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May 11, 2009

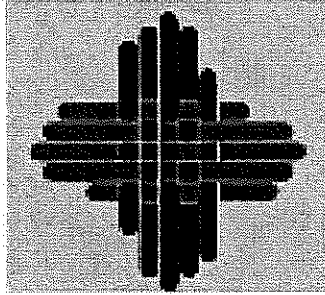
Board of Directors
Jackson County Schneck Memorial Hospital
411 West Tipton Street, P.O. Box 2349
Seymour, IN 47274

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Jackson County Schneck Memorial Hospital, as of December 31, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

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

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2008 AND 2007

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

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DECEMBER 31, 2008 AND 2007**

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Jackson County Schneck Memorial Hospital (d/b/a Schneck Medical Center) and Affiliated Organizations (collectively the "Medical Center"), component units of Jackson County, as of December 31, 2008 and 2007, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of December 31, 2008 and 2007, and the results of its operations and changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Blue & Co., LLC

April 30, 2009

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

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, 2008 and 2007. This discussion and analysis should be read in conjunction with the accompanying Medical Center's consolidated financial statements.

FINANCIAL HIGHLIGHTS

The Medical Center's net assets increased \$3,555,819 from 2007 to 2008 and include income from operations of \$12,169,534.

During 2008, the Medical Center's total operating revenue increased by 24.8% to \$99,036,732 with total operating expenses increasing by 25.2% to \$86,867,198.

In 2006, the Hospital began construction on an expansion and renovation project with an anticipated total cost of \$60,354,228. An 84,000 square foot addition to the existing Hospital facility was completed in 2008. Renovation of 90,600 square feet of existing space continues. During 2008, a total of \$17,040,325 was spent toward the project. Of the total, \$2,964,992 utilized bond funds.

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

In mid 2008, the Hospital employed three full time physician Hospitalists to provide 24 hour inpatient physician services. During 2008, additional gross revenue generated by this service was \$666,532.

An overall rate increase of 6.9% effective January 1, 2008 was implemented.

FINANCIAL STATEMENTS

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

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

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

FINANCIAL ANALYSIS

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

CONDENSED FINANCIAL INFORMATION

A summary of the Medical Center's Consolidated Balance Sheets as of December 31, 2008 and 2007 is presented below:

	2008	2007	\$ Change	% Change
Assets				
Cash and investments	\$ 99,925,492	\$ 107,774,148	\$ (7,848,656)	-7.3%
Capital assets	83,057,419	66,603,081	16,454,338	24.7%
Other assets	<u>25,891,242</u>	<u>28,576,046</u>	<u>(2,684,804)</u>	-9.4%
Total assets	<u>\$ 208,874,153</u>	<u>\$ 202,953,275</u>	<u>\$ 5,920,878</u>	2.9%
Liabilities				
Long-term debt, including current portion	\$ 53,686,795	\$ 54,804,569	\$ (1,117,774)	-2.0%
Other current and noncurrent liabilities	<u>16,211,324</u>	<u>12,728,491</u>	<u>3,482,833</u>	27.4%
Total liabilities	69,898,119	67,533,060	2,365,059	3.5%
Net assets				
Investment in capital assets net of related debt	29,370,624	16,562,382	12,808,242	77.3%
Restricted expendable net assets	6,279,037	9,114,342	(2,835,305)	-31.1%
Restricted nonexpendable net assets	246,916	394,702	(147,786)	-37.4%
Unrestricted	<u>103,079,457</u>	<u>109,348,789</u>	<u>(6,269,332)</u>	-5.7%
Total net assets	<u>138,976,034</u>	<u>135,420,215</u>	<u>3,555,819</u>	2.6%
Total liabilities and net assets	<u>\$ 208,874,153</u>	<u>\$ 202,953,275</u>	<u>\$ 5,920,878</u>	2.9%

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2008 AND 2007

CONDENSED FINANCIAL INFORMATION

A summary of the Medical Center's Consolidated Statements of Operations and Changes in Net Assets for the years ended December 31, 2008 and 2007 is presented below:

	2008	2007	\$ Change	% Change
Operating revenues				
Net patient service revenue	\$ 97,863,607	\$ 78,462,888	\$ 19,400,719	24.7%
Other revenue	1,173,125	922,352	250,773	27.2%
Total operating revenues	99,036,732	79,385,240	19,651,492	24.8%
Operating expenses				
Salaries and benefits	50,860,200	42,426,982	8,433,218	19.9%
Supplies and drugs	17,689,778	12,187,813	5,501,965	45.1%
Depreciation and amortization	5,417,714	4,271,693	1,146,021	26.8%
Other operating expenses	12,899,506	10,512,989	2,386,517	22.7%
Total operating expenses	86,867,198	69,399,477	17,467,721	25.2%
Income from operations	12,169,534	9,985,763	2,183,771	21.9%
Nonoperating revenues (expenses)	(8,465,929)	5,777,807	(14,243,736)	-246.5%
Excess revenues over expenses	3,703,605	15,763,570	(12,059,965)	-76.5%
Changes in perpetual trust	(147,786)	2,390	(150,176)	-6283.5%
Change in net assets	<u>\$ 3,555,819</u>	<u>\$ 15,765,960</u>	<u>\$ (12,210,141)</u>	-77.4%
Net assets, end of year	<u>\$ 138,976,034</u>	<u>\$ 135,420,215</u>	<u>\$ 3,555,819</u>	2.6%

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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2008 AND 2007**

The Medical Center's percentages of gross revenue by payor for 2008 and 2007 are as follows:

<u>Payor Mix</u>	<u>2008</u>	<u>2007</u>
Medicare	40 %	38 %
Medicaid	9	10
Commercial insurance	11	12
Anthem (Managed Care)	25	20
SIHO (Managed Care)	9	13
Self-pay	5	6
Other	1	1
	<hr/>	<hr/>
Total	<u>100 %</u>	<u>100 %</u>

OPERATING AND FINANCIAL PERFORMANCE

The Medical Center's overall financial performance declined in 2008 in comparison to 2007. A discussion of the highlights of 2008 operations and changes in activity is presented below:

Revenues

The Medical Center's net patient service revenues increased by \$19,400,719 in 2008 as a result of a rate increase and volume increases in areas including emergency room, surgery, respiratory therapy, inpatient services, births, rehabilitation services, laboratory, and diagnostic imaging services. Highlights of this activity are as follows:

- The Medical Center implemented an overall rate increase of 6.9% effective January 1, 2008. Patient volume increases were noted in emergency room, surgery, respiratory therapy, inpatient services, births, rehabilitation services, laboratory, and diagnostic imaging services. As mentioned previously, new services provided in 2008 included an inpatient Hospitalist program. The Medical Center experienced volume declines in home health and hospice services. Bad debt expense increased by \$6,457,466 or 74.9%.

Expenses

Total operating expenses increased by \$17,467,721. Highlights of this change are as follows:

- Employee salaries and wages increased \$8,141,861 or 25.1% as a result of merit increases, additional staffing required during the Columbus Regional Hospital closure, and the addition of wages relating to the addition of three full time physician Hospitalists. Employee benefits increased \$291,357 or 2.9% due to increase in employer health insurance expense. Depreciation expense increased \$1,121,875 or 26.5% due to addition of cancer services center in 2007 and completion of an 84,000 square foot addition to the Hospital.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

Capital Assets

	2008	2007	\$Change	%Change
Land and land improvements	\$ 9,417,095	\$ 7,285,940	\$ 2,131,155	29.3%
Leasehold improvements	501,814	405,170	96,644	23.9%
Buildings	67,670,617	34,025,163	33,645,454	98.9%
Equipment	41,323,831	38,703,589	2,620,242	6.8%
Construction in progress	3,603,254	26,643,431	(23,040,177)	-86.5%
	<u>122,516,611</u>	<u>107,063,293</u>	<u>15,453,318</u>	<u>14.4%</u>
Less accumulated depreciation	<u>39,459,192</u>	<u>40,460,212</u>	<u>(1,001,020)</u>	<u>-2.5%</u>
Capital assets, net	<u>\$ 83,057,419</u>	<u>\$ 66,603,081</u>	<u>\$ 16,454,338</u>	<u>24.7%</u>

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

Long-Term Debt

At December 31, 2008, the Medical Center had long-term debt (including current portion) of \$53,686,795. This is comprised of \$53,303,508 in revenue bonds outstanding, and \$383,287 in notes payable. The Medical Center issued Series 2006A and 2006B revenue bonds in May 2006 for the expansion of existing facilities. Series 2006A bonds were issued in the amount of \$15,000,000 and carry a fixed interest rate. Series 2006B bonds were issued in the amount of \$20,000,000 and carry a variable interest rate secured by a letter of credit provided by Fifth-Third Bank.

ECONOMIC FACTORS AND 2009 BUDGET

The Medical Center's Board and management considered many factors when establishing the 2009 Budget. Included was the status of the economy, which takes into consideration market factors and other environmental factors such as the following items:

- Population growth of Jackson County, Indiana and the expanding need for services
- Advances in medical equipment and information systems technology and the need to replace obsolete equipment
- Decreasing reimbursement from governmental and commercial insurance payors
- Increasing number of uninsured and/or indigent patients
- Increasing costs of medical supplies, pharmaceuticals, and medical malpractice insurance

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2008 AND 2007**

- Nationwide workforce shortages in key nursing and other healthcare specialist positions
- Increasing awareness and expectations from the public on the quality of services
- Increased competition from niche providers

CONTACTING THE MEDICAL CENTER

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

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

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

ASSETS

	2008	2007
Current assets		
Cash and cash equivalents	\$ 16,340,682	\$ 7,890,749
Investments	19,785,596	19,780,402
Patient accounts receivable, net of estimated uncollectibles of \$11,960,236 in 2008 and \$7,008,233 in 2007	13,030,166	17,116,572
Inventories	3,976,698	3,082,299
Prepaid expenses and other current assets	702,694	697,492
Other assets, current portion	980,193	806,202
Current portion of assets whose use is limited	1,807,502	1,769,656
Total current assets	56,623,531	51,143,372
 Assets whose use is limited, net of amount required to meet current obligations	 61,991,712	 78,333,341
 Capital assets		
Land	5,548,744	4,798,435
Land improvements	3,868,351	2,487,505
Leasehold improvements	501,814	405,170
Buildings	67,670,617	34,025,163
Fixed equipment	5,629,817	5,507,408
Movable equipment	35,694,014	33,196,181
	118,913,357	80,419,862
Less accumulated depreciation	39,459,192	40,460,212
	79,454,165	39,959,650
Construction in progress	3,603,254	26,643,431
Capital assets, net	83,057,419	66,603,081
 Other assets, net of current portion	 7,201,491	 6,873,481
 Total assets	 \$ 208,874,153	 \$ 202,953,275

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

LIABILITIES AND NET ASSETS

	2008	2007
Current liabilities		
Accounts payable	\$ 3,982,651	\$ 1,623,566
Accrued payroll and payroll withholdings	1,775,926	1,335,044
Accrued expenses	5,482,569	3,305,488
Estimated third-party payor settlements	639,000	425,000
Current portion of long-term debt	1,253,279	1,169,768
Total current liabilities	13,133,425	7,858,866
 Long-term liabilities		
Long-term debt, net of current portion	52,433,516	53,634,801
Deferred compensation liabilities	4,271,696	5,979,911
Deferred costs	59,482	59,482
Total long-term liabilities	56,764,694	59,674,194
 Total liabilities	69,898,119	67,533,060
 Net assets		
Invested in capital assets net of related debt	29,370,624	16,562,382
Restricted		
Expendable for debt service	5,021,336	3,279,032
Expendable for donor-designated purposes	1,257,701	1,071,440
Expendable for capital acquisitions	-	4,763,870
Nonexpendable perpetual trust	246,916	394,702
Unrestricted	103,079,457	109,348,789
 Total net assets	138,976,034	135,420,215
 Total liabilities and net assets	\$ 208,874,153	\$ 202,953,275

See accompanying notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
Operating revenues		
Net patient service revenue	\$ 97,863,607	\$ 78,462,888
Other revenue	<u>1,173,125</u>	<u>922,352</u>
Total operating revenues	99,036,732	79,385,240
Operating expenses		
Salaries and wages	40,586,348	32,444,487
Employee benefits and payroll taxes	10,273,852	9,982,495
Professional medical fees	615,275	387,362
Medical supplies	8,984,004	6,551,789
Other supplies	2,344,866	1,849,769
Drugs	6,360,908	3,786,255
Purchased services	6,769,199	5,661,878
Utilities	1,338,253	1,005,013
Insurance	1,026,128	837,033
Depreciation and amortization	5,417,714	4,271,693
Rent	846,793	728,116
Other operating expenses	<u>2,303,858</u>	<u>1,893,587</u>
Total operating expenses	<u>86,867,198</u>	<u>69,399,477</u>
Income from operations	12,169,534	9,985,763
Nonoperating revenues (expenses)	<u>(8,465,929)</u>	<u>5,777,807</u>
Excess revenues over expenses	3,703,605	15,763,570
Change in perpetual trust	<u>(147,786)</u>	<u>2,390</u>
Change in net assets	3,555,819	15,765,960
Net assets, beginning of year	<u>135,420,215</u>	<u>119,654,255</u>
Net assets, end of year	<u>\$ 138,976,034</u>	<u>\$ 135,420,215</u>

See accompanying notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
Operating activities		
Cash received for patient services	\$ 102,164,013	\$ 75,484,900
Cash paid to/for employees	(52,127,533)	(41,753,742)
Cash paid to vendors and suppliers	(29,402,733)	(23,439,146)
Other receipts, net	<u>1,173,125</u>	<u>922,352</u>
Net cash flows from operating activities	21,806,872	11,214,364
 Noncapital financing activities		
Noncapital contributions	711,997	1,560,762
 Capital and related financing activities		
Principal payments on long-term debt	(1,285,911)	(1,247,968)
Borrowings on long-term debt	59,672	-0-
Interest expense on long-term debt	(1,369,727)	(1,213,575)
Purchase of capital assets	(20,358,621)	(29,724,815)
Proceeds from sale of capital assets	13,300	186,622
Change in bond discounts, premium, and refunding loss	108,465	111,803
Loss on disposal of capital assets	<u>978,261</u>	<u>13,759</u>
Net cash flows from capital and related financing activities	(21,854,561)	(31,874,174)
 Investing activities		
Investment income	(7,362,899)	5,337,715
Other nonoperating revenues (expenses)	(593,086)	95,295
Change in investments	-0-	2,500,000
Change in assets whose use is limited	11,719,401	14,894,557
Change in other assets	<u>(556,979)</u>	<u>(1,253,113)</u>
Net cash flows from investing activities	3,206,437	21,574,454
 Net change in cash and cash equivalents	3,870,745	2,475,406
 Cash and cash equivalents, beginning of year	24,813,850	22,338,444
 Cash and cash equivalents, end of year	\$ 28,684,595	\$ 24,813,850
 Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents in current assets	\$ 16,340,682	\$ 7,890,749
Cash and cash equivalents in investments	285,596	280,402
Cash and cash equivalents in assets whose use is limited	<u>12,058,317</u>	<u>16,642,699</u>
 Total cash and cash equivalents	\$ 28,684,595	\$ 24,813,850

See accompanying notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
Reconciliation of income from operations to net cash and cash equivalents from operating activities		
Income from operations	\$ 12,169,534	\$ 9,985,763
Adjustments to reconcile income from operations to net cash flows from operating activities		
Depreciation	5,362,736	4,240,861
Amortization	54,978	30,832
Provision for bad debts	15,083,638	8,626,172
Changes in operating assets and liabilities		
Patient accounts receivable	(10,997,232)	(11,579,160)
Inventories	(894,399)	(835,986)
Prepaid expenses and other current assets	(5,202)	160,721
Accounts payable	(90,929)	(455,239)
Accrued payroll and payroll withholdings	440,882	318,494
Accrued expenses	2,177,081	392,160
Estimated third-party payor settlements	214,000	(25,000)
Deferred compensation liabilities	(1,708,215)	354,746
Net cash flows from operating activities	\$ 21,806,872	\$ 11,214,364
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 1,381,881	\$ 1,228,533
Supplemental disclosures of noncash operating and capital and related financing activities		
Property and equipment acquired included in accounts payable	\$ 2,450,014	\$ 281,077

See accompanying notes to consolidated financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

1. NATURE OF OPERATIONS

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Coordinated Health, LLC

HDC's consolidated financial statements at December 31, 2008 and 2007, 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.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Reporting Entity and Consolidation Policy

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

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

Management's Estimates

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

Proprietary Fund Accounting

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

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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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

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

Allowance for Patient Uncollectible Accounts

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

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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 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, 2008 and 2007, the Medical Center capitalized interest costs of \$1,041,586 and \$894,552, respectively.

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Deferred Costs

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

Net Assets

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

Consolidated Statements of Operations and Changes in Net Assets

For purposed 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.

Charity Care

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

Advertising and Marketing Costs

Advertising and marketing costs are charged to operations when incurred. Advertising and marketing costs charged to operations were \$630,343 and \$622,326 for the years ended December 31, 2008 and 2007, respectively.

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

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

Accounting for Uncertainty in Income Taxes

The Financial Accounting Standards Board ("FASB") has issued Interpretation No. 48 ("FIN 48"), which clarifies generally acceptable accounting principles for recognition, measurement, presentation, and disclosure relating to uncertain tax positions. FIN 48 applies to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. As permitted by FIN 48 (as amended), the Medical Center has elected to defer the application of FIN 48 until issuance of its December 31, 2009 consolidated financial statements. For the consolidated financial statements covering periods prior to calendar year 2009, the Medical Center evaluates uncertain tax positions in accordance with existing generally accepted accounting principles and makes such accruals and disclosures as might be required thereunder.

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

Under the FASB issued Staff Position No. 45-3, "Application of FASB Interpretation No. 45 to Minimum Reserve Guarantees Granted to a Business or its Owners" ("FIN 45-3"), the Medical Center is required to report the liability for physician revenue guarantees on its consolidated balance sheets at fair value and amortize the liability and related intangible asset over the income guarantee period. As cash payments are made to the physicians in accordance with the

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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, 2008 and 2007, the Medical Center had matching assets and liabilities relating to physician guarantees of \$1,024,000 and \$168,000, respectively.

Reclassifications

Certain 2007 amounts have been reclassified to provide for consistency with reporting of 2008 information. These reclassifications have no effect on the previously reported change in net assets or net assets.

3. DEPOSITS AND INVESTMENTS

Deposits and investments are comprised of the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Carrying amount		
Cash and cash equivalents	\$ 28,684,595	\$ 24,813,850
Certificates of deposit	47,385,115	47,635,112
Mutual funds	20,733,623	31,773,976
Corporate bonds	102,558	93,146
U.S. Government securities	1,808,473	1,645,062
Perpetual trust	246,916	394,702
Interest receivable	487,764	713,027
Real estate	-0-	3,386
Asset backed securities	60,869	63,681
Common stocks	415,579	638,206
	<u>415,579</u>	<u>638,206</u>
 Total	 <u>\$ 99,925,492</u>	 <u>\$ 107,774,148</u>
 Included in the consolidated balance sheet captions:		
Cash and cash equivalents	\$ 16,340,682	\$ 7,890,749
Investments	19,785,596	19,780,402
Assets whose use is limited	63,799,214	80,102,997
	<u>63,799,214</u>	<u>80,102,997</u>
 Total	 <u>\$ 99,925,492</u>	 <u>\$ 107,774,148</u>

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Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Medical Center's deposits may not be returned to it. The Medical Center does not have a deposit policy for custodial credit risk. Deposits with financial institutions are insured by the Federal Depository Insurance Corporation ("FDIC") up to FDIC limits. This includes any deposit accounts issued or offered by a qualifying institution. The Medical Center's deposits with financial institutions in the State of Indiana for the years ended December 31, 2008 and 2007, were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund.

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, 2008 and 2007, 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, 2008				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
Certificates of deposit	\$ 47,385,115	\$ 47,335,115	\$ 50,000	\$ -0-	\$ -0-
Corporate bonds	102,558	4,002	26,721	71,835	-0-
U.S. Government securities	<u>1,808,473</u>	<u>1,764,104</u>	<u>10,987</u>	<u>33,382</u>	<u>-0-</u>
Total	<u>\$ 49,296,146</u>	<u>\$ 49,103,221</u>	<u>\$ 87,708</u>	<u>\$ 105,217</u>	<u>\$ -0-</u>

	December 31, 2007				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
Certificates of deposit	\$ 47,635,112	\$ 47,500,000	\$ 135,112	\$ -0-	\$ -0-
Corporate bonds	93,146	8,974	21,349	62,823	-0-
U.S. Government securities	<u>1,645,062</u>	<u>1,052,875</u>	<u>580,877</u>	<u>11,310</u>	<u>-0-</u>
Total	<u>\$ 49,373,320</u>	<u>\$ 48,561,849</u>	<u>\$ 737,338</u>	<u>\$ 74,133</u>	<u>\$ -0-</u>

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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 2008	Fair Value 2007
Corporate bonds	A1	\$ 20,585	\$ 23,882
Corporate bonds	A2	15,861	10,952
Corporate bonds	A3	16,925	8,139
Corporate bonds	Aaa	4,029	4,978
Corporate bonds	Aa1	-0-	4,099
Corporate bonds	Aa2	13,303	10,717
Corporate bonds	Aa3	13,443	8,042
Corporate bonds	Baa1	6,826	3,920
Corporate bonds	Baa2	11,586	18,417
		<u>\$ 102,558</u>	<u>\$ 93,146</u>

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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.

4. PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable reported as current assets at December 31, 2008 and 2007, consist of the following:

	2008	2007
Medicare	\$ 2,100,083	\$ 3,506,111
Medicaid	432,598	652,030
Blue Cross	3,534,428	3,625,177
Other insurance carriers	5,937,143	5,779,132
Patients	12,986,150	10,562,355
Total patient accounts receivable	24,990,402	24,124,805
Less allowance for uncollectible amounts	11,960,236	7,008,233
Patient accounts receivable, net	\$ 13,030,166	\$ 17,116,572

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

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

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5. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. Assets whose use is limited are reported at market value and include the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>%</u>	<u>2007</u>	<u>%</u>
Cash and cash equivalents	\$ 12,058,317	18.9 %	\$ 16,642,699	20.8 %
Interest receivable	487,764	0.8	713,027	0.9
Certificates of deposit	27,885,115	43.7	28,153,112	35.1
Corporate bonds	102,558	0.2	93,146	0.1
Common stocks	415,579	0.6	638,206	0.8
U.S. Government securities	1,808,473	2.8	1,645,062	2.1
REITs/Tangibles	-0-	0.0	3,386	0.0
Mutual funds	20,733,623	32.5	31,755,976	39.6
Asset backed securities	60,869	0.1	63,681	0.1
Perpetual trust, held by trustee	246,916	0.4	394,702	0.5
	<u>\$ 63,799,214</u>	<u>100.0 %</u>	<u>\$ 80,102,997</u>	<u>100.0 %</u>

Less amount required for current obligations

1,807,502

1,769,656

Assets whose use is limited, net of amount required to meet current obligations

\$ 61,991,712

\$ 78,333,341

Total Investment Summary by Fund

Board-Designated Funds	\$ 52,892,062	82.9 %	\$ 64,614,042	80.7 %
Trustee-Held Funds	5,021,336	7.9	8,042,902	10.0
Donor-Restricted Funds	1,504,617	2.3	1,466,142	1.8
Deferred Compensation Funds	4,381,199	6.9	5,979,911	7.5
	<u>\$ 63,799,214</u>	<u>100.0 %</u>	<u>\$ 80,102,997</u>	<u>100.0 %</u>

Board-Designated Funds

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

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Trustee-Held Funds

The trustee-held funds are restricted for the payments of principal and interest related to certain long-term debt agreements and for payments of construction costs related to the Hospital construction project described in Note 23.

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.

New Accounting Pronouncement – SFAS No. 157

Statement on Financial Accounting Standards No. 157 ("FAS 157"), *Fair Value Measurements (as amended)*, requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by the Medical Center impacted by this pronouncement include the Medical Center's investments, which are measured using quoted prices in active markets.

The Medical Center partially adopted the provisions of FAS 157 for fiscal year 2008, but will delay adoption related to non-financial assets and non-financial liabilities covered by FASB Staff Position No. 157-2. This Staff Position permits companies to partially defer the effective date of FAS 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal year 2009.

When fully adopted, the Medical Center will apply the provisions of FAS 157-2 to certain non-financial assets and liabilities and is currently evaluating the impact of the full adoption of this statement on the consolidated balance sheets and consolidated statements of operations and changes in net assets.

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

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$ 19,785,596	\$ -0-	\$ -0-
Assets whose use is limited	<u>61,580,398</u>	<u>2,218,816</u>	<u>-0-</u>
	<u>\$ 81,365,994</u>	<u>\$ 2,218,816</u>	<u>\$ -0-</u>

Risks and Uncertainties

The national and world-wide investment market conditions deteriorated significantly in 2008 and continue to be volatile. The Medical Center holds investments in common stocks, mutual funds, corporate bonds, asset backed securities, and U.S. Government securities. Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements. The Medical Center's management is currently unable to determine the effect, if any, the decline in the market conditions may ultimately have on the Medical Center's investment portfolio and ability to fund certain projects.

6. LAND

During 1995, the Foundation received a contribution of land from the Hospital in the amount of \$180,000. On June 14, 1995, the Foundation began leasing the land to Jackson Medical Building, LLC, at \$100 per month during the period of construction and \$1,500 per month upon completion for a period of 40 years. Pursuant to the Land Lease agreement, a rate increase of 3 percent was approved and made effective June 1, 2006. The lessee is entitled to renew the lease for seven successive additional terms of five years each. Rental income related to this lease was \$18,530 and \$18,540 for the years ended December 31, 2008 and 2007, respectively.

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7. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2008 and 2007, was as follows:

	2008			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	\$ 4,798,435	\$ 8,000	\$ 742,309	\$ 5,548,744
Land improvements	2,487,505	3,779	1,377,067	3,868,351
Leasehold improvements	405,170	29,149	67,495	501,814
Buildings	34,025,163	111,290	33,534,164	67,670,617
Fixed equipment	5,507,408	2,616,000	(2,493,591)	5,629,817
Movable equipment	33,196,181	271,007	2,226,826	35,694,014
Construction in progress	26,643,431	19,769,410	(42,809,587)	3,603,254
Total historical cost	<u>107,063,293</u>	<u>22,808,635</u>	<u>(7,355,317)</u>	<u>122,516,611</u>
Less accumulated depreciation for				
Land improvements	(1,003,607)	(141,539)	152,898	(992,248)
Leasehold improvements	(219,623)	(775)	53,100	(167,298)
Buildings	(13,828,593)	(1,489,841)	1,347,133	(13,971,301)
Fixed equipment	(3,881,527)	(281,788)	188,462	(3,974,853)
Movable equipment	<u>(21,526,862)</u>	<u>(3,448,793)</u>	<u>4,622,163</u>	<u>(20,353,492)</u>
Total accumulated depreciation	<u>(40,460,212)</u>	<u>(5,362,736)</u>	<u>6,363,756</u>	<u>(39,459,192)</u>
Capital assets, net	<u>\$ 66,603,081</u>	<u>\$ 17,445,899</u>	<u>\$ (991,561)</u>	<u>\$ 83,057,419</u>

	2007			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	\$ 4,709,645	\$ 42,900	\$ 45,890	\$ 4,798,435
Land improvements	2,167,392	6,214	313,899	2,487,505
Leasehold improvements	379,976	25,194	-0-	405,170
Buildings	27,924,877	73,540	6,026,746	34,025,163
Fixed equipment	5,448,480	46,048	12,880	5,507,408
Movable equipment	27,812,737	2,494,342	2,889,102	33,196,181
Construction in progress	10,038,427	27,317,654	(10,712,650)	26,643,431
Total historical cost	<u>78,481,534</u>	<u>30,005,892</u>	<u>(1,424,133)</u>	<u>107,063,293</u>
Less accumulated depreciation for				
Land improvements	(891,719)	(111,888)	-0-	(1,003,607)
Leasehold improvements	(189,052)	(30,571)	-0-	(219,623)
Buildings	(12,825,547)	(1,059,348)	56,302	(13,828,593)
Fixed equipment	(3,586,432)	(295,095)	-0-	(3,881,527)
Movable equipment	<u>(19,950,353)</u>	<u>(2,743,959)</u>	<u>1,167,450</u>	<u>(21,526,862)</u>
Total accumulated depreciation	<u>(37,443,103)</u>	<u>(4,240,861)</u>	<u>1,223,752</u>	<u>(40,460,212)</u>
Capital assets, net	<u>\$ 41,038,431</u>	<u>\$ 25,765,031</u>	<u>\$ (200,381)</u>	<u>\$ 66,603,081</u>

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8. OTHER ASSETS

At December 31, 2008 and 2007, other assets consist of the following:

	2008	2007
Prepaid pension costs	\$ 2,230,292	\$ 2,504,002
Physician notes receivable	2,706,888	2,051,682
Notes receivable	163,148	173,846
Investment in managed care company	755,000	755,000
Investment in RCG Columbus, LLC	974,900	974,900
Investment in Jackson Medical Building, LLC	198,541	183,566
Investment in risk retention company	285,311	285,311
Bond issue costs, net	645,713	676,417
Other	221,891	74,959
Less: current portion of other assets	(980,193)	(806,202)
Other assets, net of current portion	\$ 7,201,491	\$ 6,873,481

Physician notes receivable are in varying amounts maturing through March 2016. 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, 2008).

To assist in the establishment of an ambulance service in Jackson County, the Medical Center provided a \$177,000 line of credit to the Jackson County Ambulance Services Authority to fund working capital and organizational costs. The line of credit is noninterest bearing. The line of credit was renewed in 2005 for an additional five years. The outstanding balance on the line of credit at December 31, 2008 and 2007 was \$106,950.

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

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

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

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

Bond issue costs are being amortized over the lives of the bonds on the straight-line method.

9. COMPENSATED ABSENCES

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

The rate at which full-time employees earn PTO and the maximum number of hours that an employee may have depends upon employee status (exempt, non-exempt) and credited length of service, and is as follows:

Non-Exempt Employees		
Length of Service	PTO earned for each hour paid	Maximum PTO bank
0 - 2 years	0.0885	368 hours
2 - 10 years	0.1077	448 hours
10 or more years	0.1270	528 hours

Exempt Employees		
Length of Service	PTO earned for each hour paid	Maximum PTO bank
0 - 2 years	0.0885	368 hours
2 - 5 years	0.1077	448 hours
5 or more years	0.1270	528 hours

PTO days are accrued when incurred and reported as accrued expenses in the consolidated financial statements. The PTO accrual at December 31, 2008 and 2007 was \$2,661,171 and \$1,345,191, respectively.

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10. EMPLOYEE HEALTH BENEFIT PLAN

The Medical Center operates a self-funded health plan covering substantially all employees. The Medical Center has an annual stop loss limit on the plan of \$80,000 per insured per year and an aggregate stop loss limit of approximately \$6,200,000. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of pay out, and other economic and social factors. Changes in the balance of claims liabilities during the years ended December 31, 2008 and 2007, were as follows:

	2008	2007
Accrued liability, beginning of year	\$ 1,050,566	\$ 888,945
Incurring claims and changes in estimates	6,344,236	6,483,015
Claim payments	(6,338,170)	(6,321,394)
Accrued liability, end of year	\$ 1,056,632	\$ 1,050,566

11. DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

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Funding Policy

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

Annual Pension Cost and Net Pension Obligation

The Medical Center's annual pension cost and net pension obligation for the years ended December 31, 2008 and 2007, are as follows:

	2008	2007
Annual required contribution	\$ 489,610	\$ 644,284
Interest on net pension obligation	(161,151)	(161,613)
Adjustment to annual required contribution	181,150	181,670
Annual pension cost	509,609	664,341
Interest on employer contributions	(14,840)	(14,284)
Contributions made	(221,059)	(1,133,894)
(Increase) decrease in net pension asset	273,710	(483,837)
Net pension (asset)/liability, beginning of year	(2,504,002)	(2,020,165)
Net pension (asset)/liability, end of year	\$ (2,230,292)	\$ (2,504,002)

The annual required contribution for the current year was determined as part of the May 1, 2008, actuarial valuation using the frozen entry age actuarial cost method. The actuarial assumptions included (a) 8.0 percent investment rate of return (net of administrative expenses) and (b) projected salary increases of 5.0 percent and (c) an inflation rate of 4.0 percent. The actuarial value of assets was determined using the market value of assets. The unfunded actuarial accrued liability is being amortized on a level dollar basis. The remaining amortization period at December 31, 2008, was 16 years.

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Asset
12/31/2006	\$ 885,877	0.0%	\$ (2,020,165)
12/31/2007	664,341	170.7%	(2,504,002)
12/31/2008	509,609	43.4%	(2,230,292)

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

Plan Year Ending	<u>12/31/08</u>	<u>12/31/07</u>	<u>12/31/06</u>
Actuarial Valuation Date	5/1/2008	5/1/2007	5/1/2006
Actuarial Value of Plan Assets	\$28,512,816	\$30,291,762	\$27,087,036
Actuarial Accrued Liability	\$28,512,816	\$30,291,762	\$27,087,036
Total Unfunded Actuarial Liability	\$0	\$0	\$0
Actuarial Value of Assets as a Percentage of the Actuarial Accrued Liability- "Funded Ratio"	100.0%	100.0%	100.0%
Annual Covered Payroll	\$24,300,050	\$24,363,433	\$23,801,821
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	0.0%	0.0%	0.0%

12. LONG-TERM DEBT

At December 31, 2008 and 2007, the Medical Center was obligated for long-term debt agreements as follows:

	<u>2008</u>	<u>2007</u>
Indiana Health Facility Financing Authority Series 1998 Revenue Bonds dated January 1998, payable in annual principal installments commencing February 1999 through February 2022, in amounts ranging from \$300,000 to \$1,880,000. Serial fixed interest rates ranging from 5.0% to 5.25%. Secured by gross revenues.	\$ 19,320,000	\$ 20,250,000

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<p>Indiana Health and Educational Facility Financing Authority Series 2006A Revenue Bonds dated May 2006, payable in annual principal installments commencing February 2023 through February 2036, in amounts ranging from \$750,000 to \$1,465,000. Fixed interest rate of 5.0% on \$770,000 and 5.25% on \$14,230,000. Secured by gross revenues.</p>	15,000,000	15,000,000
<p>Indiana Health and Educational Facility Financing Authority Series 2006B Revenue Bonds dated May 2006, payable in annual principal installments commencing February 2007 through February 2036 in amounts ranging from \$150,000 to \$1,610,000. Variable interest rate (2.6% at December 31, 2008). Secured by letter of credit from Fifth Third Bank maturing June 2011.</p>	19,695,000	19,845,000
<p>Note payable to bank dated July 2005, due July 2010; monthly payments of \$18,063, including interest beginning August 2005; fixed interest rate of 4.17% per annum. Secured by equipment.</p>	331,404	529,526
<p>Note payable to bank dated August 2008, due July 2011; monthly payments of \$1,782, including interest beginning August 2008; fixed interest rate of 4.7% per annum. Secured by equipment</p>	51,883	-0-
	54,398,287	55,624,526
Unamortized bond premium	269,160	279,083
Bond refunding loss	(815,243)	(915,306)
Less unamortized bond discounts	(165,409)	(183,734)
Less current portion	(1,253,279)	(1,169,768)
Long-term debt, net of current portion	\$ 52,433,516	\$ 53,634,801

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Long-term debt activity for the years ended December 31, 2008 and 2007 was as follows:

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

	2007				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 1998	\$ 21,140,000	\$ -0-	\$ (890,000)	\$ 20,250,000	\$ 930,000
Revenue bonds, series 2006A	15,000,000	-0-	-0-	15,000,000	-0-
Revenue bonds, series 2006B	20,000,000	-0-	(155,000)	19,845,000	150,000
Note payable to bank	719,518	-0-	(189,992)	529,526	198,152
Note payable	12,976	-0-	(12,976)	-0-	-0-
Bond premiums	289,006	-0-	(9,923)	279,083	9,923
Bond refunding loss	(1,017,678)	-0-	102,372	(915,306)	(100,063)
Bond discounts	(203,088)	-0-	19,354	(183,734)	(18,244)
Total long-term debt	\$ 55,940,734	\$ -0-	\$ (1,136,165)	\$ 54,804,569	\$ 1,169,768

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Debt service requirements on long-term debt at December 31, 2008, are as follows:

Year Ending December 31,	Principal	Interest
2009	\$ 1,253,279	\$ 2,285,459
2010	1,219,905	2,222,213
2011	1,147,428	2,162,334
2012	1,195,621	2,101,480
2013	1,256,370	2,034,101
2014 - 2018	7,391,138	9,104,757
2019 - 2023	9,207,739	6,969,963
2024 - 2028	9,844,615	5,005,760
2029 - 2033	12,334,615	2,917,231
2034 - 2038	8,836,085	520,604
Total	\$ 53,686,795	\$ 35,323,902

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

The debt agreement contains various restrictive covenants, including covenants related to debt service fund requirements, debt service coverage ratio, and audited financial statement submission requirements.

13. DEFERRED COMPENSATION PLAN

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

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Medical Center (without being

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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 were \$4,271,696 and \$5,979,911 for the years ended December 31, 2008 and 2007, respectively.

14. DONOR-DESIGNATED AND NONEXPENDABLE RESTRICTED NET ASSETS

Donor-designated restricted net assets are donor-restricted for a specific use or by the passage of time. Nonexpendable restricted net assets include a perpetual trust. Donor-designated and nonexpendable restricted net assets include the following at December 31, 2008 and 2007:

	2008	2007
Donor-designated restricted net assets		
Dr. Bud Fund	\$ 342,956	\$ 441,258
Medical Technology Fund	4,878	4,812
Educational/Scholarship Fund	15,203	15,004
Community Service Fund	2,389	2,357
Cancer Fund	233,142	8,254
Health Builders Fund	42,822	42,822
George H. James Scholarship Fund	44,215	56,212
EPIC Fund	243,440	176,100
Employee Humanitarian Fund	1,265	6,000
Anna Gaiser Fund	327,391	318,621
Total donor-designated restricted net assets	\$ 1,257,701	\$ 1,071,440
Nonexpendable restricted net assets		
Perpetual trust, held by trustee	\$ 246,916	\$ 394,702

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Perpetual Trust, Held by Trustee

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

15. NET PATIENT SERVICE REVENUE

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

- **Medicare**. The Medical Center is a provider of services to patients entitled to coverage under Title XVIII (Medicare) of the Health Insurance Act. The Medical Center is reimbursed for Medicare inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG) and Medicare outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The Hospital's classification of patients under the Medicare program and the appropriateness of their admissions are subject to an independent review by a peer review organization under contract with the Hospital. As of December 31, 2008, the Hospital's submitted Medicare cost reports have been final settled with the Fiscal Intermediary through December 31, 2006. For the years ending December 31, 2008 and 2007, the Hospital (increased) reduced contractual allowances by (\$214,000) and \$25,000, respectively, as a result of favorable (unfavorable) changes for estimated settlements.
- **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.

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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.

For the years ended December 31, 2008 and 2007, net patient service revenue was as follows:

	<u>2008</u>	<u>2007</u>
Gross patient service revenue		
Inpatient routine services	\$ 10,463,756	\$ 8,962,082
Inpatient ancillary services	49,152,616	36,703,160
Outpatient ancillary services	<u>161,773,269</u>	<u>122,166,380</u>
Total gross patient service revenue	221,389,641	167,831,622
Deductions from revenue		
Contractual allowances	105,663,812	78,921,303
Charity care	2,778,584	1,821,259
Bad debts	<u>15,083,638</u>	<u>8,626,172</u>
Total deductions from revenue	<u>123,526,034</u>	<u>89,368,734</u>
 Total net patient service revenue	 <u>\$ 97,863,607</u>	 <u>\$ 78,462,888</u>

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

16. CHARITY CARE

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies under its charity care policy. The following information measures the level of charity care provided for the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Charges foregone, based on established rates	<u>\$ 2,778,584</u>	<u>\$ 1,821,259</u>

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17. NONOPERATING REVENUES (EXPENSES)

For the years ended December 31, 2008 and 2007, nonoperating revenues (expenses) were as follows:

	<u>2008</u>	<u>2007</u>
Investment income	\$ (7,215,113)	\$ 5,335,325
Interest expense	(1,369,727)	(1,213,575)
Loss on disposal of capital assets	(978,261)	(13,759)
Contributions and grants	1,144,713	1,626,721
Miscellaneous	<u>(47,541)</u>	<u>109,054</u>
 Total nonoperating revenues (expenses)	 <u>\$ (8,465,929)</u>	 <u>\$ 5,843,766</u>

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

18. 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.

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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:

	2008	2007
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, 2008 and 2007 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.

19. RELATED PARTY TRANSACTIONS

Jackson Medical Building, LLC

HDC has a 20 percent ownership interest in Jackson Medical Building, LLC. HDC has entered into two noncancelable operating leases with Jackson Medical Building, LLC through 2011. HDC is leasing space in the medical building for future physicians. HDC recognized total rent expense of \$291,219 and \$285,855 for the years ended December 31, 2008 and 2007, respectively.

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The following is a schedule of future minimal rental payments required under the operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2008:

<u>Year ending December 31,</u>	<u>Amount</u>
2009	\$ 246,502
2010	253,894
2011	<u>107,135</u>
	<u>\$ 607,531</u>

20. CONCENTRATIONS OF CREDIT RISK

The Medical Center and Clinic grant credit without collateral to their patients, most of whom are local residents and insured under third-party payor agreements. The mix of gross revenues and receivables from patients and third-party payors at December 31, 2008 and 2007, was as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Revenues</u>	<u>Receivables</u>	<u>Revenues</u>	<u>Receivables</u>
Medicare	40 %	22 %	38 %	27 %
Medicaid	9	7	10	8
Blue Cross	25	14	20	14
SIHO	9	7	13	10
Other third-party payors	12	15	13	12
Patients	5	35	6	29
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

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

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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.

Investments

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

Assets Whose Use is Limited

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

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

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

Estimated Third-Party Payor Settlements

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

Long-Term Debt

The carrying amounts reported in the consolidated balance sheets for long-term debt at December 31, 2008 and 2007 is \$53,686,795 and \$54,804,569, respectively. The fair value of long-term debt at December 31, 2008 and 2007 is approximately \$63,284,686 and \$56,685,567, respectively.

Deferred Compensation Liabilities and Deferred Costs

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

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22. CONTINGENCIES

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

23. COMMITMENTS

As of December 31, 2008, the Medical Center has construction and renovation project commitments as follows:

<u>Project</u>	<u>Expected Date of Completion</u>	<u>Estimated Total Cost of Project</u>	<u>Costs Incurred as of December 31, 2008</u>
2007 Building Project	2009	\$ 5,350,000	\$ 2,556,723
Garage Property Purchase	2010	1,000,000	100,384
Cancer Center Serenity Garden	2009	245,000	217,908
Wireless Voice Data Implementation	2009	185,000	181,185
All others	Various	575,000	<u>547,054</u>
			<u>\$ 3,603,254</u>