



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B37110

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

June 10, 2010

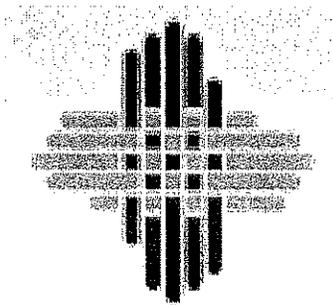
Board of Directors
Jackson County Schneck Memorial Hospital
411 West Tipton Street, P.O. Box 2349
Seymour, IN 47274

We have reviewed the audit report prepared by Blue & Company, 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 Jackson County Schneck 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

TAA:dsk



**JACKSON COUNTY SCHNECK MEMORIAL
HOSPITAL AND AFFILIATED ORGANIZATIONS**

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2009 AND 2008

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

TABLE OF CONTENTS
DECEMBER 31, 2009 AND 2008

	Page
Report of Independent Auditors	1
Required Supplementary Information	
Management's Discussion and Analysis (Unaudited)	i
Consolidated Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Changes in Net Assets	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	7



Blue & Co., LLC / 2650 Eastpoint Parkway, Suite 300 / Louisville, KY 40223
main 502.992.3800 fax 502.992.3509 email blue@blueandco.com

blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Jackson County Schneck Memorial Hospital
and Affiliated Organizations
Seymour, Indiana

We have audited the accompanying consolidated balance sheets of Jackson County Schneck Memorial Hospital (d/b/a Schneck Medical Center) and Affiliated Organizations (collectively the "Medical Center"), component units of Jackson County, as of December 31, 2009 and 2008, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Medical Center'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 the auditing standards generally accepted in the United States of America and the 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 financial position of the Medical Center as of December 31, 2009 and 2008, and the results of its operations and changes in its net assets, and its 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 on pages i through vi is not a required part of the basic consolidated 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

April 29, 2010

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

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

Management's discussion and analysis of the financial performance of Jackson County Schneck Memorial Hospital (d/b/a Schneck Medical Center) (the "Hospital") and Affiliated Organizations (collectively the "Medical Center") provides an overview of the Medical Center's financial activities and performance for the years ended December 31, 2009 and 2008. This discussion and analysis should be read in conjunction with the accompanying Medical Center's consolidated financial statements.

FINANCIAL HIGHLIGHTS

The Medical Center's net assets increased \$7,720,257 from 2008 to 2009 and included income from operations of \$3,190,725.

During 2009, the Medical Center's total operating revenue decreased by 3.1% to \$95,998,685 with total operating expenses increasing by 6.8% to \$92,807,960.

In 2006, the Medical Center began construction on an expansion and renovation project with an anticipated total cost of \$60,354,228. Upon completion in 2009, the actual total cost of the project was \$57,237,000. In 2008, the Hospital completed an 84,000 square foot addition to the existing Hospital facility. Renovation of 90,600 square feet of existing space was completed in 2009. During 2009, a total of \$1,235,426 was spent toward the project.

In June 2008, Bartholomew and Jackson counties experienced record flooding levels. As a result of extensive flooding of the main hospital campus, Columbus Regional Hospital ceased operations between June and October 2008 with only limited emergency services available. The Medical Center realized significant increases in patient volumes during these months, with drastic increases in emergency services and inpatient days. Patient volumes returned to previous levels once Columbus Regional Hospital reopened.

The Medical Center opened an outpatient physician clinic in Washington County, Indiana in March 2009 at a cost of \$462,745 for equipment and building fixtures.

An overall rate increase of 7.8% effective January 1, 2009 was implemented.

FINANCIAL STATEMENTS

The consolidated financial statements of the Medical Center present information about the Medical Center using financial reporting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information. The Consolidated Balance Sheets include all of the Medical Center's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Medical Center's creditors (liabilities). It also provides the basis for compiling rate of return, evaluating the capital structure of the Medical Center and assessing the liquidity and financial flexibility of the Medical Center. All of the current and prior year's

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

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

revenues and expenses are accounted for in the Consolidated Statements of Operations and Changes in Net Assets. This statement measures the financial results of the Medical Center's operations and presents revenues earned and expenses incurred. The Consolidated Statements of Cash Flows provide information about the Medical Center's cash flows from operating activities, capital and related financing activities, and investing activities, plus provide information on the sources and uses of cash during both the current and prior year.

FINANCIAL ANALYSIS

The Consolidated Balance Sheets and the Consolidated Statements of Operations and Changes in Net Assets report information about the Medical Center's activities. These two statements report the net assets of the Medical Center and its changes. Increases or decreases in the Medical Center's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population changes (including uninsured and medically indigent individuals and families) and new or changed governmental legislation should also be considered.

CONDENSED FINANCIAL INFORMATION

A summary of the Medical Center's Consolidated Balance Sheets as of December 31, 2009 and 2008 is presented below:

	2009	2008	\$ Change	% Change
Assets				
Cash and investments	\$ 109,511,856	\$ 99,925,256	\$ 9,586,600	9.6%
Capital assets	81,740,833	83,057,419	(1,316,586)	-1.6%
Other assets	24,742,250	25,891,478	(1,149,228)	-4.4%
Total assets	\$ 215,994,939	\$ 208,874,153	\$ 7,120,786	3.4%
Liabilities				
Long-term debt, including current portion	\$ 52,443,606	\$ 53,686,795	\$ (1,243,189)	-2.3%
Other current and noncurrent liabilities	16,855,042	16,211,324	643,718	4.0%
Total liabilities	69,298,648	69,898,119	(599,471)	-0.9%
Net assets				
Investment in capital assets net of related debt	29,297,227	29,370,624	(73,397)	-0.2%
Restricted expendable net assets	6,324,351	6,361,767	(37,416)	-0.6%
Restricted nonexpendable net assets	292,807	246,916	45,891	18.6%
Unrestricted	110,781,906	102,996,727	7,785,179	7.6%
Total net assets	146,696,291	138,976,034	7,720,257	5.6%
Total liabilities and net assets	\$ 215,994,939	\$ 208,874,153	\$ 7,120,786	3.4%

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

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

CONDENSED FINANCIAL INFORMATION

A summary of the Medical Center's Consolidated Statements of Operations and Changes in Net Assets for the years ended December 31, 2009 and 2008 is presented below:

	2009	2008	\$ Change	% Change
Operating revenues				
Net patient service revenue	\$ 94,881,926	\$ 97,863,607	\$ (2,981,681)	-3.0%
Other revenue	<u>1,116,759</u>	<u>1,173,125</u>	<u>(56,366)</u>	-4.8%
Total operating revenues	95,998,685	99,036,732	(3,038,047)	-3.1%
Operating expenses				
Salaries and benefits	53,407,665	50,860,200	2,547,465	5.0%
Supplies and drugs	17,282,645	17,689,778	(407,133)	-2.3%
Depreciation and amortization	8,020,524	5,417,714	2,602,810	48.0%
Other operating expenses	<u>14,097,126</u>	<u>12,899,506</u>	<u>1,197,620</u>	9.3%
Total operating expenses	<u>92,807,960</u>	<u>86,867,198</u>	<u>5,940,762</u>	6.8%
Income from operations	3,190,725	12,169,534	(8,978,809)	-73.8%
Nonoperating revenues (expenses)	<u>4,483,641</u>	<u>(8,465,929)</u>	<u>12,949,570</u>	153.0%
Excess revenues (expenses)	7,674,366	3,703,605	3,970,761	107.2%
Change in perpetual trust	<u>45,891</u>	<u>(147,786)</u>	<u>193,677</u>	131.1%
Change in net assets	<u>\$ 7,720,257</u>	<u>\$ 3,555,819</u>	<u>\$ 4,164,438</u>	117.1%
Net assets, end of year	<u>\$ 146,696,291</u>	<u>\$ 138,976,034</u>	<u>\$ 7,720,257</u>	5.6%

FINANCIAL ANALYSIS – CASH FLOWS

The Medical Center's cash flows increased \$19,790,782 due primarily to positive cash inflows received for patient services, investment income, and changes in investments, which offset cash outflows for cash paid to employees and vendors, purchases of capital assets, and changes in assets whose use is limited.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

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

SOURCES OF REVENUE

The Medical Center derives the majority of its revenue from charges for patient care and related services. The Medical Center is reimbursed for services from a variety of sources including the Medicare and Medicaid programs, insurance carriers, managed care plans, and patients. The Medical Center has established payment arrangements with Medicare, Medicaid and various commercial insurance carriers. Services provided under those arrangements are paid at predetermined rates and/or reimbursable cost as defined. Provisions have been made in the consolidated financial statements for contractual adjustments representing the difference between the standard charges for services and the actual or estimated payment.

The Medical Center's percentages of gross revenue by payor for 2009 and 2008 are as follows:

<u>Payor Mix</u>	<u>2009</u>	<u>2008</u>
Medicare	38 %	40 %
Medicaid	11	9
Commercial insurance	10	11
Anthem (Managed Care)	24	25
SIHO (Managed Care)	10	9
Self-pay	5	5
Other	<u>2</u>	<u>1</u>
 Total	 <u>100 %</u>	 <u>100 %</u>

OPERATING AND FINANCIAL PERFORMANCE

The Medical Center's overall financial performance declined in 2009 in comparison to 2008. A discussion of the highlights of 2009 operations and changes in activity is presented below:

Revenues

The Medical Center's net patient service revenues decreased by \$2,981,681 in 2009 as a result of volume decreases in most areas. Patient volume in 2008 was abnormally high due to the temporary closure of Columbus Regional Hospital. Volumes have returned to typical levels in 2009 with the exception of the emergency services which continues to operate at a higher volume than prior to the flood related closure. Highlights of revenue activity are as follows:

- The Medical Center implemented an overall rate increase of 7.8% effective January 1, 2009. As noted above, patient volume decreases were noted in surgery, respiratory therapy, inpatient services, births, rehabilitation services, laboratory, and diagnostic imaging services. Bad debt expense decreased by \$2,488,294 or 16.5%. Medicaid volumes increased from 9% of total gross patient revenue in 2008 to 11% in 2009.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

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

Expenses

Total operating expenses increased by \$5,940,762. Highlights of this change are as follows:

- Employee salaries and wages decreased \$1,486,472 or 3.7% due to less staffing required during 2009 as volumes returned to normal levels from the Columbus Regional Hospital closure. Employee benefits increased \$4,033,937 or 39.3% due to an increase in employer health insurance expense. Depreciation expense increased \$2,580,111 or 48.1% due to addition of cancer services center in 2007, completion of an 84,000 square foot addition to the Hospital in 2008 and renovation of existing hospital space in 2009.

Capital Assets

	2009	2008	\$Change	%Change
Land and land improvements	\$ 9,335,025	\$ 9,417,095	\$ (82,070)	-0.9%
Leasehold improvements	860,687	505,575	355,112	70.2%
Buildings	73,092,995	67,666,856	5,426,139	8.0%
Equipment	43,002,571	41,323,831	1,678,740	4.1%
Construction in progress	403,479	3,603,254	(3,199,775)	-88.8%
	<u>126,694,757</u>	<u>122,516,611</u>	<u>4,178,146</u>	<u>3.4%</u>
Less accumulated depreciation	<u>44,953,924</u>	<u>39,459,192</u>	<u>5,494,732</u>	<u>13.9%</u>
Capital assets, net	<u>\$ 81,740,833</u>	<u>\$ 83,057,419</u>	<u>\$ (1,316,586)</u>	<u>-1.6%</u>

Capital assets have increased due primarily to replacement of outdated equipment and costs related to the above-mentioned Hospital construction and expansion project including the cancer services center.

Long-Term Debt

At December 31, 2009, the Medical Center had long-term debt (including current portion) of \$52,443,606. This is comprised of \$52,286,376 in revenue bonds outstanding, and \$157,230 in notes payable. The Medical Center issued Series 2006A and 2006B revenue bonds in May 2006 for the expansion of existing facilities. Series 2006A bonds were issued in the amount of \$15,000,000 and carry a fixed interest rate. Series 2006B bonds were issued in the amount of \$20,000,000 and in October 2009 were converted to a tax-exempt loan mode held by Branch Banking and Trust.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

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

ECONOMIC FACTORS AND 2010 BUDGET

The Medical Center's Board and management considered many factors when establishing the 2010 Budget. Included was the status of the economy, which takes into consideration market factors and other environmental factors such as the following items:

- Population growth of Jackson County, Indiana and the expanding need for services
- Advances in medical equipment and information systems technology and the need to replace obsolete equipment
- Decreasing reimbursement from governmental and commercial insurance payors
- Increasing number of uninsured, underinsured and/or indigent patients
- Increasing costs of medical supplies, pharmaceuticals, and medical malpractice insurance
- Nationwide workforce shortages in key nursing and other healthcare specialist positions
- Increasing awareness and expectations from the public on the quality of services
- Increased competition from niche providers
- Size, composition and needs of the Medical Center's physician medical staff

CONTACTING THE MEDICAL CENTER

This report is designed to provide our citizens, customers and creditors with a general overview of the Medical Center's finances. These consolidated financial statements include the activities of the Hospital, Jackson County Schneck Memorial Hospital Foundation (the "Foundation"), and Health Development Corporation and Affiliated Organization ("HDC"). Separately-issued audited financial statements are available for both HDC and the Foundation. If you have questions about this report or need additional information, contact Warren Forgey, Vice President of Fiscal Services at 812-522-0172.

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

ASSETS

	2009	2008
Current assets		
Cash and cash equivalents	\$ 28,782,628	\$ 16,340,446
Investments	6,250,000	19,785,596
Patient accounts receivable, net of estimated uncollectibles of \$12,903,315 in 2009 and \$11,960,236 in 2008	11,540,830	13,030,402
Inventories	3,427,789	3,976,698
Prepaid expenses and other current assets	529,227	702,694
Physician recruitment guarantees, current portion	616,667	277,334
Other assets, current portion	601,516	702,859
Current portion of assets whose use is limited	1,874,374	1,807,502
Total current assets	53,623,031	56,623,531
 Assets whose use is limited, net of amount required to meet current obligations	 72,604,854	 61,991,712
 Capital assets		
Land	5,491,936	5,548,744
Land improvements	3,843,089	3,868,351
Leasehold improvements	860,687	505,575
Buildings	73,092,995	67,666,856
Fixed equipment	5,754,095	5,629,817
Movable equipment	37,248,476	35,694,014
	126,291,278	118,913,357
Less accumulated depreciation	44,953,924	39,459,192
	81,337,354	79,454,165
Construction in progress	403,479	3,603,254
Capital assets, net	81,740,833	83,057,419
 Other long-term assets		
Physician recruitment guarantees, net of current portion	905,000	746,666
Other assets, net of current portion	7,121,221	6,454,825
Total other long-term assets	8,026,221	7,201,491
 Total assets	 \$ 215,994,939	 \$ 208,874,153

See accompanying notes to consolidated financial statements.

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Operating revenues		
Net patient service revenue	\$ 94,881,926	\$ 97,863,607
Other revenue	1,116,759	1,173,125
Total operating revenues	95,998,685	99,036,732
Operating expenses		
Salaries and wages	39,099,876	40,586,348
Employee benefits and payroll taxes	14,307,789	10,273,852
Professional medical fees	968,887	615,275
Medical supplies	8,950,031	8,984,004
Other supplies	1,999,099	2,344,866
Drugs	6,333,515	6,360,908
Purchased services	7,236,797	6,769,199
Utilities	1,356,414	1,338,253
Insurance	1,266,967	1,026,128
Depreciation and amortization	8,020,524	5,417,714
Rent	1,025,461	846,793
Other operating expenses	2,242,600	2,303,858
Total operating expenses	92,807,960	86,867,198
Income from operations	3,190,725	12,169,534
Nonoperating revenues (expenses)	4,483,641	(8,465,929)
Excess revenues (expenses)	7,674,366	3,703,605
Change in perpetual trust	45,891	(147,786)
Change in net assets	7,720,257	3,555,819
Net assets, beginning of year	138,976,034	135,420,215
Net assets, end of year	\$ 146,696,291	\$ 138,976,034

See accompanying notes to consolidated financial statements.

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

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

	2009	2008
Operating activities		
Cash received for patient services	\$ 96,498,946	\$ 102,163,777
Cash paid to/for employees	(52,226,888)	(52,127,533)
Cash paid to vendors and suppliers	(32,002,162)	(30,246,579)
Other receipts, net	1,116,759	1,173,125
Net cash flows from operating activities	13,386,655	20,962,790
Noncapital financing activities		
Noncapital contributions	571,773	766,692
Capital and related financing activities		
Principal payments on long-term debt	(1,346,057)	(1,285,911)
Borrowings on long-term debt	-0-	59,672
Interest paid	(2,454,328)	(1,381,881)
Purchase of capital assets	(6,660,584)	(20,358,621)
Proceeds from sale of capital assets	800	13,300
Change in bond discounts, premium, and refunding loss	102,868	108,465
Loss on disposal of capital assets	204,244	978,261
Net cash flows from capital and related financing activities	(10,153,057)	(21,866,715)
Investing activities		
Investment income	6,720,816	(7,362,899)
Other nonoperating revenues (expenses)	(296,857)	(647,781)
Change in investments	13,250,000	-0-
Change in assets whose use is limited	(3,045,818)	11,719,401
Change in other assets	(642,730)	299,021
Net cash flows from investing activities	15,985,411	4,007,742
Net change in cash and cash equivalents	19,790,782	3,870,509
Cash and cash equivalents, beginning of year	28,684,359	24,813,850
Cash and cash equivalents, end of year	\$ 48,475,141	\$ 28,684,359
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents in current assets	\$ 28,782,628	\$ 16,340,446
Cash and cash equivalents in investments	-0-	285,596
Cash and cash equivalents in assets whose use is limited	19,692,513	12,058,317
Total cash and cash equivalents	\$ 48,475,141	\$ 28,684,359

See accompanying notes to consolidated financial statements.

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

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

	2009	2008
Reconciliation of income from operations to net cash and cash equivalents from operating activities		
Income from operations	\$ 3,190,725	\$ 12,169,534
Adjustments to reconcile income from operations to net cash flows from operating activities		
Depreciation	7,942,847	5,362,736
Amortization	77,677	54,978
Provision for bad debts	12,595,344	15,083,638
Changes in operating assets and liabilities		
Patient accounts receivable	(11,105,772)	(10,997,468)
Inventories	548,909	(894,399)
Prepaid expenses and other current assets	173,467	(5,202)
Accounts payable	(2,540,870)	(90,929)
Accrued payroll and payroll withholdings	(323,989)	440,882
Accrued expenses	1,196,103	1,333,235
Estimated third-party payor settlements	127,448	214,000
Deferred compensation liabilities	1,504,766	(1,708,215)
Net cash flows from operating activities	\$ 13,386,655	\$ 20,962,790
 Supplemental disclosures of noncash operating and capital and related financing activities		
Property and equipment acquired included in accounts payable	\$ 170,721	\$ 2,450,014

See accompanying notes to consolidated financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

1. NATURE OF OPERATIONS

Jackson County Schneck Memorial Hospital (d/b/a Schneck Medical Center) (the "Hospital") is a not-for-profit, acute care hospital located in Seymour, Indiana. The Hospital is county owned and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital is organized for the purpose of providing healthcare services to the residents of Jackson County and the surrounding area. The Hospital's primary sources of support are from patient revenues and other ancillary income. Patient revenues include funds received from Medicare, state agencies, insurance companies, and the patients themselves.

Health Development Corporation ("HDC") is a not-for-profit corporation located in Seymour, Indiana. HDC was organized to operate exclusively for the benefit of, to perform the functions of, and to carry out the purposes of the Hospital by recruiting physicians to the surrounding area and by providing medical education programs to the medical and Hospital staff. HDC's primary sources of revenue are from service fees charged to the Hospital.

HDC's consolidated financial statements at December 31, 2009 and 2008, include the accounts of Coordinated Health, LLC (the "Clinic"). The Clinic is wholly-owned by HDC and began operations in 2002. The Clinic was organized to operate exclusively for the benefit of HDC and the purposes for which HDC is organized and operated, including the promotion and support of the health of Jackson County, Indiana residents and residents of surrounding communities. Currently, the Clinic operates four healthcare facilities located in North Vernon, Salem, Scottsburg, and Seymour, Indiana. The Clinic's primary source of revenue is from patient services.

The Jackson County Schneck Memorial Hospital Foundation, Inc. (d/b/a Schneck Medical Center Foundation) (the "Foundation") is a not-for-profit organization located in Seymour, Indiana. The Foundation operates for the benefit of the Hospital. The Foundation's main sources of revenue are earnings on investments, donations received, and rental income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Hospital, HDC, and the Foundation (collectively the "Medical Center") in the preparation of the consolidated financial statements are summarized below:

Reporting Entity and Consolidation Policy

The accompanying consolidated financial statements include the accounts of the Hospital, HDC, the Clinic, and the Foundation. The Board of County Commissioners of Jackson County appoints the governing Board of Trustees of

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

the Hospital, and a financial benefit/burden relationship exists between the Hospital and the Jackson County government. For these reasons, the Hospital is considered a component unit of Jackson County. Similarly, due to their organized purposes, HDC, the Clinic, and the Foundation are considered blended component units of the Hospital. Intercompany transactions and balances have been eliminated in consolidation. The separate audited financial statements of HDC (including the Clinic) and the Foundation may be obtained by contacting the Hospital as follows:

Schneck Medical Center
411 W. Tipton Street
P.O. Box 2349
Seymour, IN 47274

Management's Estimates

Management uses estimates and assumptions in preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, if any, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Proprietary Fund Accounting

The Medical Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis of accounting using the economic resources measurement focus. Substantially all revenues and expenses are subject to accrual.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) standards, the Medical Center 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.

Risk Management

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

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

three preceding years. The Medical Center is insured for medical malpractice claims and judgments.

Cash and Cash Equivalents

Cash and cash equivalents as reported on the consolidated balance sheets include petty cash and other cash on hand amounts, checking accounts, and savings accounts that are readily available for use.

Cash and cash equivalents as reported on the consolidated statements of cash flows include investments in highly liquid assets with maturity dates of 90 days or less when purchased.

Investments

Investments include certificates of deposit amounts maturing within one year of the dates of the consolidated balance sheets. Investments are recorded at cost, which approximates market value.

Patient Accounts Receivable and Net Patient Service Revenue

Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including the estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are estimated and accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Allowance for Patient Uncollectible Accounts

The Medical Center estimates an allowance for uncollectible patient accounts receivable based on an evaluation of the aging of the accounts, historical losses, current economic conditions, and other factors unique to their service area and the healthcare industry.

Inventories

Inventories consist of medical supplies, pharmaceuticals, and office supplies and are valued at the lower of cost or market, with cost being determined on the first-in, first-out (FIFO) method.

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

Assets Whose Use is Limited

Investments in certificates of deposit are reported in the consolidated financial statements at cost, which approximates fair value.

Assets whose use is limited include assets set aside by the respective Boards for future capital improvements, over which the Boards retain control and may at their discretion subsequently use for other purposes; assets held by trustees under indenture agreements; assets that have been restricted by donors for specific purposes; and amounts that have been set aside as part of deferred compensation plans.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair market value in the consolidated balance sheets. Investment income or loss, including realized gains and losses on investments and assets whose use is limited, net change in the market value of assets whose use is limited, interest, and dividends, is included in nonoperating revenues when earned.

Capital Assets

The Medical Center's capital assets are reported at historical cost and include expenditures for additions and repairs which substantially increase the useful lives of capital assets. Maintenance, repairs, and minor improvements are expensed as incurred. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land and construction in progress are depreciated using the straight-line method of depreciation over their estimated useful lives based upon the American Hospital Association Guide for Estimated Useful Lives for Fixed Assets.

Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest costs on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. For the years ended December 31, 2009 and 2008, the Medical Center capitalized interest costs of \$115,114 and \$1,041,586, respectively.

Deferred Costs

Deferred costs are amounts reserved for future construction costs of unfinished leased office space.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Net Assets

Net assets of the Medical Center are classified in four 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 expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts deposited with trustees as required by revenue bond indentures. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted*.

Consolidated Statements of Operations and Changes in Net Assets

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 and incidental transactions are reported as nonoperating revenues (expenses). Nonoperating revenues (expenses) which are excluded from income from operations include investment income, contributions received, restricted expenditures, and the net change in the market value of assets whose use is limited.

Performance Indicator

The consolidated statements of operations and changes in net assets include *excess revenues (expenses)*. Consistent with industry practice, changes in net assets which are excluded from *excess revenues (expenses)* include the change in value of non-expendable perpetual trusts.

Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are reported as reductions in net patient service revenue.

Advertising and Marketing Costs

Advertising and marketing costs are charged to operations when incurred. Advertising and marketing costs charged to operations were \$674,997 and \$630,343 for the years ended December 31, 2009 and 2008, respectively.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Income Taxes

The Hospital has been granted exemption from taxation as a not-for-profit organization by the Internal Revenue Service under Section 115, and in 2005 was also granted exemption from Federal income tax under Section 501(c)(3) of the Internal Revenue Code for purposes of maintaining a 403b deferred compensation plan. Therefore, no provision for income taxes has been provided in the consolidated statements of operations and changes in net assets. HDC and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Clinic is organized as a single-member Limited Liability Company (LLC). HDC is the sole member of the Clinic. As such, the Clinic is not required to file a separate State or Federal tax return. For tax reporting purposes, all activities of the Clinic are required to be filed with the activities of HDC.

Grants and Contributions

From time to time, the Medical Center receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues.

Physician Recruitment Guarantees

The Financial Accounting Standards Board (FASB) has issued accounting standards which require the Medical Center to report a liability for physician revenue guarantees on its consolidated balance sheets at fair value and amortize that liability and corresponding intangible asset over the income guarantee period. As cash payments are made to the physicians in accordance with the terms of the income guarantees, the Medical Center records a note receivable from each participating physician. These notes are either paid back to the Medical Center or are forgiven by the Medical Center in accordance with the terms of each separate income guarantee agreement. As of December 31, 2009 and 2008, the Medical Center had matching assets and liabilities relating to physician guarantees of \$1,521,667 and \$1,024,000, respectively.

Subsequent Events

The Medical Center has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

accompanying consolidated financial statements through the date the consolidated financial statements are issued, which is April 29, 2010.

Reclassifications

Certain 2008 amounts have been reclassified to provide for consistency with reporting of 2009 information. These reclassifications have no effect on the previously reported change in net assets or net assets.

3. DEPOSITS AND INVESTMENTS

Deposits and investments are comprised of the following at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Carrying amount		
Cash and cash equivalents	\$ 48,475,141	\$ 28,684,359
Certificates of deposit	32,668,077	47,385,115
Mutual funds	26,569,047	20,733,623
Corporate bonds	110,341	102,558
U.S. Government securities	-0-	1,808,473
Perpetual trust	292,807	246,916
Interest receivable	196,347	487,764
Fixed income guaranteed option	665,085	-0-
Asset-backed securities	-0-	60,869
Common stocks	535,011	415,579
	<u>535,011</u>	<u>415,579</u>
 Total	 <u>\$ 109,511,856</u>	 <u>\$ 99,925,256</u>
 Included in the consolidated balance sheet captions:		
Cash and cash equivalents	\$ 28,782,628	\$ 16,340,446
Investments	6,250,000	19,785,596
Assets whose use is limited	74,479,228	63,799,214
	<u>74,479,228</u>	<u>63,799,214</u>
 Total	 <u>\$ 109,511,856</u>	 <u>\$ 99,925,256</u>

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Medical Center's deposits may not be returned to it. The Medical Center does not have a deposit policy for custodial credit risk. Deposits with financial institutions are insured by the Federal Depository Insurance Corporation ("FDIC") up to FDIC limits. This includes any deposit accounts issued or offered by a qualifying institution.

Investments are carried at fair value or cost which approximates fair value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. As of December 31, 2009 and 2008, the Medical Center had the following investments and maturities, all of which were held in the Medical Center's name by custodial banks or investment companies that are agents of the Medical Center:

December 31, 2009					
Carrying Amount	Investment Maturities (in years)				
	Less than 1	1 - 5	6 - 10	More than 10	
Certificates of deposit	\$ 32,668,077	\$ 32,602,077	\$ 66,000	\$ -0-	\$ -0-
Corporate bonds	110,341	-0-	60,763	49,578	-0-
Total	\$ 32,778,418	\$ 32,602,077	\$ 126,763	\$ 49,578	\$ -0-

December 31, 2008					
Carrying Amount	Investment Maturities (in years)				
	Less than 1	1 - 5	6 - 10	More than 10	
Certificates of deposit	\$ 47,385,115	\$ 47,335,115	\$ 50,000	\$ -0-	\$ -0-
Corporate bonds	102,558	4,002	26,721	71,835	-0-
U.S. Government securities	1,808,473	1,764,104	10,987	33,382	-0-
Total	\$ 49,296,146	\$ 49,103,221	\$ 87,708	\$ 105,217	\$ -0-

Interest Rate Risk

Interest risk rate is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The Medical Center does have formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

changing interest rates. The Hospital's current investment policy limits investments with maturities of two years or longer to no more than 60 percent of total investments. The Foundation's investment policy prohibits the purchase of fixed income securities with original maturities of more than 10 years, unless the securities are part of a fund portfolio which has an average maturity of not greater than 10 years.

Credit Risk – Investments

Credit risk is the risk that, in the event of a failure of a financial institution, the Medical Center would not be able to recover deposits, the value of its investments, or collateral securities that are in the possession of an outside party.

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

Investment Type	Credit Rating Moody's	Fair Value 2009	Fair Value 2008
Corporate bonds	A1	\$ 21,671	\$ 20,585
Corporate bonds	A2	11,574	15,861
Corporate bonds	A3	16,830	16,925
Corporate bonds	Aaa	-0-	4,029
Corporate bonds	Aa1	-0-	-0-
Corporate bonds	Aa2	8,696	13,303
Corporate bonds	Aa3	17,877	13,443
Corporate bonds	Baa1	16,506	6,826
Corporate bonds	Baa2	13,198	11,586
Corporate bonds	Baa3	3,989	-0-
		<u>\$ 110,341</u>	<u>\$ 102,558</u>

Concentration of Credit Risk

The Hospital places no limit on the amount it may invest in any one issuer. The Foundation limits investments in securities of a single issuer to 10 percent of the portfolio's total market value. This limitation does not include U.S. Government Securities. The Medical Center maintains its investments, which at times may exceed federally insured limits. The Medical Center has not experienced any

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

losses in such accounts. The Medical Center believes that it is not exposed to any significant credit risk on investments.

4. PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable reported as current assets at December 31, 2009 and 2008, consist of the following:

	2009	2008
Medicare	\$ 6,958,050	\$ 8,304,825
Medicaid	2,438,189	2,728,579
Blue Cross	4,157,299	5,450,589
Other insurance carriers	7,167,386	8,102,462
Patients	14,686,808	12,986,150
Total patient accounts receivable	35,407,732	37,572,605
Less allowance for contractals	10,963,587	12,581,967
Less allowance for uncollectible amounts	12,903,315	11,960,236
 Patient accounts receivable, net	 \$ 11,540,830	 \$ 13,030,402

In 2008, the Medical Center changed the estimate for the allowance for uncollectible patient accounts receivable to include 70 percent of self pay accounts less than 150 days old, and all accounts 150 days and older, net of contractual allowances already taken.

The Medical Center modified the estimate of uncollectible patient accounts in response to healthcare industry trends, the recent economic downturn, and the increasing number of utilized high-deductible healthcare plans. The 2008 effect of the estimate change was a decrease in net patient service revenue and corresponding net assets of approximately \$5,600,000.

5. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. Assets whose use is limited are reported at market value and include the following at December 31, 2009 and 2008:

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

	2009	%	2008	%
Cash and cash equivalents	\$ 19,692,513	26.4 %	\$ 12,058,317	18.9 %
Interest receivable	196,347	0.3	487,764	0.8
Certificates of deposit	26,418,077	35.5	27,885,115	43.7
Corporate bonds	110,341	0.1	102,558	0.2
Common stocks	535,011	0.7	415,579	0.7
U.S. Government securities	-0-	0.0	1,808,473	2.8
Fixed income guaranteed option	665,085	0.9	-0-	0.0
Mutual funds	26,569,047	35.7	20,733,623	32.5
Asset-backed securities	-0-	0.0	60,869	0.0
Perpetual trust, held by trustee	292,807	0.4	246,916	0.4
 Total assets whose use is limited	 \$ 74,479,228	 <u>100.0 %</u>	 \$ 63,799,214	 <u>100.0 %</u>
 Less amount required for current obligations	 1,874,374		 1,807,502	
 Assets whose use is limited, net of amount required to meet current obligations	 <u>\$ 72,604,854</u>		 <u>\$ 61,991,712</u>	
 Total Investment Summary by Fund				
Board-Designated Funds	\$ 62,085,608	83.4 %	\$ 52,809,332	82.7 %
Trustee-Held Funds	4,931,451	6.6	5,021,336	7.9
Donor-Restricted Funds	1,685,707	2.3	1,587,347	2.5
Deferred Compensation Funds	5,776,462	7.8	4,381,199	6.9
 Total	 <u>\$ 74,479,228</u>	 <u>100.0 %</u>	 <u>\$ 63,799,214</u>	 <u>100.0 %</u>

Board-Designated Funds

The Hospital's Board of Trustees approved the funding of depreciation expense to meet the capital asset replacement needs of the facility. Depreciation is funded totally with expenditures for capital items reducing the funded depreciation balance. Board-designated funds also include amounts intended for specific purposes, as established by the Hospital's, HDC's, and Foundation's separate Boards. All income earned by the board-designated accounts is left to accumulate as additions to the funds. Board-designated funds remain under the control of the separate Board's which may at their discretion later use for other purposes. Therefore, all board-designated funds are included in unrestricted net assets.

Trustee-Held Funds

The trustee-held funds are restricted for the payments of principal and interest related to certain long-term debt agreements.

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

Donor-Restricted Funds

Donor-restricted funds represent donations that have been restricted by donors for specific purposes.

Deferred Compensation Funds

The deferred compensation funds represent assets that have accumulated under the Medical Center's deferred compensation plan. The Medical Center simply maintains the funds for the participants until they are withdrawn. The Medical Center records a liability equal to the deferred compensation assets.

Fair Value Measurements and Disclosures

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.

Fair values of financial instruments at December 31, 2009 follow:

	Level 1	Level 2	Level 3	Total
Corporate bonds	\$ -0-	\$ 110,341	\$ -0-	\$ 110,341
Common stocks	535,011	-0-	-0-	535,011
Mutual funds	26,569,047	-0-	-0-	26,569,047
Perpetual trust, held by trustee	-0-	-0-	292,807	292,807
Fixed income guaranteed option	-0-	-0-	665,085	665,085
	<u>\$ 27,104,058</u>	<u>\$ 110,341</u>	<u>\$ 957,892</u>	<u>\$ 28,172,291</u>

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

Fair values of financial instruments at December 31, 2008 follow:

	Level 1	Level 2	Level 3	Total
Corporate bonds	\$ -0-	\$ 102,558	\$ -0-	\$ 102,558
Common stocks	415,579	-0-	-0-	415,579
U.S. Government securities	-0-	1,808,473	-0-	1,808,473
Mutual funds	20,733,623	-0-	-0-	20,733,623
Asset-backed securities	-0-	60,869	-0-	60,869
Perpetual trust, held by trustee	-0-	-0-	246,916	246,916
	<u>\$ 21,149,202</u>	<u>\$ 1,971,900</u>	<u>\$ 246,916</u>	<u>\$ 23,368,018</u>

The following summary sets forth a summary of changes in the fair values of the Medical Center's Level 3 assets for the year ended December 31, 2009:

	Perpetual Trust Held by Trustee	Fixed Income Guaranteed Option
Balance, beginning of the year	\$ 246,916	\$ -0-
Purchase of investments	-0-	649,370
Change in investment value	45,891	15,715
Balance, end of year	<u>\$ 292,807</u>	<u>\$ 665,085</u>

The following summary sets forth a summary of changes in the fair values of the Medical Center's Level 3 assets for the year ended December 31, 2008:

	Perpetual Trust Held by Trustee
Balance, beginning of the year	\$ 394,702
Change in investment value	(147,786)
Balance, end of year	<u>\$ 246,916</u>

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

6. LAND

During 1995, the Foundation received a contribution of land from the Hospital in the amount of \$180,000. On June 14, 1995, the Foundation began leasing the land to Jackson Medical Building, LLC, at \$100 per month during the period of construction and \$1,500 per month upon completion for a period of 40 years. Pursuant to the Land Lease agreement, a rate increase of 3 percent was approved and made effective June 1, 2006. The lessee is entitled to renew the lease for seven successive additional terms of five years each. Rental income related to this lease was \$18,540 and \$18,530 for the years ended December 31, 2009 and 2008, respectively.

7. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2009 and 2008, was as follows:

	2009			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	\$ 5,548,744	\$ 61,853	\$ (118,661)	\$ 5,491,936
Land improvements	3,868,351	13,666	(38,928)	3,843,089
Leasehold improvements	505,575	7,084	348,028	860,687
Buildings	67,666,856	88,273	5,337,866	73,092,995
Fixed equipment	5,629,817	78,523	45,755	5,754,095
Movable equipment	35,694,014	2,450,399	(895,937)	37,248,476
Construction in progress	3,603,254	4,131,507	(7,331,282)	403,479
Total historical cost	122,516,611	6,831,305	(2,653,159)	126,694,757
Less accumulated depreciation for				
Land improvements	(996,752)	(246,776)	278,499	(965,029)
Leasehold Improvements	-0-	(110,052)	110,052	-0-
Buildings	(14,134,095)	(2,941,793)	243,445	(16,832,443)
Fixed equipment	(3,974,853)	(293,450)	207,817	(4,060,486)
Movable equipment	(20,353,492)	(4,350,776)	1,608,302	(23,095,966)
Total accumulated depreciation	(39,459,192)	(7,942,847)	2,448,115	(44,953,924)
Capital assets, net	<u>\$ 83,057,419</u>	<u>\$ (1,111,542)</u>	<u>\$ (205,044)</u>	<u>\$ 81,740,833</u>

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

	2008			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	\$ 4,798,435	\$ 8,000	\$ 742,309	\$ 5,548,744
Land improvements	2,487,505	3,779	1,377,067	3,868,351
Leasehold improvements	408,931	30,441	66,203	505,575
Buildings	34,021,402	44,179	33,601,275	67,666,856
Fixed equipment	5,507,408	65,819	56,590	5,629,817
Movable equipment	33,196,181	2,887,007	(389,174)	35,694,014
Construction in progress	26,643,431	19,769,410	(42,809,587)	3,603,254
Total historical cost	107,063,293	22,808,635	(7,355,317)	122,516,611
Less accumulated depreciation for				
Land improvements	(1,007,336)	(141,539)	152,123	(996,752)
Leasehold improvements	(100,093)	(48,143)	148,236	-0-
Buildings	(13,944,394)	(1,442,473)	1,252,772	(14,134,095)
Fixed equipment	(3,881,527)	(281,788)	188,462	(3,974,853)
Movable equipment	(21,526,862)	(3,448,793)	4,622,163	(20,353,492)
Total accumulated depreciation	(40,460,212)	(5,362,736)	6,363,756	(39,459,192)
Capital assets, net	<u>\$ 66,603,081</u>	<u>\$ 17,445,899</u>	<u>\$ (991,561)</u>	<u>\$ 83,057,419</u>

8. OTHER ASSETS

At December 31, 2009 and 2008, other assets consist of the following:

	2009	2008
Prepaid pension costs	\$ 2,896,664	\$ 2,230,292
Physician notes receivable	1,464,540	1,682,888
Notes receivable	56,475	163,148
Investment in managed care company	755,000	755,000
Investment in RCG Columbus, LLC	974,900	974,900
Investment in Jackson Medical Building, LLC	211,638	198,541
Investment in risk retention company	335,311	285,311
Bond issue costs, net	810,118	645,713
Other	218,091	221,891
Less: current portion of other assets	(601,516)	(702,859)
Other assets, net of current portion	<u>\$ 7,121,221</u>	<u>\$ 6,454,825</u>

Physician notes receivable are in varying amounts maturing through January 2026. If the physicians meet the period of service requirement, the Medical Center will forgive these notes. If the physicians do not meet the period-of-service requirement, the notes are immediately due in full. Interest rates are prime rate +

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

1 to prime rate + 2 percent (4.25 and 5.25 percent, respectively, at December 31, 2009).

The Medical Center is a partial owner of a healthcare managed care company. The Medical Center has a one-sixth voting interest in the managed care company and accounts for its investment using the cost method.

In June of 2000, the Medical Center made a \$974,900 contribution to purchase a 12.25 percent ownership interest in RCG Columbus, LLC ("RCG"). RCG provides renal care to patients. The Medical Center's investment in RCG is being accounted for under the cost method.

The Medical Center made a \$200,000 capital contribution to purchase an ownership interest in Jackson Medical Building, LLC. The Medical Center owns a 20 percent interest in Jackson Medical Building, LLC, and accounts for this investment under the equity method of reporting.

The Medical Center is a less than 20 percent owner of Indiana Healthcare Reciprocal Risk Retention Group, a risk retention company created to purchase professional liability and general liability insurance for its members. The Medical Center accounts for this investment using the cost method.

Bond issue costs are being amortized over the lives of the bonds on the straight-line method, which approximates the effective interest method.

9. COMPENSATED ABSENCES

The Medical Center provides a paid time off (PTO) policy to employees for vacation, sick time, personal days, and holidays. Upon employment, full and part-time employees who are budgeted, scheduled, and work at least 37.5 hours per pay period accrue PTO from the date of hire. After completion of 6 months of service as a benefit eligible employee, PTO may be used with pay for the total amount accrued.

The rate at which full-time employees earn PTO and the maximum number of hours that may be banked are as follows:

<u>Length of Service</u>	<u>PTO earned for each hour paid</u>	<u>Maximum PTO bank</u>
0 - 2 years	0.0885	368 hours
2 - 10 years	0.1077	448 hours
10 or more years	0.1270	528 hours

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

PTO days are accrued when incurred and reported as accrued expenses in the consolidated financial statements. The PTO accrual at December 31, 2009 and 2008 was \$3,047,120 and \$2,661,171, respectively.

10. EMPLOYEE HEALTH BENEFIT PLAN

The Medical Center operates a self-funded health plan covering substantially all employees. The Medical Center has an annual stop loss limit on the plan of \$80,000 per insured per year and an aggregate stop loss limit of approximately \$6,200,000. Claim expenditures and liabilities 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. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of pay out, and other economic and social factors. Claims liabilities are recorded as accrued expenses on the consolidated balance sheets.

Changes in the balance of claims liabilities during the years ended December 31, 2009 and 2008, were as follows:

	<u>2009</u>	<u>2008</u>
Accrued liability, beginning of year	\$ 1,056,632	\$ 1,050,566
Incurred claims and changes in estimates	9,864,264	6,344,236
Claim payments	<u>(9,360,385)</u>	<u>(6,338,170)</u>
Accrued liability, end of year	<u>\$ 1,560,511</u>	<u>\$ 1,056,632</u>

11. DEFINED BENEFIT PENSION PLAN

Plan Description

The Medical Center sponsors a single-employer, defined benefit pension plan covering all employees that are at least twenty-one years old and have at least one year of eligibility service. Benefit provisions are established or may be amended at any time by the action of the Plan's Board of Trustees. The Medical Center functions as the plan administrator of the defined benefit pension plan, as authorized by IC 16-22-3-11. A publicly available financial report that includes the defined benefit pension plan's financial statements and required supplementary information may be obtained by contacting:

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

Schneck Medical Center
P.O. Box 2349
Seymour, IN 47274
Ph. (812) 522-0118

Funding Policy

No contributions from active plan members are required or permitted. The Internal Revenue Service has determined that the plan is a government plan which is not subject to ERISA minimum funding requirements.

Annual Pension Cost and Net Pension Obligation

The Medical Center's annual pension cost and net pension obligation for the years ended December 31, 2009 and 2008, are as follows:

	2009	2008
Annual required contribution	\$ 875,105	\$ 489,610
Interest on net pension obligation	(160,739)	(161,151)
Adjustment to annual required contribution	180,686	181,150
Annual pension cost	895,052	509,609
Interest on employer contributions	(15,628)	(14,840)
Contributions made	(1,545,796)	(221,059)
(Increase) decrease in net pension asset	(666,372)	273,710
Net pension (asset)/liability, beginning of year	(2,230,292)	(2,504,002)
Net pension (asset)/liability, end of year	\$ (2,896,664)	\$ (2,230,292)

The annual required contribution for the current year was determined as part of the May 1, 2009, actuarial valuation using the Entry Age Normal Cost Method, replacing the Entry Age Normal Cost Method with Frozen Initial Liability used in the May 1, 2008 actuarial valuation. The actuarial assumptions included (a) 8.0 percent investment rate of return (net of administrative expenses) and (b) projected salary increases of 3.75 percent (2.75 percent due to inflation and 1 percent due to merit/seniority) and (c) an inflation rate of 4.0 percent. The actuarial value of assets was determined using the market value of assets. The unfunded actuarial accrued liability is being amortized on a level dollar basis. The remaining amortization period at December 31, 2009, was 30 years.

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

Fiscal Year Ending	Three-Year Trend Information		
	Annual Pension Cost	Percentage of APC Contributed	Net Pension Asset
12/31/2007	\$ 664,341	170.7%	\$ (2,504,002)
12/31/2008	509,609	43.4%	(2,230,292)
12/31/2009	895,052	172.7%	(2,896,664)

Required supplementary information relating to the defined benefit pension plan is as follows:

Plan Year Ending	12/31/09	12/31/08	12/31/07
Actuarial Valuation Date	5/1/2009	5/1/2008	5/1/2007
Actuarial Value of Plan Assets	\$17,746,521	\$28,512,816	\$30,291,762
Actuarial Accrued Liability	\$28,558,566	\$28,512,816	\$30,291,762
Total Unfunded Actuarial Liability	\$10,812,035	\$0	\$0
Actuarial Value of Assets as a Percentage of the Actuarial Accrued Liability- "Funded Ratio"	62.1%	100.0%	100.0%
Annual Covered Payroll	\$31,029,799	\$24,300,050	\$24,363,433
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	34.8%	0.0%	0.0%

12. LONG-TERM DEBT

At December 31, 2009 and 2008, the Medical Center was obligated for long-term debt agreements as follows:

	2009	2008
Indiana Health Facility Financing Authority Series 1998 Revenue Bonds dated January 1998, payable in annual principal installments commencing February 1999 through February 2022, in amounts ranging from \$300,000 to \$1,880,000. Serial fixed interest rates ranging from 5.0% to 5.25%. Secured by gross revenues.	\$ 18,350,000	\$ 19,320,000

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

<p>Indiana Health and Educational Facility Financing Authority Series 2006A Revenue Bonds dated May 2006, payable in annual principal installments commencing February 2023 through February 2036, in amounts ranging from \$750,000 to \$1,465,000. Fixed interest rate of 5.0% on \$770,000 and 5.25% on \$14,230,000. Secured by gross revenues.</p>	15,000,000	15,000,000
<p>Indiana Health and Educational Facility Financing Authority Series 2006B Revenue Bonds dated May 2006, payable in annual principal installments commencing February 2007 through February 2036 in amounts ranging from \$150,000 to \$1,610,000. In October 2009, bonds were converted to long-maturity and re-issued to Branch Bank and Trust ("BB&T") who will hold the bonds through October 2014. During this period, variable interest rate equal to the greater of 1.14% plus .68% of the 30-day LIBOR, or 2.06%. In October 2014, BB&T may exercise a put option on the bonds, or refinance the remaining principal with the Medical Center. If the put option is exercised by BB&T, the Medical Center may re-issue the bonds with another bank or in the bond market.</p>	19,545,000	19,695,000
<p>Note payable to bank dated July 2005, due July 2010; monthly payments of \$18,063, including interest beginning August 2005; fixed interest rate of 4.17% per annum. Secured by equipment.</p>	124,681	331,404
<p>Note payable to bank dated August 2008, due July 2011; monthly payments of \$1,782, including interest beginning August 2008; fixed interest rate of 4.7% per annum. Secured by equipment.</p>	32,549	51,883
	53,052,230	54,398,287
Unamortized bond premium	259,237	269,160
Bond refunding loss	(719,776)	(815,243)
Less unamortized bond discounts	(148,085)	(165,409)
Less current portion	(1,229,912)	(1,253,279)
Long-term debt, net of current portion	\$ 51,213,694	\$ 52,433,516

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

Long-term debt activity for the years ended December 31, 2009 and 2008 was as follows:

	2009				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 1998	\$ 19,320,000	\$ -0-	\$ (970,000)	\$ 18,350,000	\$ 1,035,000
Revenue bonds, series 2006A	15,000,000	-0-	-0-	15,000,000	-0-
Revenue bonds, series 2006B	19,695,000	-0-	(150,000)	19,545,000	150,000
Note payable to bank	331,404	-0-	(206,723)	124,681	124,681
Note payable	51,883	-0-	(19,334)	32,549	20,272
Bond premiums	269,160	-0-	(9,923)	259,237	9,923
Bond refunding loss	(815,243)	-0-	95,467	(719,776)	(92,891)
Bonds discounts	(165,409)	-0-	17,324	(148,085)	(17,073)
Total long-term debt	\$ 53,686,795	\$ -0-	\$ (1,243,189)	\$ 52,443,606	\$ 1,229,912

	2008				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 1998	\$ 20,250,000	\$ -0-	\$ (930,000)	\$ 19,320,000	\$ 980,000
Revenue bonds, series 2006A	15,000,000	-0-	-0-	15,000,000	-0-
Revenue bonds, series 2006B	19,845,000	-0-	(150,000)	19,695,000	150,000
Note payable to bank	529,526	-0-	(198,122)	331,404	206,730
Note payable	-0-	59,672	(7,789)	51,883	19,334
Bond premiums	279,083	-0-	(9,923)	269,160	9,923
Bond refunding loss	(915,306)	-0-	100,063	(815,243)	(95,467)
Bond discounts	(183,734)	-0-	18,325	(165,409)	(17,241)
Total long-term debt	\$ 54,804,569	\$ 59,672	\$ (1,177,446)	\$ 53,686,795	\$ 1,253,279

Debt service requirements on long-term debt at December 31, 2009, are as follows:

Year Ending December 31,	Principal	Interest
2010	\$ 1,229,912	\$ 2,113,175
2011	1,147,428	2,054,106
2012	1,195,621	1,994,062
2013	1,256,370	1,931,393
2014	1,327,397	1,865,650
2015 - 2019	7,789,119	8,220,226
2020 - 2024	9,277,367	5,914,881
2025 - 2029	10,304,615	4,277,626
2030 - 2034	12,894,615	989,638
2035 - 2039	6,021,162	217,519
Total	\$ 52,443,606	\$ 29,578,276

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

During the year ended December 31, 1998, a partial current and partial advanced refunding of the Medical Center's Series 1991 Revenue Bonds was performed through the Medical Center's issuance of \$25,660,000 in new Revenue Bonds. This refunding resulted in the Medical Center recognizing a refunding loss totaling \$1,972,725. The refunding loss serves as a contra-liability to long-term debt and is being amortized to interest expense using the effective interest method over the life of the new bonds.

The debt agreement contains various restrictive covenants, including covenants related to days cash on hand ratio, debt service coverage ratio, debt to capitalization ratio, and audited financial statement submission requirements.

13. DEFERRED COMPENSATION PLAN

The Medical Center offers its employees deferred compensation plans in accordance with Internal Revenue Code Sections 457 and 403b. The plans, available to all Medical Center employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Medical Center (without being restricted to the provisions of benefits under the plans), subject only to the claims of the Medical Center's general creditors. Participants' rights under the plans are equal to those of general creditors of the Medical Center in an amount equal to the fair market value of the deferred account for each participant. The Medical Center believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future. The deferred compensation assets and related liabilities under these plans are reported in the Consolidated Balance Sheets as Assets Whose Use is Limited and Deferred Compensation Liabilities, respectively. The amounts recognized as deferred compensation assets and liabilities were \$5,776,462 for the year ended December 31, 2009. The amounts recognized as deferred compensation assets and liabilities were \$4,381,199 and \$4,271,696, respectively for the year ended December 31, 2008.

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

14. DONOR-DESIGNATED AND NONEXPENDABLE RESTRICTED NET ASSETS

Donor-designated restricted net assets are donor-restricted for a specific use or by the passage of time. Nonexpendable restricted net assets include a perpetual trust. Donor-designated and nonexpendable restricted net assets include the following at December 31, 2009 and 2008:

	2009	2008
Donor-designated restricted net assets		
Dr. Bud Fund	\$ 391,302	\$ 342,956
Medical Technology Fund	4,909	4,878
Educational/Scholarship Fund	-0-	2,703
Women's Center Fund	200	-0-
Community Service Fund	2,406	2,389
Cancer Fund	235,847	233,142
Health Builders Fund	-0-	42,822
Hospice Fund	120,957	95,230
George H. James Scholarship Fund	29,215	44,215
EPIC Fund	273,582	243,440
Employee Humanitarian Fund	1,446	1,265
Anna Gaiser Fund	333,036	327,391
Total donor-designated restricted net assets	\$ 1,392,900	\$ 1,340,431
Nonexpendable restricted net assets		
Perpetual trust, held by trustee	\$ 292,807	\$ 246,916

Perpetual Trust, Held by Trustee

The perpetual trust, held by trustee represents a donation that is held in a separate trust account. The donation is to be held in perpetuity. The Hospital has no control over the investment strategy of the trust, and will not receive any payments from the trust's principal. However, the Hospital is entitled to receive 20 percent of the trust's net income each year. All of the Hospital's portion of income earned by this trust is unrestricted and may be used at the Hospital's Board of Trustee's discretion.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

15. NET PATIENT SERVICE REVENUE

The Medical Center has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- **Medicare.** The Medical Center is a provider of services to patients entitled to coverage under Title XVIII (Medicare) of the Health Insurance Act. The Medical Center is reimbursed for Medicare inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG) and Medicare 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. The Hospital's classification of patients under the Medicare program and the appropriateness of their admissions are subject to an independent review by a peer review organization under contract with the Hospital. As of December 31, 2009, the Hospital's submitted Medicare cost reports have been final settled with the Fiscal Intermediary through December 31, 2006.
- **Medicaid.** The Medical Center is a provider of services to patients entitled to coverage under Title XIX (Medicaid) of the Health Insurance Act. The Medical Center is reimbursed for Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG) 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. There is no cost settlement for either of the inpatient or outpatient programs. For the years ended December 31, 2009 and 2008, the Medical Center received and recorded in net patient service revenue \$2,878,190 and \$7,384,042, respectively, relating to net Medicaid Disproportionate Share Hospital ("DSH") payments and Indiana Medicaid Municipal Hospital Upper Payment Limit ("UPL") adjustments.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Medical Center has also entered into preferred provider agreements with certain commercial insurance carriers. The basis for payment to the Medical Center under

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

these agreements includes discounts from established charges, fee schedules, as well as inpatient DRG reimbursement methodologies.

For the years ended December 31, 2009 and 2008, net patient service revenue was as follows:

	2009	2008
Gross patient service revenue		
Inpatient routine services	\$ 8,548,697	\$ 9,657,268
Inpatient ancillary services	47,070,108	49,959,104
Outpatient ancillary services	170,521,633	161,773,269
Total gross patient service revenue	226,140,438	221,389,641
Deductions from revenue		
Contractual allowances	114,958,881	105,663,812
Charity care	3,704,287	2,778,584
Bad debts	12,595,344	15,083,638
Total deductions from revenue	131,258,512	123,526,034
 Total net patient service revenue	 \$ 94,881,926	 \$ 97,863,607

GASB requires bad debts to be reported as a deduction from gross patient service revenue while FASB requires bad debts to be reported as an operating expense.

16. NONOPERATING REVENUES (EXPENSES)

For the years ended December 31, 2009 and 2008, nonoperating revenues (expenses) were as follows:

	2009	2008
Investment income	\$ 6,674,925	\$ (7,215,113)
Interest expense	(2,466,200)	(1,369,727)
Loss on disposal of capital assets	(204,244)	(978,261)
Contributions and grants	631,264	1,174,713
Miscellaneous	(152,104)	(77,541)
 Total nonoperating revenues (expenses)	 \$ 4,483,641	 \$ (8,465,929)

GASB requires interest expense to be reported as nonoperating expense while FASB requires interest expense to be reported as an operating expense.

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

17. PROFESSIONAL LIABILITY INSURANCE

The Indiana Medical Malpractice Act, IC 34-18, provides a maximum recovery of \$250,000 for an occurrence of malpractice and \$1,250,000 for an injury or death of a patient due to an act of malpractice. The Act requires physicians to maintain medical malpractice liability insurance in the minimum amount of \$250,000 per occurrence and \$750,000 in the annual aggregate and hospitals to maintain medical malpractice liability insurance in the minimum amount of \$250,000 per occurrence and \$5,000,000 for hospitals with fewer than 100 occupied beds. The Act also requires the Medical Center to pay a surcharge to the State Patient's Compensation Fund. This fund may be used to pay medical malpractice claims in excess of the annual aggregate amount noted above, under certain terms and conditions.

The Medical Center maintains professional liability insurance through a multiprovider reciprocal risk retention group (the "Group"), in which premiums are accrued based on the Group's experience to date. This provides protection from liability in amounts not to exceed as follows:

	2009	2008
Medical Center per occurrence	\$ 250,000	\$ 250,000
Medical Center aggregate	\$ 5,000,000	\$ 5,000,000
Group umbrella aggregate	\$ 10,000,000	\$ 10,000,000
Group first additional umbrella aggregate	10,000,000	10,000,000
Group second additional umbrella aggregate	10,000,000	10,000,000
Total Group umbrella aggregate	\$ 30,000,000	\$ 30,000,000

Liabilities for incurred but not reported losses at December 31, 2009 and 2008 are not determinable; however, in management's opinion, such liabilities, if any, will not have a material effect on the Medical Center's financial position and its malpractice and general liability insurance is adequate to cover losses, if any. Should the policies not be renewed or replaced with appropriate insurance coverage, claims based upon occurrences during these terms, but reported subsequently, will be uninsured. The Medical Center intends to continue carrying such insurance.

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

18. RELATED PARTY TRANSACTIONS

Jackson Medical Building, LLC

HDC has a 20 percent ownership interest in Jackson Medical Building, LLC. HDC has entered into two noncancelable operating leases with Jackson Medical Building, LLC through 2011. HDC is leasing space in the medical building for future physicians. HDC recognized total rent expense of \$309,890 and \$291,219 for the years ended December 31, 2009 and 2008, respectively.

The following is a schedule of future minimal rental payments required under the operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2009:

<u>Year ending December 31,</u>	<u>Amount</u>
2010	\$ 254,025
2011	<u>107,135</u>
	<u>\$ 361,160</u>

19. CONCENTRATIONS OF CREDIT RISK

The Medical Center and Clinic grant credit without collateral to their patients, most of whom are local residents and insured under third-party payor agreements. The mix of gross revenues and receivables from patients and third-party payors at December 31, 2009 and 2008, was as follows:

	<u>2009</u>		<u>2008</u>	
	<u>Revenues</u>	<u>Receivables</u>	<u>Revenues</u>	<u>Receivables</u>
Medicare	38 %	20 %	40 %	22 %
Medicaid	11	7	9	7
Blue Cross	24	12	25	14
SIHO	10	8	9	7
Other third-party payors	12	12	12	15
Patients	5	41	5	35
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

The Medical Center maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Medical Center has not experienced any losses on such accounts. The Medical Center believes it is not exposed to any significant credit risk on cash.

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Cash and Cash Equivalents

The carrying amount reported in the consolidated balance sheets for cash and cash equivalents approximates its fair value.

Investments

The carrying amount reported in the consolidated balance sheets for investments approximates its fair value.

Assets Whose Use is Limited

These assets are reported in the consolidated balance sheets at fair value. The fair value amounts are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable, Accrued Payroll and Payroll Withholdings, and Accrued Expenses

The carrying amounts reported in the consolidated balance sheets for accounts payable, accrued payroll and payroll withholdings, and accrued expenses approximate their fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the consolidated balance sheets for estimated third-party payor settlements approximates its fair value.

Long-Term Debt

The carrying amounts reported in the consolidated balance sheets for long-term debt at December 31, 2009 and 2008 is \$52,443,606 and \$53,686,795, respectively. The fair value of long-term debt at December 31, 2009 and 2008 is approximately \$47,631,623 and \$63,284,686, respectively.

Deferred Compensation Liabilities and Deferred Costs

The carrying amounts reported in the consolidated balance sheets for deferred compensation liabilities and deferred costs approximate their fair value.

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

21. CONTINGENCIES

There are a variety of legal proceedings and claims by others against the Medical Center in a variety of matters arising out of the conduct of the Medical Center's business. The ultimate resolution of such claims would not, in the opinion of management, have a material adverse effect on the consolidated financial statements.

22. COMMITMENTS

As of December 31, 2009, the Medical Center has construction and renovation project commitments as follows:

Project	Expected Date of Completion	Estimated Total Cost of Project	Costs Incurred as of December 31, 2009
Citrix Xenapp System	2010	\$ 155,000	\$ 81,749
Water Boost Pump/Pres Rel Valve	2010	100,000	97,490
New 3R Transfer Switch	2010	108,000	41,059
Second CT Scanner Area	2010	500,000	46,085
Brown/Poplar/Laurel property acq	2010	100,384	100,384
All others	2010	50,000	36,712
		<u>\$ 1,013,384</u>	<u>\$ 403,479</u>

23. SUBSEQUENT EVENT

In March of 2010, the Board of Trustees approved a resolution to disallow new participants and freeze the accruing of additional benefits for the Medical Center's defined benefit pension plan. As of December 31, 2009, an estimate of the financial effect of freezing the plan could not be made.