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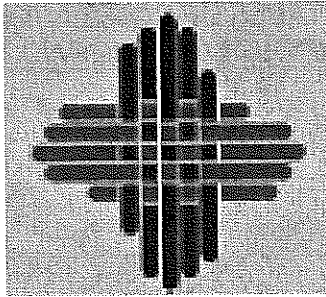
May 21, 2013

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

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2012 to December 31, 2012. 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, 2012 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**

**REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2012 AND 2011**

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

TABLE OF CONTENTS  
DECEMBER 31, 2012 AND 2011

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	Page
<b>Report of Independent Auditors .....</b>	<b>1</b>
<b>Required Supplementary Information</b>	
Management's Discussion and Analysis (Unaudited) .....	i
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheets.....	3
Consolidated Statements of Operations and Changes in Net Position.....	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	8



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*blueandco.com*

## REPORT OF INDEPENDENT AUDITORS

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

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Jackson County Schneck Memorial Hospital (d/b/a Schneck Medical Center) and Affiliated Organizations (collectively the "Medical Center"), component units of Jackson County, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

#### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of December 31, 2012 and 2011, and the results of its operations, its changes in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Report on Required Supplementary Information

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

*Blue & Co., LLC*

Louisville, KY  
April 23, 2013

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2012 AND 2011

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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, 2012 and 2011. This discussion and analysis should be read in conjunction with the accompanying Medical Center's consolidated financial statements.

## FINANCIAL HIGHLIGHTS

The Medical Center's net position increased \$16,832,683 from 2011 to 2012 and included income from operations of \$13,693,656. During 2012, the Medical Center's total operating revenue increased by 16.5% to \$128,232,709 with total operating expenses increasing by 18.8% to \$114,539,053.

- The Medical Center did not raise charge rates during 2012.
- During 2012, the Medical Center assumed ownership of the bed licenses of two long term care facilities. The Medical Center entered into management agreements with the previous owners to manage the day-to-day operations of the facilities. The Medical Center also leases the buildings and premises from the prior owners. The ownership transactions occurred effective July 1, 2012 and October 1, 2012, respectively. The operations of both facilities occurring subsequent to the ownership effective dates are included in the financial results of the Medical Center. The amount included in income from operations attributable to the two facilities was \$485,808 in 2012.
- In 2012, the Medical Center qualified for electronic health record meaningful use payments from both Medicare and Medicaid. The amount recorded in income from operations is \$1,846,587.
- In an effort to increase Medicaid reimbursement to hospitals, the state of Indiana implemented a Hospital Assessment Fee program in 2012. Indiana hospitals are assessed a fee which allows the state to access Federal funds allowing it to pay Medicaid patient claims at higher rates, not to exceed Medicare reimbursement. The Hospital paid \$5,816,239 in Hospital Assessment Fees in 2012.

The Medical Center's net position 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 charge 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.
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# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2012 AND 2011

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## FINANCIAL STATEMENTS

The consolidated financial statements of the Medical Center present information about the Medical Center using financial reporting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information. The consolidated balance sheets include all of the Medical Center's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Medical Center's creditors (liabilities). It also provides the basis for compiling rate of return, evaluating the capital structure of the Medical Center and assessing the liquidity and financial flexibility of the Medical Center. All of the current and prior year's revenues and expenses are accounted for in the consolidated statements of operations and changes in net position. This statement measures the financial results of the Medical Center's operations and presents revenues earned and expenses incurred. The consolidated statements of cash flows provide information about the Medical Center's cash flows from operating activities, capital and related financing activities, and investing activities, plus provide information on the sources and uses of cash during both the current and prior year.

## FINANCIAL ANALYSIS

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

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2012 AND 2011

## CONDENSED FINANCIAL INFORMATION

A summary of the Medical Center's consolidated balance sheets as of December 31, 2012 and 2011 is presented below:

	2012	2011	\$ Change	% Change
<b>Assets</b>				
Cash and investments	\$ 151,517,262	\$ 133,406,829	\$ 18,110,433	13.6%
Capital assets	78,885,608	82,259,968	(3,374,360)	-4.1%
Other assets	32,348,676	26,650,642	5,698,034	21.4%
Total assets	<u>\$ 262,751,546</u>	<u>\$ 242,317,439</u>	<u>\$ 20,434,107</u>	8.4%
<b>Liabilities</b>				
Long-term debt, including current portion	\$ 49,254,851	\$ 50,845,166	\$ (1,590,315)	-3.1%
Other current and noncurrent liabilities	28,181,420	22,989,681	5,191,739	22.6%
Total liabilities	77,436,271	73,834,847	3,601,424	4.9%
<b>Net position</b>				
Investment in capital assets net of related debt	29,630,757	31,414,802	(1,784,045)	-5.7%
Restricted expendable net position	6,048,422	5,897,473	150,949	2.6%
Restricted nonexpendable net position	306,945	285,671	21,274	7.4%
Unrestricted	149,329,151	130,884,646	18,444,505	14.1%
Total net position	<u>185,315,275</u>	<u>168,482,592</u>	<u>16,832,683</u>	10.0%
Total liabilities and net position	<u>\$ 262,751,546</u>	<u>\$ 242,317,439</u>	<u>\$ 20,434,107</u>	8.4%

A summary of the Medical Center's consolidated balance sheets as of December 31, 2011 and 2010 is presented below:

	2011	2010	\$ Change	% Change
<b>Assets</b>				
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	<u>\$ 242,317,439</u>	<u>\$ 227,129,867</u>	<u>\$ 15,187,572</u>	6.7%
<b>Liabilities</b>				
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%
<b>Net position</b>				
Investment in capital assets net of related debt	31,414,802	27,910,944	3,503,858	12.6%
Restricted expendable net position	5,897,473	4,490,537	1,406,936	31.3%
Restricted nonexpendable net position	285,671	312,249	(26,578)	-8.5%
Unrestricted	130,884,646	124,144,966	6,739,680	5.4%
Total net position	<u>168,482,592</u>	<u>156,858,696</u>	<u>11,623,896</u>	7.4%
Total liabilities and net position	<u>\$ 242,317,439</u>	<u>\$ 227,129,867</u>	<u>\$ 15,187,572</u>	6.7%

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2012 AND 2011

## CONDENSED FINANCIAL INFORMATION

A summary of the Medical Center's consolidated statements of operations and changes in net position for the years ended December 31, 2012 and 2011 is presented below:

	2012	2011	\$ Change	% Change
<b>Operating revenues</b>				
Net patient service revenue	\$ 124,158,304	\$ 107,996,157	\$ 16,162,147	15.0%
Other revenue	<u>4,074,405</u>	<u>2,113,776</u>	<u>1,960,629</u>	92.8%
Total operating revenues	128,232,709	110,109,933	18,122,776	16.5%
<b>Operating expenses</b>				
Salaries and benefits	61,851,396	54,587,829	7,263,567	13.3%
Supplies and drugs	20,117,541	18,347,581	1,769,960	9.6%
Depreciation and amortization	8,818,724	8,770,138	48,586	0.6%
Other operating expenses	<u>23,751,392</u>	<u>14,724,143</u>	<u>9,027,249</u>	61.3%
Total operating expenses	<u>114,539,053</u>	<u>96,429,691</u>	<u>18,109,362</u>	18.8%
Income from operations	13,693,656	13,680,242	13,414	0.1%
<b>Nonoperating revenues (expenses)</b>	<u>3,139,027</u>	<u>(2,056,346)</u>	<u>5,195,373</u>	252.7%
Change in net position	<u>\$ 16,832,683</u>	<u>\$ 11,623,896</u>	<u>\$ 5,208,787</u>	44.8%
<b>Net position, end of year</b>	<u>\$ 185,315,275</u>	<u>\$ 168,482,592</u>	<u>\$ 16,832,683</u>	10.0%

A summary of the Medical Center's consolidated statements of operations and changes in net position for the years ended December 31, 2011 and 2010 is presented below:

	2011	2010	\$ Change	% Change
<b>Operating revenues</b>				
Net patient service revenue	\$ 107,996,157	\$ 98,530,200	\$ 9,465,957	9.6%
Other revenue	<u>2,113,776</u>	<u>1,064,596</u>	<u>1,049,180</u>	98.6%
Total operating revenues	110,109,933	99,594,796	10,515,137	10.6%
<b>Operating expenses</b>				
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	<u>14,724,143</u>	<u>13,583,178</u>	<u>1,140,965</u>	8.4%
Total operating expenses	<u>96,429,691</u>	<u>91,263,781</u>	<u>5,165,910</u>	5.7%
Income from operations	13,680,242	8,331,015	5,349,227	64.2%
<b>Nonoperating revenues (expenses)</b>	<u>(2,056,346)</u>	<u>1,831,390</u>	<u>(3,887,736)</u>	-212.3%
Change in net position	<u>\$ 11,623,896</u>	<u>\$ 10,162,405</u>	<u>\$ 1,461,491</u>	14.4%
<b>Net position, end of year</b>	<u>\$ 168,482,592</u>	<u>\$ 156,858,696</u>	<u>\$ 11,623,896</u>	7.4%

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2012 AND 2011

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## 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 2012, 2011, and 2010 are as follows:

<u>Payor Mix</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Medicare	39 %	38 %	38 %
Medicaid	13	12	12
Commercial insurance	10	10	10
Blue Cross	21	23	24
SIHO*	9	9	9
Self-pay	7	7	6
Other	1	1	1
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

\*Southeastern Indiana Health Organization

## OPERATING AND FINANCIAL PERFORMANCE

The Medical Center's financial performance from operations improved slightly in 2012 in comparison to 2011 and the Medical Center's overall financial performance improved from 2011 to 2012. A discussion of the highlights of 2012 operations and changes in activity is presented below:

### Revenues

The Medical Center's net patient service revenues increased by \$16,162,147 in 2012. This is primarily due to increased Medicaid reimbursement resulting from the State of Indiana's Hospital Assessment Fee Program, as well as a result of increases in laboratory volumes, emergency department visits, inpatient admissions, and births as compared to the prior year. Highlights of revenue activity are as follows:

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

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- As noted above, patient volume increases were noted for inpatient admissions, births, and surgeries, as well as emergency department visits, laboratory tests, radiology procedures, occupational therapy, home-health care, and speech therapy. Patient volume decreases were noted in respiratory therapy, physical therapy, and hospice services.

### Expenses

Total operating expenses increased by \$18,109,362 in 2012. Highlights of this change are as follows:

- As mentioned above, the State of Indiana implemented a Hospital Assessment Fee program in 2012. Indiana hospitals are assessed a fee which allows the state to access Federal funds allowing it to pay Medicaid patient claims at higher rates not to exceed Medicare reimbursement. The Hospital paid \$5,816,239 in Hospital Assessment Fees in 2012.
- Salary and benefits costs increased \$7,263,567. This was due to staffing needs generated by increased patient volumes as well as contract labor costs of \$3,628,934 relating to the two long term care facilities.
- Supply and drug costs increased \$1,769,960 due to an increase in patient volumes.

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.
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# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2012 AND 2011

## FINANCIAL ANALYSIS – CASH FLOWS

The Medical Center's 2012 cash flows increased \$13,460,644 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.

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.

### Capital Assets

	2012	2011	\$Change	%Change
Land and land improvements	\$ 10,428,911	\$ 10,314,381	\$ 114,530	1.1%
Leasehold improvements	672,661	930,537	(257,876)	-27.7%
Buildings	80,146,074	77,786,900	2,359,174	3.0%
Equipment	52,030,961	48,696,613	3,334,348	6.8%
Construction in progress	1,054,500	2,332,925	(1,278,425)	-54.8%
	<u>144,333,107</u>	<u>140,061,356</u>	<u>4,271,751</u>	<u>3.0%</u>
Less accumulated depreciation	<u>65,447,499</u>	<u>57,801,388</u>	<u>7,646,111</u>	<u>13.2%</u>
Capital assets, net	<u>\$ 78,885,608</u>	<u>\$ 82,259,968</u>	<u>\$ (3,374,360)</u>	<u>-4.1%</u>

Capital assets increased in 2012. During 2012, the Medical Center purchased upgrades and additions to information technology software and equipment at a cost of \$1,022,752. The Medical Center also purchased a new telemetry system at a cost of \$403,645 as well as upgraded inpatient beds at a cost of \$326,045.

	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%
	<u>140,061,356</u>	<u>130,401,238</u>	<u>9,660,118</u>	<u>7.4%</u>
Less accumulated depreciation	<u>57,801,388</u>	<u>51,919,036</u>	<u>5,882,352</u>	<u>11.3%</u>
Capital assets, net	<u>\$ 82,259,968</u>	<u>\$ 78,482,202</u>	<u>\$ 3,777,766</u>	<u>4.8%</u>

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

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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.

### Long-Term Debt

At December 31, 2012, the Medical Center had long-term debt (including current portion) of \$49,254,851. This is comprised of \$48,472,117 in revenue bonds outstanding, and \$782,734 in notes payable.

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.

### ECONOMIC FACTORS AND 2013 BUDGET

The Medical Center's Board and management considered many factors when establishing the 2013 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.

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

CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2012 AND 2011

**ASSETS**

	2012	2011
<b>Current assets</b>		
Cash and cash equivalents	\$ 37,660,394	\$ 39,213,183
Investments	8,429,888	2,000,000
Patient accounts receivable, net of estimated uncollectibles of \$23,985,664 in 2012 and \$18,284,990 in 2011	16,041,927	14,612,192
Inventories	3,929,224	3,798,268
Prepaid expenses and other current assets	4,772,255	665,126
Physician recruitment guarantees, current portion	242,500	204,167
Other assets, current portion	894,033	714,302
Current portion of assets whose use is limited	1,972,724	1,941,920
Total current assets	73,942,945	63,149,158
 <b>Assets whose use is limited, net of amount required to meet current obligations</b>	 103,454,256	 90,251,726
 <b>Capital assets</b>		
Land	6,411,082	6,333,966
Land improvements	4,017,829	3,980,415
Leasehold improvements	672,661	930,537
Buildings	80,146,074	77,786,900
Fixed equipment	6,066,683	5,903,751
Movable equipment	45,964,278	42,792,862
	143,278,607	137,728,431
Less accumulated depreciation	65,447,499	57,801,388
	77,831,108	79,927,043
Construction in progress	1,054,500	2,332,925
Capital assets, net	78,885,608	82,259,968
 <b>Other long-term assets</b>		
Physician recruitment guarantees, net of current portion	105,000	-0-
Other assets, net of current portion	6,363,737	6,656,587
Total other long-term assets	6,468,737	6,656,587
 Total assets	 \$ 262,751,546	 \$ 242,317,439

*See accompanying notes to consolidated financial statements.*

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

CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2012 AND 2011

**LIABILITIES AND NET POSITION**

	2012	2011
<b>Current liabilities</b>		
Accounts payable	\$ 5,344,543	\$ 2,205,359
Accrued payroll and payroll withholdings	3,719,250	3,177,477
Accrued expenses	5,723,485	5,845,705
Estimated third-party payor settlements	7,125,000	6,080,000
Physician recruitment guarantees, current portion	242,500	204,167
Current portion of long-term debt	1,639,313	1,590,270
Total current liabilities	23,794,091	19,102,978
<b>Long-term liabilities</b>		
Long-term debt, net of current portion	47,615,538	49,254,896
Deferred compensation liabilities	5,921,642	5,476,973
Physician recruitment guarantees, net of current portion	105,000	-0-
Total long-term liabilities	53,642,180	54,731,869
Total liabilities	77,436,271	73,834,847
<b>Net position</b>		
Invested in capital assets net of related debt	29,630,757	31,414,802
Restricted		
Expendable for debt service	4,820,700	4,806,125
Expendable for donor-designated purposes	1,227,722	1,091,348
Nonexpendable perpetual trust	306,945	285,671
Unrestricted	149,329,151	130,884,646
Total net position	185,315,275	168,482,592
Total liabilities and net position	\$ 262,751,546	\$ 242,317,439

*See accompanying notes to consolidated financial statements.*

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION  
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
<b>Operating revenues</b>		
Net patient service revenue	\$ 124,158,304	\$ 107,996,157
Other revenue	<u>4,074,405</u>	<u>2,113,776</u>
Total operating revenues	128,232,709	110,109,933
<b>Operating expenses</b>		
Salaries and wages	49,582,498	42,329,026
Employee benefits and payroll taxes	12,268,898	12,258,803
Professional medical fees	1,274,609	931,432
Medical supplies	10,747,676	9,943,487
Other supplies	2,376,547	1,912,972
Drugs	6,993,318	6,491,122
Purchased services	10,062,146	8,452,668
Utilities	1,496,572	1,326,582
Insurance	1,270,282	1,019,816
Depreciation and amortization	8,818,724	8,770,138
Rent	1,074,339	1,191,074
Hospital assessment fee	5,816,239	-0-
Other operating expenses	<u>2,757,205</u>	<u>1,802,571</u>
Total operating expenses	<u>114,539,053</u>	<u>96,429,691</u>
Income from operations	13,693,656	13,680,242
<b>Nonoperating revenues (expenses)</b>	<u>3,139,027</u>	<u>(2,056,346)</u>
Change in net position	16,832,683	11,623,896
<b>Net position, beginning of year</b>	<u>168,482,592</u>	<u>156,858,696</u>
<b>Net position, end of year</b>	<u>\$ 185,315,275</u>	<u>\$ 168,482,592</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, 2012 AND 2011

	2012	2011
<b>Operating activities</b>		
Cash received for patient services	\$ 123,773,569	\$ 108,372,876
Cash paid to/for employees	(60,864,954)	(54,007,348)
Cash paid to vendors and suppliers	(45,940,549)	(32,625,800)
Other receipts, net	4,074,405	2,113,776
Net cash flows from operating activities	<u>21,042,471</u>	<u>23,853,504</u>
<b>Noncapital financing activities</b>		
Noncapital contributions	504,616	402,181
<b>Capital and related financing activities</b>		
Principal payments on long-term debt	(1,647,377)	(785,966)
Borrowings on long-term debt	-0-	1,002,811
Interest paid	(1,931,784)	(1,733,077)
Purchase of capital assets	(4,576,970)	(12,275,499)
Proceeds from sale of capital assets	29,432	55,595
Change in advanced refunding loss and bond premiums	57,062	57,063
Loss on disposal of capital assets	105,082	237,712
Net cash flows from capital and related financing activities	<u>(7,964,555)</u>	<u>(13,441,361)</u>
<b>Investing activities</b>		
Investment income (loss)	4,786,983	(162,779)
Other nonoperating revenues (expenses)	(220,788)	(562,671)
Change in investments	(6,429,888)	-0-
Change in assets whose use is limited	1,780,099	(1,245,629)
Change in deferred costs	-0-	(59,482)
Change in other assets	(38,294)	(154,012)
Net cash flows from investing activities	<u>(121,888)</u>	<u>(2,184,573)</u>
Net change in cash and cash equivalents	13,460,644	8,629,751
<b>Cash and cash equivalents, beginning of year</b>	<u>73,052,562</u>	<u>64,422,811</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 86,513,206</u>	<u>\$ 73,052,562</u>
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>		
Cash and cash equivalents in current assets	\$ 37,660,394	\$ 39,213,183
Cash and cash equivalents in assets whose use is limited	<u>48,852,812</u>	<u>33,839,379</u>
Total cash and cash equivalents	<u>\$ 86,513,206</u>	<u>\$ 73,052,562</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, 2012 AND 2011

	2012	2011
<b>Reconciliation of income from operations to net cash and cash equivalents from operating activities</b>		
Income from operations	\$ 13,693,656	\$ 13,680,242
Adjustments to reconcile income from operations to net cash flows from operating activities		
Depreciation	8,667,311	8,595,334
Amortization	151,413	174,804
Provision for bad debts	18,175,343	17,611,803
Changes in operating assets and liabilities		
Patient accounts receivable	(19,605,078)	(19,465,084)
Inventories	(130,956)	(334,170)
Prepaid expenses and other current assets	(4,107,129)	(39,434)
Accounts payable	2,288,689	(76,751)
Accrued payroll and payroll withholdings	541,773	722,834
Accrued expenses	(122,220)	896,279
Estimated third-party payor settlements	1,045,000	2,230,000
Deferred compensation liabilities	444,669	(142,353)
Net cash flows from operating activities	\$ 21,042,471	\$ 23,853,504
 <b>Supplemental disclosures of noncash operating and capital and related financing activities</b>		
Property and equipment acquired included in accounts payable	\$ 850,495	\$ 390,908

*See accompanying notes to consolidated financial statements.*

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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### 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.

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

During 2012, the Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above leased facilities. As part of the agreements, the Hospital will pay the Managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements' initial terms expire at various times in 2014. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice.

Other current assets and liabilities include certain reimbursement receivables, accrued fees and expenses, and working capital balances related to the long-term care facilities.

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

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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HDC's consolidated financial statements at December 31, 2012 and 2011, 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

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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### 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.

### New Accounting Standards

During 2012, the Medical Center adopted Statement of Governmental Accounting Standards Board (GASB) Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of GASB No. 20 for business-type activities to apply post November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities that so elected can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. GASB No. 62 has been applied retrospectively and had no impact on the Medical Center's net position, changes in net position or financial reporting disclosures.

Also during 2012, the Medical Center adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which primarily resulted in renaming net assets to net position within the consolidated financial statements. GASB No. 63 has been applied retroactively in the accompanying consolidated financial statements.

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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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

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

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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

### Allowance for Doubtful Accounts

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

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

The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. The December 31, 2012 allowance for doubtful accounts of \$23,985,664 was comprised of \$20,455,288 reserved for self-pay balances and \$3,530,376 reserved for third-party payor balances.

### 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.

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# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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### 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, 2012 and 2011, the Medical Center capitalized interest costs of \$46,586 and \$26,333, respectively.

### Net Position

The net position of the Medical Center is classified in four components. *Net position invested in capital assets net of related debt* consists 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 position* is noncapital net position that must be used for a particular

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# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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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 position* equals the principal portion of permanent endowments. *Unrestricted net position* is the remaining net position that does not meet the definition of *invested in capital assets net of related debt or restricted*.

### Consolidated Statements of Operations and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenues and expenses. Peripheral and incidental transactions are reported as nonoperating revenues (expenses). Nonoperating revenues (expenses) which are excluded from income from operations include investment income, contributions received, restricted expenditures, and the net change in the market value of assets whose use is limited.

### 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 \$745,423 and \$846,186 for the years ended December 31, 2012 and 2011, 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 position. HDC and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. As such HDC and the Foundation are generally exempt from income taxes. However, HDC and the Foundation are required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only. The Clinic and JMB are both organized as a single-member Limited Liability Company (LLC). As of December 31, 2012, the 2008 - 2012 income tax years are still open for tax examinations for both the Clinic and JMB. HDC is the sole member of the Clinic, and

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# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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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, 2012 and 2011, 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, 2012 and 2011, the Medical Center had matching assets and liabilities relating to physician guarantees of \$347,500 and \$204,167, respectively.

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

### 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, 2013.

### Reclassifications

Certain 2011 amounts have been reclassified to provide for consistency with reporting of 2012 information. These reclassifications have no effect on the previously reported change in net position or net position.

### 3. DEPOSITS AND INVESTMENTS

Deposits and investments are comprised of the following at December 31, 2012 and 2011:

	2012	2011
Carrying amount		
Cash and cash equivalents	\$ 86,513,206	\$ 73,052,562
Certificates of deposit	26,066,000	26,066,000
Mutual funds	37,324,896	32,860,695
Corporate bonds	110,112	109,159
Perpetual trust	306,945	285,671
Interest receivable	39,989	73,960
Fixed income guaranteed option	467,490	464,255
Common stocks	688,624	494,527
Total	\$ 151,517,262	\$ 133,406,829
Included in the consolidated balance sheet captions:		
Cash and cash equivalents	\$ 37,660,394	\$ 39,213,183
Investments	8,429,888	2,000,000
Assets whose use is limited	105,426,980	92,193,646
Total	\$ 151,517,262	\$ 133,406,829

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

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, 2012 and 2011, 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, 2012				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
Certificates of deposit	\$ 26,066,000	\$ 26,066,000	\$ -0-	\$ -0-	\$ -0-
Corporate bonds	<u>110,112</u>	<u>7,260</u>	<u>80,288</u>	<u>22,564</u>	<u>-0-</u>
<b>Total</b>	<u>\$ 26,176,112</u>	<u>\$ 26,073,260</u>	<u>\$ 80,288</u>	<u>\$ 22,564</u>	<u>\$ -0-</u>

	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	<u>109,159</u>	<u>17,388</u>	<u>46,990</u>	<u>44,781</u>	<u>-0-</u>
<b>Total</b>	<u>\$ 26,175,159</u>	<u>\$ 26,017,388</u>	<u>\$ 112,990</u>	<u>\$ 44,781</u>	<u>\$ -0-</u>

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

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.

<u>Investment Type</u>	<u>Credit Rating Moody's</u>	<u>Fair Value 2012</u>	<u>Fair Value 2011</u>
Corporate bonds	A1	\$ 14,224	\$ 22,719
Corporate bonds	A2	5,247	5,138
Corporate bonds	A3	19,045	18,571
Corporate bonds	Aaa	2,477	2,455
Corporate bonds	Aa2	4,900	9,035
Corporate bonds	Aa3	2,403	13,738
Corporate bonds	Baa1	28,076	21,214
Corporate bonds	Baa2	19,387	12,077
Corporate bonds	Baa3	<u>14,353</u>	<u>4,212</u>
		<u>\$ 110,112</u>	<u>\$ 109,159</u>

Concentration of Credit Risk

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

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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### Fair Value Measurements and Disclosures

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Medical Center has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012 and 2011.

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Medical Center are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Medical Center are deemed to be actively traded.
- *Corporate bonds*: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

- *Perpetual trust*: Valued at fair value as reported by the trustee, which represents the Medical Center's *pro rata* interest in the net position of the trust, substantially all of which are valued on a mark-to-market basis.
- *Fixed income guaranteed option*: Guaranteed investment contracts are valued at fair value by the insurance company by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. Since the participants transact at contract value, fair value is determined annually for financial statement reporting purposes only. In determining the reasonableness of the methodology the Finance Committee evaluates a variety of factors including review of existing contracts, economic conditions, industry and market developments, and overall credit ratings. Certain unobservable inputs are assessed through review of contract terms (for example, duration or payout date) while others are substantiated utilizing available market data (for example, swap curve rate).
- *Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.

The following table set forth by level, within the hierarchy, the Medical Center's asset measured at fair value on a recurring basis as of December 31, 2012 are as follows:

	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Corporate bonds				
Energy	\$ -0-	\$ 6,831	\$ -0-	\$ 6,831
Financial	-0-	58,466	-0-	58,466
Healthcare	-0-	9,722	-0-	9,722
Industrials	-0-	10,891	-0-	10,891
Materials	-0-	4,760	-0-	4,760
Services	-0-	19,442	-0-	19,442
	-0-	110,112	-0-	110,112
Common stocks				
Basic materials	113,940	-0-	-0-	113,940
Consumer goods	69,517	-0-	-0-	69,517
Consumer services	70,424	-0-	-0-	70,424
Financials	83,872	-0-	-0-	83,872
Healthcare	81,085	-0-	-0-	81,085
Industrials	96,621	-0-	-0-	96,621
Materials	18,761	-0-	-0-	18,761
Technology	118,683	-0-	-0-	118,683
Utilities	35,721	-0-	-0-	35,721
	688,624	-0-	-0-	688,624

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

Mutual funds				
Large cap value	4,096,338	-0-	-0-	4,096,338
Large cap blend	2,789,901	-0-	-0-	2,789,901
Large cap growth	5,126,723	-0-	-0-	5,126,723
Large cap index	1,853,156	-0-	-0-	1,853,156
Mid cap value	51,053	-0-	-0-	51,053
Mid cap blend	705,128	-0-	-0-	705,128
Mid cap growth	32,844	-0-	-0-	32,844
Small cap value	752,631	-0-	-0-	752,631
Small cap blend	513,124	-0-	-0-	513,124
Small cap growth	1,370,326	-0-	-0-	1,370,326
Small cap index	1,352,484	-0-	-0-	1,352,484
Foreign large value	1,754,231	-0-	-0-	1,754,231
Foreign large blend	1,529,233	-0-	-0-	1,529,233
World stock	3,058,416	-0-	-0-	3,058,416
Intermediate term bond	2,952,531	-0-	-0-	2,952,531
Short term bond	13,541	-0-	-0-	13,541
Intermediate government	8,576	-0-	-0-	8,576
Short government	2,313,938	-0-	-0-	2,313,938
High yield bond	705,128	-0-	-0-	705,128
International equity	2,680,712	-0-	-0-	2,680,712
Foreign bond	659,285	-0-	-0-	659,285
Specialty funds	1,546,976	-0-	-0-	1,546,976
Realty funds	1,458,621	-0-	-0-	1,458,621
	37,324,896	-0-	-0-	37,324,896
Perpetual trust, held by trustee	-0-	-0-	306,945	306,945
Fixed income guaranteed option	-0-	467,490	-0-	467,490
	\$ 38,013,520	\$ 577,602	\$ 306,945	\$ 38,898,067
<u>Liabilities</u>				
Deferred compensation liabilities	\$ (5,921,642)	\$ -0-	\$ -0-	\$ (5,921,642)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

The following table set forth by level, within the hierarchy, the Medical Center's asset measured at fair value on a recurring basis as of December 31, 2011 are as follows:

<u>Assets</u>	Level 1	Level 2	Level 3	Total
<b>Corporate bonds</b>				
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
	<u>-0-</u>	<u>109,159</u>	<u>-0-</u>	<u>109,159</u>
<b>Common stocks</b>				
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
	<u>494,527</u>	<u>-0-</u>	<u>-0-</u>	<u>494,527</u>

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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
	<u>32,860,695</u>	<u>-0-</u>	<u>-0-</u>	<u>32,860,695</u>
Perpetual trust, held by trustee	-0-	-0-	285,671	285,671
Fixed income guaranteed option	-0-	464,255	-0-	464,255
	<u>\$ 33,355,222</u>	<u>\$ 573,414</u>	<u>\$ 285,671</u>	<u>\$ 34,214,307</u>
<u>Liabilities</u>				
Deferred compensation liabilities	<u>\$ (5,476,973)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (5,476,973)</u>

The Medical Center's policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels 1 and 2 during 2012 and 2011.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

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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, 2012:

	<u>Perpetual Trust Held by Trustee</u>
Balance, beginning of the year	\$ 285,671
Purchase of investments	-0-
Redemption	-0-
Change in investment value	<u>21,274</u>
Balance, end of year	<u>\$ 306,945</u>

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

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

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 position of the Trust, substantially all of which are valued on a market-to-market basis.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

**4. PATIENT ACCOUNTS RECEIVABLE**

Patient accounts receivable reported as current assets at December 31, 2012 and 2011, consist of the following:

	2012	2011
Medicare	\$ 10,536,208	\$ 9,284,223
Medicaid	5,501,980	3,113,450
Blue Cross	7,021,237	7,352,660
Other insurance carriers	10,356,581	9,940,663
Patients	22,091,870	17,812,327
Total patient accounts receivable	55,507,876	47,503,323
Less allowance for contractals	15,480,285	14,606,141
Less allowance for uncollectible amounts	23,985,664	18,284,990
 Patient accounts receivable, net	 \$ 16,041,927	 \$ 14,612,192

**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, 2012 and 2011:

**Investment Summary by Type**

	2012	%	2011	%
Cash and cash equivalents	\$ 48,852,812	46.3 %	\$ 33,839,379	36.7 %
Interest receivable	39,989	0.0	73,960	0.1
Certificates of deposit	18,066,000	17.1	24,066,000	26.1
Corporate bonds	110,112	0.1	109,159	0.1
Common stocks	473,680	0.5	494,527	0.5
Fixed income guaranteed option	467,490	0.5	464,255	0.5
Mutual funds	37,109,952	35.2	32,860,695	35.7
Perpetual trust, held by trustee	306,945	0.3	285,671	0.3
 Total assets whose use is limited	 \$ 105,426,980	 100.0 %	 \$ 92,193,646	 100.0 %
 Less amount required for current obligations	 1,972,724		 1,941,920	
 Assets whose use is limited, net of amount required to meet current obligations	 \$ 103,454,256		 \$ 90,251,726	

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

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**Investment Summary by Fund**

Board-Designated Funds	\$ 93,149,971	88.4 %	\$ 80,533,529	87.4 %
Trustee-Held Funds	4,820,700	4.5	4,806,125	5.2
Donor-Restricted Funds	1,534,667	1.5	1,377,019	1.5
Deferred Compensation Funds	<u>5,921,642</u>	<u>5.6</u>	<u>5,476,973</u>	<u>5.9</u>
 Total	 <u>\$ 105,426,980</u>	 <u>100.0 %</u>	 <u>\$ 92,193,646</u>	 <u>100.0 %</u>

Board-Designated Funds

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

Trustee-Held Funds

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

Donor-Restricted Funds

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

Deferred Compensation Funds

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

**6. CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2012 and 2011, was as follows:

	2012			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	\$ 6,333,966	\$ -0-	\$ 77,116	\$ 6,411,082
Land improvements	3,980,415	58,586	(21,172)	4,017,829
Leasehold improvements	930,537	22,984	(280,860)	672,661
Buildings	77,786,900	305,574	2,053,600	80,146,074
Fixed equipment	5,903,751	206,054	(43,122)	6,066,683
Movable equipment	42,792,862	2,790,910	380,506	45,964,278
Construction in progress	2,332,925	2,043,357	(3,321,782)	1,054,500
Total historical cost	140,061,356	5,427,465	(1,155,714)	144,333,107
Less accumulated depreciation for				
Land improvements	(1,461,224)	(257,347)	5,469	(1,713,102)
Leasehold improvements	(369,021)	(124,093)	139,182	(353,932)
Buildings	(22,764,559)	(3,610,838)	103,393	(26,272,004)
Fixed equipment	(4,565,349)	(241,432)	43,771	(4,763,010)
Movable equipment	(28,641,235)	(4,433,601)	729,385	(32,345,451)
Total accumulated depreciation	(57,801,388)	(8,667,311)	1,021,200	(65,447,499)
Capital assets, net	\$ 82,259,968	\$ (3,239,846)	\$ (134,514)	\$ 78,885,608

	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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

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**7. OTHER ASSETS**

At December 31, 2012 and 2011, other assets consist of the following:

	<u>2012</u>	<u>2011</u>
Prepaid pension costs	\$ 2,002,252	\$ 2,020,084
Physician notes receivable	1,762,269	1,773,376
Notes receivable	44,136	33,091
Investment in managed care company	755,000	755,000
Investment in RCG Columbus, LLC	974,900	974,900
Investment in risk retention company	335,311	335,311
Bond issue costs, net	633,706	711,661
Other	750,196	767,466
Less: current portion of other assets	<u>(894,033)</u>	<u>(714,302)</u>
Other assets, net of current portion	<u>\$ 6,363,737</u>	<u>\$ 6,656,587</u>

Physician notes receivable are in varying amounts maturing through July 2017. 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, 2012).

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 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

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**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:

<u>Employee Type</u>	<u>Length of Service</u>	<u>PTO earned for each hour paid</u>	<u>Maximum PTO bank</u>
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, 2012 and 2011 was \$3,794,571 and \$3,998,396, 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 \$100,000 per insured per year and an aggregate stop loss limit of approximately \$8,800,000. The total annual exposure including claims, administration fees, and stop loss premiums is approximately \$9,900,000. 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

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Changes in the balance of claims liabilities during the years ended December 31, 2012 and 2011, were as follows:

	<u>2012</u>	<u>2011</u>
Accrued liability, beginning of year	\$ 1,189,029	\$ 1,247,940
Incurred claims, changes in estimates, and fees/premiums	7,196,188	7,071,971
Claim payments	<u>(7,187,530)</u>	<u>(7,130,882)</u>
Accrued liability, end of year	<u>\$ 1,197,687</u>	<u>\$ 1,189,029</u>

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

Annual Pension Cost and Net Pension Obligation

The Medical Center's annual pension cost and net pension obligation for the years ended December 31, 2012 and 2011, are as follows:

	2012	2011
Annual required contribution	\$ -0-	\$ 249,070
Interest on net pension obligation	(161,607)	(163,046)
Adjustment to annual required contribution	179,439	181,033
Annual pension cost	17,832	267,057
Interest on employer contributions	-0-	-0-
Contributions made	-0-	-0-
(Increase) decrease in net pension asset	17,832	267,057
Net pension (asset)/liability, beginning of year	(2,020,084)	(2,287,141)
Net pension (asset)/liability, end of year	\$ (2,002,252)	\$ (2,020,084)

The annual required contribution for the current year was determined as part of the May 1, 2012, 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 0.0 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 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
12/31/2010	\$ 2,079,447	68.6%	\$ (2,287,141)
12/31/2011	267,057	0.0%	(2,020,084)
12/31/2012	17,832	0.0%	(2,002,252)

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.

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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

Plan Year Ending	<u>12/31/12</u>	<u>12/31/11</u>	<u>12/31/10</u>
Actuarial Valuation Date	5/1/2012	5/1/2011	5/1/2010
Actuarial Value of Plan Assets	\$ 28,606,679	\$ 30,098,727	\$ 25,200,522
Actuarial Accrued Liability	\$ 25,285,073	\$ 24,778,642	\$ 23,878,228
Total Unfunded Actuarial Liability	\$ -0-	\$ -0-	\$ -0-
Actuarial Value of Assets as a Percentage of the Actuarial Accrued Liability- "Funded Ratio"	113.1%	121.5%	105.5%
Annual Covered Payroll	N/A	N/A	\$ 33,404,583
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	N/A	N/A	0.0%

### 11. LONG-TERM DEBT

At December 31, 2012 and 2011, the Medical Center was obligated for long-term debt agreements as follows:

	<u>2012</u>	<u>2011</u>
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.	\$ 14,760,000	\$ 15,955,000
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

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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-maturity and re-issued to Branch Bank and Trust ("BB&T") who will hold the bonds through October 2014. During this period, variable interest rate equal to the greater of 1.14% plus 68% of the 30-day LIBOR, or 2.06% (2.06% at December 31, 2012). 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.

19,095,000      19,245,000

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 with a December 31, 2012 net book value of \$188,109.

190,599      282,605

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 equal to 2.50% above the weekly average yield of the U.S. Treasury Securities adjusted to a constant maturity of years (4.75% at December 31, 2012). Secured by building with a December 31, 2012 net book value of \$3,626,169.

592,135      802,506

49,637,734      51,285,111

Unamortized bond premium

468,821      505,095

Bond refunding loss

(851,704)      (945,040)

Less current portion

(1,639,313)      (1,590,270)

Long-term debt, net of current portion

\$ 47,615,538      \$ 49,254,896

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

Long-term debt activity for the years ended December 31, 2012 and 2011 was as follows:

	2012				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 2006A	\$ 15,000,000	\$ -0-	\$ -0-	\$ 15,000,000	\$ -0-
Revenue bonds, series 2006B	19,245,000	-0-	(150,000)	19,095,000	150,000
Revenue bonds, series 2010	15,955,000	-0-	(1,195,000)	14,760,000	1,230,000
Note payable to bank	282,605	-0-	(92,006)	190,599	95,838
JMB note payable to bank	802,506	-0-	(210,371)	592,135	220,538
Bond premiums	505,095	-0-	(36,274)	468,821	36,274
Bond refunding loss	(945,040)	-0-	93,336	(851,704)	(93,337)
<b>Total long-term debt</b>	<b><u>\$ 50,845,166</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ (1,590,315)</u></b>	<b><u>\$ 49,254,851</u></b>	<b><u>\$ 1,639,313</u></b>

	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)
<b>Total long-term debt</b>	<b><u>\$ 50,571,258</u></b>	<b><u>\$ 1,002,811</u></b>	<b><u>\$ (728,903)</u></b>	<b><u>\$ 50,845,166</u></b>	<b><u>\$ 1,590,270</u></b>

Debt service requirements on long-term debt at December 31, 2012, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,639,313	\$ 1,901,539
2014	1,703,943	1,833,961
2015	1,563,289	1,767,668
2016	1,477,937	1,709,142
2017	1,547,937	1,636,802
2018 - 2022	8,597,194	6,984,385
2023 - 2027	9,404,615	4,959,697
2028 - 2032	11,789,615	3,128,367
2033 - 2037	11,531,008	844,790
<b>Total</b>	<b><u>\$ 49,254,851</u></b>	<b><u>\$ 24,766,351</u></b>

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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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 \$5,921,642 and \$5,476,973 for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, the Medical Center recognized \$1,066,093 and \$960,000, respectively, in expense related to the 403(b) plan.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

---

**13. DONOR-DESIGNATED AND NONEXPENDABLE RESTRICTED NET POSITION**

Donor-designated restricted net position amounts are donor-restricted for a specific use or by the passage of time. Nonexpendable restricted net position amounts include a perpetual trust. Donor-designated and nonexpendable restricted net position amounts include the following at December 31, 2012 and 2011:

	2012	2011
<b>Donor-designated restricted net position</b>		
Dr. Bud Fund	\$ 435,256	\$ 397,441
Medical Technology Fund	67,111	5,372
Women's Center Fund	1,275	525
Cancer Fund	394,851	359,494
Hospice Fund	196,360	176,723
EPIC Fund	125,930	150,991
Employee Humanitarian Fund	6,939	802
Total donor-designated restricted net position	<b>\$ 1,227,722</b>	<b>\$ 1,091,348</b>
<b>Nonexpendable restricted net position</b>		
Perpetual trust, held by trustee	<b>\$ 306,945</b>	<b>\$ 285,671</b>

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.

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# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

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## 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, 2012, 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, 2012 and 2011, the Medical Center recognized revenue in net patient service revenue totaling \$708,153 and \$2,598,710, respectively, relating to the net Indiana Medicaid Municipal Hospital Upper Payment Limit ("UPL") adjustments.
- **Charity Care.** The Medical Center provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Medical Center does not collect amounts deemed to be charity care, they are not reported as revenue. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Medical Center's total operating expenses divided by gross patient service revenue. For the years ended December 31, 2012 and 2011, the Hospital incurred estimated costs of \$2,239,670 and \$1,699,348, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

---

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Medical Center believes that it is in compliance with all applicable laws and regulations.

For the years ended December 31, 2012 and 2011, net patient service revenue was as follows:

	<u>2012</u>	<u>2011</u>
Gross patient service revenue		
Inpatient routine services	\$ 19,599,089	\$ 11,378,530
Inpatient ancillary services	60,862,018	56,908,496
Outpatient services	<u>202,773,128</u>	<u>199,247,462</u>
Total gross patient service revenue	283,234,235	267,534,488
Deductions from revenue		
Contractual allowances	135,792,631	139,860,601
Charity care	5,816,110	4,664,637
Bad debts	18,175,343	17,611,803
Medicaid net UPL payments recognized	<u>(708,153)</u>	<u>(2,598,710)</u>
Total deductions from revenue	<u>159,075,931</u>	<u>159,538,331</u>
Total net patient service revenue	<u>\$ 124,158,304</u>	<u>\$ 107,996,157</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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

---

**15. HOSPITAL ASSESSMENT FEE**

During 2012, the Hospital Assessment Fee (HAF) Program for the period July 1, 2011 through June 30, 2013 was approved by Centers for Medicare & Medicaid Services retroactive to July 1, 2011. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF program expense reported in the statements of operations and changes in net assets. Previously, the State share was funded by government entities through intergovernmental transfers. The Medicaid enhanced payments are designed to follow the patient and result in increased Medicaid rates. During 2012, the Medical Center recognized HAF program expense of \$5,816,239.

**16. NONOPERATING REVENUES (EXPENSES)**

For the years ended December 31, 2012 and 2011, nonoperating revenues (expenses) were as follows:

	2012	2011
Investment income (loss)	\$ 4,765,709	\$ (136,201)
Interest expense	(1,984,650)	(2,040,953)
Loss on disposal of capital assets	(105,082)	(237,712)
Donations	(41,494)	(30,683)
Contributions and grants	504,616	402,181
Change in perpetual trust	21,274	(26,578)
Miscellaneous	(21,346)	13,600
Total nonoperating revenues (expenses)	\$ 3,139,027	\$ (2,056,346)

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

---

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:

	<u>2012</u>	<u>2011</u>
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	<u>10,000,000</u>	<u>10,000,000</u>
Total Group umbrella aggregate	<u>\$ 30,000,000</u>	<u>\$ 30,000,000</u>

Liabilities for incurred but not reported losses at December 31, 2012 and 2011 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, 2012 and 2011, and for the years then ended, the Medical Center had the following related party transactions with JCB:

	<u>2012</u>	<u>2011</u>
Deposits	\$ 36,539,653	\$ 19,413,722
Note payable	\$ 190,599	\$ 282,605
Interest income	\$ 120,375	\$ 135,936
Interest expense	\$ 9,791	\$ 13,412

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# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

### 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, 2012 and 2011, was as follows:

	2012		2011	
	Revenues	Receivables	Revenues	Receivables
Medicare	39 %	19 %	38 %	20 %
Medicaid	13	10	12	7
Blue Cross	21	13	23	15
SIHO*	9	5	9	6
Other third-party payors	11	14	11	15
Patients	7	39	7	37
	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 2017. Minimum future rental payments under these noncancelable operating leases, as of December 31, 2012, are as follows:

Year Ending December 31,	Amount
2013	\$ 279,911
2014	78,609
2015	33,000
2016	36,000
2017	36,000
Total minimum payments	\$ 463,520

The Medical Center incurred \$1,074,339 and \$1,191,074 in total rent expense for the years ended December 31, 2012 and 2011, respectively, under cancelable and noncancelable operating leases.

# JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

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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 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, 2012 and 2011 is \$49,254,851 and \$50,845,166, respectively. The fair value of long-term debt at December 31, 2012 and 2011 is approximately \$55,473,056 and \$54,064,115, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

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, 2012, 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, 2012
Sharp copier project	2013	\$ 281,000	\$ 280,101
Crawl space piping replacement	2013	510,000	303,803
Infusion services buildout	2013	900,000	48,867
Surgical suite remodel	2013	725,000	21,902
All other projects	2013	625,000	399,827
		<u>\$ 3,041,000</u>	<u>\$ 1,054,500</u>

**24. RECENT GASB PRONOUNCEMENTS**

Management has not currently determined what, if any, effects of implementation of the following statement may have on the consolidated financial statements:

**GASB Statement No. 65**, "Items Previously Reported as Assets and Liabilities," issued March 2012, is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

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resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.