financial statements of Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of Johnson County that is attributable to the transactions of the Hospital and its Foundation. They do not purport to, and do not, present fairly the financial position of Johnson County as of December 31, 2009 and 2008, the changes in its financial position or its cash flows for the years then ended.

Accounting principles generally accepted in the United States require that these combined financial statements present the Hospital and its significant component units, collectively referred to as the "primary government." The blended component unit discussed below is included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. Blended component units, although legally separate entities are in substance part of the primary government's operations and exist solely to provide services for the primary government; data from these units is combined with data of the primary government.

Blended Component Unit

The accompanying combined financial statements include the accounts of Johnson County Health Foundation, Inc. (Foundation), a separate not-for-profit entity organized to support the operations of the Hospital. The separate financial statements of the Foundation may be obtained through contacting their office as follows:

Johnson County Health Foundation, Inc.
1101 W. Jefferson St., Ste. V
Franklin, IN 46131

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of combined 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 disclosures of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the combined statement of cash flows, cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less. Cash paid for interest in 2009 and 2008 was \$217,653 and \$68,096, respectively. Capitalized interest for 2009 and 2008 was \$-0- and approximately \$347,000, respectively.

Investments

Nonparticipating certificates of deposit, demand deposits and similar negotiable instruments that are not reported as cash and cash equivalents are reported as investments at contract value which approximates fair value.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Mutual funds are reported at fair value based on the fund's market price. Money market investments that mature within one year or less at the date of their acquisition are reported at fair value. Other money market investments are reported at fair value.

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Other investments are generally reported at fair value.

Investment income (loss), including changes in the fair value of investments, is reported as non-operating revenue in the combined statements of revenues, expenses and changes in net assets.

Patient Accounts Receivable and Patient Service Revenues

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2006 with differences reflected as deductions from revenue in 2009. Amounts from unresolved cost reports for 2007 through 2009 are reflected in estimated third-party settlements on the combined balance sheets. The Hospital recognized a decrease of \$-0- in 2009 and approximately \$202,000 in 2008 due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying combined financial statements.

Inventory

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventories at year-end consist of the following:

	2009	2008
Medical supplies and other	\$ 1,099,332	\$ 995,166
Pharmaceutical	353,305	380,882
	<u>\$ 1,452,637</u>	<u>\$ 1,376,048</u>

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Assets Whose Use is Limited

Assets whose use is limited are stated at fair market value in the combined financial statements. These assets include investments designated by the Hospital Board for internal purposes, investments restricted by donors for a specific purpose and investments held by trustees for debt service. These investments consist primarily of cash and cash equivalents, certificates of deposit, US government securities, mutual funds and corporate stock. Investment interest, dividends, gains and losses, both realized and unrealized are included in non-operating revenue (expense) in the combined statements of revenues, expenses and changes in net assets.

Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which exceed the Hospital's capitalization policy and meet certain useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred. The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method. The range of useful lives in computing depreciation is as follows:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	15 years
Buildings and improvements	4-50 years
Equipment	5-15 years

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors or donors outside the Hospital, including amounts deposited with trustees as required by revenue bond indentures and net assets held by the Foundation. Unrestricted net assets are the remaining net assets that do not meet the definition of net assets invested in capital assets net of related debt or restricted net assets.

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Combined Statements of Revenues, Expenses and Changes in Net Assets

The Hospital's combined statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions such as investment activities are reported as non-operating gains or losses.

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 collect amounts deemed to be charity care, they are not reported as revenue.

Management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Bond Issuance Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Bond issuance costs are amortized utilizing the straight-line method. Bond issue costs, net of accumulated amortization as of December 31, 2009 and 2008 were \$-0- and \$17,755, respectively.

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3). Johnson County Health Foundation, Inc. is a 501(c)(3) not-for-profit organization.

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Investments in Affiliates

The Hospital owns an equity interest in Johnson County Health Network, Inc, a Physician Hospital Organization. The Hospital also owns an equity interest in JMH Surgical Management Company, which operates and manages the surgery department. These investments are recorded on the equity method of accounting in the Hospital's combined financial statements. During 2007, the Hospital purchased an interest in St. Francis Imaging Center, LLC, which provides multiple diagnostic imaging services on an outpatient basis. This investment is recorded on the cost method. The Hospital's investment in affiliated companies is included in the other assets category in the combined balance sheets.

Compensated Absences

Hospital exempt employees earn Paid Time Off (PTO) at the rate of twenty-three days to thirty-two days per year based upon the number of years of service. Hospital non-exempt employees earn PTO at the rate of fourteen days to thirty-two days per year based upon the number of years of service. PTO is awarded and becomes earned on the first day of the pay period following the first six months of employment and then annually thereafter on the first day of the pay period following the employee's anniversary date for PTO accrual. The maximum PTO balance allowed at any given time will be four hundred twenty (420) hours. Unused PTO time, up to forty (40) hours total, in excess of the four hundred and twenty (420) hour maximum may be sold back to the Hospital at the employee's anniversary for PTO renewal. An employee will not be able to sell back more than forty (40) hours, nor will they be allowed to bring their PTO maximum below four hundred twenty hours (420) when selling back PTO hours. PTO hours in excess of four hundred twenty (420) hours that are not sold back to the Hospital will be lost.

During 2008, the Hospital modified the PTO policy. Under the modified policy, any earned PTO hours not taken will be paid to terminated employees with the employee's final paycheck at 50% of earned PTO with a maximum of three hundred (300) hours. A terminated employee loses all rights to PTO hours accrued since the last anniversary date. PTO is accrued and reported as a liability in the combined balance sheets.

Reclassifications

Certain amounts from the 2008 financial statements have been reclassified to conform to the current year presentation.

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Litigation

The Hospital is involved in litigation arising in the normal course of business. After consultation with the Hospital's legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

Risk Management

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

Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. Prior to July 1, 1999, the Indiana Medical Malpractice Act provided for a maximum recovery of \$750,000 per occurrence (\$3,000,000 annual aggregate) for professional liability, \$100,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund. For claims on or after July 1, 1999, the Indiana Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Fund.

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to the combined balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is March 18, 2010.

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

2. WINDROSE HEALTH NETWORK, INC.

The Hospital has a note receivable due from WindRose Health Network, Inc. (formerly known as Edinburgh/Trafalgar Family Health Center). The note is noninterest bearing, unsecured and due in monthly installments of \$8,000 through 2011. During 2009, the Board of Trustees approved the deferral of the monthly payment starting in November of 2009. The payments are to resume starting in June of 2010. The outstanding amount due on the note as of December 31, 2009 and 2008 was \$135,013 and \$215,829, respectively.

3. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement arrangements with major third-party payors is as follows:

Medicare

Medicare inpatient services are reimbursed based on a predetermined amount for each case based on the diagnosis associated with the patient (Prospective Payment Hospital). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The prospectively determined rates are not subject to retroactive adjustment.

The Hospital's classification of patients under the Prospective Payment Hospital and the appropriateness of patient admissions are subject to validation reviews by the Medicare peer review organization which is under contract with the Hospital to perform such reviews. Medicare outpatient services are primarily reimbursed on predetermined rates based on the services provided.

Medicaid

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

The Hospital is eligible for the Indiana Medicaid Supplemental programs including Medicaid Disproportionate Share Hospital and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$1,969,786 and \$4,712,262 during the years ended December 31, 2009 and 2008, respectively. These programs are administered by the State of Indiana, but rely on Federal funding.

Other Payors

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

The following is a summary of net patient service revenue for 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Patient service revenue		
Inpatient	\$ 62,593,729	\$ 66,711,279
Outpatient	105,551,025	92,372,994
Gross patient service revenue	<u>168,144,754</u>	<u>159,084,273</u>
Deductions from revenue		
Contractual allowances	88,086,383	77,171,631
Charity care	4,875,314	2,654,543
Bad debts	8,093,624	6,659,886
Total deductions from revenue	<u>101,055,321</u>	<u>86,486,060</u>
Net patient service revenue	<u>\$ 67,089,433</u>	<u>\$ 72,598,213</u>

4. CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. The charity care provided during 2009 and 2008 was \$4,875,314 and \$2,654,543, respectively.

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

5. ASSETS WHOSE USE IS LIMITED

The classification "Assets whose use is limited" includes:

Internally Designated:

Funded Depreciation – Amounts transferred by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by IC 16-22-3-13.

Capital Improvement – Amounts designated by the Board of Trustees for capital purchases and improvements.

Board Designated – Amounts designated by the Board of Trustees for other specific purposes.

Funds Held by Foundation – Investments held by the Foundation to support the Hospital's activities.

Funds Held by Trustee for Debt Service – Hospital Association funds deposited with a trustee and limited to use in accordance with the requirements of a trust indenture.

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited includes the following as of December 31:

	<u>2009</u>	<u>2008</u>
Internally designated		
Funded depreciation		
Cash and cash equivalents	\$ 4,255,179	\$ 2,739,368
Investments	5,922,254	5,475,738
Accrued interest receivable	7,799	10,496
Total funded depreciation	<u>10,185,232</u>	<u>8,225,602</u>
Capital improvement		
Cash and cash equivalents	66,559	-0-
Investments	7,543,841	7,007,948
Accrued interest receivable	67,651	106,681
Total capital improvements	<u>7,678,051</u>	<u>7,114,629</u>
Board designated		
Cash and cash equivalents	199,478	173,536
Investments	5,736,011	5,642,715
Accrued interest receivable	1,172	44,265
Total board designated funds	<u>5,936,661</u>	<u>5,860,516</u>
Total internally designated	23,799,944	21,200,747
Held by Foundation		
Investments	1,412,130	1,170,089
Held by trustee for debt service		
Cash and cash equivalents	<u>674,612</u>	<u>673,643</u>
Total assets limited as to use	<u>\$ 25,886,686</u>	<u>\$ 23,044,479</u>

Investments include certificates of deposit, mutual funds, marketable equity securities and U.S. government obligations.

6. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Funded depreciation investments consist of cash equivalents and U.S. Government securities. Market value approximated cost as of December 31, 2009 and 2008.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2009 and 2008, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

December 31, 2009					
Carrying Amount	Investment Maturities (in years)				
	Less than 1	1-5	6-10	More than 10	
US Government Securities	\$ 4,876,950	\$ 3,599,308	\$ 1,277,642	\$ -0-	\$ -0-
Certificates of deposit and cash	20,870,199	20,870,199	-0-	-0-	-0-
Mutual funds - equities	3,433,277	3,433,277	-0-	-0-	-0-
Donated corporate stock	598,340	598,340	-0-	-0-	-0-
Foundation - fixed income obligations	216,863	-0-	216,863	-0-	-0-
Foundation - corporate stock	1,195,267	1,195,267	-0-	-0-	-0-
	<u>\$ 31,190,896</u>	<u>\$ 29,696,391</u>	<u>\$ 1,494,505</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
December 31, 2008					
Carrying Amount	Investment Maturities (in years)				
	Less than 1	1-5	6-10	More than 10	
US Government Securities	\$ 4,878,156	\$ 3,941,793	\$ 936,363	\$ -0-	\$ -0-
Certificates of deposit and cash	25,267,823	25,267,823	-0-	-0-	-0-
Mutual funds - equities	2,656,460	2,656,460	-0-	-0-	-0-
Donated corporate stock	554,119	554,119	-0-	-0-	-0-
Foundation - fixed income obligations	179,692	-0-	179,692	-0-	-0-
Foundation - corporate stock	990,397	990,397	-0-	-0-	-0-
	<u>\$ 34,526,647</u>	<u>\$ 33,410,592</u>	<u>\$ 1,116,055</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Interest rate risk - The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk - Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Concentration of credit risk - The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

Deposits and investments consist of the following as of December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Carrying amount		
Deposits	\$ 5,766,691	\$ 2,849,804
Investments	31,190,896	34,526,647
	<u>\$ 36,957,587</u>	<u>\$ 37,376,451</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 5,766,691	\$ 2,849,804
Investments	5,304,210	11,482,168
Internally designated	23,799,944	21,200,747
Held by Foundation	1,412,130	1,170,089
Held by trustee for debt service	674,612	673,643
	<u>\$ 36,957,587</u>	<u>\$ 37,376,451</u>

7. FAIR VALUE MEASUREMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and 2008 are as follows:

	December 31, 2009			
	Total	Level 1	Level 2	Level 3
Assets				
Investments & AWUIL				
US Government Securities	\$ 4,876,950	\$ -0-	\$ 4,876,950	\$ -0-
Mutual funds - equities	3,433,277	3,433,277	-0-	-0-
Corporate stock	1,793,607	1,793,607	-0-	-0-
Fixed income obligations	216,863	-0-	216,863	-0-
	10,320,697	\$ 5,226,884	\$ 5,093,813	\$ -0-
Certificates of deposit and cash and cash equivalents *	20,870,199			
	\$ 31,190,896			

*Certificates of deposit are reported at contract value

	December 31, 2008			
	Total	Level 1	Level 2	Level 3
Assets				
Investments & AWUIL				
US Government Securities	\$ 4,878,156	\$ -0-	\$ 4,878,156	\$ -0-
Mutual funds - equities	2,656,460	2,656,460	-0-	-0-
Corporate stock	1,544,516	1,544,516	-0-	-0-
Fixed income obligations	179,692	-0-	179,692	-0-
	9,258,824	\$ 4,200,976	\$ 5,057,848	\$ -0-
Certificates of deposit and cash and cash equivalents *	25,267,823			
	\$ 34,526,647			

*Certificates of deposit are reported at contract value

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements: The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements approximate fair value.

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Long term debt: The fair value of the Hospital's variable rate debt is based on current traded value. The fair value of the Hospital's fixed rate debt (including capital lease obligations) is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2009, the carrying value of the fixed rate long-term debt approximated its fair value.

8. RESTRICTED NET ASSETS

Restricted net assets are categorized as follows as of December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Held by trustee for debt service	\$ 674,612	\$ 673,643
Expendable - funded depreciation	10,185,232	8,225,602
Expendable - capital improvements	7,678,051	7,114,629
Expendable - other board designated	<u>5,936,661</u>	<u>5,860,516</u>
Primary government	24,474,556	21,874,390
Held by Foundation	<u>1,412,130</u>	<u>1,168,710</u>
Total restricted funds	<u><u>\$ 25,886,686</u></u>	<u><u>\$ 23,043,100</u></u>

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

9. CAPITAL ASSETS

Capital Assets

A summary of capital assets, including assets under capital leases, as of December 31, 2009 and 2008, follows:

	December 31, 2008	Additions	Retirements	Transfers	December 31, 2009
Land	\$ 3,141,963	\$ -0-	\$ -0-	\$ -0-	\$ 3,141,963
Land improvements	1,211,434	12,780	-0-	166,549	1,390,763
Buildings and improvements	50,842,303	53,837	(7,212)	5,360,089	56,249,017
Equipment	37,465,232	1,228,575	(2,141,532)	1,685,411	38,237,686
Construction in progress	6,337,795	2,554,833	-0-	(7,212,049)	1,680,579
Total capital assets	<u>98,998,727</u>	<u>3,850,025</u>	<u>(2,148,744)</u>	<u>-0-</u>	<u>100,700,008</u>
Less accumulated depreciation:					
Land improvements	(970,879)	(42,992)	-0-	-0-	(1,013,871)
Buildings and improvements	(28,233,258)	(1,920,971)	4,956	-0-	(30,149,273)
Equipment	(28,522,439)	(2,911,718)	1,976,532	-0-	(29,457,625)
Total accumulated depreciation	<u>(57,726,576)</u>	<u>(4,875,681)</u>	<u>1,981,488</u>	<u>-0-</u>	<u>(60,620,769)</u>
Capital assets, net	<u>\$ 41,272,151</u>	<u>\$ (1,025,656)</u>	<u>\$ (167,256)</u>	<u>\$ -0-</u>	<u>\$ 40,079,239</u>

	December 31, 2007	Additions	Retirements	Transfers	December 31, 2008
Land	\$ 3,141,963	\$ -0-	\$ -0-	\$ -0-	\$ 3,141,963
Land improvements	1,195,952	7,283	-0-	8,199	1,211,434
Buildings and improvements	49,917,555	17,911	-0-	906,837	50,842,303
Equipment	37,277,886	1,223,749	(3,139,712)	2,103,309	37,465,232
Construction in progress	6,106,691	3,249,449	-0-	(3,018,345)	6,337,795
Total capital assets	<u>97,640,047</u>	<u>4,498,392</u>	<u>(3,139,712)</u>	<u>-0-</u>	<u>98,998,727</u>
Less accumulated depreciation:					
Land improvements	(926,015)	(44,864)	-0-	-0-	(970,879)
Buildings and improvements	(26,567,406)	(1,665,852)	-0-	-0-	(28,233,258)
Equipment	(28,508,117)	(3,070,600)	3,056,278	-0-	(28,522,439)
Total accumulated depreciation	<u>(49,016,597)</u>	<u>(4,781,316)</u>	<u>3,056,278</u>	<u>-0-</u>	<u>(57,726,576)</u>
Capital assets, net	<u>\$ 41,203,940</u>	<u>\$ (282,924)</u>	<u>\$ (83,434)</u>	<u>\$ -0-</u>	<u>\$ 41,272,151</u>

Depreciation expense for 2009 and 2008 amounted to \$4,875,681 and \$4,781,316, respectively.

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Assets Under Capital Lease

The assets acquired through capital leases still in effect are as follows:

	2009	2008
Equipment	\$ 252,971	\$ 252,971
Less accumulated depreciation	178,517	90,850
	\$ 74,454	\$ 162,121

10. INVESTMENT IN AFFILIATED COMPANIES

The Hospital owns an equity interest in Johnson County Health Network, Inc., a Physician Hospital Organization. Additionally, the Hospital owns an equity interest in JMH Surgical Management Company, which operates and manages the surgery department. The investments are recorded on the equity method of accounting in the Hospital's combined financial statements.

Summarized financial information as of December 31, 2009 and 2008 and the years then ended from the unaudited financial statements of Johnson County Health Network and JMH Surgical Management Company follows:

	Johnson County Health Network		JMH Surgical Management Company	
	2009	2008	2009	2008
Cash and cash equivalents	\$ 56,109	\$ 72,153	\$ 331,082	\$ 381,511
Due from Hospital	95,546	87,046	(39,698)	210,307
Total assets	\$ 151,655	\$ 159,199	\$ 291,384	\$ 591,818
Liabilities	\$ 39,381	\$ 49,381	\$ 24,180	\$ 208,818
Equity	112,274	109,818	267,204	383,000
Total liabilities and equity	\$ 151,655	\$ 159,199	\$ 291,384	\$ 591,818
Operating revenue	\$ 31,999	\$ 26,471	\$ 140,000	\$ 389,000
Nonoperating revenue	-0-	-0-	2,929	7,522
Other expenses	(29,543)	(30,250)	(123,592)	(151,585)
Net income	\$ 2,456	\$ (3,779)	\$ 19,337	\$ 244,937
Dividends Paid	\$ -0-	\$ -0-	\$ 135,133	\$ 247,437

JOHNSON MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

11. LONG TERM DEBT

A summary of long term debt as of December 31, 2009 and 2008 is as follows:

- The \$6,000,000, 2000 Variable Rate Demand Revenue Bonds final installment of \$700,000, plus variable interest (.35% at December 31, 2009). The 2000 bonds are secured by a letter of credit which expires in January 2010. The 2000 bonds were paid in full in January 2010.
- During 2008, the Hospital prepaid its 2007 85A Pool Loan Program debt due to the uncertainties in the market for insured bond issues. In turn, a commercial bank loan was taken out in the amount of \$4,500,000. The purpose of this funding was to finance a major portion of the private room bed renovation project that began in 2007. Interest on the commercial bank loan is fixed at 4.75% and is payable in monthly principal and interest payments of \$63,225 due on May 28, 2015 and is collateralized by patient accounts receivable 90 days or less.
- The Hospital has two capital lease obligations. The first has imputed interest of 6.5% and is payable in monthly principal and interest payments of \$9,224. The second has imputed interest of 9.44% and is payable in monthly principal and interest payments of \$1,023.

The 2000 bonds require the Hospital to maintain certain financial debt coverage ratios. As of December 31, 2009 and 2008, the Hospital believes it was in compliance with the debt coverage ratios.

The following represents a progression for long term debt for 2009 and 2008:

	December 31, 2008	Additional Borrowings	Payments	December 31, 2009	Current Portion
Other long term debt					
Indiana Health Facility Financing Authority (IHFFA):					
\$6,000,000 2000 Demand Bonds	\$ 1,400,000	\$ -0-	\$ (700,000)	\$ 700,000	\$ 700,000
Commercial bank loan	4,172,146	-0-	(561,336)	3,610,810	597,908
Capital lease obligations	223,567	-0-	(73,990)	149,577	79,276
Total long term debt	<u>\$ 5,795,713</u>	<u>\$ -0-</u>	<u>\$ (1,335,326)</u>	<u>\$ 4,460,387</u>	<u>\$ 1,377,184</u>

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	December 31, 2007	Additional Borrowings	Payments	December 31, 2008	Current Portion
Other long term debt					
Indiana Health Facility Financing Authority (IHFFA):					
\$2,200,000 1998 Demand Bonds	\$ 300,000	\$ -0-	\$ (300,000)	\$ -0-	\$ -0-
\$6,000,000 2000 Demand Bonds	2,100,000	-0-	(700,000)	1,400,000	700,000
\$6,000,000 1985A Pool Borrowing	2,744,249	-0-	(2,744,249)	-0-	-0-
Commercial bank loan	-0-	4,500,000	(327,854)	4,172,146	570,270
Capital lease obligations	257,648	31,963	(66,044)	223,567	73,990
Total long term debt	<u>\$ 5,401,897</u>	<u>\$ 4,531,963</u>	<u>\$ (4,138,147)</u>	<u>\$ 5,795,713</u>	<u>\$ 1,344,260</u>

Scheduled principal and interest repayments on long term debt and payments on capital lease obligations for the years ending after December 31, 2009 are as follows:

Years Ending December 31,	Principal	Interest	Total
2010	\$ 1,377,184	\$ 168,042	\$ 1,545,226
2011	697,649	133,148	830,797
2012	657,925	99,979	757,904
2013	690,631	67,546	758,177
2014	724,635	33,515	758,150
Thereafter	312,363	3,526	315,889
	<u>\$ 4,460,387</u>	<u>\$ 505,756</u>	<u>\$ 4,966,143</u>

12. PENSION PLAN

During 2008, the Hospital established a defined contribution plan. Eligibility rules for the defined contribution include 1,000 hours worked in a service year, completion of two service years and no minimum age requirement. The Hospital may elect to make a discretionary contribution on behalf of eligible employees. The plan does allow employee deferral contributions. The Hospital matches 50% of the employee deferrals up to 3% of eligible compensation. Hospital discretionary and matching contributions to the plan are vested at 20% after 2 vesting years of service and increasing 20% every vesting year up until reaching 100% after completing 6 vesting years. The Hospital recognized approximately \$901,000 and \$1,290,000 during December 31, 2009 and 2008, respectively, in pension expense into the defined contribution plan.

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13. RENTAL EXPENSE

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating as incurred. Total rent expense for 2009 and 2008 was \$2,163,546 and \$1,817,669, respectively.

14. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables and revenue from patients and third party payors at December 31, 2009 and 2008 was as follows:

	Receivables		Revenues	
	2009	2008	2009	2008
Medicare	33%	35%	42%	46%
Medicaid	5%	11%	10%	9%
Blue Cross	10%	9%	17%	16%
Other third party payors	20%	13%	22%	20%
Self-pay	32%	32%	9%	9%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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15. BLENDED COMPONENT UNIT

The accompanying combined financial statements of the primary government include the blended component unit accounts of Johnson County Health Foundation, Inc. (Foundation), a separate not-for-profit entity organized to support the operations of the Hospital.

The following is a financial summary of the Foundation as of and for the years ended December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Total assets - primarily investments	\$ 1,412,130	\$ 1,170,089
Liabilities	\$ -0-	\$ 1,379
Unrestricted net assets	636,666	688,317
Restricted net assets	775,464	480,393
Total net assets	<u>1,412,130</u>	<u>1,168,710</u>
Total liabilities and net assets	<u>\$ 1,412,130</u>	<u>\$ 1,170,089</u>
Operating revenue	\$ 4,198	\$ 3,629
Nonoperating revenue (expense)	342,940	(382,970)
Other expenses	(103,718)	(247,519)
Change in net assets	<u>243,420</u>	<u>(626,860)</u>
Beginning net assets	1,168,710	1,795,570
Ending net assets	<u>\$ 1,412,130</u>	<u>\$ 1,168,710</u>

16. RISK MANAGEMENT

Medical Benefits to Employees and Dependents

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees. The risk financing fund is accounted for in the General Fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$300,000 per year with no aggregate limit. Total insurance expense for 2009 and 2008 was \$3,216,567 and \$3,994,560, respectively. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Provisions are also made for unexpected and unusual claims.

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Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. These amounts are reported in accounts payable and accrued expense under current liabilities on the combined balance sheets.

Changes in balance of claim liabilities during the past two years are as follows:

	<u>2009</u>	<u>2008</u>
Unpaid claims, beginning of year	\$ 865,000	\$ 624,000
Incurred claims and changes in estimates	3,216,567	3,994,560
Claim payments	<u>(3,581,567)</u>	<u>(3,753,560)</u>
Unpaid claims, end of year	<u>\$ 500,000</u>	<u>\$ 865,000</u>