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May 19, 2016

Board of Directors
Schneck Memorial Hospital
411 W. Tipton Street
Seymour, IN 47274

We have reviewed the audit report prepared by Blue & Co., LLC Independent Public Accountants, for the period January 1, 2015 to December 31, 2015. 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 Schneck Memorial Hospital, as of December 31, 2015 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.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

CONSOLIDATED FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2015 AND 2014

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Jackson County Schneck Memorial Hospital (d/b/a Schneck Medical Center) and Affiliated Organizations (collectively the "Medical Center"), component units of Jackson County, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015 and 2014, and the results of its operations, its changes in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in Note 1 to the consolidated financial statements, in 2015, the Medical Center adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the schedules of pension plan information on pages i-ix and 53-54, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 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 financial statements, and other knowledge we obtained during our audits of the basic 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

Louisville, Kentucky
April 27, 2016

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, 2015 and 2014. 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 position increased $38,659,717 from 2014 to 2015 which included income from operations of $32,739,212 and a restatement due to the adoption of GASB No. 68. During 2015, the Medical Center's total operating revenue increased by 10.9% to $284,384,819 with total operating expenses increasing by 8.8% to $251,645,607.

- The Medical Center raised rates by 2.5% in 2015.

- During the period from 2012 to 2014, the Medical Center assumed ownership of the bed licenses of fifteen long term care facilities. The Medical Center entered into management agreements with the previous owners and/or management entities to manage the day-to-day operations of the facilities. The Medical Center also leases the buildings and premises from the prior owners. 2015 was the first full year of operations with all fifteen facilities included in the Medical Center's financial results. The amount included in income from operations attributable to the nursing facilities was $14,221,972 in 2015.

- The Medical Center was notified in August 2015 of favorable resolution to an appeal regarding Transitional Corridor Payments (TOPS) dating back to 2008. As a result, the Medical Center recognized $7,537,575 of additional income in 2015.

- In an effort to increase Medicaid reimbursement to hospitals, the State of Indiana implemented a Hospital Assessment Fee program in 2012. Indiana hospitals are assessed a fee which allows the state to access Federal funds allowing it to pay Medicaid patient claims at higher rates, not to exceed Medicare reimbursement. The Medical Center incurred Hospital Assessment Fees expense of $2,807,078 in 2015 and $5,011,227 in 2014.

The Medical Center's net position increased $25,848,156 from 2013 to 2014 and included income from operations of $25,223,861. During 2014, the Medical Center's total operating revenue increased by 31.2% to $256,540,056 with total operating expenses increasing by 28.6% to $231,316,195.

- The Medical Center raised rates by 5% in 2014.

- During 2014, the Medical Center assumed ownership of the bed licenses of four additional long term care facilities. The Medical Center entered into management agreements with the previous owners and/or management entities to manage the day-to-day operations of the facilities. The Medical Center also leases the buildings and premises from the prior owners. The ownership transactions occurred throughout the year with two facility license acquired May 1, 2014, and two acquired November 1, 2014. The operations of the facilities occurring subsequent to the ownership effective dates are included in the financial results of the Medical Center. The amount included in income from operations attributable to the nursing facilities was $14,434,344 in 2014.

- In 2013 and 2014, the Medical Center qualified for electronic health record meaningful use payments from both Medicare and Medicaid. The amount recorded in income from operations is $525,647 in 2014 and $1,390,674 in 2013.

- In an effort to increase Medicaid reimbursement to hospitals, the State of Indiana implemented a Hospital Assessment Fee program in 2012. Indiana hospitals are assessed a fee which allows the state to access Federal funds allowing it to pay Medicaid patient claims at higher rates, not to exceed Medicare reimbursement. The Medical Center incurred Hospital Assessment Fees expense of $5,011,227 in 2014 and $4,731,229 in 2013.

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 revenues and expenses are accounted for in the consolidated statements of operations and changes in net position. 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 position report information about the Medical Center's activities. These two statements report the net position of the Medical Center and its changes. Increases or decreases in the Medical Center's net position 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, 2015 and 2014 is presented below:

	2015	2014	$ Change	% Change
Assets				
Current assets	$ 122,674,382	$ 108,794,430	$ 13,879,952	12.8%
Capital assets	73,735,888	75,846,274	(2,110,386)	-2.8%
Other assets	150,311,421	132,042,583	18,268,838	13.8%
Total assets	346,721,691	316,683,287	30,038,404	9.5%
Deferred outflows	33,168	1,739,188	(1,706,020)	-98.1%
Total assets and deferred outflows	$ 346,754,859	$ 318,422,475	$ 28,332,384	8.9%
Liabilities				
Current liabilities	$ 34,073,442	$ 43,070,834	$ (8,997,392)	-20.9%
Long-term liabilities	40,517,071	42,333,613	(1,816,542)	-4.3%
Total liabilities	74,590,513	85,404,447	(10,813,934)	-12.7%
Deferred inflows	486,601	-0-	486,601	100.0%
Total liabilities and deferred inflows	75,077,114	85,404,447	(10,327,333)	-12.1%
Net position				
Net investment in capital assets	39,468,755	41,668,528	(2,199,773)	-5.3%
Restricted expendable net position	5,275,027	5,505,037	(230,010)	-4.2%
Restricted nonexpendable net position	308,534	333,340	(24,806)	-7.4%
Unrestricted	226,625,429	185,511,123	41,114,306	22.2%
Total net position	271,677,745	233,018,028	38,659,717	16.6%
Total liabilities and net position	$ 346,754,859	$ 318,422,475	$ 28,332,384	8.9%

A summary of the Medical Center's consolidated balance sheets as of December 31, 2014 and 2013 is presented below:

	2014*	2013*	$ Change	% Change
Assets				
Current assets	$ 108,794,430	$ 90,507,168	$ 18,287,262	20.2%
Capital assets	75,846,274	79,616,180	(3,769,906)	-4.7%
Other assets	132,042,583	121,097,600	10,944,983	9.0%
Total assets	316,683,287	291,220,948	25,462,339	8.7%
Deferred outflows	1,739,188	1,984,591	(245,403)	-12.4%
Total assets and deferred outflows	$ 318,422,475	$ 293,205,539	$ 25,216,936	8.6%
Liabilities				
Current liabilities	$ 43,070,834	$ 42,367,605	$ 703,229	1.7%
Long-term liabilities	42,333,613	43,668,062	(1,334,449)	-3.1%
Total liabilities	85,404,447	86,035,667	(631,220)	-0.7%
Net position				
Net investment in capital assets	41,668,528	43,891,244	(2,222,716)	-5.1%
Restricted expendable net position	5,505,037	5,158,193	346,844	6.7%
Restricted nonexpendable net position	333,340	336,528	(3,188)	-0.9%
Unrestricted	185,511,123	157,783,907	27,727,216	17.6%
Total net position	233,018,028	207,169,872	25,848,156	12.5%
Total liabilities and net position	$ 318,422,475	$ 293,205,539	$ 25,216,936	8.6%

*The 2014 and 2013 balance sheets were not restated as it was not practical to determine the effects of GASB 68 as no evaluation was performed as of May 1, 2014 and 2013.

CONDENSED FINANCIAL INFORMATION

A summary of the Medical Center's consolidated statements of operations and changes in net position for the years ended December 31, 2015 and 2014 is presented below:

	2015	2014*	$ Change	% Change
Operating revenues				
Net patient service revenue	$ 282,563,218	$ 253,245,775	$ 29,317,443	11.6%
Other revenue	1,821,601	3,294,281	(1,472,680)	-44.7%
Total operating revenues	284,384,819	256,540,056	27,844,763	10.9%
Operating expenses				
Salaries and benefits	137,137,726	125,612,129	11,525,597	9.2%
Supplies and drugs	33,633,994	30,774,044	2,859,950	9.3%
Depreciation and amortization	8,639,376	8,789,029	(149,653)	-1.7%
Other operating expenses	72,234,511	66,140,993	6,093,518	9.2%
Total operating expenses	251,645,607	231,316,195	20,329,412	8.8%
Income from operations	32,739,212	25,223,861	7,515,351	29.8%
Nonoperating revenues (expenses)	(1,165,197)	624,295	(1,789,492)	-286.6%
Change in net position	$ 31,574,015	$ 25,848,156	$ 5,725,859	22.2%
Restatement due to GASB 68	$ 7,085,702	$ -0-	$ 7,085,702	100.0%
Net position, end of year	$ 271,677,745	$ 233,018,028	$ 38,659,717	16.6%

A summary of the Medical Center's consolidated statements of operations and changes in net position for the years ended December 31, 2014 and 2013 is presented below:

	2014*	2013*	$ Change	% Change
Operating revenues				
Net patient service revenue	$ 253,245,775	$ 192,202,363	$ 61,043,412	31.8%
Other revenue	3,294,281	3,384,900	(90,619)	-2.7%
Total operating revenues	256,540,056	195,587,263	60,952,793	31.2%
Operating expenses				
Salaries and benefits	125,612,129	96,809,935	28,802,194	29.8%
Supplies and drugs	30,774,044	25,942,493	4,831,551	18.6%
Depreciation and amortization	8,789,029	8,868,277	(79,248)	-0.9%
Other operating expenses	66,140,993	48,193,568	17,947,425	37.2%
Total operating expenses	231,316,195	179,814,273	51,501,922	28.6%
Income from operations	25,223,861	15,772,990	9,450,871	59.9%
Nonoperating revenues (expenses)	624,295	6,715,313	(6,091,018)	-90.7%
Change in net position	$ 25,848,156	$ 22,488,303	$ 3,359,853	14.9%
Net position, end of year	$ 233,018,028	$ 207,169,872	$ 25,848,156	12.5%

*The 2014 and 2013 statement of operations were not restated as it was not practical to determine the effects of GASB 68 as no evaluation was performed as of May 1, 2014 and 2013.

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 2015, 2014, and 2013 are as follows:

Payor Mix	2015	2014	2013
Medicare	39 %	39 %	39 %
Medicaid	26	24	21
Blue Cross	15	16	17
SIHO*	5	5	7
Other third-party payors	7	7	8
Self-pay	8	9	8
Total	100 %	100 %	100 %

*Southeastern Indiana Health Organization

OPERATING AND FINANCIAL PERFORMANCE

The Medical Center's financial performance from operations improved in 2015 in comparison to 2014 and the Medical Center's overall financial performance improved from 2014 to 2015. A discussion of the highlights of 2015 operations and changes in activity is presented below:

Revenues

The Medical Center's net patient service revenues increased by $29,317,443 in 2015. This is primarily due to additional revenue relating to ownership of the fifteen nursing home licenses, a 2.5% rate increase, and increases in laboratory volumes and emergency department visits as compared to the prior year. Highlights of revenue activity are as follows:

- An overall rate increase of 2.5% effective January 1, 2015 was implemented.
- Patient volume increases were noted for emergency department visits, laboratory tests, diagnostic imaging procedures, respiratory therapy, occupational therapy, speech therapy, home health and hospice services. Patient volume decreases were noted in births, inpatient days, surgeries, and physical therapy.

Expenses

Total operating expenses increased by $20,329,412 in 2015. Highlights of this change are as follows:

- Salary and benefits costs increased $11,525,597. This was due to staffing needs, wage costs due to the addition of several new physicians and labor costs relating to the fifteen long term care facilities.

- Other operating expenses increased $6,093,518 due primarily to purchased services and rent costs relating to the fifteen long term care facilities.

The Medical Center's financial performance from operations improved in 2014 in comparison to 2013 and the Medical Center's overall financial performance improved from 2013 to 2014. A discussion of the highlights of 2014 operations and changes in activity is presented below:

Revenues

The Medical Center's net patient service revenues increased by $61,043,412 in 2014. This is primarily due to additional revenue relating to ownership of the fifteen nursing home licenses, a 5% rate increase, and increases in laboratory, diagnostic imaging and physical therapy volumes, emergency department visits, and births as compared to the prior year. Highlights of revenue activity are as follows:

- An overall rate increase of 5% effective January 1, 2014 was implemented.

- Patient volume increases were noted for births, emergency department visits, laboratory tests, diagnostic imaging procedures, physical therapy and speech therapy. Patient volume decreases were noted in inpatient days, surgeries, respiratory therapy, and home health and hospice services.

Expenses

Total operating expenses increased by $51,501,922 in 2014. Highlights of this change are as follows:

- Salary and benefits costs increased $28,802,194. This was due to staffing needs and wage costs due to the addition of new physician services and labor costs relating to the fifteen long term care facilities, including four new facilities in 2014.

- Purchased services increased $4,971,307 due to costs relating to the fifteen long term care facilities, including four new facilities in 2014.

FINANCIAL ANALYSIS – CASH FLOWS

The Medical Center's 2015 cash flows increased $2,674,792 due primarily to positive cash inflows received for patient services and investment income, which exceeded cash outflows for cash paid to employees and vendors and purchases of capital assets. In addition, the Medical Center was able to increase investment activity in 2015.

The Medical Center's 2014 cash flows increased $29,845,606 due primarily to positive cash inflows received for patient services and investment income, which exceeded cash outflows for cash paid to employees and vendors and purchases of capital assets.

Capital Assets

	2015	2014	$Change	%Change
Land and land improvements	$ 12,147,614	$ 10,772,609	$ 1,375,005	12.8%
Leasehold improvements	671,058	672,661	(1,603)	-0.2%
Buildings	86,982,502	84,989,080	1,993,422	2.3%
Equipment	59,185,699	57,998,911	1,186,788	2.0%
Construction in progress	1,147,873	883,098	264,775	30.0%
	160,134,746	155,316,359	4,818,387	3.1%
Less accumulated depreciation	86,398,858	79,470,085	6,928,773	8.7%
Capital assets, net	$ 73,735,888	$ 75,846,274	$ (2,110,386)	-2.8%

Net capital assets decreased in 2015 due to annual depreciation and the disposal of assets that have exhausted their useful lives being greater than capital expenditures.

	2014	2013	$Change	%Change
Land and land improvements	$ 10,772,609	$ 10,733,539	$ 39,070	0.4%
Leasehold improvements	672,661	672,661	-0-	0.0%
Buildings	84,989,080	83,234,449	1,754,631	2.1%
Equipment	57,998,911	55,408,178	2,590,733	4.7%
Construction in progress	883,098	2,265,565	(1,382,467)	-61.0%
	155,316,359	152,314,392	3,001,967	2.0%
Less accumulated depreciation	79,470,085	72,698,212	6,771,873	9.3%
Capital assets, net	$ 75,846,274	$ 79,616,180	$ (3,769,906)	-4.7%

Capital assets decreased in 2014 due to annual depreciation and the disposal of assets that have exhausted their useful lives being greater than capital expenditures.

See additional information on capital assets in the notes to the consolidated financial statements in footnote number 5.

Long-Term Debt

At December 31, 2015, the Medical Center had long-term debt (including current portion) of $34,267,133, which is comprised of revenue bonds outstanding.

At December 31, 2014, the Medical Center had long-term debt (including current portion) of $35,916,934. This is comprised of $35,777,544 in revenue bonds outstanding, and $139,390 in notes payable.

ECONOMIC FACTORS AND 2016 BUDGET

The Medical Center's Board and management considered many factors when establishing the 2016 budget. Included was the status of the economy, which takes into consideration market factors and other environmental factors such as the following items:

- Advances in medical equipment and information systems technology and the need to replace obsolete equipment
- Decreasing reimbursement from governmental and commercial insurance payors
- Increasing costs of medical supplies and pharmaceuticals
- Nationwide workforce shortages in nursing and other healthcare specialist positions
- Increasing awareness and expectations from the public on the quality of services
- Increasing patient sensitivity to amount charged for services provided
- 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"), Jackson Medical Building, LLC, 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 Deborah Ridlen, Vice President of Fiscal Services at 812-522-0171.

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JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

ASSETS

	2015	2014
Current assets		
Cash and cash equivalents	$ 69,337,240	$ 52,413,583
Investments	8,342,972	8,366,331
Patient accounts receivable, net of estimated uncollectibles of $24,612,418 in 2015 and $21,200,928 in 2014	28,209,592	27,626,962
Inventories	4,244,239	4,255,063
Prepaid expenses and other current assets	9,351,514	13,372,189
Estimated third-party payor settlements	687,937	-0-
Physician recruitment guarantees, current portion	334,584	554,996
Other assets, current portion	297,839	340,193
Current portion of assets whose use is limited	1,868,465	1,865,113
Total current assets	122,674,382	108,794,430
Assets whose use is limited, net of amount required to meet current obligations	133,404,741	126,065,481
Capital assets, net	73,735,888	75,846,274
Net pension asset	10,355,225	-0-
Other long-term assets		
Physician recruitment guarantees, net of current portion	110,000	169,588
Other assets, net of current portion	6,441,455	5,807,514
Total other long-term assets	6,551,455	5,977,102
Total assets	346,721,691	316,683,287
Deferred outflows		
Deferred loss on bond refunding	-0-	1,739,188
Pension deferred outflows	33,168	-0-
Total deferred outflows	33,168	1,739,188
Total assets and deferred outflows	$ 346,754,859	$ 318,422,475

See accompanying notes to consolidated financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

LIABILITIES AND NET POSITION

	2015	2014
Current liabilities		
Accounts payable	$ 21,621,831	$ 23,973,095
Accrued personnel costs	10,198,703	10,913,324
Accrued expenses	352,922	424,227
Estimated third-party payor settlements	-0-	5,555,400
Physician recruitment guarantees, current portion	334,584	554,996
Current portion of long-term debt	1,565,402	1,649,792
Total current liabilities	34,073,442	43,070,834
Long-term liabilities		
Long-term debt, net of current portion	32,701,731	34,267,142
Deferred compensation liabilities	7,705,340	7,896,883
Physician recruitment guarantees, net of current portion	110,000	169,588
Total long-term liabilities	40,517,071	42,333,613
Pension deferred inflows	486,601	-0-
Total liabilities and deferred inflows	75,077,114	85,404,447
Net position		
Net investment in capital assets	39,468,755	41,668,528
Restricted		
Expendable for debt service	3,732,156	3,940,020
Expendable for donor-restricted purposes	1,542,871	1,565,017
Nonexpendable perpetual trust	308,534	333,340
Unrestricted	226,625,429	185,511,123
Total net position	271,677,745	233,018,028
Total liabilities and net position	$ 346,754,859	$ 318,422,475

See accompanying notes to consolidated financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Operating revenues		
Net patient service revenue	$ 282,563,218	$ 253,245,775
Other revenue	1,821,601	3,294,281
Total operating revenues	284,384,819	256,540,056
Operating expenses		
Salaries and wages	124,178,835	112,523,318
Employee benefits and payroll taxes	12,958,891	13,088,811
Professional medical fees	1,768,900	1,772,515
Medical supplies	13,802,036	12,899,295
Other supplies	8,572,058	7,614,978
Drugs	11,259,900	10,259,771
Purchased services	31,188,448	27,688,775
Utilities	4,706,194	4,613,663
Insurance	3,567,116	2,881,682
Depreciation and amortization	8,639,376	8,789,029
Rent	19,664,451	15,825,336
Hospital assessment fee	2,807,078	5,011,227
Other operating expenses	8,532,324	8,347,795
Total operating expenses	251,645,607	231,316,195
Income from operations	32,739,212	25,223,861
Nonoperating revenues (expenses)	(1,165,197)	624,295
Change in net position	31,574,015	25,848,156
Net position, beginning of year as previously reported	233,018,028	207,169,872
Restatement due to adoption of GASB 68	7,085,702	-0-
Net position, beginning of year	240,103,730	207,169,872
Net position, end of year	$ 271,677,745	$ 233,018,028

See accompanying notes to consolidated financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Operating activities		
Cash received for patient services	$ 275,737,251	$ 251,631,483
Cash paid to/for employees	(140,859,980)	(124,020,698)
Cash paid to vendors and suppliers	(104,488,845)	(98,333,207)
Other receipts, net	1,821,601	3,294,281
Net cash flows from operating activities	32,210,027	32,571,859
Noncapital financing activities		
Noncapital contributions	537,941	488,572
Capital and related financing activities		
Principal payments on long-term debt	(1,619,390)	(1,761,049)
Interest paid	(1,467,691)	(1,564,499)
Purchase of capital assets	(6,303,086)	(5,170,043)
Proceeds from sale of capital assets	-0-	271,484
Change in bond premiums	(30,411)	(31,544)
Change in deferred loss on bond refunding	1,739,188	245,403
(Gain) loss on disposal of capital assets	10,543	(34,116)
Net cash flows from capital and related financing activities	(7,670,847)	(8,044,364)
Investing activities		
Investment income	401,253	2,076,771
Other nonoperating revenues (expenses)	(636,700)	(376,549)
Change in investments	23,359	33,531
Change in assets whose use is limited	(21,591,477)	3,004,637
Change in other assets	(598,764)	91,149
Net cash flows from investing activities	(22,402,329)	4,829,539
Net change in cash and cash equivalents	2,674,792	29,845,606
Cash and cash equivalents, beginning of year	117,015,724	87,170,118
Cash and cash equivalents, end of year	$ 119,690,516	$ 117,015,724
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents in current assets	$ 69,337,240	$ 52,413,583
Cash and cash equivalents in assets whose use is limited	50,353,276	64,602,141
Total cash and cash equivalents	$ 119,690,516	$ 117,015,724

See accompanying notes to consolidated financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Reconciliation of income from operations to net cash and cash equivalents from operating activities		
Income from operations	$ 32,739,212	$ 25,223,861
Adjustments to reconcile income from operations to net cash flows from operating activities		
Depreciation	8,632,199	8,731,548
Amortization	7,177	57,481
Provision for bad debts	15,998,803	14,581,435
Changes in operating assets and liabilities		
Patient accounts receivable	(16,581,433)	(14,232,097)
Inventories	10,824	(419,718)
Prepaid expenses and other current assets	4,020,675	(2,253,473)
Net pension asset	(3,269,523)	-0-
Pension deferred outflows	(33,168)	-0-
Accounts payable	(2,580,534)	1,271,029
Accrued personnel costs	(714,621)	1,228,658
Accrued expenses	(71,305)	(16,008)
Estimated third-party payor settlements	(6,243,337)	(1,963,630)
Pension deferred inflows	486,601	-0-
Deferred compensation liabilities	(191,543)	362,773
Net cash flows from operating activities	$ 32,210,027	$ 32,571,859
Supplemental disclosures of noncash operating and capital and related financing activities		
Property and equipment acquired included in accounts payable	$ 229,270	$ 28,967

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Pursuant to the provision of long-term care, the Hospital owns the operations of fifteen long term care facilities by way of an arrangement with the managers of the facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the managers shall be on behalf of the Hospital and the Hospital retains the authority for the operation of the facilities.

The Hospital has entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities. Concurrently, the Hospital entered into agreements with the long-term care facilities to manage the above leased facilities, collectively referred to as the Managers. As part of the agreements, the Hospital will pay the Managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements' initial terms expire at various times beginning in 2016 and beyond. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice. Other current assets and liabilities include certain reimbursement receivables, accrued fees and expenses, and working capital balances related to the long-term care facilities.

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, 2015 and 2014, 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 three healthcare facilities located in North Vernon, Salem, and Scottsburg, 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.

Jackson Medical Building, LLC ("JMB") is a limited liability company that is wholly owned by the Hospital. JMB was organized to own and operate a medical office building located on the Hospital's campus. JMB's primary source of revenue is from rental income.

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

<u>Reporting Entity and Consolidation Policy</u>

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

<u>Management's Estimates</u>

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.

New Accounting Standards

During 2015, the Hospital implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. This Statement establishes the accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to certain pensions. It will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

During 2015, the Hospital implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. This Statement amends previous guidance to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The actuarial information needed to restate the prior period financial statements was not available and impractical to obtain.

The change in accounting for pensions resulted in the restatement at January 1, 2015:

	As previously reported	GASB 68 adjustment	As restated
Balance Sheets			
Net pension asset	$ -0-	$ 9,052,760	$ 9,052,760
Other assets, net of current portion	5,807,514	(1,967,058)	3,840,456
Statements of Operations and Changes in Net Position			
Net position	$ 233,018,028	$ 7,085,702	$ 240,103,730

Management has not currently determined what effects, if any, the implementation of the following recently enacted statements may have on its future financial statements:

GASB Statement No. 72, *Fair Value Measurement and Application*, issued February 2015, will be effective for periods beginning after June 15, 2015. This Statement will enhance the comparability of financial statements among governmental entities by requiring the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a governmental entities financial position.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, issued June 2015, will be effective for financial statement for periods beginning after June 15, 2015. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement had no impact on the Medical Center's 2015 financial statements.

Pensions

For purposes of measuring the net pension asset, deferred outflows, and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Jackson County Schneck Memorial Hospital Employees' Pension Plan (the "Plan"), and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 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

The Medical Center recognizes net patient service revenues on the accrual basis of accounting in the reporting period in which services are performed based on the current gross charge structure, less actual adjustments and estimated discounts for contractual allowances, principally for patients covered by Medicare, Medicaid, managed care, and other health plans. Gross patient service revenue is recorded in the accounting records using the established rates for the types of service provided to the patient. The Medical Center recognizes an estimated contractual allowance to reduce gross patient charges to the estimated net realizable amount for service rendered based upon previously agreed-to rates with a payor. The Medical Center utilizes the patient accounting system to calculate contractual allowances on a payor-by-payor basis based on the rates in effect for each primary third-party payor. Another factor that is considered and could further influence the level of the contractual reserves includes the status of accounts receivable balances as inpatient or outpatient. The Medical Center's management continually reviews the contractual estimation process to consider and incorporate updated laws and regulations and the frequent changes in managed care contractual terms that result from contract negotiations and renewals.

Payors include federal and state agencies, including Medicare and Medicaid, managed care health plans, commercial insurance companies, and patients. These third-party payors provide payments to the Medical Center at amounts different from its established rates based on negotiated reimbursement agreements. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and fee schedule payments. Retroactive adjustments under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts based on the Medical Center's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to the service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party payor coverage, the Medical Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulty that make the realization of amounts due unlikely). For receivables associated with self-pay payments, which includes both patients without insurance and patient with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Medical Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

The Medical Center's current allowance for doubtful accounts policy is to reserve 85 percent of self-pay accounts less than 150 days, 100 percent of self-pay accounts 150 and older, and 100 percent of all other payor accounts 150 days and older, net of contractual allowances already taken. The December 31, 2015 and 2014 allowance for doubtful accounts balances were comprised of the following:

	2015	2014
Reserve for third-party payor balances	$ 4,673,862	$ 3,104,087
Reserve for self-pay balances	19,938,556	18,096,841
Total allowance for doubtful accounts	$ 24,612,418	$ 21,200,928

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.

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 (expenses) 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, 2015 and 2014, the Medical Center capitalized interest costs of $54,523 and $44,263, respectively.

Classification of Net Position

The net position of the Medical Center is classified in four components. (1) *Net investment in capital assets* consists of capital assets net of accumulated depreciation plus deferred outflows related to losses on bond refunding which are reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) *Restricted expendable net position* includes 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. (3) *Restricted nonexpendable net position* includes the principal portion of permanent endowments and non-controlling interests owned by external investors. (4) *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*. When both restricted and unrestricted resources are available for use, the Medical Center's policy is to use restricted resources first, then unrestricted resources as they are needed.

Consolidated Statements of Operations and Changes in Net Position

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.

Advertising and Marketing Costs

Advertising and marketing costs are charged to operations when incurred. Advertising and marketing costs charged to operations were $939,258 and $918,459 for the years ended December 31, 2015 and 2014, respectively.

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 of net patient service revenue.

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 position. 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. As such HDC and the Foundation are generally exempt from income taxes. However, HDC and the Foundation are required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only. The Clinic and JMB are both organized as a single-member Limited Liability Company (LLC). As of December 31, 2015, the 2011 - 2015 income tax years are still open for tax examinations for both the Clinic and JMB. HDC is the sole member of the Clinic, and the Hospital is the sole member of JMB. As such, the Clinic and JMB are not required to file separate State or Federal tax returns. For tax reporting purposes, all activities of the Clinic are required to be filed with the activities of HDC, and all activities of JMB are required to be filed with the activities of the Hospital.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by each entity comprising the Medical Center and recognize a tax liability if any Medical Center entity has taken an uncertain tax position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by each entity of the Medical Center, and has concluded that as of December 31, 2015 and 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. Each entity of the Medical Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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

GASB Statement No. 62 requires 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, 2015 and 2014, the Medical Center had matching assets and liabilities relating to physician guarantees of $444,584 and $724,584, 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 accompanying consolidated financial statements through the date the consolidated financial statements are issued, which is April 27, 2016.

Reclassifications

Certain 2014 amounts have been reclassified to provide for consistency with reporting of 2015 information. These reclassifications have no effect on the previously reported change in net position or total net position.

2. DEPOSITS AND INVESTMENTS

Deposits and investments are comprised of the following at December 31, 2015 and 2014:

	2015	2014
Carrying amount		
Cash and cash equivalents	$ 119,690,516	$ 117,015,724
Certificates of deposit	17,237,930	17,752,992
Mutual funds	52,644,395	47,998,155
Corporate bonds	45,024	68,283
Money market mutual funds	21,844,596	4,338,862
Perpetual trust	308,534	333,340
Interest receivable	15,845	11,564
Fixed income guaranteed option	196,247	371,500
Common stocks	970,331	820,088
Total	$ 212,953,418	$ 188,710,508

	2015	2014
Included in the consolidated balance sheet captions:		
Cash and cash equivalents	$ 69,337,240	$ 52,413,583
Investments	8,342,972	8,366,331
Assets whose use is limited	135,273,206	127,930,594
Total	$ 212,953,418	$ 188,710,508

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 in the State of Indiana at year-end were entirely insured by the Federal Depository Insurance Corporation ("FDIC") or by the Indiana Public Deposit Insurance Fund. 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, 2015 and 2014, 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, 2015

		Investment Maturities (in years)			
	Carrying Amount	Less than 1	1 - 5	6 - 10	More than 10
Certificates of deposit	$ 17,237,930	$ 17,237,930	$ -0-	$ -0-	$ -0-
Corporate bonds	45,024	4,040	40,984	-0-	-0-
Total	$ 17,282,954	$ 17,241,970	$ 40,984	$ -0-	$ -0-

December 31, 2014

		Investment Maturities (in years)			
	Carrying Amount	Less than 1	1 - 5	6 - 10	More than 10
Certificates of deposit	$ 17,752,992	$ 17,752,992	$ -0-	$ -0-	$ -0-
Corporate bonds	68,283	21,309	46,974	-0-	-0-
Total	$ 17,821,275	$ 17,774,301	$ 46,974	$ -0-	$ -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 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 2015	Fair Value 2014
Corporate bonds	A1	$ 2,320	$ 4,218
Corporate bonds	A2	11,840	11,032
Corporate bonds	A3	8,515	13,125
Corporate bonds	Aaa	2,165	2,249
Corporate bonds	Aa2	4,040	4,521
Corporate bonds	Aa3	-0-	2,231
Corporate bonds	Baa1	4,360	11,690
Corporate bonds	Baa2	5,269	10,553
Corporate bonds	Baa3	6,515	8,664
		$ 45,024	$ 68,283

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

Fair Value Measurements and Disclosures

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active market for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Medical Center has the ability to access.

- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Medical Center are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Medical Center are deemed to be actively traded.

- *Corporate bonds*: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

- *Perpetual trust*: Valued at fair value as reported by the trustee, which represents the Medical Center's *pro rata* interest in the net position of the trust, substantially all of which are valued on a mark-to-market basis.

- *Fixed income guaranteed option*: Guaranteed investment contracts are valued at fair value by the insurance company by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. Since the participants transact at contract value, fair value is determined annually for financial statement reporting purposes only. In determining the reasonableness of the methodology the Finance Committee evaluates a variety of factors including review of existing contracts, economic conditions, industry and market developments, and overall credit ratings. Certain unobservable inputs are assessed through review of contract terms (for example, duration or payout date) while others are substantiated utilizing available market data (for example, swap curve rate).

- *Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.

- *Deferred compensation*: Value based on the underlying investments.

- *Money market mutual funds*: Generally transact subscription and redemption activity at a $1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

The following table set forth by level, within the hierarchy, the Medical Center's asset measured at fair value on a recurring basis as of December 31, 2015 are as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Corporate bonds				
Financial	$ -0-	$ 12,759	$ -0-	$ 12,759
Energy	-0-	4,195	-0-	4,195
Healthcare	-0-	3,175	-0-	3,175
Basic materials	-0-	2,040	-0-	2,040
Consumer goods	-0-	8,664	-0-	8,664
Services	-0-	14,191	-0-	14,191
	-0-	45,024	-0-	45,024

Common stocks				
Basic materials	68,792	-0-	-0-	68,792
Consumer goods	110,427	-0-	-0-	110,427
Naturagl resources	12,606	-0-	-0-	12,606
Consumer services	144,474	-0-	-0-	144,474
Financials	238,127	-0-	-0-	238,127
Healthcare	156,639	-0-	-0-	156,639
Industrials	76,846	-0-	-0-	76,846
Utilities	13,189	-0-	-0-	13,189
Technology	149,231	-0-	-0-	149,231
	970,331	-0-	-0-	970,331
Mutual funds				
Large cap value	6,745,662	-0-	-0-	6,745,662
Large cap blend	9,133,009	-0-	-0-	9,133,009
Large cap growth	7,667,711	-0-	-0-	7,667,711
Mid cap growth	2,495,638	-0-	-0-	2,495,638
Mid cap blend	5,138,246	-0-	-0-	5,138,246
Small cap blend	954,577	-0-	-0-	954,577
Foreign small growth	1,981,118	-0-	-0-	1,981,118
Foreign large value	192,264	-0-	-0-	192,264
Foreign large blend	7,057,186	-0-	-0-	7,057,186
World stock	4,993,311	-0-	-0-	4,993,311
Intermediate term bond	1,254,641	-0-	-0-	1,254,641
Short term bond	1,263,741	-0-	-0-	1,263,741
Real estate	2,074,243	-0-	-0-	2,074,243
High yield bond	757,162	-0-	-0-	757,162
Emerging markets	935,886	-0-	-0-	935,886
	52,644,395	-0-	-0-	52,644,395
Money market mutual funds	-0-	21,844,596	-0-	21,844,596
Perpetual trust, held by trustee	-0-	-0-	308,534	308,534
Fixed income guaranteed option	-0-	196,247	-0-	196,247
Total assets at fair value	$ 53,614,726	$ 22,085,867	$ 308,534	76,009,127
Cash and cash equivalents				119,690,516
Certificates of deposit				17,237,930
Interest receivable				15,845
Total deposits and investments				$ 212,953,418
<u>Liabilities</u>				
Deferred compensation liabilities	$ -0-	$ (7,705,340)	$ -0-	$ (7,705,340)

The following table set forth by level, within the hierarchy, the Medical Center's asset measured at fair value on a recurring basis as of December 31, 2014 are as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Corporate bonds				
Financial	$ -0-	$ 22,492	$ -0-	$ 22,492
Healthcare	-0-	12,275	-0-	12,275
Basic materials	-0-	17,227	-0-	17,227
Utilities	-0-	4,072	-0-	4,072
Services	-0-	12,217	-0-	12,217
	-0-	68,283	-0-	68,283
Common stocks				
Basic materials	71,066	-0-	-0-	71,066
Consumer goods	138,616	-0-	-0-	138,616
Consumer services	96,330	-0-	-0-	96,330
Financials	187,712	-0-	-0-	187,712
Healthcare	127,952	-0-	-0-	127,952
Industrials	81,321	-0-	-0-	81,321
Technology	117,091	-0-	-0-	117,091
	820,088	-0-	-0-	820,088
Mutual funds				
Large cap value	4,086,835	-0-	-0-	4,086,835
Large cap blend	10,641,110	-0-	-0-	10,641,110
Large cap growth	5,520,239	-0-	-0-	5,520,239
Mid cap value	2,052,704	-0-	-0-	2,052,704
Mid cap blend	2,335,448	-0-	-0-	2,335,448
Small cap blend	856,231	-0-	-0-	856,231
Foreign small growth	1,597,498	-0-	-0-	1,597,498
Foreign large value	1,782,082	-0-	-0-	1,782,082
Foreign large blend	5,403,473	-0-	-0-	5,403,473
World stock	1,948,560	-0-	-0-	1,948,560
Intermediate term bond	2,840,542	-0-	-0-	2,840,542
Short term bond	328,310	-0-	-0-	328,310
Intermediate government	1,856,854	-0-	-0-	1,856,854
High yield bond	1,067,030	-0-	-0-	1,067,030
Emerging markets	1,821,439	-0-	-0-	1,821,439
Natural resources	1,646,966	-0-	-0-	1,646,966
Realty funds	2,212,834	-0-	-0-	2,212,834
	47,998,155	-0-	-0-	47,998,155
Money market mutual funds	-0-	4,338,862	-0-	4,338,862

Perpetual trust, held by trustee	-0-	-0-	333,340	333,340
Fixed income guaranteed option	-0-	371,500	-0-	371,500
Total assets at fair value	$ 48,818,243	$ 4,778,645	$ 333,340	53,930,228
Cash and cash equivalents				117,015,724
Certificates of deposit				17,752,992
Interest receivable				11,564
Total deposits and investments				$ 188,710,508
Liabilities				
Deferred compensation liabilities	$ -0-	$ (7,896,883)	$ -0-	$ (7,896,883)

The Medical Center's policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels 1, 2, and 3 during 2015 and 2014.

The following summary sets forth a summary of changes in the fair values of the Medical Center's Level 3 assets for the years ended December 31, 2015 and 2014:

	2015 Perpetual Trust Held by Trustee	2014 Perpetual Trust Held by Trustee
Balance, beginning of the year	$ 333,340	$ 336,528
Purchase of investments	-0-	-0-
Redemption	-0-	-0-
Change in investment value	(24,806)	(3,188)
Balance, end of year	$ 308,534	$ 333,340

3. PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable reported as current assets at December 31, 2015 and 2014, consist of the following:

	2015	2014
Medicare	$ 18,517,929	$ 16,438,650
Medicaid	13,703,492	10,473,092
Blue Cross	6,686,905	5,178,332
Other insurance carriers	13,178,419	12,075,520
Patients	22,077,541	20,936,557
Total patient accounts receivable	74,164,286	65,102,151
Less allowance for contractuals	21,342,276	16,274,261
Less allowance for uncollectible amounts	24,612,418	21,200,928
Patient accounts receivable, net	$ 28,209,592	$ 27,626,962

4. 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, 2015 and 2014:

Investment Summary by Type

	2015	%	2014	%
Cash and cash equivalents	$ 50,353,276	37.2 %	$ 64,602,141	50.5 %
Money market funds	21,844,596	16.2	4,338,862	3.4
Interest receivable	15,845	0.0	11,564	0.0
Certificates of deposit	9,237,930	6.8	9,752,992	7.6
Corporate bonds	45,024	0.0	68,283	0.0
Common stocks	616,375	0.5	636,923	0.5
Fixed income guaranteed option	196,247	0.1	371,500	0.3
Mutual funds	52,655,379	38.9	47,814,989	37.4
Perpetual trust, held by trustee	308,534	0.3	333,340	0.3
Total assets whose use is limited	$ 135,273,206	100.0 %	$ 127,930,594	100.0 %
Less amount required for current obligations	1,868,465		1,865,113	
Assets whose use is limited, net of amount required to meet current obligations	$ 133,404,741		$ 126,065,481	

Investment Summary by Fund

Board-Designated Funds	$	121,984,305	90.2	%	$	114,195,334	89.3	%
Trustee-Held Funds		3,732,156	2.7			3,940,020	3.0	
Donor-Restricted Funds		1,851,405	1.4			1,898,357	1.5	
Deferred Compensation Funds		7,705,340	5.7			7,896,883	6.2	
Total	$	135,273,206	100.0	%	$	127,930,594	100.0	%

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 Boards, which may at their discretion later use for other purposes. Therefore, all board-designated funds are included in unrestricted net position.

Trustee-Held Funds

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

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.

5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2015 and 2014, was as follows:

	2015			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	$ 6,732,518	$ -0-	$ 1,031,843	$ 7,764,361
Land improvements	4,040,091	298,427	44,735	4,383,253
Leasehold improvements	672,661	-0-	(1,603)	671,058
Buildings	84,989,080	302,619	1,690,803	86,982,502
Fixed equipment	6,422,491	14,530	19,261	6,456,282
Movable equipment	51,576,420	1,996,631	(843,634)	52,729,417
Construction in progress	883,098	3,920,149	(3,655,374)	1,147,873
Total historical cost	155,316,359	6,532,356	(1,713,969)	160,134,746
Less accumulated depreciation for				
Land improvements	(2,204,150)	(239,968)	8,134	(2,435,984)
Leasehold improvements	(542,603)	(58,475)	5,731	(595,347)
Buildings	(33,566,068)	(3,733,214)	(8,020)	(37,307,302)
Fixed equipment	(4,955,367)	(203,861)	-0-	(5,159,228)
Movable equipment	(38,201,897)	(4,396,681)	1,697,581	(40,900,997)
Total accumulated depreciation	(79,470,085)	(8,632,199)	1,703,426	(86,398,858)
Capital assets, net	$ 75,846,274	$ (2,099,843)	$ (10,543)	$ 73,735,888

	2014			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	$ 6,724,198	$ 8,320	$ -0-	$ 6,732,518
Land improvements	4,009,341	30,750	-0-	4,040,091
Leasehold improvements	672,661	-0-	-0-	672,661
Buildings	83,234,449	174,452	1,580,179	84,989,080
Fixed equipment	6,379,856	-0-	42,635	6,422,491
Movable equipment	49,028,322	2,609,701	(61,603)	51,576,420
Construction in progress	2,265,565	2,375,787	(3,758,254)	883,098
Total historical cost	152,314,392	5,199,010	(2,197,043)	155,316,359
Less accumulated depreciation for				
Land improvements	(1,950,188)	(253,962)	-0-	(2,204,150)
Leasehold improvements	(477,068)	(65,535)	-0-	(542,603)
Buildings	(29,889,556)	(3,689,684)	13,172	(33,566,068)
Fixed equipment	(4,723,471)	(233,282)	1,386	(4,955,367)
Movable equipment	(35,657,929)	(4,489,085)	1,945,117	(38,201,897)
Total accumulated depreciation	(72,698,212)	(8,731,548)	1,959,675	(79,470,085)
Capital assets, net	$ 79,616,180	$ (3,532,538)	$ (237,368)	$ 75,846,274

Long-Lived Asset Impairment

The Medical Center evaluates the recoverability of the carrying value of long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets. No asset impairment was recognized during the years ended December 31, 2015 and 2014.

Conditional Asset Retirement Obligation

Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 410 (Topic 410) clarified when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered Topic 410, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Management believes there is an indeterminable settlement date for the asset retirement obligations because the range of time over which the Medical Center may settle the obligation is unknown and cannot be estimated. As a result, as of December 31, 2015 and 2014, the Medical Center cannot reasonably estimate a liability related to these potential asset retirement activities.

6. OTHER ASSETS

At December 31, 2015 and 2014, other assets consist of the following:

	2015	2014
Prepaid pension costs	$ -0-	$ 1,967,058
Physician notes receivable	1,206,204	1,127,255
Notes receivable	-0-	2,110
Investment in managed care company	3,279,463	755,000
Investment in RCG Columbus, LLC	974,900	974,900
Investment in captive insurance company	335,311	335,311
Captive insurance company subscriber savings	872,403	888,196
Investment in Inspire Health Partners	61,587	89,971
Other	9,426	7,906
Total other assets	6,739,294	6,147,707
Other assets, current portion	(297,839)	(340,193)
Other assets, net of current portion	$ 6,441,455	$ 5,807,514

Physician notes receivable are in varying amounts maturing through October 2020. 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 + 1 percent (4.25 percent at December 31, 2015).

The Medical Center is a partial owner of a healthcare managed care company. The Medical Center owns 250 shares out of 1,000 for 25 percent ownership and accounts for its investment using the equity method.

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 is a 12.5 percent owner of Indiana Healthcare Reciprocal Risk Retention Group (the "Captive"), 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. In addition, the Captive retains a subscriber savings account for each of its members based upon the premiums paid in and the resulting claims paid out, plus other factors. Members are paid the balance of their subscriber savings account once they leave the Captive in accordance with the terms of the Captive agreement.

The Medical Center is a 50 percent owner of Inspire Health Partners ("Inspire"), which is a clinically integrated network of physicians and healthcare providers who work together to coordinate patient care. Inspire is a collaboration between various hospitals, physicians, and the Medical Center to offer a community-based provider network that ensures patients get the right care, at the right time, in the right setting, in the most cost-effective manner. The Medical Center does not have majority voting rights or control over Inspire. The Medical Center accounts for this investment using the equity method.

7. 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:

Employee Type	Length of Service	PTO earned for each hour paid	Maximum PTO bank
Non-exempt	0 - 2 years	0.0885	368 hours
Non-exempt	2 - 10 years	0.1077	448 hours
Non-exempt	10 or more years	0.1270	528 hours
Exempt	0 - 2 years	0.0885	368 hours
Exempt	2 - 5 years	0.1077	448 hours
Exempt	5 or more years	0.1270	528 hours
Vice Presidents	Upon hire	0.1462	608 hours

PTO days are accrued when incurred. The PTO accrual at December 31, 2015 and 2014 was $4,141,657 and $3,927,699, respectively and is reported in accrued personnel costs on the consolidated financial statements.

8. 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 $100,000 per insured per year and an aggregate stop loss limit of approximately $8,500,000. 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. The accrued liability for claims liabilities is recorded in accrued personnel costs on the consolidated balance sheets.

Changes in the balance of claims liabilities during the years ended December 31, 2015 and 2014, were as follows:

	2015	2014
Accrued liability, beginning of year	$ 1,265,626	$ 1,267,674
Incurred claims, changes in estimates, and fees/premiums	8,460,134	7,689,672
Claim payments	(8,522,379)	(7,691,720)
Accrued liability, end of year	$ 1,203,381	$ 1,265,626

9. DEFINED BENEFIT PENSION PLAN

Plan Description

The Medical Center sponsors a single-employer, defined benefit pension plan established to provide retirement, termination/severance, disability, and survivor benefits for Medical Center employees. The Plan was established on May 1, 1975 and was last restated effective May 1, 2013. 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:

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

Benefits Provided

The Plan provides that the monthly retirement benefit shall be a pension payable for the member's lifetime equal to one percent (1.00%) of the member's monthly plan compensation, plus sixty-five hundredths of one percent (0.65%) in excess of covered compensation. This sum is then multiplied by the years of benefit service up to thirty (30) years to arrive at the benefit amount. Benefit service is not credited prior to May 1, 1970. The accrued benefit shall not be less than the benefit accrued as of April 30, 1990.

Employees became eligible members of the Plan after one year of service and age twenty-one. Participants are fully vested after 5 years of service. Participation and the accrual of benefits for additional years of service for active participants was frozen as of July 1, 2010.

The employee normal retirement date is age 65 if the employee's date of participation is prior to May 1, 1990, or the later of age 65 or 5 years of service if the employee's date of participation is on or after May 1, 1990. The employee early retirement date can occur once an employee has attained age 55 and has 10 years of service. A reduced early retirement benefit is available to members with at least ten years of vesting service any time after attainment of age 55, with a reduction factor determined by the date of severance from employment.

For participants who severed employment prior to May 1, 2002, the accrued benefit is reduced one-one hundred eightieth (1/180) for each completed month of the first five years and one-three hundred sixtieth (1/360) for each completed month of the next five years by which the date of commencement precedes the normal retirement date. For participants who severed employment on or after May 1, 2002, the accrued benefit is reduced three percent for each year by which the date of commencement precedes the normal retirement date.

A terminated participant is eligible for termination benefits after five or more years of service with an hour of service after May 1, 2000. A disabled participant is eligible for disability retirement after five or more years of service with an hour of service after May 1, 2000.

The employee's death benefit is payable to a surviving spouse after the satisfaction of early retirements and prior to actual or normal retirement. If a participant's death occurs while an employee on or after satisfaction of early retirement requirements and prior to the earlier of their termination of employment or late retirement, their surviving spouse, if any, will be entitled to a fifty percent survivor benefit. If a participant's death occurs on or after their actual retirement while an employee, but prior to the commencement of their retirement benefit their beneficiary will be entitled to the benefit if any, payable on account of the participant's death, assuming their retirement benefit had commenced the day before their death.

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 Employee Retirement Income Security Act (ERISA) minimum funding requirements.

Employees Covered by Benefit Terms

At April 30, 2015, the following employees were covered by the benefit terms:

	2015
Inactive plan members or beneficiaries currently receiving benefits	219
Inactive plan members or beneficiaries entitled to but not yet receiving benefits	137
Active plan members	479
Total	835

Contributions

The annual required contributions for the year ended April 30, 2015 and estimated liabilities as of April 30, 2015 were determined as part of the actuarial valuations using the Entry Age actuarial cost method. The Medical Center intends to contribute to the Plan each year such amounts as may be required to operate the Plan on a sound actuarial basis.

Net Pension (Asset) Liability

The total pension liability was measured as of April 30, 2015, and the total pension liability used to calculate the net pension (asset) liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the April 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2015
Inflation	2.50%
Salary increases	Not applicable (Plan is frozen)
Investment rate of return	8%

Mortality rates were based on the 2015 IRS Annuitant/Non-Annuitant Mortality Tables (sex-distinct) with no future mortality improvement.

The actuarial value of assets was determined using the Market Value method and the trust information furnished by PNC Institutional Investments as of April 30, 2015.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation		Long-Term Expected Real Rate of Return
Cash	-0-	%	0.0%
Fixed income securities	10		2.0%
Domestic and foreign equities	90		6.0%
Total	100	%	

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of April 30, 2015, and is equal to the long-term expected return on plan investments. The projection cash flows used to determine the discount rate assumed that employer contributions would be made at the actuarially calculated rate computed to prevent the deterioration in the actuarial status of the trust. The future contribution assumption was based upon the review of recent Medical Center contribution history compared to the corresponding actuarially determined contributions. Based on this assumption, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Sensitivity of the Net Pension (Asset) Liability

The following presents the net pension (asset) liability of the Plan, calculated using the discount rate of 8 percent, as well as what the Plan's net pension (asset) liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1 % Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net pension (asset) liability	$ (7,262,711)	$ (10,355,225)	$ (12,939,380)

Detailed information about the Plan's fiduciary net position is available in a separately issued actuarial valuation report.

Changes in the Net Pension (Asset) Liability

The change in the net pension (asset) liability during the 2015 Plan year was as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) - (b)
Balances at 4/30/2014	$ 26,484,196	$ 35,536,956	$ (9,052,760)
Changes of the year:			
Service cost	-0-	-0-	-0-
Interest	2,056,704	-0-	2,056,704
Difference between expected and actual experience	(278,935)	-0-	(278,935)
Change in assumptions	38,454	-0-	38,454
Benefit payments	(1,430,850)	(1,430,850)	-0-
Employer contributions	-0-	-0-	-0-
Net investment income	-0-	3,223,583	(3,223,583)
Administrative expenses	-0-	(67,884)	67,884
Other	-0-	(37,011)	37,011
Net changes	385,373	1,687,838	(1,302,465)
Balances at 4/30/2015	$ 26,869,569	$ 37,224,794	$ (10,355,225)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, the Medical Center recognized pension expense (gain) of ($849,032). At December 31, 2015, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Initial recognition, 4/30/2015	$ 38,454	$ (586,451)
Changes in assumptions	(5,286)	-0-
Liability experience gains (losses)	-0-	38,347
Investment gains (losses)	-0-	61,503
Balance, 4/30/2015	$ 33,168	$ (486,601)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended April 30:	Amount
2016	$ (94,564)
2017	(94,564)
2018	(94,564)
2019	(94,564)
2020	(33,061)
Thereafter	(42,116)
	$ (453,433)

10. LONG-TERM DEBT

At December 31, 2015 and 2014, the Medical Center was obligated for long-term debt agreements as follows:

	2015	2014
Indiana Financing Authority Series 2010 Revenue Bonds dated December 2010, payable in annual principal installments commencing February 2011 through February 2022, in amounts ranging from $325,000 to $1,765,000. Serial fixed interest rates ranging from 3.0% to 5.0%. Secured by gross revenues.	$ 10,915,000	$ 12,245,000

Indiana Health and Educational Facility Financing Authority ("IHEFFA") Series 2006A Revenue Bonds dated May 2006, payable in annual principal installments commencing February 2023 through February 2030, in amounts ranging from $465,000 to $670,000. Fixed interest rate of 5.125%. Secured by gross revenues.	4,500,000	4,500,000
IHEFFA 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 $950,000. In May 2013, bonds were converted to long-mode and issued to Capital One Public Funding, LLC and Jackson County Bank who will hold the bonds through February 2023 at which time a balloon payment is due for all remaining unpaid principal and interest. In February 2023, Capital One and Jackson County Bank may exercise a put option on the bonds, or refinance the remaining principal with the Medical Center. Fixed interest rate of 2.8% on $18,795,000. Secured by gross revenues.	18,645,000	18,795,000
JMB note payable to bank dated September 1995, paid in full in 2015.	-0-	139,390
	34,060,000	35,679,390
Unamortized bond premium	207,133	237,544
Less current portion	(1,565,402)	(1,649,792)
Long-term debt, net of current portion	$ 32,701,731	$ 34,267,142

Long-term debt activity for the years ended December 31, 2015 and 2014 was as follows:

	2015				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 2006A	$ 4,500,000	$ -0-	$ -0-	$ 4,500,000	$ -0-
Revenue bonds, series 2006B	18,795,000	-0-	(150,000)	18,645,000	150,000
Revenue bonds, series 2010	12,245,000	-0-	(1,330,000)	10,915,000	1,385,000
JMB note payable to bank	139,390	-0-	(139,390)	-0-	-0-
Bond premiums	237,544	-0-	(30,411)	207,133	30,402
Total long-term debt	$ 35,916,934	$ -0-	$ (1,649,801)	$ 34,267,133	$ 1,565,402

	2014				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 2006A	$ 4,500,000	$ -0-	$ -0-	$ 4,500,000	$ -0-
Revenue bonds, series 2006B	18,945,000	-0-	(150,000)	18,795,000	150,000
Revenue bonds, series 2010	13,530,000	-0-	(1,285,000)	12,245,000	1,330,000
Note payable to bank	94,761	-0-	(94,761)	0	-0-
JMB note payable to bank	370,678	-0-	(231,288)	139,390	139,390
Bond premiums	269,088	-0-	(31,544)	237,544	30,402
Total long-term debt	$ 37,709,527	$ -0-	$ (1,792,593)	$ 35,916,934	$ 1,649,792

Debt service requirements on long-term debt at December 31, 2015 are based on the interest rate modes in effect and are as follows:

Year Ending December 31,	Principal	Interest
2016	$ 1,565,402	$ 1,297,410
2017	1,635,402	1,223,960
2018	1,705,402	1,147,010
2019	1,785,402	1,066,560
2020	1,860,402	985,135
2021 - 2025	22,683,800	2,788,118
2026 - 2030	3,031,323	409,951
Total	$ 34,267,133	$ 8,918,144

The Medical Center’s debt agreements contain 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. Management believes the Medical Center was in compliance with all restrictive covenants during 2015 and 2014.

11. DEFERRED COMPENSATION PLAN

The Medical Center offers its employees deferred compensation plans in accordance with Internal Revenue Code Sections 457 and 403(b). 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 both deferred compensation assets and liabilities were $7,705,340 and $7,896,883 for the years ended December 31, 2015 and 2014, respectively.

In 2010, the Medical Center amended its 403(b) defined contribution plan to allow for employer discretionary and matching contributions. For the years ended December 31, 2015 and 2014, the Medical Center recognized $1,310,661 and $1,190,229, respectively, in expense related to the 403(b) plan.

12. DONOR-RESTRICTED AND NONEXPENDABLE RESTRICTED NET POSITION

Donor-restricted net position amounts are donor-restricted for a specific use or by the passage of time. Nonexpendable restricted net position amounts include a perpetual trust. Donor-restricted and nonexpendable restricted net position amounts include the following at December 31, 2015 and 2014:

	2015	2014
Donor-restricted net position		
Dr. Bud Fund	$ 472,946	$ 503,352
Medical Technology Fund	127,759	127,725
Women's Center Fund	2,475	1,775
Cancer Fund	365,141	457,216
Hospice Fund	295,134	268,446
EPIC Fund	276,523	205,253
Employee Humanitarian Fund	2,893	1,250
Total donor-restricted net position	$ 1,542,871	$ 1,565,017
Nonexpendable restricted net position		
Perpetual trust, held by trustee	$ 308,534	$ 333,340

<u>Dr. Bud Fund</u>

The Dr. Bud Fund was established to provide scholarships to area students seeking to pursue careers in healthcare. Scholarships are awarded based on the recommendations of the Dr. Bud Fund Scholarship Committee.

EPIC Fund

The EPIC (Employee Partners Invested in Caring) Fund was established to receive financial support from its members for special projects and programs recommended by those members.

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 Medical Center has no control over the investment strategy of the trust, and will not receive any payments from the trust's principal. However, the Medical Center is entitled to receive 20 percent of the trust's net income each year. All of the Medical Center's portion of income earned by this trust is unrestricted and may be used at the Medical Center's Board of Trustee's discretion.

13. NET PATIENT SERVICE REVENUE

For the years ended December 31, 2015 and 2014, net patient service revenue was as follows:

	2015	2014
Gross patient service revenue		
Inpatient services	$ 74,126,948	$ 75,247,011
Outpatient services	248,239,549	224,794,798
Long-term care services	167,929,927	143,652,283
Total gross patient service revenue	490,296,424	443,694,092
Deductions from revenue		
Contractual allowances	219,974,533	203,494,564
Charity care	2,588,685	3,437,720
Bad debts	15,998,803	14,581,435
Medicaid DSH payments recognized	(2,302,552)	(2,158,643)
Nursing homes UPL payments recognized	(28,526,263)	(28,906,759)
Total deductions from revenue	207,733,206	190,448,317
Total net patient service revenue	$ 282,563,218	$ 253,245,775

The Medical Center grants credit without collateral to its 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, 2015 and 2014, was as follows:

	2015		2014	
	Revenues	Receivables	Revenues	Receivables
Medicare	39 %	25 %	39 %	24 %
Medicaid	26	18	24	16
Blue Cross	15	9	16	8
SIHO*	5	5	5	4
Other third-party payors	7	13	7	14
Patients	8	30	9	34
	100 %	100 %	100 %	100 %

*Southeastern Indiana Health Organization

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.

- ***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.

- ***Charity Care***. The Medical Center provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Medical Center does not collect amounts deemed to be charity care, they are not reported as revenue. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Medical Center's total operating expenses divided by gross patient service revenue. For the years ended December 31, 2015 and 2014, the Hospital incurred estimated costs of $1,323,599 and $1,792,227, respectively.

- ***Other***. The Medical Center has also entered into preferred provider agreements with certain commercial insurance carriers. The basis for payment to the Medical Center under these agreements includes discounts from established charges, fee schedules, as well as inpatient DRG reimbursement methodologies.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. 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 health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigation and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers.

The Centers for Medicare and Medicaid Services ("CMS") has been granted authority to suspend payments, in whole or in part, to Medicare providers if CMS possess reliable information on overpayment, fraud, or if willful misrepresentation exists. If CMS suspects payments are being made as the result of fraud or misrepresentation exists, CMS may suspend payment at any time without providing prior notice to the Medical Center. The initial suspensions period if limited to 180 days. However, the payment suspension period can be extended indefinitely if the matter is under investigation by the United States Department of Health, Human Services Office of Inspector General, or the United States Department of Justice. Therefore, the Medical Center is unable to predict if or when it may be subject to a suspension of payments by the Medicare and/or Medicaid programs, the possible length of the suspension period, or the potential cash flow impact of a payment suspension. Any such suspension would adversely impact the Medical Center's financial position, results of operations, and cash flows. The Medical Center believes that it is in compliance with all applicable laws and regulations.

14. ELECTRONIC HEALTH RECORDS (EHR) INCENTIVE PAYMENTS

The Medical Center receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for EHR incentive payments, the Medical Center must meet "meaningful use" criteria that become more stringent over time. The Medical Center periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending on September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Medical Center's cost reports. The payment calculation is based upon an initial amount as adjusted for discharges, program utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Medical Center recognizes EHR incentive payments as grant income when there is reasonable assurance that the Medical Center will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2015 and 2014, the Medical Center recognized approximately $61,659 and $525,647, respectively, in EHR incentive payments as grant income using the cliff recognition method. Under the cliff recognition method, the Medical Center records income at the end of EHR reporting period in which compliance is achieved. EHR incentive income is included in other revenue on the consolidated statements of operations and changes in net position. EHR incentive income is recognized based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Medical Center as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

15. HOSPITAL ASSESSMENT FEE

The purpose of the Hospital Assessment Fee ("HAF") Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share ("DSH") payments for Indiana hospitals as reflected in the hospital assessment fee reported in the consolidated statements of operations and changes in net position. Previously, the State share was funded by government entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patient and result in increased Medicaid rates. The Medical Center recognized HAF program expense of $2,807,078 and $5,011,227 at December 31, 2015 and 2014, respectively. For the years ended December 31, 2015 and 2014, the Medical Center recognized revenue in net patient service revenue totaling $2,302,552 and $2,158,643, respectively, relating to the DSH adjustments.

16. NONOPERATING REVENUES (EXPENSES)

For the years ended December 31, 2015 and 2014, nonoperating revenues (expenses) were as follows:

	2015	2014
Investment income (loss)	$ 426,059	$ 2,079,959
Interest expense	(1,438,464)	(1,577,542)
Gain (loss) on disposal of capital assets	(10,543)	34,116
Donations	(242,206)	(96,884)
Contributions and grants	537,941	488,572
Change in perpetual trust	(24,806)	(3,188)
Inspire, gain (loss)	(228,384)	(235,029)
Miscellaneous	(184,794)	(65,709)
Total nonoperating revenues (expenses)	$ (1,165,197)	$ 624,295

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

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:

	2015	2014
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, 2015 and 2014 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.

18. RELATED PARTY TRANSACTIONS

Jackson County Bank

The Medical Center's President and Chief Executive Officer serves as a member of the Board of Directors for Jackson County Bank ("JCB"). At December 31, 2015 and 2014, and for the years then ended, the Medical Center had the following related party transactions with JCB:

	2015	2014
Deposits	$ 45,537,071	$ 28,076,275
Bonds payable	$ 2,950,000	$ 3,000,000
Interest income	$ 104,218	$ 165,014
Interest expense	$ 82,717	$ 85,453

Southeastern Indiana Health Organization (SIHO)

The Medical Center is a 25 percent owner of the SIHO insurance company. At December 31, 2015 and 2014, and for the years then ended, the Medical Center had the following related party transactions with SIHO:

	2015	2014
Patient accounts receivable	$ 3,521,983	$ 2,690,124
Gross patient revenue	$ 25,757,297	$ 21,636,923
Operating expenses	$ 9,810,638	$ 9,806,735

19. CONCENTRATIONS OF CREDIT RISK

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.

20. OPERATING LEASES

The Medical Center leases certain building space and equipment under noncancelable operating leases expiring in various years through 2020. Minimum future rental payments under these noncancelable operating leases, as of December 31, 2015, are as follows:

Year Ending December 31,	Amount
2016	$ 397,452
2017	353,532
2018	324,372
2019	259,464
2020	87,543
Total minimum payments	$ 1,422,363

The Medical Center incurred $19,664,451 and $15,825,336 in total rent expense for the years ended December 31, 2015 and 2014, respectively, under cancelable and noncancelable operating leases.

21. 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 based on the short maturities of those items.

Investments

The carrying amount reported in the consolidated balance sheets for investments approximates its fair value based on the short maturities of those items.

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 Personnel Costs, and Accrued Expenses

The carrying amounts reported in the consolidated balance sheets for accounts payable, accrued personnel costs, and accrued expenses approximate their fair value based on the short maturities of those items.

Estimated Third-Party Payor Settlements

The carrying amount reported in the consolidated balance sheets for estimated third-party payor settlements approximates its fair value because they are expected to be settled in the near future.

Long-Term Debt

The carrying amounts reported in the consolidated balance sheets for long-term debt at December 31, 2015 and 2014 is $34,267,133 and $35,916,934, respectively. The fair value of long-term debt at December 31, 2015 and 2014 is approximately $34,713,350 and $37,867,497, respectively. Fair value for fixed interest rate debt was calculated using the 30 year United States of America Treasury incremental bond borrowing rate at December 31, 2015.

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. The fair value amounts are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

22. CONTINGENCIES

The Medical Center is susceptible to 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 financial statements.

There may be unknown incidents arising from services provided to patients. However, because the annual insurance policy only covers claims that have been asserted and incidents reported to the insurance carrier, these unknown incidents are not yet covered by insurance. Management intends to maintain the current claims-made insurance coverage to cover any unknown incidents that may be asserted.

Current Economic Conditions

The current economic situation continues to present hospitals with unprecedented circumstances and challenges, which in some cases have results in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity, and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Medical Center.

Current economic conditions, including the continued high unemployment rate, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statement could change rapidly, resulting in material future adjustments in asset values and allowances for accounts receivable that could negatively impact the Medical Center's ability to improve its financial position and results of operations.

HIPAA

Management continues to implement policies, procedures, and a compliance-monitoring organizational structure to enforce and monitor compliance with the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and other government statutes and regulations. The Medical Center's compliance with such laws and regulations is subject to future government review and interpretations, as well as regulatory actions which are unknown or unasserted at this time.

Health Care Reform Legislation

In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the "Health Care Reform Legislation" or "HCRL"). The HCRL, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Provisions of the HCRL become effective at various dates over the next several years and a number of additional steps are required to implement these requirements.

Starting in 2014, the legislation required the establishment of health insurance exchanges, which provide individuals without employer provided health care coverage the opportunity to purchase insurance. Some employers currently offering insurance to employees have opted to have employees seek insurance coverage through the insurance exchanges. In some cases, reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the HCRL is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, substantially decreased. Each state's participation in an expanded Medicaid program is optional. The State of Indiana is currently participating in the expansion of the Medicaid program.

Due to the complexity of the HCRL, reconciliation and implementation of the legislation continues to be under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding health care policies. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation. While the full impact of HCRL is not yet fully known, changes to policies regarding reimbursement, universal health insurance, and managed competition may materially impact the Medical Center's operations. Additional, it is possible the Medical Center will experience payment delays and other operational challenges during implementation.

23. COMMITMENTS

As of December 31, 2015, 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, 2015
Power plant expansion	2016	$ 1,250,000	$ 230,581
Administration and accounting remodel	2016	378,000	193,920
New switchgear - '56 building	2016	125,000	72,872
Medical Center technological innovations	2016	540,000	278,410
Medical Center renovation projects	2016	5,605,000	253,340
All other projects	2016	1,500,000	118,750
		$ 9,398,000	$ 1,147,873

24. CONDENSED FINANCIAL INFORMATION

The Medical Center includes three blended component units in its reporting entity. Condensed component unit information for all of its blended as of and for the year ended December 31, 2015 is as follows:

	HDC	Foundation	JMB	Total
Balance sheet				
Assets				
Current assets	$ 2,043,319	$ 576,641	$ 503,511	$ 3,123,471
Assets whose use is limited	-0-	1,542,871	-0-	1,542,871
Capital assets, net	868,339	685,381	3,535,798	5,089,518
Other assets	556,911	-0-	-0-	556,911
Total assets	3,468,569	2,804,893	4,039,309	10,312,771
Deferred outflows	-0-	-0-	-0-	-0-
Total assets and deferred outflows	$ 3,468,569	$ 2,804,893	$ 4,039,309	$ 10,312,771
Liabilities				
Current liabilities	$ 1,551,480	$ 20,000	$ 1,114	$ 1,572,594
Long-term liabilities	110,000	-0-	-0-	110,000
Total liabilities	1,661,480	20,000	1,114	1,682,594
Net position				
Net investment in capital assets	868,339	-0-	-0-	868,339
Restricted expendable	-0-	1,542,871	-0-	1,542,871
Restricted nonexpendable	-0-	-0-	-0-	-0-
Unrestricted	938,750	1,242,022	4,038,195	6,218,967
Total net position	1,807,089	2,784,893	4,038,195	8,630,177
Total liabilities and net position	$ 3,468,569	$ 2,804,893	$ 4,039,309	$ 10,312,771

	HDC	Foundation	JMB	Total
Statement of operations and changes in net position				
Operating revenues				
Net patient service revenue	$ 1,858,779	$ -0-	$ -0-	$ 1,858,779
Other operating revenue	2,027,298	-0-	767,353	2,794,651
Total operating revenues	3,886,077	-0-	767,353	4,653,430
Operating expenses				
Depreciation and amortization	141,725	18,477	175,261	335,463
Other operating expenses	3,918,520	51,670	328,731	4,298,921
Total operating expenses	4,060,245	70,147	503,992	4,634,384
Income (loss) from operations	(174,168)	(70,147)	263,361	19,046
Non-operating gains (losses)	49,462	19,228	5,783	74,473
Change in net position	(124,706)	(50,919)	269,144	93,519
Net position - beginning of year	1,931,795	2,835,812	3,769,051	8,536,658
Net position - end of year	$ 1,807,089	$ 2,784,893	$ 4,038,195	$ 8,630,177

	HDC	Foundation	JMB	Total
Statement of cash flows				
Cash provided by				
Operating activities	$ (245,775)	$ (9,894)	$ 406,003	$ 150,334
Noncapital financing activities	-0-	-0-	-0-	-0-
Capital and related financing activities	(58,054)	-0-	(553,272)	(611,326)
Investing activities	(105,178)	(9,258)	-0-	(114,436)
Total	(409,007)	(19,152)	(147,269)	(575,428)
Cash - beginning of year	1,486,144	236,253	626,536	2,348,933
Cash - end of year	$ 1,077,137	$ 217,101	$ 479,267	$ 1,773,505

Condensed component unit information for all of its blended components as of and for the year ended December 31, 2014 is as follows:

	HDC	Foundation	JMB	Total
Balance sheet				
Assets				
Current assets	$ 2,532,463	$ 602,584	$ 649,312	$ 3,784,359
Assets whose use is limited	-0-	1,565,017	-0-	1,565,017
Capital assets, net	742,647	703,858	3,297,177	4,743,682
Other assets	601,233	-0-	(11,316)	589,917
Total assets	3,876,343	2,871,459	3,935,173	10,682,975
Deferred outflows	-0-	-0-	-0-	-0-
Total assets and deferred outflows	$ 3,876,343	$ 2,871,459	$ 3,935,173	$ 10,682,975
Liabilities				
Current liabilities	$ 1,774,960	$ 15,647	$ 166,122	$ 1,956,729
Long-term liabilities	169,588	20,000	-0-	189,588
Total liabilities	1,944,548	35,647	166,122	2,146,317
Net position				
Net investment in capital assets	742,647	-0-	-0-	742,647
Restricted expendable	-0-	1,565,017	-0-	1,565,017
Restricted nonexpendable	-0-	-0-	-0-	-0-
Unrestricted	1,189,148	1,270,795	3,769,051	6,228,994
Total net position	1,931,795	2,835,812	3,769,051	8,536,658
Total liabilities and net position	$ 3,876,343	$ 2,871,459	$ 3,935,173	$ 10,682,975

	HDC	Foundation	JMB	Total
Statement of operations and changes in net position				
Operating revenues				
Net patient service revenue	$ 2,293,898	$ -0-	$ -0-	$ 2,293,898
Other operating revenue	2,059,278	-0-	790,183	2,849,461
Total operating revenues	4,353,176	-0-	790,183	5,143,359
Operating expenses				
Depreciation and amortization	115,940	18,477	175,452	309,869
Other operating expenses	4,405,289	378,749	474,361	5,258,399
Total operating expenses	4,521,229	397,226	649,813	5,568,268
Income (loss) from operations	(168,053)	(397,226)	140,370	(424,909)
Non-operating gains (losses)	(42,657)	507,617	(12,606)	452,354
Change in net position	(210,710)	110,391	127,764	27,445
Net position - beginning of year	2,142,505	2,725,421	3,641,287	8,509,213
Net position - end of year	$ 1,931,795	$ 2,835,812	$ 3,769,051	$ 8,536,658

	HDC	Foundation	JMB	Total
Statement of cash flows				
Cash provided by				
Operating activities	$ 928,777	$ 80,284	$ 302,152	$ 1,311,213
Noncapital financing activities	-0-	393,586	-0-	393,586
Capital and related financing activities	(163,744)	-0-	(231,288)	(395,032)
Investing activities	(359,906)	(398,069)	-0-	(757,975)
Total	405,127	75,801	70,864	551,792
Cash - beginning of year	1,081,017	160,452	555,672	1,797,141
Cash - end of year	$ 1,486,144	$ 236,253	$ 626,536	$ 2,348,933

25. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what effects, if any, the implementation of the following recently enacted statements may have on its future financial statements:

GASB Statement No. 72, *Fair Value Measurement and Application*, issued February 2015, will be effective for periods beginning after June 15, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, issued June 2015, will be effective for periods beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of statement and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, issued June, 2015, will be effective for periods beginning after June 15, 2015. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, issued January 2016, will be effective for periods beginning after June 15, 2016. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, issued March 2016, will be effective for periods beginning after June 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts – or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements – in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

GASB Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, No. 68, and No. 73*, issued March 2016, will be effective for periods beginning after June 15, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement address issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in the Actuarial Standard of Practice for financial reporting purposes, and, (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE MEDICAL CENTER'S NET PENSION (ASSET) LIABILITY AND RELATED RATIOS

	2015	2014	2013
Total pension liability			
Service cost	$ -0-	$ -0-	$ -0-
Interest	2,056,704	-0-	-0-
Difference between expected and actual experience	(278,935)	-0-	-0-
Change in assumptions	38,454	-0-	-0-
Benefit payments	(1,430,850)	-0-	-0-
Net change in total pension liability	385,373	-0-	-0-
Total pension liability - beginning	26,484,196	-0-	-0-
Total pension liability - ending (a)	$ 26,869,569	$ -0-	$ -0-
Plan fiduciary net position			
Employer contributions	$ -0-	$ -0-	$ -0-
Net transfers into (out of) trust	-0-	-0-	-0-
Net investment income	3,223,583	-0-	-0-
Benefit payments	(1,430,850)	-0-	-0-
Administrative expenses	(67,884)	-0-	-0-
Other	(37,011)	-0-	-0-
Net change in plan fiduciary net position	1,687,838	-0-	-0-
Plan fiduciary net position - beginning	35,536,956	-0-	-0-
Plan fiduciary net position - ending (b)	$ 37,224,794	$ -0-	$ -0-
Medical Center net pension (asset) liability - ending (a) - (b)	$ (10,355,225)	$ -0-	$ -0-
Plan fiduciary net position as a percentage of the total net pension liability	138.54%	0.00%	0.00%
Covered-employee payroll	N/A	N/A	N/A
Medical Center net pension (asset) liability as a percentage of covered-employee payroll	N/A	N/A	N/A

*The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Medical Center will present information for those years for which information is available.

SCHEDULE OF MEDICAL CENTER CONTRIBUTIONS

	Actuarially determined contribution	Employer contributions	Contribution deficiency (excess)	Covered employee payroll	Contributions as a % of covered employee payroll
4/30/2015	$ -0-	$ -0-	$ -0-	N/A	N/A
4/30/2014	-0-	-0-	-0-	N/A	N/A
4/30/2013	-0-	-0-	-0-	N/A	N/A
4/30/2012	-0-	-0-	-0-	N/A	N/A
4/30/2011	-0-	249,070	(249,070)	N/A	N/A

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of May 1, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine most current contribution rate above:

Actuarial cost method	Unit Credit
Amortization method	Level dollar, open
Remaining amortization method	30 years
Asset valuation method	Market value
Inflation	2.50%
Salary increases	Not applicable (Plan is frozen)
Investment rate of return	8.00%
Retirement age	65
Mortality	2015 IRS Annuitant/Non-Annuitant Mortality Tables (sex-distinct) with no mortality improvement