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June 4, 2012

Board of Directors
Jackson County Schneck Memorial Hospital
P.O. Box 2349
411 W. Tipton Street
Seymour, IN 47274-5000

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2011 to December 31, 2011. 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 Jackson County Schneck Memorial Hospital, as of December 31, 2011 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

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2011 AND 2010

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

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CPAs/ADVISORS

blue

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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, 2011 and 2010, 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, 2011 and 2010, 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.

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

Blue & Co., LLC

April 23, 2012

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2011 AND 2010

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, 2011 and 2010. 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 $11,623,896 from 2010 to 2011 and included income from operations of $13,680,242. During 2011, the Medical Center's total operating revenue increased by 10.6% to $110,109,933 with total operating expenses increasing by 5.7% to $96,429,691.

- An overall rate increase of 2.9% effective January 1, 2011 was implemented.

- The Medical Center employed a previously independent group of orthopedic surgeons effective April 1, 2011. Expenses associated with the practice were $1,487,791.

The Medical Center's net assets increased $10,162,405 from 2009 to 2010 and included income from operations of $8,331,015. During 2010, the Medical Center's total operating revenue decreased by 3.7% to $99,594,796 with total operating expenses increasing by 1.7% to $91,263,781.

- Effective July 1, 2010, future benefit accruals for the Medical Center's defined benefit pension plan were frozen. At the same time, the Medical Center amended its 403(b) defined contribution plan to allow for employer discretionary and matching contributions. The Medical Center's contribution for 2010 was $526,000.

- An overall rate increase of 6% effective January 1, 2010 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 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, 2011 and 2010 is presented below:

	2011	2010	$ Change	% Change
Assets				
Cash and investments	$ 133,406,829	$ 123,531,449	$ 9,875,380	8.0%
Capital assets	82,259,968	78,482,202	3,777,766	4.8%
Other assets	26,650,642	25,116,216	1,534,426	6.1%
Total assets	$ 242,317,439	$ 227,129,867	$ 15,187,572	6.7%
Liabilities				
Long-term debt, including current portion	$ 50,845,166	$ 50,571,258	$ 273,908	0.5%
Other current and noncurrent liabilities	22,989,681	19,699,913	3,289,768	16.7%
Total liabilities	73,834,847	70,271,171	3,563,676	5.1%
Net assets				
Investment in capital assets net of related debt	31,414,802	27,910,944	3,503,858	12.6%
Restricted expendable net assets	5,897,473	4,490,537	1,406,936	31.3%
Restricted nonexpendable net assets	285,671	312,249	(26,578)	-8.5%
Unrestricted	130,884,646	124,144,966	6,739,680	5.4%
Total net assets	168,482,592	156,858,696	11,623,896	7.4%
Total liabilities and net assets	$ 242,317,439	$ 227,129,867	$ 15,187,572	6.7%

A summary of the Medical Center's Consolidated Balance Sheets as of December 31, 2010 and 2009 is presented below:

	2010	2009	$ Change	% Change
Assets				
Cash and investments	$ 123,531,449	$ 109,511,856	$ 14,019,593	12.8%
Capital assets	78,482,202	81,740,833	(3,258,631)	-4.0%
Other assets	25,116,216	24,742,250	373,966	1.5%
Total assets	$ 227,129,867	$ 215,994,939	$ 11,134,928	5.2%
Liabilities				
Long-term debt, including current portion	$ 50,571,258	$ 52,443,606	$ (1,872,348)	-3.6%
Other current and noncurrent liabilities	19,699,913	16,855,042	2,844,871	16.9%
Total liabilities	70,271,171	69,298,648	972,523	1.4%
Net assets				
Investment in capital assets net of related debt	27,910,944	29,297,227	(1,386,283)	-4.7%
Restricted expendable net assets	4,490,537	6,277,527	(1,786,990)	-28.5%
Restricted nonexpendable net assets	312,249	292,807	19,442	6.6%
Unrestricted	124,144,966	110,828,730	13,316,236	12.0%
Total net assets	156,858,696	146,696,291	10,162,405	6.9%
Total liabilities and net assets	$ 227,129,867	$ 215,994,939	$ 11,134,928	5.2%

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, 2011 and 2010 is presented below:

	2011	2010	$ Change	% Change
Operating revenues				
Net patient service revenue	$ 107,996,157	$ 98,530,200	$ 9,465,957	9.6%
Other revenue	2,113,776	1,064,596	1,049,180	98.6%
Total operating revenues	110,109,933	99,594,796	10,515,137	10.6%
Operating expenses				
Salaries and benefits	54,587,829	52,280,700	2,307,129	4.4%
Supplies and drugs	18,347,581	16,880,709	1,466,872	8.7%
Depreciation and amortization	8,770,138	8,519,194	250,944	2.9%
Other operating expenses	14,724,143	13,583,178	1,140,965	8.4%
Total operating expenses	96,429,691	91,263,781	5,165,910	5.7%
Income from operations	13,680,242	8,331,015	5,349,227	64.2%
Nonoperating revenues (expenses)	(2,029,768)	1,811,948	(3,841,716)	-212.0%
Excess revenues	11,650,474	10,142,963	1,507,511	14.9%
Change in perpetual trust	(26,578)	19,442	(46,020)	-236.7%
Change in net assets	$ 11,623,896	$ 10,162,405	$ 1,461,491	14.4%
Net assets, end of year	$ 168,482,592	$ 156,858,696	$ 11,623,896	7.4%

A summary of the Medical Center's Consolidated Statements of Operations and Changes in Net Assets for the years ended December 31, 2010 and 2009 is presented below:

	2010	2009	$ Change	% Change
Operating revenues				
Net patient service revenue	$ 98,530,200	$ 94,881,926	$ 3,648,274	3.8%
Other revenue	1,064,596	1,116,612	(52,016)	-4.7%
Total operating revenues	99,594,796	95,998,538	3,596,258	3.7%
Operating expenses				
Salaries and benefits	52,280,700	53,506,722	(1,226,022)	-2.3%
Supplies and drugs	16,880,709	17,282,645	(401,936)	-2.3%
Depreciation and amortization	8,519,194	8,020,524	498,670	6.2%
Other operating expenses	13,583,178	13,998,069	(414,891)	-3.0%
Total operating expenses	91,263,781	92,807,960	(1,544,179)	-1.7%
Income from operations	8,331,015	3,190,578	5,140,437	161.1%
Nonoperating revenues (expenses)	1,811,948	4,483,788	(2,671,840)	-59.6%
Excess revenues	10,142,963	7,674,366	2,468,597	32.2%
Change in perpetual trust	19,442	45,891	(26,449)	-57.6%
Change in net assets	$ 10,162,405	$ 7,720,257	$ 2,442,148	31.6%
Net assets, end of year	$ 156,858,696	$ 146,696,291	$ 10,162,405	6.9%

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 2011, 2010, and 2009 are as follows:

Payor Mix	2011	2010	2009
Medicare	38 %	38 %	39 %
Medicaid	12	12	11
Commercial insurance	10	10	10
Blue Cross	23	24	23
SIHO*	9	9	10
Self-pay	7	6	6
Other	1	1	1
Total	100 %	100 %	100 %

*Southeastern Indiana Health Organization

OPERATING AND FINANCIAL PERFORMANCE

The Medical Center's financial performance from operations improved in 2011 in comparison to 2010 and the Medical Center's overall financial performance improved from 2010 to 2011. A discussion of the highlights of 2011 operations and changes in activity is presented below:

Revenues

The Medical Center's net patient service revenues increased by $9,465,957 in 2011. This is primarily due to implementation of a rate increase and a greater number of surgeries performed as compared to the prior year. Highlights of revenue activity are as follows:

- The Medical Center implemented an overall rate increase of 2.9% effective January 1, 2011. As noted above, patient volume increases were noted for surgeries, as well as emergency department visits, laboratory tests, radiology procedures, inpatient admissions, physical therapy, occupational therapy, home-health care, and speech therapy. Patient volume decreases were noted in births and hospice services. Bad debt expense increased by $4,388,877 or 25%.

Expenses

Total operating expenses increased by $5,165,910 in 2011. Highlights of this change are as follows:

- The Medical Center employed a previously independent group of orthopedic surgeons effective April 1, 2011. Expenses associated with the practice were $1,487,791.
- Supply and drug costs increased $1,466,872 due to an increase in patient volumes.

The Medical Center's financial performance from operations improved in 2010 in comparison to 2009 and the Medical Center's overall financial performance improved from 2009 to 2010. A discussion of the highlights of 2010 operations and changes in activity is presented below:

Revenues

The Medical Center's net patient service revenues increased by $3,648,274 in 2010. This is primarily due to implementation of a rate increase and a greater number of surgeries performed as compared to the prior year. Highlights of revenue activity are as follows:

- The Medical Center implemented an overall rate increase of 6% effective January 1, 2010. Patient volume increases were noted for surgeries, as well as birth, occupational therapy, home-health care, and speech therapy. Patient volume decreases were noted in respiratory therapy, physical therapy, radiology, laboratory, and hospice services. Bad debt expense increased by $627,582 or 5.0%.

Expenses

Total operating expenses decreased by $1,544,179 in 2010. Highlights of this change are as follows:

- Employee benefits decreased $999,130 or 7.0%, due to the implementation of a "spousal carve-out" policy relating to employee health insurance, which requires the spouses of the Medical Center's employees to utilize their own employer's health benefits, if available. Supplies and drugs decreased by $401,936, or 2.3%, due to the increased utilization of vendors which are included in the Medical Center's group purchasing organization and provide lower prices. Insurance expense decreased $264,589, or 20.9%, due to reductions in malpractice insurance premiums.

Nonoperating Revenues (Expenses)

Nonoperating revenues decreased $2,671,840 or 59.6% from 2009 to 2010 due mainly to the reduction of investment income returns.

FINANCIAL ANALYSIS – CASH FLOWS

The Medical Center's 2011 cash flows increased $8,629,751 due primarily to positive cash inflows received for patient services and other receipts, which offset cash outflows for cash paid to employees and vendors, purchases of capital assets, and principal and interest payments on long-term debt.

The Medical Center's 2010 cash flows increased $15,947,670 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

	2011	2010	$Change	%Change
Land and land improvements	$ 10,314,381	$ 10,103,434	$ 210,947	2.1%
Leasehold improvements	930,537	854,508	76,029	8.9%
Buildings	77,786,900	74,180,633	3,606,267	4.9%
Equipment	48,696,613	44,818,221	3,878,392	8.7%
Construction in progress	2,332,925	444,442	1,888,483	424.9%
	140,061,356	130,401,238	9,660,118	7.4%
Less accumulated depreciation	57,801,388	51,919,036	5,882,352	11.3%
Capital assets, net	$ 82,259,968	$ 78,482,202	$ 3,777,766	4.8%

Capital assets increased in 2011. During 2011, the Medical Center purchased a daVinci Surgical Robotic system as a cost of $2,071,667 as well as build out of existing hospital shell space to house the Medical Center's obstetrics and gynecological practice physicians at a cost of $1,848,769 as of December 31, 2011.

	2010	2009	$Change	%Change
Land and land improvements	$ 10,103,434	$ 9,341,204	$ 762,230	8.2%
Leasehold improvements	854,508	854,508	-0-	0.0%
Buildings	74,180,633	73,092,995	1,087,638	1.5%
Equipment	44,818,221	43,002,571	1,815,650	4.2%
Construction in progress	444,442	403,479	40,963	10.2%
	130,401,238	126,694,757	3,706,481	2.9%
Less accumulated depreciation	51,919,036	44,953,924	6,965,112	15.5%
Capital assets, net	$ 78,482,202	$ 81,740,833	$ (3,258,631)	-4.0%

Net capital assets decreased in 2010 due primarily to annual depreciation and the disposal of assets that have exhausted their useful lives being greater than capital expenditures.

Long-Term Debt

At December 31, 2011, the Medical Center had long-term debt (including current portion) of $50,845,166. This is comprised of $49,760,055 in revenue bonds outstanding, and $1,085,111 in notes payable.

At December 31, 2010, the Medical Center had long-term debt (including current portion) of $50,571,258. This is comprised of $50,187,992 in revenue bonds outstanding, and $383,266 in notes payable.

Originally issued in 1998 to finance renovation of the obstetrics nursing area, provide funds for purchase of information system, and defeasance of Series 1991 bonds, Series 1998 revenue bonds were refunded in December 2010. The refunding Series 2010 revenue bonds maintain the same maturity date as the original 1998 issue and carry a fixed interest rate.

ECONOMIC FACTORS AND 2012 BUDGET

The Medical Center's Board and management considered many factors when establishing the 2012 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 number of uninsured, underinsured and/or indigent patients
- 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
- 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 Warren Forgey, Executive Vice President of Fiscal Services and Business Development at 812-522-0172.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

ASSETS

	2011	2010
Current assets		
Cash and cash equivalents	$ 39,213,183	$ 38,174,498
Investments	2,000,000	2,000,000
Patient accounts receivable, net of estimated uncollectibles of $18,284,990 in 2011 and $14,351,049 in 2010	14,612,192	12,758,911
Inventories	3,798,268	3,464,098
Prepaid expenses and other current assets	665,126	625,692
Physician recruitment guarantees, current portion	204,167	671,667
Other assets, current portion	714,302	303,745
Current portion of assets whose use is limited	1,941,920	839,097
Total current assets	63,149,158	58,837,708
Assets whose use is limited, net of amount required to meet current obligations	90,251,726	82,517,854
Capital assets		
Land	6,333,966	6,258,175
Land improvements	3,980,415	3,845,259
Leasehold improvements	930,537	854,508
Buildings	77,786,900	74,180,633
Fixed equipment	5,903,751	5,960,833
Movable equipment	42,792,862	38,857,388
	137,728,431	129,956,796
Less accumulated depreciation	57,801,388	51,919,036
	79,927,043	78,037,760
Construction in progress	2,332,925	444,442
Capital assets, net	82,259,968	78,482,202
Other long-term assets		
Physician recruitment guarantees, net of current portion	-0-	204,167
Other assets, net of current portion	6,656,587	7,087,936
Total other long-term assets	6,656,587	7,292,103
Total assets	$ 242,317,439	$ 227,129,867

See accompanying notes to consolidated financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

LIABILITIES AND NET ASSETS

	2011	2010
Current liabilities		
Accounts payable	$ 2,205,359	$ 1,891,202
Accrued payroll and payroll withholdings	3,177,477	2,454,643
Accrued expenses	5,845,705	4,949,426
Estimated third-party payor settlements	6,080,000	3,850,000
Physician recruitment guarantees, current portion	204,167	671,667
Current portion of long-term debt	1,590,270	528,599
Total current liabilities	19,102,978	14,345,537
Long-term liabilities		
Long-term debt, net of current portion	49,254,896	50,042,659
Deferred compensation liabilities	5,476,973	5,619,326
Physician recruitment guarantees, net of current portion	-0-	204,167
Deferred costs	-0-	59,482
Total long-term liabilities	54,731,869	55,925,634
Total liabilities	73,834,847	70,271,171
Net assets		
Invested in capital assets net of related debt	31,414,802	27,910,944
Restricted		
Expendable for debt service	4,806,125	3,419,186
Expendable for donor-designated purposes	1,091,348	1,071,351
Nonexpendable perpetual trust	285,671	312,249
Unrestricted	130,884,646	124,144,966
Total net assets	168,482,592	156,858,696
Total liabilities and net assets	$ 242,317,439	$ 227,129,867

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, 2011 AND 2010

	2011	2010
Operating revenues		
Net patient service revenue	$ 107,996,157	$ 98,530,200
Other revenue	2,113,776	1,064,596
Total operating revenues	110,109,933	99,594,796
Operating expenses		
Salaries and wages	42,329,026	38,972,041
Employee benefits and payroll taxes	12,258,803	13,308,659
Professional medical fees	931,432	1,368,806
Medical supplies	9,943,487	8,977,999
Other supplies	1,912,972	1,752,432
Drugs	6,491,122	6,150,278
Purchased services	8,452,668	7,173,727
Utilities	1,326,582	1,220,739
Insurance	1,019,816	1,002,378
Depreciation and amortization	8,770,138	8,519,194
Rent	1,191,074	982,694
Other operating expenses	1,802,571	1,834,834
Total operating expenses	96,429,691	91,263,781
Income from operations	13,680,242	8,331,015
Nonoperating revenues (expenses)	(2,029,768)	1,811,948
Excess revenues	11,650,474	10,142,963
Change in perpetual trust	(26,578)	19,442
Change in net assets	11,623,896	10,162,405
Net assets, beginning of year	156,858,696	146,696,291
Net assets, end of year	$ 168,482,592	$ 156,858,696

See accompanying notes to consolidated financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating activities		
Cash received for patient services	$ 108,372,876	$ 100,395,671
Cash paid to/for employees	(54,007,348)	(51,435,130)
Cash paid to vendors and suppliers	(32,625,800)	(31,038,827)
Other receipts, net	2,113,776	1,064,596
Net cash flows from operating activities	23,853,504	18,986,310
Noncapital financing activities		
Noncapital contributions	402,181	614,206
Capital and related financing activities		
Principal payments on long-term debt	(785,966)	(18,713,964)
Borrowings on long-term debt	1,002,811	17,024,250
Interest paid	(1,733,077)	(2,537,653)
Payment on debt issue costs	-0-	(221,384)
Purchase of capital assets	(12,275,499)	(5,088,194)
Proceeds from sale of capital assets	55,595	3,800
Change in advanced refunding loss and bond premiums	57,063	(174,404)
Loss on disposal of capital assets	237,712	317,754
Net cash flows from capital and related financing activities	(13,441,361)	(9,389,795)
Investing activities		
Investment income (loss)	(162,779)	3,799,845
Other nonoperating revenues (expenses)	(562,671)	(388,515)
Change in investments	-0-	4,250,000
Change in assets whose use is limited	(1,245,629)	(2,321,923)
Change in deferred costs	(59,482)	-0-
Change in other assets	(154,012)	397,542
Net cash flows from investing activities	(2,184,573)	5,736,949
Net change in cash and cash equivalents	8,629,751	15,947,670
Cash and cash equivalents, beginning of year	64,422,811	48,475,141
Cash and cash equivalents, end of year	$ 73,052,562	$ 64,422,811
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents in current assets	$ 39,213,183	$ 38,174,498
Cash and cash equivalents in assets whose use is limited	33,839,379	26,248,313
Total cash and cash equivalents	$ 73,052,562	$ 64,422,811

See accompanying notes to consolidated financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Reconciliation of income from operations to net cash and cash equivalents from operating activities		
Income from operations	$ 13,680,242	$ 8,331,015
Adjustments to reconcile income from operations to net cash flows from operating activities		
Depreciation	8,595,334	8,364,296
Amortization	174,804	154,898
Provision for bad debts	17,611,803	13,222,926
Changes in operating assets and liabilities		
Patient accounts receivable	(19,465,084)	(14,441,007)
Inventories	(334,170)	(36,309)
Prepaid expenses and other current assets	(39,434)	(96,465)
Accounts payable	(76,751)	(60,325)
Accrued payroll and payroll withholdings	722,834	1,002,706
Accrued expenses	896,279	(381,841)
Estimated third-party payor settlements	2,230,000	3,083,552
Deferred compensation liabilities	(142,353)	(157,136)
Net cash flows from operating activities	$ 23,853,504	$ 18,986,310
Supplemental disclosures of noncash operating and capital and related financing activities		
Property and equipment acquired included in accounts payable	$ 390,908	$ 339,025

See accompanying notes to consolidated financial statements.

1. NATURE OF OPERATIONS

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

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

HDC's consolidated financial statements at December 31, 2011 and 2010, include the accounts of Coordinated Health, LLC (the "Clinic"). The Clinic is wholly-owned by HDC and began operations in 2002. The Clinic was organized to operate exclusively for the benefit of HDC and the purposes for which HDC is organized and operated, including the promotion and support of the health of Jackson County, Indiana residents and residents of surrounding communities. Currently, the Clinic operates four healthcare facilities located in North Vernon, Salem, Scottsburg, and Seymour, Indiana. The Clinic's primary source of revenue is from patient services.

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

Jackson Medical Building, LLC ("JMB") is a limited liability company that is wholly owned by the Hospital after its purchase of 100 percent of JMB's units in 2011. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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:

Reporting Entity and Consolidation Policy

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

Management's Estimates

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

Proprietary Fund Accounting

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

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) standards, the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Risk Management

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

Cash and Cash Equivalents

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

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

Investments

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

Patient Accounts Receivable and Net Patient Service Revenue

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

Allowance for Patient Uncollectible Accounts

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

Inventories

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

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, 2011 and 2010, the Medical Center capitalized interest costs of $26,333 and $16,971, respectively.

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.

Performance Indicator

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

Charity Care

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

Advertising and Marketing Costs

Advertising and marketing costs are charged to operations when incurred. Advertising and marketing costs charged to operations were $846,186 and $610,244 for the years ended December 31, 2011 and 2010, 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 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 and JMB are both organized as a single-member Limited Liability Company (LLC). 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, 2011 and 2010, 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

The Financial Accounting Standards Board (FASB) has issued accounting standards which require the Medical Center to report a liability for physician revenue guarantees on its consolidated balance sheets at fair value and amortize that liability and corresponding intangible asset over the income guarantee period. As cash payments are made to the physicians in accordance with the terms of the income guarantees, the Medical Center records a note receivable from each participating physician. These notes are either paid back to the Medical Center or are forgiven by the Medical Center in accordance with the terms of each separate income guarantee agreement. As of December 31, 2011 and 2010, the Medical Center had matching assets and liabilities relating to physician guarantees of $204,167 and $875,834, 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 23, 2012.

Reclassifications

Certain 2010 amounts have been reclassified to provide for consistency with reporting of 2011 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, 2011 and 2010:

	2011	2010
Carrying amount		
Cash and cash equivalents	$ 73,052,562	$ 64,422,811
Certificates of deposit	26,066,000	28,166,000
Mutual funds	32,860,695	29,168,125
Corporate bonds	109,159	109,897
Perpetual trust	285,671	312,249
Interest receivable	73,960	211,116
Fixed income guaranteed option	464,255	615,209
Common stocks	494,527	526,042
Total	$ 133,406,829	$ 123,531,449

Included in the consolidated balance sheet captions:		
Cash and cash equivalents	$ 39,213,183	$ 38,174,498
Investments	2,000,000	2,000,000
Assets whose use is limited	92,193,646	83,356,951
Total	$ 133,406,829	$ 123,531,449

Custodial Credit Risk - Deposits

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

Investments are carried at fair value or cost which approximates fair value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. As of December 31, 2011 and 2010, 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, 2011

	Carrying Amount	Investment Maturities (in years) Less than 1	1 - 5	6 - 10	More than 10
Certificates of deposit	$ 26,066,000	$ 26,000,000	$ 66,000	$ -0-	$ -0-
Corporate bonds	109,159	17,388	46,990	44,781	-0-
Total	$ 26,175,159	$ 26,017,388	$ 112,990	$ 44,781	$ -0-

December 31, 2010

	Carrying Amount	Investment Maturities (in years) Less than 1	1 - 5	6 - 10	More than 10
Certificates of deposit	$ 28,166,000	$ 28,166,000	$ -0-	$ -0-	$ -0-
Corporate bonds	109,897	-0-	57,619	52,278	-0-
Total	$ 28,275,897	$ 28,166,000	$ 57,619	$ 52,278	$ -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 2011	Fair Value 2010
Corporate bonds	A1	$ 22,719	$ 18,122
Corporate bonds	A2	5,138	9,550
Corporate bonds	A3	18,571	22,911
Corporate bonds	Aaa	2,455	2,358
Corporate bonds	Aa2	9,035	8,871
Corporate bonds	Aa3	13,738	18,307
Corporate bonds	Baa1	21,214	19,635
Corporate bonds	Baa2	12,077	5,883
Corporate bonds	Baa3	4,212	4,260
		$ 109,159	$ 109,897

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, 2011 and 2010, consist of the following:

	2011	2010
Medicare	$ 9,284,223	$ 7,468,808
Medicaid	3,113,450	2,951,174
Blue Cross	7,352,660	4,953,769
Other insurance carriers	9,940,663	7,771,487
Patients	17,812,327	15,614,387
Total patient accounts receivable	47,503,323	38,759,625
Less allowance for contractuals	14,606,141	11,649,665
Less allowance for uncollectible amounts	18,284,990	14,351,049
Patient accounts receivable, net	$ 14,612,192	$ 12,758,911

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, 2011 and 2010:

Investment Summary by Type

	2011	%	2010	%
Cash and cash equivalents	$ 33,839,379	36.7 %	$ 26,248,313	31.5 %
Interest receivable	73,960	0.1	211,116	0.3
Certificates of deposit	24,066,000	26.1	26,166,000	31.4
Corporate bonds	109,159	0.1	109,897	0.1
Common stocks	494,527	0.5	526,042	0.6
Fixed income guaranteed option	464,255	0.5	615,209	0.7
Mutual funds	32,860,695	35.7	29,168,125	35.0
Perpetual trust, held by trustee	285,671	0.3	312,249	0.4
Total assets whose use is limited	$ 92,193,646	100.0 %	$ 83,356,951	100.0 %
Less amount required for current obligations	1,941,920		839,097	
Assets whose use is limited, net of amount required to meet current obligations	$ 90,251,726		$ 82,517,854	

Investment Summary by Fund

Board-Designated Funds	$ 80,533,529	87.4 %	$ 72,934,839	87.5 %
Trustee-Held Funds	4,806,125	5.2	3,419,186	4.1
Donor-Restricted Funds	1,377,019	1.5	1,383,600	1.7
Deferred Compensation Funds	5,476,973	5.9	5,619,326	6.7
Total	$ 92,193,646	100.0 %	$ 83,356,951	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 assets.

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.

Fair Value Measurements and Disclosures

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

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

Fair values of financial instruments at December 31, 2011 follow:

	Level 1	Level 2	Level 3	Total
Assets				
Corporate bonds				
Consumer goods	$ -0-	$ 16,810	$ -0-	$ 16,810
Consumer services	-0-	8,076	-0-	8,076
Financial	-0-	41,982	-0-	41,982
Healthcare	-0-	14,348	-0-	14,348
Industrials	-0-	10,373	-0-	10,373
Materials	-0-	2,376	-0-	2,376
Oil and gas	-0-	4,782	-0-	4,782
Telecommunications	-0-	6,102	-0-	6,102
Utilities	-0-	4,310	-0-	4,310
	-0-	109,159	-0-	109,159
Common stocks				
Business services	10,661	-0-	-0-	10,661
Consumer goods	85,480	-0-	-0-	85,480
Consumer services	52,656	-0-	-0-	52,656
Energy	41,259	-0-	-0-	41,259
Financials	47,283	-0-	-0-	47,283
Healthcare	43,883	-0-	-0-	43,883
Industrials	39,662	-0-	-0-	39,662
Materials	45,817	-0-	-0-	45,817
Oil and gas	21,323	-0-	-0-	21,323
Technology	76,148	-0-	-0-	76,148
Telecommunications	9,010	-0-	-0-	9,010
Utilities	21,345	-0-	-0-	21,345
	494,527	-0-	-0-	494,527

Mutual funds				
Large cap value	3,610,968	-0-	-0-	3,610,968
Large cap lend	2,316,661	-0-	-0-	2,316,661
Large cap growth	7,381,565	-0-	-0-	7,381,565
Large cap index	1,831,600	-0-	-0-	1,831,600
Mid cap value	11,780	-0-	-0-	11,780
Mid cap blend	684,764	-0-	-0-	684,764
Mid cap growth	26,550	-0-	-0-	26,550
Small cap value	973,089	-0-	-0-	973,089
Small cap blend	340,104	-0-	-0-	340,104
Small cap growth	934,757	-0-	-0-	934,757
Small cap index	1,249,206	-0-	-0-	1,249,206
Foreign large value	1,704,314	-0-	-0-	1,704,314
Foreign large blend	1,099,445	-0-	-0-	1,099,445
World stock	724,945	-0-	-0-	724,945
Diversified emerging markets	290,733	-0-	-0-	290,733
Diversified yielding markets	15,666	-0-	-0-	15,666
Commodities broad basket	241,638	-0-	-0-	241,638
Commodities precious metals	3,335	-0-	-0-	3,335
Global real estate	195,306	-0-	-0-	195,306
Multi sector bond	195,306	-0-	-0-	195,306
Intermediate term bond	3,131,767	-0-	-0-	3,131,767
Short term bond	26,040	-0-	-0-	26,040
Intermediate government	1,081	-0-	-0-	1,081
Short government	23,491	-0-	-0-	23,491
High yield bond	637,077	-0-	-0-	637,077
International equity	2,245,800	-0-	-0-	2,245,800
Inflation protected bond	7,001	-0-	-0-	7,001
Foreign bond	593,649	-0-	-0-	593,649
Multi alternative	5,538	-0-	-0-	5,538
Natural resources	3,350	-0-	-0-	3,350
Specialty funds	1,003,763	-0-	-0-	1,003,763
Realty funds	1,350,406	-0-	-0-	1,350,406
	32,860,695	-0-	-0-	32,860,695
Perpetual trust, held by trustee	-0-	-0-	285,671	285,671
Fixed income guaranteed option	-0-	464,255	-0-	464,255
	$ 33,355,222	$ 573,414	$ 285,671	$ 34,214,307
Liabilities				
Deferred compensation liabilities	$ (5,476,973)	$ -0-	$ -0-	$ (5,476,973)

Fair values of financial instruments at December 31, 2010 follow:

	Level 1	Level 2	Level 3	Total
Assets				
Corporate bonds	$ -0-	$ 109,897	$ -0-	$ 109,897
Common stocks	526,042	-0-	-0-	526,042
Mutual funds	29,168,125	-0-	-0-	29,168,125
Perpetual trust, held by trustee	-0-	-0-	312,249	312,249
Fixed income guaranteed option	-0-	615,209	-0-	615,209
	$ 29,694,167	$ 725,106	$ 312,249	$ 30,731,522
Liabilities				
Deferred compensation liabilities	$ (5,619,326)	$ -0-	$ -0-	$ (5,619,326)

The following summary sets forth a summary of changes in the fair values of the Medical Center's Level 3 assets for the year ended December 31, 2011:

	Perpetual Trust Held by Trustee
Balance, beginning of the year	$ 312,249
Purchase of investments	-0-
Redemption	-0-
Change in investment value	(26,578)
Balance, end of year	$ 285,671

The following summary sets forth a summary of changes in the fair values of the Medical Center's Level 3 assets for the year ended December 31, 2010:

	Perpetual Trust Held by Trustee
Balance, beginning of the year	$ 292,807
Purchase of investments	-0-
Redemption	-0-
Change in investment value	19,442
Balance, end of year	$ 312,249

Investments in the Perpetual Trust are recorded at fair value as reported by the trust administrator, which represents the Medical Center's pro rata interest in the net assets of the Trust, substantially all of which are valued on a market-to-market basis.

6. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2011 and 2010, was as follows:

	2011			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	$ 6,258,175	$ 44,461	$ 31,330	$ 6,333,966
Land improvements	3,845,259	77,795	57,361	3,980,415
Leasehold improvements	854,508	307,589	(231,560)	930,537
Buildings	74,180,633	3,805,095	(198,828)	77,786,900
Fixed equipment	5,960,833	56,827	(113,909)	5,903,751
Movable equipment	38,857,388	5,468,228	(1,532,754)	42,792,862
Construction in progress	444,442	2,906,412	(1,017,929)	2,332,925
Total historical cost	130,401,238	12,666,407	(3,006,289)	140,061,356
Less accumulated depreciation for				
Land improvements	(1,210,848)	(257,192)	6,816	(1,461,224)
Leasehold improvements	(399,158)	(145,728)	175,865	(369,021)
Buildings	(19,822,964)	(3,505,138)	563,543	(22,764,559)
Fixed equipment	(4,361,712)	(284,145)	80,508	(4,565,349)
Movable equipment	(26,124,354)	(4,403,131)	1,886,250	(28,641,235)
Total accumulated depreciation	(51,919,036)	(8,595,334)	2,712,982	(57,801,388)
Capital assets, net	$ 78,482,202	$ 4,071,073	$ (293,307)	$ 82,259,968

	2010			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	$ 5,491,936	$ -0-	$ 766,239	$ 6,258,175
Land improvements	3,849,268	-0-	(4,009)	3,845,259
Leasehold improvements	854,508	-0-	-0-	854,508
Buildings	73,092,995	411,909	675,729	74,180,633
Fixed equipment	5,749,776	13,738	197,319	5,960,833
Movable equipment	37,252,795	2,025,488	(420,895)	38,857,388
Construction in progress	403,479	2,976,084	(2,935,121)	444,442
Total historical cost	126,694,757	5,427,219	(1,720,738)	130,401,238
Less accumulated depreciation for				
Land improvements	(960,921)	(250,899)	972	(1,210,848)
Leasehold improvements	(277,350)	(121,808)	-0-	(399,158)
Buildings	(16,559,201)	(3,308,613)	44,850	(19,822,964)
Fixed equipment	(4,060,486)	(320,848)	19,622	(4,361,712)
Movable equipment	(23,095,966)	(4,362,128)	1,333,740	(26,124,354)
Total accumulated depreciation	(44,953,924)	(8,364,296)	1,399,184	(51,919,036)
Capital assets, net	$ 81,740,833	$ (2,937,077)	$ (321,554)	$ 78,482,202

7. OTHER ASSETS

At December 31, 2011 and 2010, other assets consist of the following:

	2011	2010
Prepaid pension costs	$ 2,020,084	$ 2,287,141
Physician notes receivable	1,773,376	1,466,777
Notes receivable	33,091	41,676
Investment in managed care company	755,000	755,000
Investment in RCG Columbus, LLC	974,900	974,900
Investment in JMB	-0-	267,774
Investment in risk retention company	335,311	335,311
Bond issue costs, net	711,661	752,416
Other	767,466	510,686
Less: current portion of other assets	(714,302)	(303,745)
Other assets, net of current portion	$ 6,656,587	$ 7,087,936

Physician notes receivable are in varying amounts maturing through November 2015. 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 to prime rate + 2 percent (4.25 and 5.25 percent, respectively, at December 31, 2011).

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.

Previous to 2011, the Medical Center made a $200,000 capital contribution to purchase a 20 percent ownership interest in JMB. In 2011 the Medical Center purchased the remaining 80 percent shares in JMB so that it was wholly-owned as of December 31, 2011.

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

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

8. 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
General	0 - 2 years	0.0885	368 hours
General	2 - 10 years	0.1077	448 hours
General	10 or more years	0.1270	528 hours
Directors	0 - 2 years	0.1077	448 hours
Directors	2 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, 2011 and 2010 was $3,998,396 and $3,336,531, respectively and is reported in Accrued Expenses in the consolidated financial statements.

9. 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. The accrued liability for claims liabilities is recorded in Accrued Expenses on the consolidated balance sheets.

Changes in the balance of claims liabilities during the years ended December 31, 2011 and 2010, were as follows:

	2011	2010
Accrued liability, beginning of year	$ 1,247,940	$ 1,560,511
Incurred claims and changes in estimates	7,071,971	7,173,022
Claim payments	(7,130,882)	(7,485,593)
Accrued liability, end of year	$ 1,189,029	$ 1,247,940

10. 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

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, 2011 and 2010, are as follows:

	2011	2010
Annual required contribution	$ 249,070	$ 2,059,451
Interest on net pension obligation	(163,046)	(161,123)
Adjustment to annual required contribution	181,033	181,119
Annual pension cost	267,057	2,079,447
Interest on employer contributions	-0-	(44,030)
Contributions made	-0-	(1,425,894)
(Increase) decrease in net pension asset	267,057	609,523
Net pension (asset)/liability, beginning of year	(2,287,141)	(2,896,664)
Net pension (asset)/liability, end of year	$ (2,020,084)	$ (2,287,141)

The annual required contribution for the current year was determined as part of the May 1, 2011, actuarial valuation using the Unit Credit Cost Method. The actuarial assumptions included (a) 8.0 percent investment rate of return (net of administrative expenses) and (b) projected salary increases of 3.75 percent (2.75 percent due to inflation and 1 percent due to merit/seniority) and (c) an inflation rate of 4.0 percent. The actuarial value of assets was determined using the market value of assets. The unfunded actuarial accrued liability is being amortized on a level dollar basis. The amortization period is 30 years from the valuation date.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Asset
12/31/2009	$ 895,052	172.7%	$ (2,896,664)
12/31/2010	2,079,447	68.6%	(2,287,141)
12/31/2011	267,057	0.0%	(2,020,084)

During 2010, the Medical Center froze the plan, no longer allowing new participants, and discontinuing the accrual of benefits for additional years of service for active participants.

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

Plan Year Ending	12/31/11	12/31/10	12/31/09
Actuarial Valuation Date	5/1/2011	5/1/2010	5/1/2009
Actuarial Value of Plan Assets	$ 30,098,727	$ 25,200,522	$ 17,746,521
Actuarial Accrued Liability	$ 24,778,642	$ 23,878,228	$ 28,558,566
Total Unfunded Actuarial Liability	$ -0-	$ -0-	$ 10,812,035
Actuarial Value of Assets as a Percentage of the Actuarial Accrued Liability- "Funded Ratio"	121.5%	105.5%	62.1%
Annual Covered Payroll	N/A	$ 33,404,583	$ 31,029,799
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	N/A	0.0%	34.8%

11. LONG-TERM DEBT

At December 31, 2011 and 2010, the Medical Center was obligated for long-term debt agreements as follows:

	2011	2010
Indiana Health Facility Financing Authority Series 1998 Revenue Bonds dated January 1998, refunded by Indiana Financing Authority Series 2010 Revenue Bonds.	$ -0-	$ 10,000
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.	15,955,000	16,280,000

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 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.	15,000,000	15,000,000
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 $1,610,000. In October 2009, bonds were converted to long-mode and re-issued to Branch Bank and Trust ("BB&T") who will hold the bonds through October 2014. During this period, variable interest rate equal to the greater of 1.14% plus .68% of the 30-day LIBOR, or 2.06% (2.06% at December 31, 2011). In October 2014, BB&T may exercise a put option on the bonds, or refinance the remaining principal with the Medical Center. If the put option is exercised by BB&T, the Medical Center may re-issue the bonds with another bank or in the bond market. Secured by gross revenues.	19,245,000	19,395,000
Note payable to bank dated February 2010, due December 2014; monthly payments of $8,483, including interest beginning February 2010; fixed interest rate of 4% per annum. Secured by equipment.	282,605	370,989
JMB note payable to bank dated September 1995, assumed by Hospital in 2011, due July 2015; monthly payments of $20,326, including interest; variable interest rate (4.75% at December 31, 2011). Secured by building.	802,506	-0-
Note payable to bank paid off in 2011.	-0-	12,277
	51,285,111	51,068,266
Unamortized bond premium	505,095	541,368
Bond refunding loss	(945,040)	(1,038,376)
Less current portion	(1,590,270)	(528,599)
Long-term debt, net of current portion	$ 49,254,896	$ 50,042,659

Long-term debt activity for the years ended December 31, 2011 and 2010 was as follows:

	2011				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 1998	$ 10,000	$ -0-	$ (10,000)	$ -0-	$ -0-
Revenue bonds, series 2006A	15,000,000	-0-	-0-	15,000,000	-0-
Revenue bonds, series 2006B	19,395,000	-0-	(150,000)	19,245,000	150,000
Revenue bonds, series 2010	16,280,000	-0-	(325,000)	15,955,000	1,195,000
Note payable to bank	370,989	-0-	(88,384)	282,605	92,006
JMB note payable to bank	-0-	1,002,811	(200,305)	802,506	210,327
Note payable	12,277	-0-	(12,277)	-0-	-0-
Bond premiums	541,368	-0-	(36,273)	505,095	36,274
Bond refunding loss	(1,038,376)	-0-	93,336	(945,040)	(93,337)
Total long-term debt	$ 50,571,258	$ 1,002,811	$ (728,903)	$ 50,845,166	$ 1,590,270

	2010				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 1998	$ 18,350,000	$ -0-	$ (18,340,000)	$ 10,000	$ 10,000
Revenue bonds, series 2006A	15,000,000	-0-	-0-	15,000,000	-0-
Revenue bonds, series 2006B	19,545,000	-0-	(150,000)	19,395,000	150,000
Revenue bonds, series 2010	-0-	16,280,000	-0-	16,280,000	325,000
Note payable to bank	-0-	450,000	(79,011)	370,989	88,385
Note payable to bank	124,681	-0-	(124,681)	-0-	-0-
Note payable	32,549	-0-	(20,272)	12,277	12,277
Bond premiums	259,237	294,250	(12,119)	541,368	36,274
Bond refunding loss	(719,776)	(1,042,265)	723,665	(1,038,376)	(93,337)
Bond discounts	(148,085)	-0-	148,085	-0-	-0-
Total long-term debt	$ 52,443,606	$ 15,981,985	$ (17,854,333)	$ 50,571,258	$ 528,599

Debt service requirements on long-term debt at December 31, 2011, are as follows:

Year Ending December 31,	Principal	Interest
2012	$ 1,590,270	$ 1,954,522
2013	1,639,313	1,901,039
2014	1,703,943	1,834,583
2015	1,563,333	1,767,669
2016	1,477,937	1,709,142
2017 - 2021	8,494,685	7,396,700
2022 - 2026	9,000,139	5,325,326
2027 - 2031	11,274,615	3,526,849
2032 - 2036	14,100,931	1,300,255
Total	$ 50,845,166	$ 26,716,085

During the year ended December 31, 2010, an advanced refunding of the Medical Center's Series 1998 Revenue Bonds was performed through the Medical Center's issuance of $16,280,000 in Series 2010 Revenue Bonds. This refunding resulted in the Medical Center recognizing a refunding loss totaling $1,042,265. 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 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.

12. 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 $5,476,973 and $5,619,326 for the years ended December 31, 2011 and 2010, 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, 2011 and 2010, the Medical Center recognized $960,000 and $526,000, respectively, in expense related to the 403(b) plan.

13. 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, 2011 and 2010:

	2011	2010
Donor-designated restricted net assets		
Dr. Bud Fund	$ 397,441	$ 416,934
Medical Technology Fund	5,372	4,930
Women's Center Fund	525	475
Cancer Fund	359,494	398,594
Hospice Fund	176,723	152,061
George H. James Scholarship Fund	-0-	17,215
EPIC Fund	150,991	75,910
Employee Humanitarian Fund	802	5,232
Total donor-designated restricted net assets	$ 1,091,348	$ 1,071,351
Nonexpendable restricted net assets		
Perpetual trust, held by trustee	$ 285,671	$ 312,249

Dr. Bud Fund

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 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.

14. 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, 2011, the Hospital's submitted Medicare cost reports have been final settled with the Fiscal Intermediary through December 31, 2006.

- ***Medicaid***. The Medical Center is a provider of services to patients entitled to coverage under Title XIX (Medicaid) of the Health Insurance Act. The Medical Center is reimbursed for Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG) and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. There is no cost settlement for either of the inpatient or outpatient programs. For the years ended December 31, 2011 and 2010, the Medical Center received and recorded in net patient service revenue $2,598,710 and $2,793,119, respectively, relating to net Medicaid Disproportionate Share Hospital ("DSH") payments and Indiana Medicaid Municipal Hospital Upper Payment Limit ("UPL") adjustments.

Laws and regulations governing the Medicare and Medicaid programs are 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 Medical Center believes that it is in compliance with all applicable laws and regulations.

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, 2011 and 2010, net patient service revenue was as follows:

	2011	2010
Gross patient service revenue		
Inpatient routine services	$ 11,378,530	$ 8,913,565
Inpatient ancillary services	56,908,496	50,432,292
Outpatient services	199,247,462	177,454,063
Total gross patient service revenue	267,534,488	236,799,920
Deductions from revenue		
Contractual allowances	142,825,890	126,253,192
Charity care	1,699,348	1,586,721
Bad debts	17,611,803	13,222,926
Medicaid DSH and UPL payments received	(2,598,710)	(2,793,119)
Total deductions from revenue	159,538,331	138,269,720
Total net patient service revenue	$ 107,996,157	$ 98,530,200

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.

15. CHARITY CARE

The Hospital 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 Hospital 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 Hospital's total operating expenses divided by gross patient service revenue. For the years ended December 31, 2011 and 2010, the Hospital incurred estimated costs of $1,699,348 and $1,586,721, respectively.

16. NONOPERATING REVENUES (EXPENSES)

For the years ended December 31, 2011 and 2010, nonoperating revenues (expenses) were as follows:

	2011	2010
Investment income (loss)	$ (136,201)	$ 3,780,403
Interest expense	(2,040,953)	(2,194,146)
Loss on disposal of capital assets	(237,712)	(317,754)
Contributions and grants	402,181	614,206
Miscellaneous	(17,083)	(70,761)
Total nonoperating revenues (expenses)	$ (2,029,768)	$ 1,811,948

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:

	2011	2010
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, 2011 and 2010 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 Chief Financial Officer serves as a member of the Board of Directors for Jackson County Bank ("JCB"). At December 31, 2011 and 2010, and for the years then ended, the Medical Center had the following related party transactions with JCB:

	2011	2010
Deposits	$ 19,413,722	$ 19,273,294
Note payable	$ 282,605	$ 370,989
Interest income	$ 135,936	$ 340,129
Interest expense	$ 13,412	$ 15,841

19. CONCENTRATIONS OF CREDIT RISK

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, 2011 and 2010, was as follows:

	2011		2010	
	Revenues	Receivables	Revenues	Receivables
Medicare	38 %	20 %	38 %	19 %
Medicaid	12	7	12	8
Blue Cross	23	15	24	13
SIHO*	9	6	9	7
Other third-party payors	11	15	11	14
Patients	7	37	6	39
	100 %	100 %	100 %	100 %

*Southeastern Indiana Health Organization

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 2014. Minimum future rental payments under these noncancelable operating leases, as of December 31, 2011, are as follows:

Year Ending December 31,	Amount
2012	$ 210,302
2013	246,911
2014	45,609
Total minimum payments	$ 502,822

The Medical Center incurred $1,191,074 and $982,694 in total rent expense for the years ended December 31, 2011 and 2010, 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 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 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, 2011 and 2010 is $50,845,166 and $50,571,258, respectively. The fair value of long-term debt at December 31, 2011 and 2010 is approximately $54,064,115 and $52,113,202, 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. The fair value amounts are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

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, 2011, 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, 2011
LSS Data System (Professional Billing)	2012	$ 391,000	$ 66,932
Meditech Scanning/Archiving	2012	370,000	268,716
5th floor buildout (OB/GYN)	2012	1,856,000	1,848,769
Crawl space piping replacement	2012	280,000	8,134
All other projects	2012	175,000	140,374
		$ 3,072,000	$ 2,332,925