



JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

CONSOLIDATED FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2014 AND 2013

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

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Jackson County Schneck Memorial Hospital (d/b/a Schneck Medical Center) and Affiliated Organizations (collectively the "Medical Center"), component units of Jackson County, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of December 31, 2014 and 2013, 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, 2015

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2014 AND 2013

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

- The Medical Center raised rates by 5% in 2014.
- During 2014, the Medical Center assumed ownership of the bed licenses of four additional long term care facilities. The Medical Center entered into management agreements with the previous owners and/or management entities to manage the day-to-day operations of the facilities. The Medical Center also leases the buildings and premises from the prior owners. The ownership transactions occurred throughout the year with two facility licenses acquired May 1, 2014, and two acquired November 1, 2014. The operations of the facilities occurring subsequent to the ownership effective dates are included in the financial results of the Medical Center. The amount included in income from operations attributable to the nursing facilities was \$14,434,344 in 2014.
- In 2013 and 2014, the Medical Center qualified for electronic health record meaningful use payments from both Medicare and Medicaid. The amount recorded in income from operations is \$525,647 in 2014 and \$1,390,674 in 2013.
- In an effort to increase Medicaid reimbursement to hospitals, the State of Indiana implemented a Hospital Assessment Fee program in 2012. Indiana hospitals are assessed a fee which allows the state to access Federal funds allowing it to pay Medicaid patient claims at higher rates, not to exceed Medicare reimbursement. The Medical Center incurred Hospital Assessment Fees expense of \$5,011,227 in 2014 and \$4,731,229 in 2013.

The Medical Center's net position increased \$22,488,303 from 2012 to 2013 and included income from operations of \$15,772,990. During 2013, the Medical Center's total operating revenue increased by 52.5% to \$195,587,263 with total operating expenses increasing by 57.1% to \$179,814,273.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2014 AND 2013

- The Medical Center raised rates by 1% in 2013.
- During 2013, the Medical Center assumed ownership of the bed licenses of nine additional long term care facilities. The Medical Center entered into management agreements with the previous owners and/or management entities to manage the day-to-day operations of the facilities. The Medical Center also leases the buildings and premises from the prior owners. The ownership transactions occurred throughout the year with one facility license acquired March 1, 2013, one with an effective date of April 1, 2013, three effective May 1, 2013 and four effective August 1, 2013. The operations of the facilities occurring subsequent to the ownership effective dates are included in the financial results of the Medical Center. The amount included in income from operations attributable to the nursing facilities was \$7,196,767 in 2013.
- In 2012 and 2013, the Medical Center qualified for electronic health record meaningful use payments from both Medicare and Medicaid. The amount recorded in income from operations is \$1,390,674 in 2013 and \$1,846,587 in 2012.
- In an effort to increase Medicaid reimbursement to hospitals, the State of Indiana implemented a Hospital Assessment Fee program in 2012. Indiana hospitals are assessed a fee which allows the state to access Federal funds allowing it to pay Medicaid patient claims at higher rates, not to exceed Medicare reimbursement. The Medical Center incurred \$4,731,229 in Hospital Assessment Fees expense in 2013.

FINANCIAL STATEMENTS

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

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2014 AND 2013

FINANCIAL ANALYSIS

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

CONDENSED FINANCIAL INFORMATION

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

	2014	2013	\$ Change	% Change
Assets				
Cash and investments	\$ 188,710,508	\$ 161,903,070	\$ 26,807,438	16.6%
Capital assets	75,846,274	79,616,180	(3,769,906)	-4.7%
Other assets	52,126,505	49,701,698	2,424,807	4.9%
Deferred outflows	1,739,188	1,984,591	(245,403)	-12.4%
Total assets and deferred outflows	<u>\$ 318,422,475</u>	<u>\$ 293,205,539</u>	<u>\$ 25,216,936</u>	8.6%
Liabilities				
Long-term debt, including current portion	\$ 35,916,934	\$ 37,709,527	\$ (1,792,593)	-4.8%
Other current and noncurrent liabilities	49,487,513	48,326,140	1,161,373	2.4%
Total liabilities	85,404,447	86,035,667	(631,220)	-0.7%
Net position				
Net investment in capital assets	42,411,175	43,891,244	(1,480,069)	-3.4%
Restricted expendable net position	5,505,037	5,158,193	346,844	6.7%
Restricted nonexpendable net position	333,340	336,528	(3,188)	-0.9%
Unrestricted	184,768,476	157,783,907	26,984,569	17.1%
Total net position	<u>233,018,028</u>	<u>207,169,872</u>	<u>25,848,156</u>	12.5%
Total liabilities and net position	<u>\$ 318,422,475</u>	<u>\$ 293,205,539</u>	<u>\$ 25,216,936</u>	8.6%

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

A summary of the Medical Center's consolidated balance sheets as of December 31, 2013 and 2012 is presented below:

	2013	2012	\$ Change	% Change
Assets				
Cash and investments	\$ 161,903,070	\$ 151,517,262	\$ 10,385,808	6.9%
Capital assets	79,616,180	78,885,608	730,572	0.9%
Other assets	49,701,698	31,728,555	17,973,143	56.6%
Deferred outflows	1,984,591	851,704	1,132,887	133.0%
Total assets and deferred outflows	<u>\$ 293,205,539</u>	<u>\$ 262,983,129</u>	<u>\$ 30,222,410</u>	11.5%
Liabilities				
Long-term debt, including current portion	\$ 37,709,527	\$ 50,106,555	\$ (12,397,028)	-24.7%
Other current and noncurrent liabilities	48,326,140	28,195,005	20,131,135	71.4%
Total liabilities	86,035,667	78,301,560	7,734,107	9.9%
Net position				
Net investment in capital assets	43,891,244	29,630,757	14,260,487	48.1%
Restricted expendable net position	5,158,193	6,048,422	(890,229)	-14.7%
Restricted nonexpendable net position	336,528	306,945	29,583	9.6%
Unrestricted	157,783,907	148,695,445	9,088,462	6.1%
Total net position	<u>207,169,872</u>	<u>184,681,569</u>	<u>22,488,303</u>	12.2%
Total liabilities and net position	<u>\$ 293,205,539</u>	<u>\$ 262,983,129</u>	<u>\$ 30,222,410</u>	11.5%

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, 2014 and 2013 is presented below:

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

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

A summary of the Medical Center's consolidated statements of operations and changes in net position for the years ended December 31, 2013 and 2012 is presented below:

	2013	2012	\$ Change	% Change
Operating revenues				
Net patient service revenue	\$ 192,202,363	\$ 125,133,074	\$ 67,069,289	53.6%
Other revenue	<u>3,384,900</u>	<u>3,109,266</u>	<u>275,634</u>	8.9%
Total operating revenues	195,587,263	128,242,340	67,344,923	52.5%
Operating expenses				
Salaries and benefits	96,809,935	61,851,396	34,958,539	56.5%
Supplies and drugs	25,942,493	20,208,669	5,733,824	28.4%
Depreciation and amortization	8,868,277	8,740,769	127,508	1.5%
Other operating expenses	<u>48,193,568</u>	<u>23,663,420</u>	<u>24,530,148</u>	103.7%
Total operating expenses	<u>179,814,273</u>	<u>114,464,254</u>	<u>65,350,019</u>	57.1%
Income from operations	15,772,990	13,778,086	1,994,904	14.5%
Nonoperating revenues (expenses)	<u>6,715,313</u>	<u>3,132,552</u>	<u>3,582,761</u>	114.4%
Change in net position	<u>\$ 22,488,303</u>	<u>\$ 16,910,638</u>	<u>\$ 5,577,665</u>	33.0%
Net position, end of year	<u>\$ 207,169,872</u>	<u>\$ 184,681,569</u>	<u>\$ 22,488,303</u>	12.2%

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 2014, 2013, and 2012 are as follows:

Payor Mix	2014	2013	2012
Medicare	39 %	39 %	39 %
Medicaid	24	21	13
Blue Cross	16	17	21
SIHO*	5	7	9
Other third-party payors	7	8	11
Self-pay	<u>9</u>	<u>8</u>	<u>7</u>
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

*Southeastern Indiana Health Organization

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2014 AND 2013

OPERATING AND FINANCIAL PERFORMANCE

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

Revenues

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

- An overall rate increase of 5% effective January 1, 2014 was implemented.
- Patient volume increases were noted for births, emergency department visits, laboratory tests, diagnostic imaging procedures, physical therapy and speech therapy. Patient volume decreases were noted in inpatient days, surgeries, respiratory therapy, and home health and hospice services.

Expenses

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

- Salary and benefits costs increased \$28,802,194. This was due to staffing needs and wage costs due to the addition of new physician surgical services and labor costs relating to the fifteen long term care facilities, including four new facilities in 2014.
- Purchased services increased \$4,971,307 due to costs relating to the fifteen long term care facilities, including four new facilities in 2014.

The Medical Center's financial performance from operations improved in 2013 in comparison to 2012 and the Medical Center's overall financial performance improved from 2012 to 2013. A discussion of the highlights of 2013 operations and changes in activity is presented below:

The Medical Center's net patient service revenues increased by \$67,069,289 in 2013. This is primarily due to increased Medicaid reimbursement resulting from the State of Indiana's Hospital Assessment Fee Program, additional revenue relating to ownership of the eleven nursing home licenses, and increases in laboratory volumes, emergency department visits, surgeries, 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, 2014 AND 2013

- Patient volume increases were noted for births and surgeries, as well as emergency department visits, laboratory tests, and hospice patients. Patient volume decreases were noted in inpatient days and admissions, respiratory therapy, physical therapy, and home health services.

Expenses

Total operating expenses increased by \$65,350,019 in 2013. Highlights of this change are as follows:

- Salary and benefits costs increased \$34,958,539. This was due to staffing needs and wage costs due to the addition of new physician services including neurology and endocrinology and labor costs relating to the eleven long term care facilities.
- Purchased services increased \$12,155,647 due to legal fees involved in the acquisition of nine nursing home licenses, consulting fees relating to the formation of a clinical integration network, and an increase in maintenance contract fees.

FINANCIAL ANALYSIS – CASH FLOWS

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

The Medical Center's 2013 cash flows increased \$656,912 due primarily to positive cash inflows received for patient services and investment income, which exceeded cash outflows for cash paid to employees and vendors and purchases of capital assets.

Capital Assets

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

	2013	2012	\$Change	%Change
Land and land improvements	\$ 10,733,539	\$ 10,428,911	\$ 304,628	2.9%
Leasehold improvements	672,661	672,661	-0-	0.0%
Buildings	83,234,449	80,146,074	3,088,375	3.9%
Equipment	55,408,178	52,030,961	3,377,217	6.5%
Construction in progress	<u>2,265,565</u>	<u>1,054,500</u>	<u>1,211,065</u>	114.8%
	152,314,392	144,333,107	7,981,285	5.5%
Less accumulated depreciation	<u>72,698,212</u>	<u>65,447,499</u>	<u>7,250,713</u>	11.1%
Capital assets, net	<u>\$ 79,616,180</u>	<u>\$ 78,885,608</u>	<u>\$ 730,572</u>	0.9%

Capital assets increased in 2013. During 2013, the Medical Center completed renovation of existing shell hospital space at a cost of \$2,107,018. In 2013, new generators were purchased in the amount of \$1,036,862. The Medical Center completed a renovation of its cystology surgical suite at a cost of \$474,767 and purchased new sterilization equipment costing \$481,326.

See additional information on capital assets in the notes to the consolidated financial statements in footnote number 6.

Long-Term Debt

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

At December 31, 2013, the Medical Center had long-term debt (including current portion) of \$37,709,527. This is comprised of \$37,244,088 in revenue bonds outstanding, and \$465,439 in notes payable.

ECONOMIC FACTORS AND 2015 BUDGET

The Medical Center's Board and management considered many factors when establishing the 2015 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

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- 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 Deborah Ridlen, Vice President of Fiscal Services at 812-522-0171.

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
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CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

ASSETS	<u>2014</u>	<u>2013</u>
Current assets		
Cash and cash equivalents	\$ 52,413,583	\$ 36,400,502
Investments	8,366,331	8,399,862
Patient accounts receivable, net of estimated uncollectibles of \$21,200,928 in 2014 and \$17,920,145 in 2013	27,626,962	27,976,300
Inventories	4,255,063	3,835,345
Prepaid expenses and other current assets	13,372,189	11,118,716
Physician recruitment guarantees, current portion	554,996	259,167
Other assets, current portion	340,193	678,662
Current portion of assets whose use is limited	<u>1,865,113</u>	<u>1,838,614</u>
Total current assets	108,794,430	90,507,168
Assets whose use is limited, net of amount required to meet current obligations	126,065,481	115,264,092
Capital assets, net	75,846,274	79,616,180
Other long-term assets		
Physician recruitment guarantees, net of current portion	169,588	215,833
Other assets, net of current portion	<u>5,807,514</u>	<u>5,617,675</u>
Total other long-term assets	<u>5,977,102</u>	<u>5,833,508</u>
 Total assets	 <u>316,683,287</u>	 <u>291,220,948</u>
Deferred outflows - deferred loss on bond refunding	<u>1,739,188</u>	<u>1,984,591</u>
 Total assets and deferred outflows	 <u>\$ 318,422,475</u>	 <u>\$ 293,205,539</u>

See accompanying notes to consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

LIABILITIES AND NET POSITION

	2014	2013
Current liabilities		
Accounts payable	\$ 23,973,095	\$ 22,673,099
Accrued payroll and payroll withholdings	5,719,999	4,605,450
Accrued expenses	5,617,552	5,519,451
Estimated third-party payor settlements	5,555,400	7,519,030
Physician recruitment guarantees, current portion	554,996	259,167
Current portion of long-term debt	1,649,792	1,791,408
Total current liabilities	43,070,834	42,367,605
 Long-term liabilities		
Long-term debt, net of current portion	34,267,142	35,918,119
Deferred compensation liabilities	7,896,883	7,534,110
Physician recruitment guarantees, net of current portion	169,588	215,833
Total long-term liabilities	42,333,613	43,668,062
 Total liabilities	85,404,447	86,035,667
 Net position		
Net investment in capital assets	42,411,175	43,891,244
Restricted		
Expendable for debt service	3,940,020	3,673,887
Expendable for donor-restricted purposes	1,565,017	1,484,306
Nonexpendable perpetual trust	333,340	336,528
Unrestricted	184,768,476	157,783,907
 Total net position	233,018,028	207,169,872
 Total liabilities and net position	\$ 318,422,475	\$ 293,205,539

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, 2014 AND 2013

	2014	2013
Operating revenues		
Net patient service revenue	\$ 253,245,775	\$ 192,202,363
Other revenue	<u>3,294,281</u>	<u>3,384,900</u>
Total operating revenues	256,540,056	195,587,263
Operating expenses		
Salaries and wages	112,523,318	84,019,114
Employee benefits and payroll taxes	13,088,811	12,790,821
Professional medical fees	1,772,515	1,421,327
Medical supplies	12,899,295	11,946,951
Other supplies	7,614,978	5,660,786
Drugs	10,259,771	8,334,756
Purchased services	27,688,775	22,717,468
Utilities	4,613,663	2,890,499
Insurance	2,881,682	2,049,649
Depreciation and amortization	8,789,029	8,868,277
Rent	15,825,336	8,678,436
Hospital assessment fee	5,011,227	4,731,229
Other operating expenses	<u>8,347,795</u>	<u>5,704,960</u>
Total operating expenses	<u>231,316,195</u>	<u>179,814,273</u>
Income from operations	25,223,861	15,772,990
Nonoperating revenues (expenses)	<u>624,295</u>	<u>6,715,313</u>
Change in net position	25,848,156	22,488,303
Net position, beginning of year	<u>207,169,872</u>	<u>184,681,569</u>
Net position, end of year	<u><u>\$ 233,018,028</u></u>	<u><u>\$ 207,169,872</u></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, 2014 AND 2013

	2014	2013
Operating activities		
Cash received for patient services	\$ 251,631,483	\$ 180,662,020
Cash paid to/for employees	(124,134,807)	(94,414,077)
Cash paid to vendors and suppliers	(98,219,098)	(63,206,228)
Other receipts, net	3,294,281	3,384,900
Net cash flows from operating activities	32,571,859	26,426,615
Noncapital financing activities		
Noncapital contributions	488,572	547,323
Capital and related financing activities		
Principal payments on long-term debt	(1,761,049)	(12,197,295)
Interest paid	(1,564,499)	(1,646,208)
Purchase of capital assets	(5,170,043)	(10,143,084)
Proceeds from sale of capital assets	271,484	707,062
Change in bond premiums	(31,544)	(199,733)
Change in deferred outflows	245,403	(1,132,887)
Gain (loss) on disposal of capital assets	(34,116)	(60,486)
Net cash flows from capital and related financing activities	(8,044,364)	(24,672,631)
Investing activities		
Investment income	2,076,771	7,938,500
Other nonoperating revenues (expenses)	(376,549)	(124,302)
Change in investments	33,531	30,026
Change in assets whose use is limited	3,004,637	(9,758,922)
Change in other assets	91,149	270,303
Net cash flows from investing activities	4,829,539	(1,644,395)
Net change in cash and cash equivalents	29,845,606	656,912
Cash and cash equivalents, beginning of year	87,170,118	86,513,206
Cash and cash equivalents, end of year	\$ 117,015,724	\$ 87,170,118
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents in current assets	\$ 52,413,583	\$ 36,400,502
Cash and cash equivalents in assets whose use is limited	64,602,141	50,769,616
Total cash and cash equivalents	\$ 117,015,724	\$ 87,170,118

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Reconciliation of income from operations to net cash and cash equivalents from operating activities		
Income from operations	\$ 25,223,861	\$ 15,772,990
Adjustments to reconcile income from operations to net cash flows from operating activities		
Depreciation	8,731,548	8,810,853
Amortization	57,481	57,424
Provision for bad debts	14,581,435	12,380,235
Changes in operating assets and liabilities		
Patient accounts receivable	(14,232,097)	(24,314,608)
Inventories	(419,718)	93,879
Prepaid expenses and other current assets	(2,253,473)	(6,332,876)
Accounts payable	1,271,029	17,270,054
Accrued payroll and payroll withholdings	1,114,549	783,390
Accrued expenses	98,101	(101,224)
Estimated third-party payor settlements	(1,963,630)	394,030
Deferred compensation liabilities	362,773	1,612,468
Net cash flows from operating activities	\$ 32,571,859	\$ 26,426,615
 Supplemental disclosures of noncash operating and capital and related financing activities		
Property and equipment acquired included in accounts payable	\$ 28,967	\$ 44,917

See accompanying notes to consolidated financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

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

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

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

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

HDC's consolidated financial statements at December 31, 2014 and 2013, include the accounts of Coordinated Health, LLC (the "Clinic"). The Clinic is wholly-owned by HDC and began operations in 2002. The Clinic was organized to operate exclusively for the benefit of HDC and the purposes for which HDC is organized and operated, including the promotion and support of the health of Jackson County, Indiana residents and residents of surrounding communities. Currently, the Clinic operates three healthcare facilities located in North Vernon, Salem, and Scottsburg, Indiana. The Clinic's primary source of revenue is from patient services.

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

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

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, 2014 AND 2013

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.

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.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Patient Accounts Receivable and Net Patient Service Revenue

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

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

Allowance for Doubtful Accounts

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

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

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

	2014	2013
Reserve for third-party payor balances	\$ 3,104,087	\$ 2,232,591
Reserve for self-pay balances	18,096,841	15,687,554
Total allowance for doubtful accounts	<u>\$ 21,200,928</u>	<u>\$ 17,920,145</u>

Inventories

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

Assets Whose Use is Limited

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

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

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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, 2014 and 2013, the Medical Center capitalized interest costs of \$44,263 and \$107,376, respectively.

Classification of Net Position

The net position of the Medical Center is classified in four components. (1) *Net investment in capital assets* consists of capital assets net of accumulated depreciation plus deferred outflows related to losses on bond refunding which are reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) *Restricted expendable net position* includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts deposited with trustees as required by revenue bond indentures. (3) *Restricted nonexpendable net position* includes the principal portion of permanent endowments and non-controlling interests owned by external investors. (4) *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Consolidated Statements of Operations and Changes in Net Position

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

Advertising and Marketing Costs

Advertising and marketing costs are charged to operations when incurred. Advertising and marketing costs charged to operations were \$918,459 and \$1,008,269 for the years ended December 31, 2014 and 2013, 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, 2014, the 2010 - 2014 income tax years are still open for tax examinations for both the Clinic and JMB. HDC is the sole member of the Clinic, and the Hospital is the sole member of JMB. As such, the Clinic and JMB are not required to file separate State or Federal tax returns. For tax reporting purposes, all activities of the Clinic are required to be filed with the activities of HDC, and all activities of JMB are required to be filed with the activities of the Hospital.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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, 2014 and 2013, 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, 2014 and 2013, the Medical Center had matching assets and liabilities relating to physician guarantees of \$724,584 and \$475,000, respectively.

Subsequent Events

The Medical Center has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued, which is April 23, 2015.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Reclassifications

Certain 2013 amounts have been reclassified to provide for consistency with reporting of 2014 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, 2014 and 2013:

	2014	2013
Carrying amount		
Cash and cash equivalents	\$ 116,976,255	\$ 87,118,154
Certificates of deposit	17,752,992	23,000,000
Mutual funds	47,998,155	46,206,848
Corporate bonds	68,283	79,525
Money market mutual funds	4,378,331	3,798,847
Perpetual trust	333,340	336,528
Interest receivable	11,564	28,939
Fixed income guaranteed option	371,500	510,537
Common stocks	820,088	823,692
Total	\$ 188,710,508	\$ 161,903,070
Included in the consolidated balance sheet captions:		
Cash and cash equivalents	\$ 52,413,583	\$ 36,400,502
Investments	8,366,331	8,399,862
Assets whose use is limited	127,930,594	117,102,706
Total	\$ 188,710,508	\$ 161,903,070

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Custodial Credit Risk - Deposits

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

Investments are carried at fair value or cost which approximates fair value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. As of December 31, 2014 and 2013, 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, 2014					
Investment Maturities (in years)					
	Carrying Amount	Less than 1	1 - 5	6 - 10	More than 10
Certificates of deposit	\$ 17,752,992	\$ 17,752,992	\$ -0-	\$ -0-	\$ -0-
Corporate bonds	68,283	21,309	46,974	-0-	-0-
Total	\$ 17,821,275	\$ 17,774,301	\$ 46,974	\$ -0-	\$ -0-

December 31, 2013					
Investment Maturities (in years)					
	Carrying Amount	Less than 1	1 - 5	6 - 10	More than 10
Certificates of deposit	\$ 23,000,000	\$ 23,000,000	\$ -0-	\$ -0-	\$ -0-
Corporate bonds	79,525	9,246	67,893	2,386	-0-
Total	\$ 23,079,525	\$ 23,009,246	\$ 67,893	\$ 2,386	\$ -0-

Interest Rate Risk

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

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

The Medical Center does have formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. The Hospital's current investment policy limits investments with maturities of two years or longer to no more than 60 percent of total investments. The Foundation's investment policy prohibits the purchase of fixed income securities with original maturities of more than 10 years, unless the securities are part of a fund portfolio which has an average maturity of not greater than 10 years.

Credit Risk – Investments

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

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

Investment Type	Credit Rating Moody's	Fair Value 2014	Fair Value 2013
Corporate bonds	A1	\$ 4,218	\$ 8,986
Corporate bonds	A2	11,032	6,768
Corporate bonds	A3	13,125	13,537
Corporate bonds	Aaa	2,249	2,308
Corporate bonds	Aa2	4,521	4,622
Corporate bonds	Aa3	2,231	2,288
Corporate bonds	Baa1	11,690	14,191
Corporate bonds	Baa2	10,553	10,771
Corporate bonds	Baa3	8,664	16,054
		<u>\$ 68,283</u>	<u>\$ 79,525</u>

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Concentration of Credit Risk

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

Fair Value Measurements and Disclosures

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

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

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

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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, 2014 and 2013.

- *Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Medical Center are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Medical Center are deemed to be actively traded.
- *Corporate bonds:* Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.
- *Perpetual trust:* Valued at fair value as reported by the trustee, which represents the Medical Center's *pro rata* interest in the net position of the trust, substantially all of which are valued on a mark-to-market basis.
- *Fixed income guaranteed option:* Guaranteed investment contracts are valued at fair value by the insurance company by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. Since the participants transact at contract value, fair value is determined annually for financial statement reporting purposes only. In determining the reasonableness of the methodology the Finance Committee evaluates a variety of factors including review of existing contracts, economic conditions, industry and market developments, and overall credit ratings. Certain unobservable inputs are assessed through review of contract terms (for example, duration or payout date) while others are substantiated utilizing available market data (for example, swap curve rate).
- *Common stocks:* Valued at the closing price reported on the active market on which the individual securities are traded.
- *Deferred compensation:* Value based on the underlying investments.
- *Money market mutual funds:* Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

	Level 1	Level 2	Level 3	Total
Assets				
Corporate bonds				
Financial	\$ -0-	\$ 22,492	\$ -0-	\$ 22,492
Healthcare	-0-	12,275	-0-	12,275
Basic materials	-0-	17,227	-0-	17,227
Utilities	-0-	4,072	-0-	4,072
Services	-0-	12,217	-0-	12,217
	<u>-0-</u>	<u>68,283</u>	<u>-0-</u>	<u>68,283</u>
Common stocks				
Basic materials	71,066	-0-	-0-	71,066
Consumer goods	138,616	-0-	-0-	138,616
Consumer services	96,330	-0-	-0-	96,330
Financials	187,712	-0-	-0-	187,712
Healthcare	127,952	-0-	-0-	127,952
Industrials	81,321	-0-	-0-	81,321
Technology	117,091	-0-	-0-	117,091
	<u>820,088</u>	<u>-0-</u>	<u>-0-</u>	<u>820,088</u>
Mutual funds				
Large cap value	4,086,835	-0-	-0-	4,086,835
Large cap blend	10,641,110	-0-	-0-	10,641,110
Large cap growth	5,520,239	-0-	-0-	5,520,239
Mid cap value	2,052,704	-0-	-0-	2,052,704
Mid cap blend	2,335,448	-0-	-0-	2,335,448
Small cap blend	856,231	-0-	-0-	856,231
Foreign small growth	1,597,498	-0-	-0-	1,597,498
Foreign large value	1,782,082	-0-	-0-	1,782,082
Foreign large blend	5,403,473	-0-	-0-	5,403,473
World stock	1,948,560	-0-	-0-	1,948,560
Intermediate term bond	2,840,542	-0-	-0-	2,840,542
Short term bond	328,310	-0-	-0-	328,310
Intermediate government	1,856,854	-0-	-0-	1,856,854
High yield bond	1,067,030	-0-	-0-	1,067,030
Emerging markets	1,821,439	-0-	-0-	1,821,439
Natural resources	1,646,966	-0-	-0-	1,646,966
Realty funds	2,212,834	-0-	-0-	2,212,834
	<u>47,998,155</u>	<u>-0-</u>	<u>-0-</u>	<u>47,998,155</u>
Money market mutual funds	-0-	4,378,331	-0-	4,378,331
Perpetual trust, held by trustee	-0-	-0-	333,340	333,340
Fixed income guaranteed option	-0-	371,500	-0-	371,500
Total assets at fair value	<u>\$ 48,818,243</u>	<u>\$ 4,818,114</u>	<u>\$ 333,340</u>	<u>53,969,697</u>

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Cash	116,976,255
Certificates of deposit	17,752,992
Interest receivable	11,564
Total deposits and investments	\$ 188,710,508

Liabilities

Deferred compensation liabilities	\$ -0-	\$ (7,896,883)	\$ -0-	\$ (7,896,883)
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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, 2013 are as follows:

	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
<u>Corporate bonds</u>				
Energy	\$ -0-	\$ 2,308	\$ -0-	\$ 2,308
Financial	-0-	37,546	-0-	37,546
Healthcare	-0-	9,207	-0-	9,207
Basic materials	-0-	4,524	-0-	4,524
Utilities	-0-	4,217	-0-	4,217
Services	-0-	21,723	-0-	21,723
	-0-	79,525	-0-	79,525
<u>Common stocks</u>				
Basic materials	145,367	-0-	-0-	145,367
Consumer goods	103,874	-0-	-0-	103,874
Consumer services	70,070	-0-	-0-	70,070
Financials	180,625	-0-	-0-	180,625
Healthcare	103,105	-0-	-0-	103,105
Industrials	96,375	-0-	-0-	96,375
Technology	121,537	-0-	-0-	121,537
Utilities	2,739	-0-	-0-	2,739
	823,692	-0-	-0-	823,692
<u>Mutual funds</u>				
Large cap value	4,621,813	-0-	-0-	4,621,813
Large cap blend	11,153,176	-0-	-0-	11,153,176
Large cap growth	4,942,736	-0-	-0-	4,942,736
Mid cap value	2,039,288	-0-	-0-	2,039,288
Mid cap blend	1,284,262	-0-	-0-	1,284,262
Mid cap growth	46,613	-0-	-0-	46,613
Small cap value	18,348	-0-	-0-	18,348
Small cap blend	2,232,806	-0-	-0-	2,232,806
Small cap growth	9,869	-0-	-0-	9,869
Foreign small growth	1,647,119	-0-	-0-	1,647,119
Foreign large value	106,413	-0-	-0-	106,413
Foreign large blend	5,271,343	-0-	-0-	5,271,343
World stock	5,650,520	-0-	-0-	5,650,520
Intermediate term bond	1,132,618	-0-	-0-	1,132,618
Short term bond	317,890	-0-	-0-	317,890

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Intermediate government	502,196	-0-	-0-	502,196
Short government	4,466	-0-	-0-	4,466
High yield bond	786,624	-0-	-0-	786,624
Inflation protected bond	1,712,699	-0-	-0-	1,712,699
Natural resources	1,136,055	-0-	-0-	1,136,055
Realty funds	1,589,994	-0-	-0-	1,589,994
	46,206,848	-0-	-0-	46,206,848
Money market mutual funds	-0-	3,798,847	-0-	3,798,847
Perpetual trust, held by trustee	-0-	-0-	336,528	336,528
Fixed income guaranteed option	-0-	510,537	-0-	510,537
Total assets at fair value	\$ 47,030,540	\$ 4,388,909	\$ 336,528	51,755,977
Cash				87,118,154
Certificates of deposit				23,000,000
Interest receivable				28,939
Total deposits and investments				\$ 161,903,070
<u>Liabilities</u>				
Deferred compensation liabilities	\$ -0-	\$ (7,534,110)	\$ -0-	\$ (7,534,110)

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 2014 and 2013.

The following summary sets forth a summary of changes in the fair values of the Medical Center's Level 3 assets for the years ended December 31, 2014 and 2013:

	2014	2013
	Perpetual Trust Held by Trustee	Perpetual Trust Held by Trustee
Balance, beginning of the year	\$ 336,528	\$ 306,945
Purchase of investments	-0-	-0-
Redemption	-0-	-0-
Change in investment value	(3,188)	29,583
Balance, end of year	\$ 333,340	\$ 336,528

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

4. PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable reported as current assets at December 31, 2014 and 2013, consist of the following:

	2014	2013
Medicare	\$ 16,438,650	\$ 15,050,917
Medicaid	10,473,092	10,176,573
Blue Cross	5,178,332	6,191,265
Other insurance carriers	12,075,520	12,358,493
Patients	20,936,557	17,453,307
Total patient accounts receivable	65,102,151	61,230,555
Less allowance for contractals	16,274,261	15,334,110
Less allowance for uncollectible amounts	21,200,928	17,920,145
Patient accounts receivable, net	\$ 27,626,962	\$ 27,976,300

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, 2014 and 2013:

Investment Summary by Type

	2014	%	2013	%
Cash and cash equivalents	\$ 64,602,141	50.5 %	\$ 50,769,616	43.4 %
Money market funds	4,338,862	3.4	3,746,883	3.2
Interest receivable	11,564	0.0	28,939	0.0
Certificates of deposit	9,752,992	7.6	15,000,000	12.8
Corporate bonds	68,283	0.0	79,525	0.1
Common stocks	636,923	0.5	623,761	0.5
Fixed income guaranteed option	371,500	0.3	510,537	0.4
Mutual funds	47,814,989	37.4	46,006,917	39.3
Perpetual trust, held by trustee	333,340	0.3	336,528	0.3
Total assets whose use is limited	\$ 127,930,594	100.0 %	\$ 117,102,706	100.0 %
Less amount required for current obligations	1,865,113		1,838,614	
Assets whose use is limited, net of amount required to meet current obligations	\$ 126,065,481		\$ 115,264,092	

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Investment Summary by Fund

Board-Designated Funds	\$ 114,195,334	89.3 %	\$ 104,073,875	88.9 %
Trustee-Held Funds	3,940,020	3.0	3,673,887	3.1
Donor-Restricted Funds	1,898,357	1.5	1,820,834	1.6
Deferred Compensation Funds	<u>7,896,883</u>	<u>6.2</u>	<u>7,534,110</u>	<u>6.4</u>
 Total	 <u>\$ 127,930,594</u>	 <u>100.0 %</u>	 <u>\$ 117,102,706</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, 2014 AND 2013

6. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2014 and 2013, was as follows:

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

	2013			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	\$ 6,411,082	\$ 408,078	\$ (94,962)	\$ 6,724,198
Land improvements	4,017,829	12,950	(21,438)	4,009,341
Leasehold improvements	672,661	-0-	-0-	672,661
Buildings	80,146,074	787,923	2,300,452	83,234,449
Fixed equipment	6,066,683	87,672	225,501	6,379,856
Movable equipment	45,964,278	2,223,579	840,465	49,028,322
Construction in progress	1,054,500	6,667,799	(5,456,734)	2,265,565
Total historical cost	<u>144,333,107</u>	<u>10,188,001</u>	<u>(2,206,716)</u>	<u>152,314,392</u>
Less accumulated depreciation for				
Land improvements	(1,713,102)	(257,078)	19,992	(1,950,188)
Leasehold improvements	(353,932)	(123,136)	-0-	(477,068)
Buildings	(26,272,004)	(3,626,018)	8,466	(29,889,556)
Fixed equipment	(4,763,010)	(255,127)	294,666	(4,723,471)
Movable equipment	(32,345,451)	(4,549,494)	1,237,016	(35,657,929)
Total accumulated depreciation	<u>(65,447,499)</u>	<u>(8,810,853)</u>	<u>1,560,140</u>	<u>(72,698,212)</u>
Capital assets, net	<u>\$ 78,885,608</u>	<u>\$ 1,377,148</u>	<u>\$ (646,576)</u>	<u>\$ 79,616,180</u>

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

7. OTHER ASSETS

At December 31, 2014 and 2013, other assets consist of the following:

	2014	2013
Prepaid pension costs	\$ 1,967,058	\$ 1,984,577
Physician notes receivable	1,127,255	1,365,354
Notes receivable	2,110	6,401
Investment in managed care company	755,000	755,000
Investment in RCG Columbus, LLC	974,900	974,900
Investment in captive insurance company	335,311	335,311
Captive insurance company subscriber savings	888,196	820,303
Investment in Inspire Health Partners	89,971	-0-
Other	7,906	54,491
Total other assets	6,147,707	6,296,337
Other assets, current portion	(340,193)	(678,662)
Other assets, net of current portion	\$ 5,807,514	\$ 5,617,675

Physician notes receivable are in varying amounts maturing through August 2020. If the physicians meet the period of service requirement, the Medical Center will forgive these notes. If the physicians do not meet the period-of-service requirement, the notes are immediately due in full. Interest rates are prime rate + 1 percent (4.25 percent at December 31, 2014).

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.

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

The Medical Center is a 12.5 percent owner of Indiana Healthcare Reciprocal Risk Retention Group (the "Captive"), a risk retention company created to purchase professional liability and general liability insurance for its members. The Medical Center accounts for this investment using the cost method. In addition, the Captive retains a subscriber savings account for each of its members based upon the premiums paid in and the resulting claims paid out, plus other factors. Members are paid the balance of their subscriber savings account once they leave the Captive in accordance with the terms of the Captive agreement.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

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>
Non-exempt	0 - 2 years	0.0885	368 hours
Non-exempt	2 - 5 years	0.1077	448 hours
Non-exempt	5 or more years	0.1270	528 hours
Exempt	0 - 2 years	0.0885	368 hours
Exempt	2 - 5 years	0.1077	448 hours
Exempt	5 or more years	0.1270	528 hours
Vice Presidents	Upon hire	0.1462	608 hours

PTO days are accrued when incurred. The PTO accrual at December 31, 2014 and 2013 was \$3,927,699 and \$3,811,542, respectively and is reported in accrued expenses in the consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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 \$8,500,000. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of pay out, and other economic and social factors. The accrued liability for claims liabilities is recorded in accrued expenses on the consolidated balance sheets.

Changes in the balance of claims liabilities during the years ended December 31, 2014 and 2013, were as follows:

	2014	2013
Accrued liability, beginning of year	\$ 1,267,674	\$ 1,197,687
Incurred claims, changes in estimates, and fees/premiums	7,689,672	7,673,539
Claim payments	(7,691,720)	(7,603,552)
Accrued liability, end of year	\$ 1,265,626	\$ 1,267,674

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. 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. 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

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Funding Policy

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

Annual Pension Cost and Net Pension Obligation

The Medical Center's annual pension cost and net pension obligation for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
Annual required contribution	\$ -0-	\$ -0-
Interest on net pension obligation	(158,766)	(160,180)
Adjustment to annual required contribution	176,285	177,855
Annual pension cost	17,519	17,675
Interest on employer contributions	-0-	-0-
Contributions made	-0-	-0-
(Increase) decrease in net pension asset	17,519	17,675
Net pension (asset)/liability, beginning of year	(1,984,577)	(2,002,252)
Net pension (asset)/liability, end of year	\$ (1,967,058)	\$ (1,984,577)

The annual required contribution for the current year was determined as part of the May 1, 2014, 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
12/31/2012	\$ 17,832	0.0%	\$ (2,002,252)
12/31/2013	17,675	0.0%	(1,984,577)
12/31/2014	17,519	0.0%	(1,967,058)

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

Plan Year Ending	<u>12/31/14</u>	<u>12/31/13</u>	<u>12/31/12</u>
Actuarial Valuation Date	5/1/2014	5/1/2013	5/1/2012
Actuarial Value of Plan Assets	\$ 35,498,287	\$ 31,113,055	\$ 28,606,679
Actuarial Accrued Liability	\$ 26,484,196	\$ 25,974,487	\$ 25,285,073
Total Unfunded Actuarial Liability	\$ -0-	\$ -0-	\$ -0-
Actuarial Value of Assets as a Percentage of the Actuarial Accrued Liability- "Funded Ratio"	134.0%	119.8%	113.1%
Annual Covered Payroll	N/A	N/A	N/A
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	N/A	N/A	N/A

11. LONG-TERM DEBT

At December 31, 2014 and 2013, the Medical Center was obligated for long-term debt agreements as follows:

	<u>2014</u>	<u>2013</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.	\$ 12,245,000	\$ 13,530,000
Indiana Health and Educational Facility Financing Authority ("IHEFFA") Series 2006A Revenue Bonds dated May 2006, payable in annual principal installments commencing February 2023 through February 2030, in amounts ranging from \$465,000 to \$670,000. Fixed interest rate of 5.125%. Secured by gross revenues.	4,500,000	4,500,000

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

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IHEFFA Series 2006B Revenue Bonds dated May 2006, payable in annual principal installments commencing February 2007 through February 2036 in amounts ranging from \$150,000 to \$950,000. In May 2013, bonds were converted to long-maturity and issued to Capital One Public Funding, LLC and Jackson County Bank who will hold the bonds through February 2023 at which time a balloon payment is due for all remaining unpaid principal and interest. In February 2023, Capital One and Jackson County Bank may exercise a put option on the bonds, or refinance the remaining principal with the Medical Center. Fixed interest rate of 2.8% on \$18,795,000. Secured by gross revenues.

18,795,000 18,945,000

Note payable to bank dated February 2010, paid in full in 2014.

-0- 94,761

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, 2014). Secured by building with a December 31, 2014 net book value of \$3,297,177.

139,390 370,678

35,679,390 37,440,439

Unamortized bond premium

237,544 269,088

Less current portion

(1,649,792) (1,791,408)

Long-term debt, net of current portion

\$ 34,267,142 \$ 35,918,119

In May 2013, the Medical Center extinguished \$10,500,000 of the outstanding 2006A revenue bonds having interest rates of 5 percent and 5.25 percent. The Medical Center used cash reserves and excess debt service reserve funds to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2006A bonds. As a result, that portion of the 2006A bonds is considered defeased, and the Medical Center has removed the liability from its accounts. The outstanding principal of the defeased bonds was \$15,000,000 at December 31, 2013.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Long-term debt activity for the years ended December 31, 2014 and 2013 was as follows:

	2014				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 2006A	\$ 4,500,000	\$ -0-	\$ -0-	\$ 4,500,000	\$ -0-
Revenue bonds, series 2006B	18,945,000	-0-	(150,000)	18,795,000	150,000
Revenue bonds, series 2010	13,530,000	-0-	(1,285,000)	12,245,000	1,330,000
Note payable to bank	94,761	-0-	(94,761)	-0-	-0-
JMB note payable to bank	370,678	-0-	(231,288)	139,390	139,390
Bond premiums	269,088	-0-	(31,544)	237,544	30,402
Total long-term debt	<u>\$ 37,709,527</u>	<u>\$ -0-</u>	<u>\$ (1,792,593)</u>	<u>\$ 35,916,934</u>	<u>\$ 1,649,792</u>
	2013				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 2006A	\$ 15,000,000	\$ -0-	\$ (10,500,000)	\$ 4,500,000	\$ -0-
Revenue bonds, series 2006B	19,095,000	-0-	(150,000)	18,945,000	150,000
Revenue bonds, series 2010	14,760,000	-0-	(1,230,000)	13,530,000	1,285,000
Note payable to bank	190,599	-0-	(95,838)	94,761	94,761
JMB note payable to bank	592,135	-0-	(221,457)	370,678	231,245
Bond premiums	468,821	-0-	(199,733)	269,088	30,402
Total long-term debt	<u>\$ 50,106,555</u>	<u>\$ -0-</u>	<u>\$ (12,397,028)</u>	<u>\$ 37,709,527</u>	<u>\$ 1,791,408</u>

Debt service requirements on long-term debt at December 31, 2014 are based on the interest rate modes in effect and are as follows:

Year Ending December 31,	Principal	Interest
2015	\$ 1,649,792	\$ 1,357,146
2016	1,565,402	1,297,410
2017	1,635,402	1,223,960
2018	1,705,402	1,147,010
2019	1,785,402	1,066,560
2020 - 2024	24,020,151	3,602,190
2025 - 2029	2,884,708	563,570
2030 - 2034	<u>670,675</u>	<u>17,444</u>
 Total	<u>\$ 35,916,934</u>	<u>\$ 10,275,290</u>

The Medical Center's debt agreements contain various restrictive covenants, including covenants related to days cash on hand ratio, debt service coverage ratio, debt to capitalization ratio, and audited financial statement submission requirements. Management believes the Medical Center was in compliance with all restrictive covenants during 2014 and 2013.

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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 \$7,896,883 and \$7,534,110 for the years ended December 31, 2014 and 2013, 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, 2014 and 2013, the Medical Center recognized \$1,190,229 and \$1,126,803, respectively, in expense related to the 403(b) plan.

13. DONOR-RESTRICTED AND NONEXPENDABLE RESTRICTED NET POSITION

Donor-restricted net position amounts are donor-restricted for a specific use or by the passage of time. Nonexpendable restricted net position amounts include a perpetual trust. Donor-restricted and nonexpendable restricted net position amounts include the following at December 31, 2014 and 2013:

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	2014	2013
Donor-restricted net position		
Dr. Bud Fund	\$ 503,352	\$ 497,355
Medical Technology Fund	127,725	143,515
Women's Center Fund	1,775	1,775
Cancer Fund	457,216	453,734
Hospice Fund	268,446	225,576
EPIC Fund	205,253	155,559
Employee Humanitarian Fund	1,250	6,792
Total donor-restricted net position	<u>\$ 1,565,017</u>	<u>\$ 1,484,306</u>
Nonexpendable restricted net position		
Perpetual trust, held by trustee	<u>\$ 333,340</u>	<u>\$ 336,528</u>

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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14. NET PATIENT SERVICE REVENUE

For the years ended December 31, 2014 and 2013, net patient service revenue was as follows:

	2014	2013
Gross patient service revenue		
Inpatient services	\$ 75,247,011	\$ 70,622,748
Outpatient services	224,794,798	207,602,452
Long-term care services	143,652,283	85,542,021
Total gross patient service revenue	443,694,092	363,767,221
Deductions from revenue		
Contractual allowances	203,494,564	173,205,276
Charity care	3,437,720	5,339,382
Bad debts	14,581,435	12,380,235
Medicaid UPL and DSH payments recognized	(2,158,643)	(4,951,751)
Nursing homes UPL payments recognized	(28,906,759)	(14,408,284)
Total deductions from revenue	190,448,317	171,564,858
Total net patient service revenue	\$ 253,245,775	\$ 192,202,363

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, 2014 and 2013, was as follows:

	2014		2013	
	Revenues	Receivables	Revenues	Receivables
Medicare	39 %	24 %	39 %	25 %
Medicaid	24	16	21	17
Blue Cross	16	8	17	10
SIHO*	5	4	7	5
Other third-party payors	7	14	8	15
Patients	9	34	8	28
	100 %	100 %	100 %	100 %

*Southeastern Indiana Health Organization

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

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- **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, 2014, the Hospital's submitted Medicare cost reports have been final settled with the Fiscal Intermediary through December 31, 2011.
- **Medicaid.** The Medical Center is a provider of services to patients entitled to coverage under Title XIX (Medicaid) of the Health Insurance Act. The Medical Center is reimbursed for Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG) and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. There is no cost settlement for either of the inpatient or outpatient programs.
- **Charity Care.** The Medical Center provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Medical Center does not collect amounts deemed to be charity care, they are not reported as revenue. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Medical Center's total operating expenses divided by gross patient service revenue. For the years ended December 31, 2014 and 2013, the Hospital incurred estimated costs of \$1,792,227 and \$2,639,317, respectively.
- **Other.** The Medical Center has also entered into preferred provider agreements with certain commercial insurance carriers. The basis for payment to the Medical Center under these agreements includes discounts from established charges, fee schedules, as well as inpatient DRG reimbursement methodologies.

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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.

15. ELECTRONIC HEALTH RECORDS (EHR) INCENTIVE PAYMENTS

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

The Medical Center recognizes EHR incentive payments as grant income when there is reasonable assurance that the Medical Center will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2014 and 2013, the Medical Center recognized approximately \$525,647 and \$1,390,674, respectively, in EHR incentive payments as grant income using the cliff recognition method. Under the cliff recognition method, the Medical Center records income at the end of EHR reporting period in which compliance is achieved. EHR incentive income is included in other revenue on the consolidated statements of operations and changes in net position. EHR incentive income is recognized based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

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

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16. 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 (“CMS”) retroactive to July 1, 2011. During March 2014, the HAF program was reinstated by CMS retroactive to July 1, 2013. As a result, the Medical Center estimated and recognized amounts for the period July 1, 2013 to December 31, 2013 in the 2013 financial statements. 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 hospital assessment fee reported in the consolidated statements of operations and changes in net position. Previously, the State share was funded by government entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patient and result in increased Medicaid rates. The Medical Center recognized HAF program expense of \$5,011,227 and \$4,731,229 at December 31, 2014 and 2013, respectively. For the years ended December 31, 2014 and 2013, the Medical Center recognized revenue in net patient service revenue totaling \$2,158,643 and \$4,951,751, respectively, relating to the net Indiana Medicaid Municipal Hospital Upper Payment Limit (“UPL”) and DSH adjustments.

17. NONOPERATING REVENUES (EXPENSES)

For the years ended December 31, 2014 and 2013, nonoperating revenues (expenses) were as follows:

	<u>2014</u>	<u>2013</u>
Investment income (loss)	\$ 2,079,959	\$ 7,938,500
Interest expense	(1,577,542)	(1,656,831)
Gain (loss) on disposal of capital assets	34,116	60,486
Donations	(96,884)	(149,987)
Contributions and grants	488,572	547,323
Change in perpetual trust	(3,188)	29,583
Inspire, gain (loss)	(235,029)	-0-
Miscellaneous	<u>(65,709)</u>	<u>(53,761)</u>
 Total nonoperating revenues (expenses)	 <u>\$ 624,295</u>	 <u>\$ 6,715,313</u>

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

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18. PROFESSIONAL LIABILITY INSURANCE

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

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:

	2014	2013
Medical Center per occurrence	<u>\$ 250,000</u>	<u>\$ 250,000</u>
Medical Center aggregate	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>
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, 2014 and 2013 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.

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19. RELATED PARTY TRANSACTIONS

Jackson County Bank

The Medical Center's Executive Vice President and Chief Administrative and Operations Officer serves as a member of the Board of Directors for Jackson County Bank ("JCB"). At December 31, 2014 and 2013, and for the years then ended, the Medical Center had the following related party transactions with JCB:

	2014	2013
Deposits	\$ 28,076,275	\$ 32,756,327
Bonds payable	\$ 3,000,000	\$ 3,000,000
Note payable	\$ -0-	\$ 94,761
Interest income	\$ 165,014	\$ 123,103
Interest expense	\$ 85,453	\$ 51,692

Southeastern Indiana Health Organization (SIHO)

The Medical Center is a 16.67 percent owner of the SIHO insurance company. At December 31, 2014 and 2013, and for the years then ended, the Medical Center had the following related party transactions with SIHO:

	2014	2013
Accounts receivable	\$ 3,866,312	\$ 2,058,609
Patient revenue	\$ 21,905,850	\$ 23,498,996
Operating expenses	\$ 9,806,735	\$ 9,135,496

20. CONCENTRATIONS OF CREDIT RISK

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

21. OPERATING LEASES

The Medical Center leases certain building space and equipment under noncancelable operating leases expiring in various years through 2019. Minimum future rental payments under these noncancelable operating leases, as of December 31, 2014, are as follows:

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Year Ending December 31,	<u>Amount</u>
2015	\$ 394,452
2016	397,452
2017	311,343
2018	155,616
2019	<u>110,262</u>
Total minimum payments	<u>\$ 1,369,125</u>

The Medical Center incurred \$15,825,336 and \$8,678,436 in total rent expense for the years ended December 31, 2014 and 2013, respectively, under cancelable and noncancelable operating leases.

22. 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.

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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, 2014 and 2013 is \$35,916,934 and \$37,709,527, respectively. The fair value of long-term debt at December 31, 2014 and 2013 is approximately \$37,867,497 and \$37,392,383, respectively. Fair value for fixed interest rate debt was calculated using the 30 year United States of America Treasury incremental bond borrowing rate at December 31, 2014.

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.

23. 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.

24. COMMITMENTS

As of December 31, 2014, the Medical Center has construction and renovation project commitments as follows:

<u>Project</u>	<u>Expected Date of Completion</u>	<u>Estimated Total Cost of Project</u>	<u>Costs Incurred as of December 31, 2014</u>
Telephone system upgrade phase III	2015	\$ 260,000	\$ 35,831
Cummins generator fencing	2015	50,000	32,010
Emergency department remodel	2015	500,000	328,703
Windows 7 migration phase II	2015	510,000	15,218
All other projects	2015	1,775,000	471,336
		<u>\$ 3,095,000</u>	<u>\$ 883,098</u>

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25. CONDENSED FINANCIAL INFORMATION

The Medical Center includes three blended component units in its reporting entity. Condensed component unit information for all of its blended as of and for the year ended December 31, 2014 is as follows:

	HDC	Foundation	JMB	Total
Balance sheet				
Assets				
Current assets	\$ 2,532,463	\$ 602,584	\$ 649,312	\$ 3,784,359
Assets whose use is limited	-0-	1,565,017	-0-	1,565,017
Capital assets, net	742,647	703,858	3,297,177	4,743,682
Other assets	601,233	-0-	(11,316)	589,917
Total assets	3,876,343	2,871,459	3,935,173	10,682,975
Deferred outflows	-0-	-0-	-0-	-0-
Total assets and deferred outflows	\$ 3,876,343	\$ 2,871,459	\$ 3,935,173	\$ 10,682,975
Liabilities				
Current liabilities	\$ 1,774,960	\$ 15,647	\$ 166,122	\$ 1,956,729
Long-term liabilities	169,588	20,000	-0-	189,588
Total liabilities	1,944,548	35,647	166,122	2,146,317
Net position				
Net investment in capital assets	742,647	-0-	-0-	742,647
Restricted expendable	-0-	1,565,017	-0-	1,565,017
Restricted nonexpendable	-0-	-0-	-0-	-0-
Unrestricted	1,189,148	1,270,795	3,769,051	6,228,994
Total net position	1,931,795	2,835,812	3,769,051	8,536,658
Total liabilities and net position	\$ 3,876,343	\$ 2,871,459	\$ 3,935,173	\$ 10,682,975
	HDC	Foundation	JMB	Total
Statement of operations and changes in net position				
Operating revenues				
Net patient service revenue	\$ 2,293,898	\$ -0-	\$ -0-	\$ 2,293,898
Other operating revenue	2,059,278	-0-	790,183	2,849,461
Total operating revenues	4,353,176	-0-	790,183	5,143,359
Operating expenses				
Depreciation and amortization	115,940	18,477	175,452	309,869
Other operating expenses	4,405,289	378,749	474,361	5,258,399
Total operating expenses	4,521,229	397,226	649,813	5,568,268
Income (loss) from operations	(168,053)	(397,226)	140,370	(424,909)
Non-operating gains (losses)	(42,657)	507,617	(12,606)	452,354
Change in net position	(210,710)	110,391	127,764	27,445
Net position - beginning of year	2,142,505	2,725,421	3,641,287	8,509,213
Net position - end of year	\$ 1,931,795	\$ 2,835,812	\$ 3,769,051	\$ 8,536,658

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

Condensed component unit information for all of its blended components as of and for the year ended December 31, 2013 is as follows:

	HDC	Foundation	JMB	Total
Balance sheet				
Assets				
Current assets	\$ 1,986,474	\$ 564,227	\$ 577,384	\$ 3,128,085
Assets whose use is limited	-0-	1,484,306	-0-	1,484,306
Capital assets, net	737,590	722,335	3,461,313	4,921,238
Other assets	345,739	-0-	-0-	345,739
Total assets	<u>3,069,803</u>	<u>2,770,868</u>	<u>4,038,697</u>	<u>9,879,368</u>
Deferred outflows	-0-	-0-	-0-	-0-
Total assets and deferred outflows	<u>\$ 3,069,803</u>	<u>\$ 2,770,868</u>	<u>\$ 4,038,697</u>	<u>\$ 9,879,368</u>
Liabilities				
Current liabilities	\$ 711,465	\$ 45,447	\$ 257,977	\$ 1,014,889
Long-term liabilities	215,833	-0-	139,433	355,266
Total liabilities	<u>927,298</u>	<u>45,447</u>	<u>397,410</u>	<u>1,370,155</u>
Net position				
Net investment in capital assets	694,843	-0-	-0-	694,843
Restricted expendable	-0-	1,484,306	-0-	1,484,306
Restricted nonexpendable	-0-	-0-	-0-	-0-
Unrestricted	1,447,662	1,241,115	3,641,287	6,330,064
Total net position	<u>2,142,505</u>	<u>2,725,421</u>	<u>3,641,287</u>	<u>8,509,213</u>
Total liabilities and net position	<u>\$ 3,069,803</u>	<u>\$ 2,770,868</u>	<u>\$ 4,038,697</u>	<u>\$ 9,879,368</u>

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	HDC	Foundation	JMB	Total
Statement of operations and changes in net position				
Operating revenues				
Net patient service revenue	\$ 2,338,793	\$ -0-	\$ -0-	\$ 2,338,793
Other operating revenue	1,559,460	-0-	787,975	2,347,435
Total operating revenues	3,898,253	-0-	787,975	4,686,228
Operating expenses				
Depreciation and amortization	171,916	3,079	164,856	339,851
Other operating expenses	4,605,216	293,646	384,558	5,283,420
Total operating expenses	4,777,132	296,725	549,414	5,623,271
Income (loss) from operations	(878,879)	(296,725)	238,561	(937,043)
Non-operating gains (losses)	21,415	1,076,342	(22,441)	1,075,316
Change in net position	(857,464)	779,617	216,120	138,273
Net position - beginning of year	2,999,969	1,945,804	3,425,167	8,370,940
Net position - end of year	<u>\$ 2,142,505</u>	<u>\$ 2,725,421</u>	<u>\$ 3,641,287</u>	<u>\$ 8,509,213</u>
	HDC	Foundation	JMB	Total
Statement of cash flows				
Cash provided by				
Operating activities	\$ (41,746)	\$ 211,280	\$ 376,392	\$ 545,926
Noncapital financing activities	-0-	759,845	-0-	759,845
Capital and related financing activities	(46,009)	(326,381)	(221,457)	(593,847)
Investing activities	131,821	(786,391)	-0-	(654,570)
Total	44,066	(141,647)	154,935	57,354
Cash - beginning of year	1,036,951	302,099	400,737	1,739,787
Cash - end of year	<u>\$ 1,081,017</u>	<u>\$ 160,452</u>	<u>\$ 555,672</u>	<u>\$ 1,797,141</u>

26. RECENT GASB PRONOUNCEMENTS

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

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, issued June 2012, will be effective for periods beginning after June 15, 2014. This Statement establishes the accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to certain pensions. It will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*, issued November 2013, will be required to be applied simultaneously with provisions of GASB Statement No. 68 making it effective for periods beginning after June 15, 2014. This Statement amends previous guidance to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.