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June 17, 2011

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

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2010 to December 31, 2010. 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 the Johnson Memorial Hospital, as of December 31, 2010 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

TAA:csc



CONSOLIDATED FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2010 AND 2009

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 consolidated balance sheets of Johnson Memorial Hospital (the Hospital) as of December 31, 2010 and 2009 and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the Hospital as of December 31, 2010 and 2009, 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.

Board of Trustees
Johnson Memorial Hospital
Franklin, Indiana

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

Blue & Co., LLC

March 22, 2011

JOHNSON MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

This section of Johnson Memorial Hospital's (the Hospital) annual consolidated financial statements presents background information and management's discussion and analysis of the Hospital's financial performance during the year ended December 31, 2010. This MD&A includes a discussion and analysis of the activities and results of the Johnson Memorial Hospital Foundation (blended component unit).

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

FINANCIAL HIGHLIGHTS

- The Hospital's net assets increased by approximately \$1.2 million, and include operating income of approximately \$850,000 in 2010.
- The Hospital's total net operating revenue increased by .9% to approximately \$77.1 million while expenses increased by 1.4% to approximately \$76.2 million. The resulting income from operations of approximately \$850,000 represents a decrease of approximately \$363,000 from 2009 operations.
- The Hospital's total non-operating revenue decreased from approximately \$1 million in 2009 to approximately \$337,000 in 2010 due mainly to market performance over the course of the year.

FINANCIAL STATEMENTS

The Hospital's consolidated 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, 2010 AND 2009

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, 2010 and 2009 is presented below (in thousands):

	2010	2009	2010-2009 Change	2008	2009-2008 Change
Cash and investments	\$ 36,694	\$ 36,958	\$ (264)	\$ 37,376	\$ (418)
Capital assets	39,709	40,079	(370)	41,272	(1,193)
Other assets	17,611	17,130	481	19,254	(2,124)
Total assets	<u>\$ 94,014</u>	<u>\$ 94,167</u>	<u>\$ (153)</u>	<u>\$ 97,902</u>	<u>\$ (3,735)</u>
Current and other liabilities	\$ 7,331	\$ 7,974	\$ (643)	\$ 12,559	\$ (4,585)
Long term debt	2,386	3,083	(697)	4,451	(1,368)
Total liabilities	9,717	11,057	(1,340)	17,010	(5,953)
Net assets					
Invested in capital assets, net of related debt	36,626	35,619	1,007	35,477	142
Restricted	26,367	25,887	480	23,043	2,844
Unrestricted	21,304	21,604	(300)	22,372	(768)
Total net assets	<u>84,297</u>	<u>83,110</u>	<u>1,187</u>	<u>80,892</u>	<u>2,218</u>
Total liabilities and net assets	<u>\$ 94,014</u>	<u>\$ 94,167</u>	<u>\$ (153)</u>	<u>\$ 97,902</u>	<u>\$ (3,735)</u>

JOHNSON MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

As displayed above, total net assets increased to \$84.3 million in 2010, up from \$83.1 million in 2009. The change in net assets resulted primarily from a combination of both operating gains and investment income. Investment income had a positive impact on total excess revenues during 2010, although not to the extent of that experienced during 2009.

A summary of the Hospital's Statement of Revenues, Expenses and Changes in Net Assets for 2010 and 2009 is presented below (in thousands):

	2010	2009	2010-2009 Change	2008	2009-2008 Change
Revenue					
Net patient service revenue	\$ 67,480	\$ 67,089	\$ 391	\$ 72,598	\$ (5,509)
Other	9,580	9,251	329	10,181	(930)
Total revenue	77,060	76,340	720	82,779	(6,439)
Expenses					
Salary and benefits	41,324	40,493	831	43,068	(2,575)
Supplies and other	30,645	30,098	547	32,663	(2,565)
Depreciation and amortization	4,241	4,536	(295)	4,801	(265)
Total operating expenses	76,210	75,127	1,083	80,532	(5,405)
Operating income	850	1,213	(363)	2,247	(1,034)
Non-operating income (loss)	337	1,005	(668)	(1,748)	2,753
Change in net assets	\$ 1,187	\$ 2,218	\$ (1,031)	\$ 499	\$ 1,719

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?"

JOHNSON MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

A summary of cash flows for 2010 and 2009 follows (in thousands):

	2010	2009	2010-2009 Change	2008	2009-2008 Change
Cash flow from activities					
Operating	\$ 4,519	\$ 3,083	\$ 1,436	\$ 6,592	\$ 3,076
Capital and related financing	(5,739)	(5,288)	(451)	(4,012)	(5,284)
Investing	10,964	6,731	4,233	(1,280)	6,732
Change in cash equivalents	<u>\$ 9,744</u>	<u>\$ 4,526</u>	<u>\$ 5,218</u>	<u>\$ 1,300</u>	<u>\$ 4,525</u>

Total cash and cash equivalents increased by \$9.7 million in 2010. Operating activities generated cash and cash equivalents of \$4.5 million during 2010. Capital and related financing impacted cash and cash equivalents by \$5.7 million during 2010 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 \$10.9 million mainly as a result of investment income combined with the classification of investments to and from cash equivalents.

SOURCES OF REVENUE

During 2010, 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 2010 and 2009.

<u>Payor Mix</u>	<u>2010</u>	<u>2009</u>
Medicare	43%	42%
Medicaid	10%	10%
Blue Cross/Anthem	17%	17%
Commercial insurance	21%	21%
Self-pay	8%	9%
Other	<u>1%</u>	<u>1%</u>
Total	<u>100%</u>	<u>100%</u>

JOHNSON MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

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.

OPERATING AND FINANCIAL PERFORMANCE

Overall, the Hospital's financial performance in 2010 was not as strong as that experienced in 2009. This section discusses highlights of 2010 operations and changes in activities.

(a) Revenue

- Net patient revenues increased by .6% in 2010 compared to 2009. Hospital outpatient revenues were 9.9% greater than 2009 while inpatient revenues were nearly 15.5% lower. Inpatient revenues were negatively impacted by several factors: (a) the continued suppressed economy; (b) changes in the delivery of inpatient medical care to the observation/outpatient/physician practice setting; and, (c) continued competition from the three larger hospital systems in Marion County (i.e., IU Health, St. Francis, and Community Health Network hospitals).
- Included in net patient revenues, provision for bad debt expenses decreased \$2.5 million or 31.4% over 2009, primarily related to the change in the hospitals determination of charity care vs. bad debt accounts. The combined charity care/bad debt write-offs as a percent of hospital gross patient revenues decreased from 7.7% in FY 2009 to 7.1% in FY 2010.
- Acute inpatient volume, as measured in terms of admissions, decreased to 2,438 in 2010 from 3,232 in 2009, or (24.6%).
- Acute rehabilitation volume, as measured in terms of admissions, increased to 184 in 2010 from 150 in 2009, or 23.0%.
- There was growth experienced in outpatient volumes. Gross outpatient charges increased by 9.9% over 2009, which is a combination of increased utilization and a 6% rate increase.

JOHNSON MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

- 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 \$6.4 million were waived in 2010 compared to \$4.9 million in 2009. This increase is primarily attributable to the overall economic conditions facing hospitals not only in Indiana but across the country as well as changes made to the Hospital's charity care policy.

(b) Expenses

- Total operating expenses increased \$1.1M or 1.4% in 2010 primarily due to hiring of additional physicians and their practice staff as well as due to the expansion of services delivered, which in turn had associated additional cost (i.e., expansion of spine surgery cases).
- Employee labor and benefit expenses increased \$831,000 or 2% over 2009. This is mostly attributable to the addition of new physicians and their practice staff as well as a modest cost-of-living increase granted to non-management staff in 2010.
- Depreciation and amortization expenses decreased slightly over 2009 due to fewer capital assets being placed in service in 2010.

CAPITAL ASSETS

During 2010, the Hospital's capital assets remained relatively stable and decreased by only \$371,000 due to depreciation slightly outpacing capital additions and construction in progress. The below table summarizes the broad categories (in thousands):

	2010	2009	\$ Change
Land and improvements	\$ 4,604	\$ 4,533	\$ 71
Buildings and improvements	56,479	56,250	229
Equipment	40,370	38,238	2,133
Total capital assets	101,453	99,020	2,433
Less accumulated depreciation	63,494	60,621	2,873
Construction in progress	1,750	1,681	69
Capital assets - net	<u>\$ 39,709</u>	<u>\$ 40,079</u>	<u>\$ (371)</u>

JOHNSON MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

LONG TERM DEBT

As of December 31, 2010, the Hospital had \$3.1 million in short term and long-term notes and bonds, a decrease of \$1.4 million from the \$4.5 million as of December 31, 2009. More detailed information about the Hospital's debt position is presented in the Notes to the Consolidated Financial Statements.

ECONOMIC FACTORS AND 2011 BUDGET

The Hospital's Board and management considered many factors when establishing the 2011 Budget. 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 in order to meet Federal criteria under the Medicare Healthcare IT incentive programs
- Decreasing reimbursement from governmental and commercial insurance payers as well as the continued unfavorable governmental payer mix the Hospital is experiencing
- Increasing number of uninsured, underinsured and/or indigent patients
- Increasing costs of physician practices technology, medical supplies, pharmaceuticals, and medical malpractice insurance
- The increasing need to partner with a tertiary-level Indianapolis hospital 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 IU Health)

JOHNSON MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

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

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,326,119	\$ 5,766,691
Investments	-0-	5,304,210
Assets whose use is limited, current portion	697,649	1,377,184
Patient accounts receivable, net of allowance for uncollectible accounts of \$4,259,000 in 2010 and \$3,830,000 in 2009	13,173,900	12,477,299
Other accounts receivable	1,338,070	1,613,650
Inventory and other current assets	2,814,571	2,626,160
Current portion of notes receivable	80,556	56,447
Total current assets	28,430,865	29,221,641
Assets whose use is limited		
Internally designated	24,832,597	23,799,944
Held by Foundation	1,534,855	1,412,130
Held by trustee for debt service	-0-	674,612
Total assets whose use is limited	26,367,452	25,886,686
Less current portion	697,649	1,377,184
Noncurrent assets whose use is limited	25,669,803	24,509,502
Capital assets		
Land	3,141,963	3,141,963
Depreciable capital assets, net	36,566,887	36,937,276
Total capital assets, net	39,708,850	40,079,239
Other assets		
Notes receivable, net of current portion	-0-	78,566
Investment in affiliated companies	203,570	277,746
Total other assets	203,570	356,312
Total assets	\$ 94,013,088	\$ 94,166,694

See accompanying notes to consolidated financial statements.

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2010 AND 2009

LIABILITIES AND NET ASSETS

	2010	2009
Current liabilities		
Accounts payable and accrued expenses	\$ 2,013,392	\$ 1,618,697
Accrued wages and related liabilities	4,511,960	4,819,306
Estimated third-party settlements	85,365	134,800
Current portion of long term debt	697,649	1,377,184
Other current liabilities	22,493	23,755
Total current liabilities	7,330,859	7,973,742
Long term debt, net of current portion		
Capital lease obligations	-0-	70,301
Other long term debt	2,385,554	3,012,902
Total long term debt	2,385,554	3,083,203
Total liabilities	9,716,413	11,056,945
Net assets		
Invested in capital assets, net of related debt	36,625,647	35,618,852
Restricted		
For debt service	-0-	674,612
Expendable - funded depreciation	13,735,138	10,185,232
Expendable - capital improvements	5,784,553	7,678,051
Expendable - other board designated	5,312,906	5,936,661
Held by Foundation	1,534,855	1,412,130
Total restricted net assets	26,367,452	25,886,686
Unrestricted	21,303,576	21,604,211
Total net assets	84,296,675	83,109,749
Total liabilities and net assets	\$ 94,013,088	\$ 94,166,694

See accompanying notes to consolidated financial statements.

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Revenues		
Net patient service revenue	\$ 67,479,455	\$ 67,089,433
Other revenue	9,580,479	9,250,904
Total revenues	<u>77,059,934</u>	<u>76,340,337</u>
Expenses		
Salaries and wages	33,075,766	32,842,235
Employee benefits	8,248,130	7,650,270
Medical professional fees	938,832	942,174
Other professional fees	5,647,670	6,421,753
Medical supplies and drugs	12,043,530	10,196,279
Other supplies	866,839	893,365
Depreciation and amortization	4,241,118	4,536,451
Insurance	1,121,879	1,023,825
Other expenses	10,025,922	10,620,910
Total expenses	<u>76,209,686</u>	<u>75,127,262</u>
Operating income	850,248	1,213,075
Nonoperating revenues (expenses)		
Investment income	698,637	1,275,926
Interest expense	(167,751)	(215,671)
Rental revenue (expense), net	(371,912)	(344,901)
Foundation - primarily investment income	122,725	243,420
Other nonoperating income (expense)	54,979	46,464
Nonoperating revenues (expenses), net	<u>336,678</u>	<u>1,005,238</u>
Change in net assets	1,186,926	2,218,313
Net assets		
Beginning of year	83,109,749	80,891,436
End of year	<u><u>\$ 84,296,675</u></u>	<u><u>\$ 83,109,749</u></u>

See accompanying notes to consolidated financial statements.

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Operating activities		
Cash received from patient services	\$ 66,733,419	\$ 67,821,907
Cash paid for salaries, wages and benefits	(41,631,242)	(43,535,118)
Cash paid to vendors and suppliers	(31,130,726)	(30,929,444)
Other receipts, net	10,547,135	9,726,129
Net cash flows from operating activities	4,518,586	3,083,474
Capital and related financing activities		
Receipts on notes receivable, net	54,457	80,816
Payments on long term debt, net	(1,377,184)	(1,335,326)
Interest on long term debt	(167,751)	(215,671)
Purchases of capital assets	(4,280,457)	(3,850,025)
Proceeds from disposal of equipment	32,283	32,283
Net cash flows from capital and related financing activities	(5,738,652)	(5,287,923)
Investing activities		
Investment income	698,637	1,275,926
Rental revenue (expense), net	(371,912)	(344,901)
Foundation investment income	122,725	243,420
Other nonoperating income	54,979	46,464
Other changes in investments	6,082,556	7,675,038
Other changes in assets whose use is limited	4,826,707	(990,885)
Net cash flows from investing activities	10,964,242	6,730,617
Net change in cash and cash equivalents	9,744,176	4,526,168
Cash and cash equivalents		
Beginning of year	10,962,519	6,436,351
End of year	<u>\$ 20,706,695</u>	<u>\$ 10,962,519</u>
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 10,326,119	\$ 5,766,691
In assets whose use is limited	10,380,576	5,195,828
Total cash and cash equivalents	<u>\$ 20,706,695</u>	<u>\$ 10,962,519</u>

See accompanying notes to consolidated financial statements.

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ 850,248	\$ 1,213,075
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	4,241,118	4,536,451
Bad debts	5,550,245	8,093,624
Changes in operating assets and liabilities		
Patient accounts receivable	(6,246,846)	(6,764,201)
Other accounts receivable	275,580	766,969
Inventory and other current assets	(188,411)	(187,452)
Other assets	-0-	17,755
Accounts payable and accrued expenses	394,695	(629,900)
Accrued wages and related liabilities	(307,346)	(3,042,613)
Estimated third-party settlements	(49,435)	(596,949)
Other current liabilities	(1,262)	(323,285)
Net cash flows from operating activities	<u>\$ 4,518,586</u>	<u>\$ 3,083,474</u>
Supplemental disclosure of cash flows		
Cash paid for interest	\$ 167,751	\$ 215,671

See accompanying notes to consolidated financial statements.

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Johnson Memorial Hospital (the 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 consolidated 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, 2010 and 2009, 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 consolidated 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 consolidated financial statements include the accounts of Johnson Memorial Hospital Foundation, Inc. (Foundation), a separate not-for-profit entity organized to support the operations of the Hospital.

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The separate financial statements of the Foundation may be obtained through contacting their office as follows:

Johnson Memorial Hospital Foundation, Inc.
1101 W. Jefferson St., Ste. V
Franklin, IN 46131

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 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 disclosures of contingent assets and liabilities at the date of the consolidated 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 consolidated 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.

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.

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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.

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

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 2010. Amounts from unresolved cost reports for 2007 through 2010 are reflected in estimated third-party settlements on the consolidated balance sheets.

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The Hospital did not recognize a change in net assets in 2010 and 2009 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 consolidated 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:

	2010	2009
Medical supplies and other	\$ 1,350,885	\$ 1,099,332
Pharmaceutical	326,529	353,305
	<u>\$ 1,677,414</u>	<u>\$ 1,452,637</u>

Assets Whose Use is Limited

Assets whose use is limited are stated at fair market value in the consolidated 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 consolidated 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.

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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.

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

The Hospital's consolidated 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. Non-major transactions such as investment and rental activities are reported as non-operating.

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. Amounts recognized as charity care as of December 31, 2010 and 2009 are \$6,432,935 and \$4,875,314, respectively.

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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).

The Foundation is a 501(c)(3) not-for-profit organization. As such, the Foundation is generally exempt from income taxes, but is required to file Federal Form 990 – Return of Organization from Income Tax which is an informational return only.

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 consolidated financial statements.

Compensated Absences

Hospital exempt employees earn Paid Time Off (PTO) at the rate of twenty-one 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 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 420 hours. At termination, employees shall be awarded 50% of earned PTO up to a maximum of 150 hours.

Reclassifications

Certain amounts from the 2009 financial statements have been reclassified to conform to the current year presentation.

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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, results of operations and cash flows.

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-occurrence policy. Should the claims-occurrence policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. Physician malpractice coverage is provided under an occurrence policy. 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 consolidated balance sheet date for recognition and disclosure in the accompanying financial statements through the date the consolidated financial statements are issued which is March 22, 2011.

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. The outstanding amount due on the note as of December 31, 2010 and 2009 was \$80,556 and \$135,013, respectively.

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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.

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 \$1,850,000 and \$1,970,000 in 2010 and 2009, respectively. These programs are administered by the State of Indiana, but rely on Federal funding.

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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 2010 and 2009:

	2010	2009
Patient service revenue		
Inpatient	\$ 52,903,164	\$ 62,593,729
Outpatient	116,001,991	105,551,025
Gross patient service revenue	168,905,155	168,144,754
Deductions from revenue		
Contractual allowances	89,442,520	88,086,383
Charity care	6,432,935	4,875,314
Bad debts	5,550,245	8,093,624
Total deductions from revenue	101,425,700	101,055,321
Net patient service revenue	<u>\$ 67,479,455</u>	<u>\$ 67,089,433</u>

4. 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 Indiana Code 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.

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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.

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:

	2010	2009
Internally designated		
Funded depreciation		
Cash and cash equivalents	\$ 9,867,997	\$ 4,255,179
Investments	3,867,141	5,922,254
Accrued interest receivable	-0-	7,799
Total funded depreciation	13,735,138	10,185,232
Capital improvement		
Cash and cash equivalents	2,966	66,559
Investments	5,741,918	7,543,841
Accrued interest receivable	39,669	67,651
Total capital improvements	5,784,553	7,678,051
Board designated		
Cash and cash equivalents	509,613	199,478
Investments	4,803,288	5,736,011
Accrued interest receivable	5	1,172
Total board designated funds	5,312,906	5,936,661
Total internally designated	24,832,597	23,799,944
Held by Foundation		
Investments	1,534,855	1,412,130
Held by trustee for debt service		
Cash and cash equivalents	-0-	674,612
Total assets limited as to use	\$ 26,367,452	\$ 25,886,686

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

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

5. DEPOSITS AND INVESTMENTS

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

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, 2010 and 2009.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2010 and 2009, 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, 2010					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government Securities	\$ 4,792,455	\$ 4,087,743	\$ 704,712	\$ -0-	\$ -0-
Certificates of deposit and cash	16,038,586	16,038,586	-0-	-0-	-0-
Mutual funds - equities	4,001,556	4,001,556	-0-	-0-	-0-
Foundation - cash	138,385	138,385	-0-	-0-	-0-
Foundation - fixed income obligations	63,039	-0-	15,331	47,708	-0-
Foundation - corporate stock	1,333,431	1,333,431	-0-	-0-	-0-
	<u>\$ 26,367,452</u>	<u>\$ 25,599,701</u>	<u>\$ 720,043</u>	<u>\$ 47,708</u>	<u>\$ -0-</u>
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>

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.

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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.

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, 2010 and 2009:

	2010	2009
Carrying amount		
Deposits	\$ 10,326,119	\$ 5,766,691
Investments	26,367,452	31,190,896
	<u>\$ 36,693,571</u>	<u>\$ 36,957,587</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 10,326,119	\$ 5,766,691
Investments	-0-	5,304,210
Internally designated	24,832,597	23,799,944
Held by Foundation	1,534,855	1,412,130
Held by trustee for debt service	-0-	674,612
	<u>\$ 36,693,571</u>	<u>\$ 36,957,587</u>

6. 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).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009 are as follows:

December 31, 2010				
	Total	Level 1	Level 2	Level 3
Assets				
Investments & AWUIL				
US Government Securities	\$ 4,792,455	\$ -0-	\$ 4,792,455	\$ -0-
Mutual funds - equities	4,001,556	4,001,556	-0-	-0-
Corporate stock	1,333,431	1,333,431	-0-	-0-
Fixed income obligations	63,039	-0-	63,039	-0-
	<u>10,190,481</u>	<u>\$ 5,334,987</u>	<u>\$ 4,855,494</u>	<u>\$ -0-</u>
Certificates of deposit and cash and cash equivalents *	<u>16,176,971</u>			
	<u>\$ 26,367,452</u>			

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-
	<u>10,320,697</u>	<u>\$ 5,226,884</u>	<u>\$ 5,093,813</u>	<u>\$ -0-</u>
Certificates of deposit and cash and cash equivalents *	<u>20,870,199</u>			
	<u>\$ 31,190,896</u>			

*Certificates of deposit are reported at contract value

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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 based on short-term maturity.

Long-term debt: 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, 2010, the carrying value of the fixed rate long-term debt approximated its fair value.

7. RESTRICTED NET ASSETS

Restricted net assets are categorized as follows as of December 31, 2010 and 2009:

	2010	2009
Held by trustee for debt service	\$ -0-	\$ 674,612
Expendable - funded depreciation	13,735,138	10,185,232
Expendable - capital improvements	5,784,553	7,678,051
Expendable - other board designated	5,312,906	5,936,661
Primary government	24,832,597	24,474,556
Held by Foundation	1,534,855	1,412,130
Total restricted funds	<u>\$ 26,367,452</u>	<u>\$ 25,886,686</u>

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

8. CAPITAL ASSETS

Capital Assets

A summary of capital assets, including assets under capital leases, as of December 31, 2010 and 2009, follows:

	December 31, 2009	Additions	Retirements	Transfers	December 31, 2010
Land	\$ 3,141,963	\$ -0-	\$ -0-	\$ -0-	\$ 3,141,963
Land improvements	1,390,763	94,216	(300,467)	277,545	1,462,057
Buildings and improvements	56,249,017	19,182	(1,112,106)	1,322,788	56,478,881
Equipment	38,237,686	945,092	(364,966)	1,552,403	40,370,215
Construction in progress	1,680,579	3,221,967	-0-	(3,152,736)	1,749,810
Total capital assets	100,700,008	4,280,457	(1,777,539)	-0-	103,202,926
Less accumulated depreciation:					
Land improvements	(1,013,871)	(62,581)	297,567	-0-	(778,885)
Buildings and improvements	(30,149,273)	(1,885,745)	1,112,106	-0-	(30,922,912)
Equipment	(29,457,625)	(2,644,837)	310,183	-0-	(31,792,279)
Total accumulated depreciation	(60,620,769)	(4,593,163)	1,719,856	-0-	(63,494,076)
Capital assets, net	\$ 40,079,239	\$ (312,706)	\$ (57,683)	\$ -0-	\$ 39,708,850
	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	98,998,727	3,850,025	(2,148,744)	-0-	100,700,008
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)	(2,911,717)	1,976,531	-0-	(29,457,625)
Total accumulated depreciation	(57,726,576)	(4,875,680)	1,981,487	-0-	(60,620,769)
Capital assets, net	\$ 41,272,151	\$ (1,025,655)	\$ (167,257)	\$ -0-	\$ 40,079,239

Depreciation expense for 2010 and 2009 amounted to \$4,593,163 and \$4,875,680, respectively. Of this amount, depreciation expense of \$352,045 and \$356,984 is reported in rental expenses in the consolidated statements of revenues and expenses.

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Assets Under Capital Lease

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

	2010	2009
Equipment	\$ 252,971	\$ 252,971
Less accumulated depreciation	248,628	178,517
	<u>\$ 4,343</u>	<u>\$ 74,454</u>

9. 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 consolidated financial statements.

Summarized financial information as of December 31, 2010 and 2009 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	
	2010	2009	2010	2009
Cash and cash equivalents	\$ 43,960	\$ 56,109	\$ 318,058	\$ 331,082
Due from Hospital	104,346	95,546	(40,589)	(39,698)
Total assets	<u>\$ 148,306</u>	<u>\$ 151,655</u>	<u>\$ 277,469</u>	<u>\$ 291,384</u>
Liabilities	\$ 39,381	\$ 39,381	\$ 20,819	\$ 24,180
Equity	108,925	112,274	256,650	267,204
Total liabilities and equity	<u>\$ 148,306</u>	<u>\$ 151,655</u>	<u>\$ 277,469</u>	<u>\$ 291,384</u>
Operating revenue	\$ 27,651	\$ 31,999	\$ 140,000	\$ 140,000
Nonoperating revenue	-0-	-0-	1,450	2,929
Other expenses	(31,100)	(29,543)	(122,288)	(123,592)
Net income	<u>\$ (3,449)</u>	<u>\$ 2,456</u>	<u>\$ 19,162</u>	<u>\$ 19,337</u>
Dividends Paid	\$ -0-	\$ -0-	\$ 29,716	\$ 135,133

Subsequent to year-end, the Hospital dissolved their interest in JMH Surgical Management Company.

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

10. LONG TERM DEBT

A summary of long-term debt as of December 31, 2010 and 2009 is as follows:

- The 2000 Series Variable Rate Demand Revenue Bonds were paid in full during 2010.
- Commercial bank loan with fixed interest at 4.75%, payable in monthly principal and interest payments of \$63,225 due on May 28, 2015. The loan is collateralized by patient accounts receivable 90 days or less.
- Capital lease obligations with interest rates from 6.5% to 9.5%; payable in monthly principal and interest payments ranging from \$1,000 to \$9,200; collateralized by equipment.

The following represents a progression for long-term debt for 2010 and 2009:

	December 31, 2009	Additional Borrowings	Payments	December 31, 2010	Current Portion
Indiana Health Facility Financing Authority 2000 Series Demand Bonds	\$ 700,000	\$ -0-	\$ (700,000)	\$ -0-	\$ -0-
Commercial bank loan	3,610,810	-0-	(597,908)	3,012,902	627,348
Capital lease obligations	149,577	-0-	(79,276)	70,301	70,301
Total long term debt	<u>\$ 4,460,387</u>	<u>\$ -0-</u>	<u>\$ (1,377,184)</u>	<u>\$ 3,083,203</u>	<u>\$ 697,649</u>

	December 31, 2008	Additional Borrowings	Payments	December 31, 2009	Current Portion
Indiana Health Facility Financing Authority 2000 Series 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>

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations for the years ending after December 31, 2010 are as follows:

Years Ending December 31,	Principal	Interest	Total
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
2015	312,363	3,526	315,889
	<u>\$ 3,083,203</u>	<u>\$ 337,714</u>	<u>\$ 3,420,917</u>

11. 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 \$896,000 and \$901,000 during December 31, 2010 and 2009, respectively, in pension expense into the defined contribution plan.

12. RENTAL REVENUE AND EXPENSE

The Hospital rents office space in its medical office building. Annual rental revenue for the five years following December 31, 2010 is expected to be approximately \$600,000 per year. The following is a summary of rental revenue and expense for 2010 and 2009:

	2010	2009
Rental revenue	\$ 596,971	\$ 640,266
Rental expenses		
Depreciation	352,045	356,984
Maintenance and utilities	608,437	619,840
Other	8,401	8,343
Total rental expenses	<u>968,883</u>	<u>985,167</u>
Rental revenue (expense), net	<u>\$ (371,912)</u>	<u>\$ (344,901)</u>

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

13. 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, 2010 and 2009 was as follows:

	Receivables		Revenues	
	2010	2009	2010	2009
Medicare	38%	33%	43%	42%
Medicaid	6%	5%	10%	10%
Blue Cross	11%	10%	17%	17%
Other third party payors	14%	20%	22%	22%
Self-pay	31%	32%	8%	9%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

14. BLENDED COMPONENT UNIT

The accompanying consolidated financial statements of the primary government include the blended component unit accounts of the Foundation. The following is a financial summary of the Foundation as of and for the years ended December 31, 2010 and 2009:

	2010	2009
Total assets - primarily investments	<u>\$ 1,534,855</u>	<u>\$ 1,412,130</u>
Liabilities	\$ -0-	\$ -0-
Unrestricted net assets	646,994	636,666
Restricted net assets	<u>887,861</u>	<u>775,464</u>
Total net assets	<u>1,534,855</u>	<u>1,412,130</u>
Total liabilities and net assets	<u>\$ 1,534,855</u>	<u>\$ 1,412,130</u>
Operating revenue	\$ 6,155	\$ 4,198
Nonoperating revenue	237,081	342,940
Other expenses	<u>(120,511)</u>	<u>(103,718)</u>
Change in net assets	122,725	243,420
Beginning net assets	1,412,130	1,168,710
Ending net assets	<u>\$ 1,534,855</u>	<u>\$ 1,412,130</u>

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

15. 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 2010 and 2009 was \$3,919,340 and \$3,216,567, 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.

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 consolidated balance sheets.

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

	2010	2009
Unpaid claims, beginning of year	\$ 500,000	\$ 865,000
Incurred claims and changes in estimates	3,919,340	3,216,567
Claim payments	<u>(3,993,716)</u>	<u>(3,581,567)</u>
Unpaid claims, end of year	<u>\$ 425,624</u>	<u>\$ 500,000</u>

16. OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating as incurred. Total lease expense for 2010 and 2009 was \$2,303,413 and \$2,163,546, respectively. Expected payments for the five years succeeding December 31, 2010 are approximately \$2,300,000 per year.

JOHNSON MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

17. UPCOMING ACCOUNTING PRONOUNCEMENT

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," issued March 2009, is effective for periods beginning after June 15, 2010. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. This statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the consolidated financial statements is required. The Hospital is currently evaluating the effects the new statement will have on its consolidated financial statements.

18. SUBSEQUENT EVENTS

Subsequent to December 31, 2010, the Hospital committed to a \$13 million construction project of which \$4 million will be funded through long-term debt.