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May 24, 2019

Board of Trustees
Jackson County Schneck Memorial Hospital and Affiliated Organizations
411 W. Tipton Street
Seymour, IN 47274

We have reviewed the audit report of Jackson County Schneck Memorial Hospital and Affiliated Organizations which was opined upon by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2018 to December 31, 2018. Per the *Report of Independent Auditors*, the financial statements included in the report present fairly the financial condition of the Jackson County Schneck Memorial Hospital and Affiliated Organizations, as of December 31, 2018, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Blue & Co., LLC prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

The audit report is filed with this letter in our office as a matter of public record.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

CONSOLIDATED FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018 AND 2017

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS

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DECEMBER 31, 2018 AND 2017

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blue

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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, 2018 and 2017, 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 *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent 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, 2018 and 2017, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the schedules of pension plan information on pages i-x and 50-51, respectively, be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Blue & Co., LLC

Louisville, Kentucky
April 26, 2019

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, 2018 and 2017. 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 $11,088,218 from 2017 to 2018. During 2018, the Medical Center's total operating revenue decreased by 0.2% to $285,736,564 with total operating expenses increasing by 0.9% to $268,646,754.

- The Medical Center raised rates by 2.8% in 2018.

- During the period from 2012 to 2014, the Medical Center assumed ownership of the bed licenses of fifteen long term care facilities. The Medical Center entered into management agreements with the previous owners and/or management entities to manage the day-to-day operations of the facilities. The Medical Center also leases the buildings and premises from the prior owners. The first full year of operations was 2015 with all fifteen facilities included in the Medical Center's financial results. The amount included in income from operations attributable to the nursing facilities was $10,381,764 in 2018 and $12,578,532 in 2017.

- 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 $6,520,582 in 2018 and $5,216,041 in 2017.

- During 2018, ground was broken on a five-story medical office building and attached five-story parking garage. The project is expected to be completed in May 2019, and is anticipated to cost $41,670,870. As of December 31, 2018, the Medical Center incurred costs of $20,190,460 related to this project.

The Medical Center's net position increased $32,394,318 from 2016 to 2017. During 2017, the Medical Center's total operating revenue increased by 4.0% to $286,380,254 with total operating expenses increasing by 4.1% to $266,188,316.

- The Medical Center raised rates by 4.5% in 2017.

- During the period from 2012 to 2014, the Medical Center assumed ownership of the bed licenses of fifteen long term care facilities. The Medical Center entered into management agreements with the previous owners and/or management entities to manage the day-to-day operations of the facilities. The Medical Center also leases the buildings and premises from the prior owners. The first full year of operations was 2015 with all fifteen facilities included in the Medical Center's financial results. The amount included in income from operations attributable to the nursing facilities was $12,578,532 in 2017 and $10,971,694 in 2016.

- The Medical Center purchased the assets of an existing Primary Care Physician Practice and began operating the practice October 1, 2016. The acquisition increased patient volume, positively impacting operating revenue.

- 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 $5,216,041 in 2017 and $3,027,163 in 2016.

FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS

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

CONDENSED FINANCIAL INFORMATION

A summary of the Medical Center's consolidated balance sheets as of December 31, 2018 and 2017 is presented below:

	2018	2017	$ Change	% Change
Assets				
Current assets	$ 128,697,530	$ 129,110,782	$ (413,252)	-0.3%
Capital assets	103,545,109	81,071,663	22,473,446	27.7%
Other assets	171,260,953	183,964,093	(12,703,140)	-6.9%
Total assets	403,503,592	394,146,538	9,357,054	2.4%
Deferred outflows	4,189,274	4,156,611	32,663	0.8%
Total assets and deferred outflows	$ 407,692,866	$ 398,303,149	$ 9,389,717	2.4%
Liabilities				
Current liabilities	$ 34,505,696	$ 33,450,327	$ 1,055,369	3.2%
Long-term liabilities	32,126,853	35,059,748	(2,932,895)	-8.4%
Total liabilities	66,632,549	68,510,075	(1,877,526)	-2.7%
Deferred inflows	2,815,916	2,636,891	179,025	6.8%
Total liabilities and deferred inflows	69,448,465	71,146,966	(1,698,501)	-2.4%
Net position				
Net investment in capital assets	78,718,861	54,544,064	24,174,797	44.3%
Restricted expendable net position	5,095,651	4,983,344	112,307	2.3%
Restricted nonexpendable net position	301,276	339,041	(37,765)	-11.1%
Unrestricted	254,128,613	267,289,734	(13,161,121)	-4.9%
Total net position	338,244,401	327,156,183	11,088,218	3.4%
Total liabilities and net position	$ 407,692,866	$ 398,303,149	$ 9,389,717	2.4%

A summary of the Medical Center's consolidated balance sheets as of December 31, 2017 and 2016 is presented below:

	2017	2016	$ Change	% Change
Assets				
Current assets	$ 129,110,782	$ 124,823,946	$ 4,286,836	3.4%
Capital assets	81,071,663	75,211,492	5,860,171	7.8%
Other assets	183,964,093	157,667,895	26,296,198	16.7%
Total assets	394,146,538	357,703,333	36,443,205	10.2%
Deferred outflows	4,156,611	5,271,697	(1,115,086)	-21.2%
Total assets and deferred outflows	$ 398,303,149	$ 362,975,030	$ 35,328,119	9.7%
Liabilities				
Current liabilities	$ 33,450,327	$ 33,139,133	$ 311,194	0.9%
Long-term liabilities	35,059,748	34,687,281	372,467	1.1%
Total liabilities	68,510,075	67,826,414	683,661	1.0%
Deferred inflows	2,636,891	386,751	2,250,140	581.8%
Total liabilities and deferred inflows	71,146,966	68,213,165	2,933,801	4.3%
Net position				
Net investment in capital assets	54,544,064	47,052,542	7,491,522	15.9%
Restricted expendable net position	4,983,344	4,784,573	198,771	4.2%
Restricted nonexpendable net position	339,041	310,215	28,826	9.3%
Unrestricted	267,289,734	242,614,535	24,675,199	10.2%
Total net position	327,156,183	294,761,865	32,394,318	11.0%
Total liabilities and net position	$ 398,303,149	$ 362,975,030	$ 35,328,119	9.7%

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, 2018 and 2017 is presented below:

	2018	2017	$ Change	% Change
Operating revenues				
Net patient service revenue	$ 283,196,987	$ 283,912,929	$ (715,942)	-0.3%
Other revenue	2,539,577	2,467,325	72,252	2.9%
Total operating revenues	285,736,564	286,380,254	(643,690)	-0.2%
Operating expenses				
Salaries and benefits	154,351,904	151,310,885	3,041,019	2.0%
Supplies and drugs	34,886,838	34,276,956	609,882	1.8%
Depreciation and amortization	8,983,934	8,198,830	785,104	9.6%
Other operating expenses	70,424,078	72,401,645	(1,977,567)	-2.7%
Total operating expenses	268,646,754	266,188,316	2,458,438	0.9%
Income from operations	17,089,810	20,191,938	(3,102,128)	-15.4%
Nonoperating revenues (expenses)	(6,001,592)	12,202,380	(18,203,972)	-149.2%
Change in net position	$ 11,088,218	$ 32,394,318	$ (21,306,100)	-65.8%
Net position, end of year	$ 338,244,401	$ 327,156,183	$ 11,088,218	3.4%

A summary of the Medical Center's consolidated statements of operations and changes in net position for the years ended December 31, 2017 and 2016 is presented below:

	2017	2016	$ Change	% Change
Operating revenues				
Net patient service revenue	$ 283,912,929	$ 272,728,401	$ 11,184,528	4.1%
Other revenue	2,467,325	2,601,487	(134,162)	-5.2%
Total operating revenues	286,380,254	275,329,888	11,050,366	4.0%
Operating expenses				
Salaries and benefits	151,310,885	142,625,989	8,684,896	6.1%
Supplies and drugs	34,276,956	34,827,374	(550,418)	-1.6%
Depreciation and amortization	8,198,830	8,282,640	(83,810)	-1.0%
Other operating expenses	72,401,645	69,936,052	2,465,593	3.5%
Total operating expenses	266,188,316	255,672,055	10,516,261	4.1%
Income from operations	20,191,938	19,657,833	534,105	2.7%
Nonoperating revenues (expenses)	12,202,380	3,426,288	8,776,092	256.1%
Change in net position	$ 32,394,318	$ 23,084,121	$ 9,310,197	40.3%
Net position, end of year	$ 327,156,183	$ 294,761,865	$ 32,394,318	11.0%

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 2018, 2017, and 2016 are as follows:

Payor Mix	2018	2017	2016
Medicare	40 %	40 %	38 %
Medicaid	26	27	28
Blue Cross	17	16	14
SIHO*	3	4	5
Other third-party payors	7	7	8
Self-pay	7	6	7
Total	100 %	100 %	100 %

*Southeastern Indiana Health Organization

OPERATING AND FINANCIAL PERFORMANCE

The Medical Center's financial performance from operations was positive in 2018, but less so in comparison to 2017. The same is true for the Medical Center's overall financial performance. A discussion of the highlights of 2018 operations and changes in activity is presented below:

Revenues

The Medical Center's net patient service revenues decreased by $715,942 in 2018. Highlights of this change are as follows:

- The Medical Center raised rates by 2.8% in 2018.
- Upper Payment Limit (UPL) revenue relating to ownership of fifteen nursing home licenses decreased approximately $2.0 million from 2017 to 2018. UPL revenue is reliant on each home's Medicaid days and per day rate.
- Patient volume increases were noted for surgeries, laboratory tests, diagnostic imaging procedures, physical therapy, occupational therapy, speech therapy, and home health and hospice services.

Patient volume decreases were noted in inpatient days, births, emergency department visits, and respiratory therapy.

Expenses

Total operating expenses increased by $2,458,438 in 2018. Highlights of this change are as follows:

- Salary and benefits costs increased $3,041,019. This was due to staffing needs, market wage adjustments for many positions, and increases in benefit costs.

- Hospital assessment fee increased $1,304,541. The State determines the hospital assessment fee due from each facility, which in turn allows the State to leverage Federal funds and increase Medicaid reimbursement of patient claims.

The Medical Center's financial performance from operations was positive in 2017, as well as greater in comparison to 2016. The same is true for the Medical Center's overall financial performance. A discussion of the highlights of 2017 operations and changes in activity is presented below:

Revenues

The Medical Center's net patient service revenues increased by $11,184,528 in 2017. Highlights of this change are as follows:

- The Medical Center raised rates by 4.5% in 2017.

- The Medical Center acquired a primary care practice and established several specialty practices in the latter part of 2016.

- Upper Payment Limit (UPL) revenue relating to ownership of fifteen nursing home licenses increased approximately $3.3 million from 2016 to 2017. UPL revenue is reliant on each home's Medicaid days and per day rate.

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

Expenses

Total operating expenses increased by $10,516,261 in 2017. Highlights of this change are as follows:

- Salary and benefits costs increased $8,684,896. This was due to staffing needs, market wage adjustments for many positions, the addition of a primary care practice and several specialty practices the latter part of 2016, the addition of several new providers in 2017, and the benefits related to the increased number of employees.

- Hospital assessment fee increased $2,188,878. The State determines the hospital assessment fee due from each facility, which in turn allows the State to leverage Federal funds and increase Medicaid reimbursement of patient claims.

FINANCIAL ANALYSIS – CASH FLOWS

The Medical Center's 2018 cash flows decreased $5,925,267 due to an increase in the purchase of capital assets primarily related to the construction of a new medical office building.

The Medical Center's 2017 cash flows increased $14,130,018 due primarily to positive cash inflows received for patient services and investment income, which exceeded cash outflows for cash paid to employees and vendors and purchases of capital assets. In addition, the Medical Center was able to increase investment activity in 2017.

Capital Assets

	2018	2017	$Change	%Change
Land and land improvements	$ 14,439,341	$ 13,122,140	$ 1,317,201	10.0%
Leasehold improvements	866,949	866,949	-0-	0.0%
Buildings	100,392,144	93,757,257	6,634,887	7.1%
Equipment	61,012,501	58,550,124	2,462,377	4.2%
Construction in progress	22,815,694	5,565,424	17,250,270	310.0%
	199,526,629	171,861,894	27,664,735	16.1%
Less accumulated depreciation	95,981,520	90,790,231	5,191,289	5.7%
Capital assets, net	$ 103,545,109	$ 81,071,663	$ 22,473,446	27.7%

Net capital assets increased in 2018 due to capital purchases exceeding annual depreciation and the disposal of assets that have exhausted their useful lives. Buildings increased significantly due to the purchase of additional property and the completion of several large projects.

	2017	2016	$Change	%Change
Land and land improvements	$ 13,122,140	$ 12,436,637	$ 685,503	5.5%
Leasehold improvements	866,949	671,058	195,891	29.2%
Buildings	93,757,257	87,948,639	5,808,618	6.6%
Equipment	58,550,124	56,173,446	2,376,678	4.2%
Construction in progress	5,565,424	4,522,214	1,043,210	23.1%
	171,861,894	161,751,994	10,109,900	6.3%
Less accumulated depreciation	90,790,231	86,540,502	4,249,729	4.9%
Capital assets, net	$ 81,071,663	$ 75,211,492	$ 5,860,171	7.8%

Net capital assets increased in 2017 due to capital purchases exceeding annual depreciation and the disposal of assets that have exhausted their useful lives. Buildings increased significantly due to the purchase of additional property and the completion of several large projects.

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

Long-Term Debt

At December 31, 2018, the Medical Center had long-term debt (including current portion) of $24,826,248, which is comprised of revenue bonds outstanding.

At December 31, 2017, the Medical Center had long-term debt (including current portion) of $26,527,599, which is comprised of revenue bonds outstanding.

ECONOMIC FACTORS AND 2019 BUDGET

The Medical Center's Board and management considered many factors when establishing the 2019 budget. Included was the status of the economy, which takes into consideration market factors and other environmental factors such as the following items:

- Advances in medical equipment and information systems technology and the need to replace obsolete equipment
- Decreasing reimbursement from governmental and commercial insurance payors
- Increasing costs of supplies and services
- Nationwide workforce shortages in nursing and other healthcare specialist positions
- Expectation to maintain high quality of care
- Patient sensitivity to amount charged for services provided
- Community need of greater access to healthcare

- 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 Mann, Vice President of Finance at 812-522-0171.

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JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017
Current assets		
Cash and cash equivalents	$ 76,792,722	$ 76,168,621
Investments	8,814,747	8,743,565
Patient accounts receivable, net of estimated uncollectibles of $24,091,370 in 2018 and $28,671,204 in 2017	26,263,186	28,434,115
Inventories	4,299,676	3,959,066
Prepaid expenses and other current assets	9,623,847	9,281,121
Physician recruitment guarantees, current portion	225,000	93,750
Other assets, current portion	758,253	561,722
Current portion of assets whose use is limited	1,920,099	1,868,822
Total current assets	128,697,530	129,110,782
Assets whose use is limited, net of amount required to meet current obligations	152,685,312	165,914,780
Capital assets, net	103,545,109	81,071,663
Net pension asset	9,875,174	9,351,628
Other long-term assets		
Physician recruitment guarantees, net of current portion	356,250	581,250
Other assets, net of current portion	8,344,217	8,116,435
Total other long-term assets	8,700,467	8,697,685
Total assets	403,503,592	394,146,538
Deferred outflows	4,189,274	4,156,611
Total assets and deferred outflows	$ 407,692,866	$ 398,303,149

See accompanying notes to consolidated financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

LIABILITIES AND NET POSITION

	2018	2017
Current liabilities		
Accounts payable	$ 20,145,144	$ 20,429,659
Accrued personnel costs	10,715,541	10,831,092
Accrued expenses	1,344,058	210,998
Estimated third-party payor settlements	294,602	183,477
Physician recruitment guarantees, current portion	225,000	93,750
Current portion of long-term debt	1,781,351	1,701,351
Total current liabilities	34,505,696	33,450,327
Long-term liabilities		
Long-term debt, net of current portion	23,044,897	24,826,248
Deferred compensation liabilities	8,725,706	9,652,250
Physician recruitment guarantees, net of current portion	356,250	581,250
Total long-term liabilities	32,126,853	35,059,748
Pension deferred inflows	2,815,916	2,636,891
Total liabilities and deferred inflows	69,448,465	71,146,966
Net position		
Net investment in capital assets	78,718,861	54,544,064
Restricted		
Expendable for debt service	3,212,920	3,142,373
Expendable for donor-restricted purposes	1,882,731	1,840,971
Nonexpendable perpetual trust	301,276	339,041
Unrestricted	254,128,613	267,289,734
Total net position	338,244,401	327,156,183
Total liabilities and net position	$ 407,692,866	$ 398,303,149

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, 2018 AND 2017

	2018	2017
Operating revenues		
Net patient service revenue	$ 283,196,987	$ 283,912,929
Other revenue	2,539,577	2,467,325
Total operating revenues	285,736,564	286,380,254
Operating expenses		
Salaries and wages	137,224,987	134,772,994
Employee benefits and payroll taxes	17,126,917	16,537,891
Professional medical fees	2,162,743	2,275,803
Medical supplies	14,963,915	14,774,006
Other supplies	8,437,108	8,185,019
Drugs	11,485,815	11,317,931
Purchased services	24,373,781	28,255,350
Utilities	4,833,822	4,741,140
Insurance	3,536,528	3,218,655
Depreciation and amortization	8,983,934	8,198,830
Rent	20,585,304	20,551,628
Hospital assessment fee	6,520,582	5,216,041
Other operating expenses	8,411,318	8,143,028
Total operating expenses	268,646,754	266,188,316
Income from operations	17,089,810	20,191,938
Nonoperating revenues (expenses)	(6,001,592)	12,202,380
Change in net position	11,088,218	32,394,318
Net position, beginning of year	327,156,183	294,761,865
Net position, end of year	$ 338,244,401	$ 327,156,183

See accompanying notes to consolidated financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Operating activities		
Cash received for patient services	$ 285,479,041	$ 284,620,885
Cash paid to/for employees	(155,771,183)	(149,200,486)
Cash paid to vendors and suppliers	(105,293,390)	(104,853,806)
Other receipts, net	2,539,577	2,467,325
Net cash flows from operating activities	26,954,045	33,033,918
Noncapital financing activities		
Noncapital contributions	867,477	1,014,766
Capital and related financing activities		
Principal payments on long-term debt	(1,675,000)	(1,605,000)
Interest paid	(626,238)	(755,275)
Purchase of capital assets	(31,539,016)	(14,160,172)
Proceeds from sale of capital assets	3,343	209,361
Change in bond premiums	(26,351)	(26,351)
(Gain) loss on disposal of capital assets	322,579	70,937
Net cash flows from capital and related financing activities	(33,540,683)	(16,266,500)
Investing activities		
Investment income	(6,365,353)	12,073,923
Other nonoperating revenues (expenses)	122,522	(131,034)
Change in investments	(71,182)	(331,792)
Change in assets whose use is limited	6,628,823	(13,732,842)
Change in other assets	(520,916)	(1,530,421)
Net cash flows from investing activities	(206,106)	(3,652,166)
Net change in cash and cash equivalents	(5,925,267)	14,130,018
Cash and cash equivalents, beginning of year	152,339,664	138,209,646
Cash and cash equivalents, end of year	$ 146,414,397	$ 152,339,664
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents in current assets	$ 76,792,722	$ 76,168,621
Cash and cash equivalents in assets whose use is limited	69,621,675	76,171,043
Total cash and cash equivalents	$ 146,414,397	$ 152,339,664

See accompanying notes to consolidated financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Reconciliation of income from operations to net cash and cash equivalents from operating activities		
Income from operations	$ 17,089,810	$ 20,191,938
Adjustments to reconcile income from operations to net cash flows from operating activities		
Depreciation	8,887,331	8,080,264
Amortization	96,603	118,566
Provision for bad debts	17,562,591	17,069,320
Changes in operating assets and liabilities		
Patient accounts receivable	(15,391,662)	(16,928,950)
Inventories	(340,610)	170,612
Prepaid expenses and other current assets	(342,726)	2,510,752
Net pension asset	(523,546)	(3,498,804)
Pension and goodwill deferred outflows	(32,663)	996,520
Accounts payable	(432,198)	(820,994)
Accrued personnel costs	(115,551)	869,975
Accrued expenses	1,133,060	(35,575)
Estimated third-party payor settlements	111,125	567,586
Pension deferred inflows	179,025	2,250,140
Deferred compensation liabilities	(926,544)	1,492,568
Net cash flows from operating activities	$ 26,954,045	$ 33,033,918
Supplemental disclosures of noncash operating and capital and related financing activities		
Property and equipment acquired included in accounts payable	$ 147,683	$ 60,561

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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

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

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

HDC's consolidated financial statements at December 31, 2018 and 2017, include the accounts of Coordinated Health, LLC (the "Clinic"). The Clinic is wholly-owned by HDC and began operations in 2002. The Clinic was organized to operate exclusively for the benefit of HDC and the purposes for which HDC is organized and operated, including the promotion and support of the health of Jackson County, Indiana residents and residents of surrounding communities. Currently, the Clinic operates three healthcare facilities located in North Vernon, Salem, and Scottsburg, Indiana. The Clinic's primary source of revenue is from patient services.

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

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

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

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

Measurement Focus and Basis of Accounting

The consolidated financial statements are reported using the economic resources measurement focus and on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Pensions

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

Risk Management

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

Cash and Cash Equivalents

Cash and cash equivalents as reported on the consolidated balance sheets include petty cash and other cash on hand amounts, checking accounts, and savings accounts that are readily available for use. Cash and cash equivalents as reported on the consolidated statements of cash flows include investments in highly liquid assets with maturity dates of 90 days or less when purchased.

Investments

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

Patient Accounts Receivable and Net Patient Service Revenue

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

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

Allowance for Doubtful Accounts

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

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

The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. The December 31, 2018 and 2017 allowance for doubtful accounts balances were comprised of the following:

	2018	2017
Reserve for third-party payor balances	$ 5,655,161	$ 7,106,813
Reserve for self-pay balances	18,436,209	21,564,391
Total allowance for doubtful accounts	$ 24,091,370	$ 28,671,204

Inventories

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

Assets Whose Use is Limited

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

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

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair market value in the consolidated balance sheets. Investment income or loss, including realized gains and losses on investments and assets whose use is limited, net change in the market value of assets whose use is limited, interest, and dividends, is included in nonoperating revenues (expenses) when earned.

Capital Assets

The Medical Center's capital assets are reported at historical cost and include expenditures for additions and repairs which substantially increase the useful lives of capital assets. Maintenance, repairs, and minor improvements are expensed as incurred. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land and construction in progress are depreciated using the straight-line method of depreciation over their estimated useful lives based upon the American Hospital Association Guide for Estimated Useful Lives for Fixed Assets.

Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest costs on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. For the years ended December 31, 2018 and 2017, interest costs were incurred as follows:

	2018	2017
Interest costs capitalized	$ 244,812	$ 168,122
Interest costs expensed	597,515	754,221
Interest costs incurred	$ 842,327	$ 922,343

Pension and Goodwill Deferred Outflows

The Medical Center purchased certain assets of a physical practice resulting in a recognition of goodwill in the amount of $1,075,000. Goodwill is being amortized over 136 months. The amount of unamortized goodwill at December 31, 2017 and 2016 was $861,581 and $956,434, 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 which are reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) *Restricted expendable net position* includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts deposited with trustees as required by revenue bond indentures. (3) *Restricted nonexpendable net position* includes the principal portion of permanent endowments and non-controlling interests owned by external investors. (4) *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*. When both restricted and unrestricted resources are available for use, the Medical Center's policy is to use restricted resources first, then unrestricted resources as they are needed.

Consolidated Statements of Operations and Changes in Net Position

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

Advertising and Marketing Costs

Advertising and marketing costs are charged to operations when incurred. Advertising and marketing costs charged to operations were $1,013,820 and $1,010,365 for the years ended December 31, 2018 and 2017, respectively.

Charity Care

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

Income Taxes

The Hospital has been granted exemption from taxation as a not-for-profit organization by the Internal Revenue Service under Section 115, and in 2005 was also granted exemption from Federal income tax under Section 501(c)(3) of the Internal Revenue Code for purposes of maintaining a 403b deferred compensation plan. Therefore, no provision for income taxes has been provided in the consolidated statements of operations and changes in net position. HDC and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. As such HDC and the Foundation are generally exempt from income taxes. However, HDC and the Foundation are required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only. The Clinic and JMB are both organized as a single-member Limited Liability Company (LLC). As of December 31, 2018, the 2014 - 2018 income tax years are still open for tax examinations for both the Clinic and JMB. HDC is the sole member of the Clinic, and the Hospital is the sole member of JMB. As such, the Clinic and JMB are not required to file separate State or Federal tax returns. For tax reporting purposes, all activities of the Clinic are required to be filed with the activities of HDC, and all activities of JMB are required to be filed with the activities of the Hospital.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by each entity comprising the Medical Center and recognize a tax liability if any Medical Center entity has taken an uncertain tax position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by each entity of the Medical Center, and has concluded that as of December 31, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. Each entity of the Medical Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Grants and Contributions

From time to time, the Medical Center receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues.

Physician Recruitment Guarantees

GASB Statement No. 62 requires the Medical Center to report a liability for physician revenue guarantees on its consolidated balance sheets at fair value and amortize that liability and corresponding intangible asset over the income guarantee period. As cash payments are made to the physicians in accordance with the terms of the income guarantees, the Medical Center records a note receivable from each participating physician. These notes are either paid back to the Medical Center or are forgiven by the Medical Center in accordance with the terms of each separate income guarantee agreement. As of December 31, 2018 and 2017, the Medical Center had matching assets and liabilities relating to physician guarantees of $581,250 and $675,000, 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 26, 2019.

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements to correspond to the current year’s format. Total net position and change in net position are unchanged due to these reclassifications.

2. DEPOSITS AND INVESTMENTS

Deposits and investments are comprised of the following at December 31, 2018 and 2017:

	2018	2017
Carrying amount		
Cash and cash equivalents	$ 146,414,397	$ 152,339,664
Certificates of deposit	14,000,000	14,000,000
Brokered certificates of deposit	3,856,207	-0-
Market-linked certificates of deposit	146,702	162,049
Mutual funds	68,695,932	76,266,499
Exchange-traded funds	473,104	258,844
Corporate bonds	2,011	16,243
Money market mutual funds	4,522,413	7,787,928
Perpetual trust	301,276	339,041
Interest receivable	57,300	39,826
Fixed income guaranteed option	172,909	71,161
Common stocks	1,570,629	1,414,533
Total	$ 240,212,880	$ 252,695,788

	2018	2017
Included in the consolidated balance sheet captions:		
Cash and cash equivalents	$ 76,792,722	$ 76,168,621
Investments	8,814,747	8,743,565
Assets whose use is limited	154,605,411	167,783,602
Total	$ 240,212,880	$ 252,695,788

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, 2018 and 2017, 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, 2018

		Investment Maturities (in years)			
	Carrying Amount	Less than 1	1 - 5	6 - 10	More than 10
Certificates of deposit	$ 18,002,909	$ 14,670,623	$ 3,289,008	$ 43,278	$ -0-
Corporate bonds	2,011	2,011	-0-	-0-	-0-
Total	$ 18,004,920	$ 14,672,634	$ 3,289,008	$ 43,278	$ -0-

December 31, 2017

		Investment Maturities (in years)			
	Carrying Amount	Less than 1	1 - 5	6 - 10	More than 10
Certificates of deposit	$ 14,162,049	$ 14,000,000	$ 20,316	$ 141,733	$ -0-
Corporate bonds	16,243	14,110	2,133	-0-	-0-
Total	$ 14,178,292	$ 14,014,110	$ 22,449	$ 141,733	$ -0-

Interest Rate Risk

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

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

Credit Risk – Investments

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

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

Investment Type	Credit Rating Moody's	Fair Value 2018	Fair Value 2017
Corporate bonds	A1	$ -0-	$ 2,003
Corporate bonds	A2	-0-	4,055
Corporate bonds	Aa2	-0-	4,018
Corporate bonds	Ba1	2,011	2,132
Corporate bonds	Baa2	-0-	4,035
		$ 2,011	$ 16,243

Concentration of Credit Risk

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

Fair Value Measurements and Disclosures

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

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

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

- *Brokered certificates of deposit*: Determined by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

- *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.

- *Exchange-traded funds (ETFs)*: Valued at the closing price on the active exchange on which the individual securities are traded. Unlike mutual funds, ETFs trade like common stocks and are not required to publish and transact their daily net asset value. The ETFs held by the Medical Center are deemed to be actively traded.

- *Market linked certificates of deposit:* Determined by earning interest based on a market index, or a basket of equities (or both) that are underlying the certificate of deposit. The interest earned is based on the participation rate within the linked index.

The following table set forth by level, within the hierarchy, the Medical Center's assets measured at fair value on a recurring basis as of December 31, 2018 are as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Common stocks				
Basic materials	$ 48,498	$ -0-	$ -0-	$ 48,498
Consumer goods	166,157	-0-	-0-	166,157
Consumer cyclical	136,834	-0-	-0-	136,834
Energy	139,716	-0-	-0-	139,716
Financials	301,672	-0-	-0-	301,672
Healthcare	159,567	-0-	-0-	159,567
Industrials	168,963	-0-	-0-	168,963
Real estate	21,473	-0-	-0-	21,473
Technology	383,578	-0-	-0-	383,578
Utilities	44,171	-0-	-0-	44,171
	1,570,629	-0-	-0-	1,570,629
Mutual funds				
Equity	53,848,597	-0-	-0-	53,848,597
Debt	8,949,004	-0-	-0-	8,949,004
Blend	5,898,331	-0-	-0-	5,898,331
	68,695,932	-0-	-0-	68,695,932
Exchange-traded funds				
Equity	210,446	-0-	-0-	210,446
Debt	164,370	-0-	-0-	164,370
Blend	98,288	-0-	-0-	98,288
	473,104	-0-	-0-	473,104
Money market mutual funds	-0-	4,522,413	-0-	4,522,413
Perpetual trust, held by trustee	-0-	-0-	301,276	301,276
Fixed income investments				
Brokered certificates of deposit	-0-	3,856,207	-0-	3,856,207
Market-linked certificates of deposit	-0-	146,702	-0-	146,702
Corporate bonds	-0-	2,011	-0-	2,011
Fixed income guaranteed option	-0-	172,909	-0-	172,909
Total fixed income investments	-0-	4,177,829	-0-	4,177,829
Total assets at fair value	$ 70,739,665	$ 8,700,242	$ 301,276	79,741,183
Cash and cash equivalents				146,414,397
Certificates of deposit				14,000,000
Interest receivable				57,300
Total deposits and investments				$ 240,212,880
Liabilities				
Deferred compensation liabilities	$ -0-	$ (8,725,706)	$ -0-	$ (8,725,706)

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, 2017 are as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Common stocks				
Basic materials	$ 124,059	$ -0-	$ -0-	$ 124,059
Consumer goods	224,830	-0-	-0-	224,830
Consumer services	73,104	-0-	-0-	73,104
Financials	336,333	-0-	-0-	336,333
Healthcare	180,222	-0-	-0-	180,222
Industrials	165,941	-0-	-0-	165,941
Technology	307,205	-0-	-0-	307,205
Utilities	2,839	-0-	-0-	2,839
	1,414,533	-0-	-0-	1,414,533
Mutual funds				
Equity	60,842,417	-0-	-0-	60,842,417
Debt	8,699,829	-0-	-0-	8,699,829
Blend	6,724,253	-0-	-0-	6,724,253
	76,266,499	-0-	-0-	76,266,499
Exchange-traded funds				
Equity	176,672	-0-	-0-	176,672
Debt	82,172	-0-	-0-	82,172
	258,844	-0-	-0-	258,844
Money market mutual funds	-0-	7,787,928	-0-	7,787,928
Perpetual trust, held by trustee	-0-	-0-	339,041	339,041
Fixed income investments				
Market-linked certificates of deposit	-0-	162,049	-0-	162,049
Corporate bonds	-0-	16,243	-0-	16,243
Fixed income guaranteed option	-0-	71,161	-0-	71,161
Total fixed income investments	-0-	249,453	-0-	249,453
Total assets at fair value	$ 77,939,876	$ 8,037,381	$ 339,041	86,316,298
Cash and cash equivalents				152,339,664
Certificates of deposit				14,000,000
Interest receivable				39,826
Total deposits and investments				$ 252,695,788
Liabilities				
Deferred compensation liabilities	$ -0-	$ (9,652,250)	$ -0-	$ (9,652,250)

The Medical Center's policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels 1, 2, and 3 during 2018 and 2017.

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, 2018 and 2017:

	2018 Perpetual Trust Held by Trustee	2017 Perpetual Trust Held by Trustee
Balance, beginning of the year	$ 339,041	$ 310,215
Purchase of investments	-0-	-0-
Redemption	-0-	-0-
Change in investment value	(37,765)	28,826
Balance, end of year	$ 301,276	$ 339,041

3. PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable reported as current assets at December 31, 2018 and 2017, consist of the following:

	2018	2017
Medicare	$ 20,108,527	$ 22,415,249
Medicaid	12,318,512	17,666,658
Blue Cross	7,511,937	7,776,988
Other insurance carriers	11,898,557	11,952,991
Patients	20,445,257	24,064,223
Total patient accounts receivable	72,282,790	83,876,109
Less allowance for contractuals	21,928,234	26,770,790
Less allowance for uncollectible amounts	24,091,370	28,671,204
Patient accounts receivable, net	$ 26,263,186	$ 28,434,115

4. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. Assets whose use is limited are reported at market value and include the following at December 31, 2018 and 2017:

	2018	2017
Cash and cash equivalents	$ 69,621,675	$ 76,171,043
Money market funds	4,522,413	7,787,928
Exchange-traded market funds	473,104	-0-
Interest receivable	57,300	39,826
Certificates of deposit	6,000,000	6,000,000
Brokered certificates of deposit	3,856,207	-0-
Market-linked certificates of deposit	146,702	162,049
Corporate bonds	2,011	16,243
Common stocks	755,882	1,042,750
Fixed income guaranteed option	172,909	71,161
Mutual funds	68,695,932	76,153,561
Perpetual trust, held by trustee	301,276	339,041
Total assets whose use is limited	$ 154,605,411	$ 167,783,602
Less amount required for current obligations	1,920,099	1,868,822
Assets whose use is limited, net of amount required to meet current obligations	$ 152,685,312	$ 165,914,780

Investment Summary by Fund

	2018	2017
Board-Designated Funds	$ 140,482,778	$ 152,808,967
Trustee-Held Funds	3,212,920	3,142,373
Donor-Restricted Funds	2,184,007	2,180,012
Deferred Compensation Funds	8,725,706	9,652,250
Total	$ 154,605,411	$ 167,783,602

Board-Designated Funds

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

Trustee-Held Funds

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

Donor-Restricted Funds

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

Deferred Compensation Funds

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

5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2018 and 2017, was as follows:

	2018			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	$ 8,588,973	$ 26,567	$ 1,283,706	$ 9,899,246
Land improvements	4,533,167	3,650	3,278	4,540,095
Leasehold improvements	866,949	-0-	-0-	866,949
Buildings	93,757,257	1,033,729	5,601,158	100,392,144
Fixed equipment	5,378,198	397,885	626,455	6,402,538
Movable equipment	53,171,926	3,211,579	(1,773,542)	54,609,963
Construction in progress	5,565,424	27,013,289	(9,763,019)	22,815,694
Total historical cost	171,861,894	31,686,699	(4,021,964)	199,526,629
Less accumulated depreciation for				
Land improvements	(2,705,615)	(188,642)	105,469	(2,788,788)
Leasehold improvements	(673,022)	-0-	(33,909)	(706,931)
Buildings	(43,303,590)	(4,134,536)	372,773	(47,065,353)
Fixed equipment	(4,311,514)	(201,659)	41,603	(4,471,570)
Movable equipment	(39,796,490)	(4,362,494)	3,210,106	(40,948,878)
Total accumulated depreciation	(90,790,231)	(8,887,331)	3,696,042	(95,981,520)
Capital assets, net	$ 81,071,663	$ 22,799,368	$ (325,922)	$ 103,545,109

	2017			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	$ 8,154,801	$ -0-	$ 434,172	$ 8,588,973
Land improvements	4,281,836	233,777	17,554	4,533,167
Leasehold improvements	671,058	-0-	195,891	866,949
Buildings	87,948,639	812,779	4,995,839	93,757,257
Fixed equipment	5,393,146	174,296	(189,244)	5,378,198
Movable equipment	50,780,300	3,432,540	(1,040,914)	53,171,926
Construction in progress	4,522,214	9,567,341	(8,524,131)	5,565,424
Total historical cost	161,751,994	14,220,733	(4,110,833)	171,861,894
Less accumulated depreciation for				
Land improvements	(2,542,922)	(175,100)	12,407	(2,705,615)
Leasehold improvements	(649,094)	-0-	(23,928)	(673,022)
Buildings	(39,621,276)	(3,949,387)	267,073	(43,303,590)
Fixed equipment	(4,168,144)	(207,477)	64,107	(4,311,514)
Movable equipment	(39,559,066)	(3,748,300)	3,510,876	(39,796,490)
Total accumulated depreciation	(86,540,502)	(8,080,264)	3,830,535	(90,790,231)
Capital assets, net	$ 75,211,492	$ 6,140,469	$ (280,298)	$ 81,071,663

Long-Lived Asset Impairment

The Medical Center evaluates the recoverability of the carrying value of long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets. No asset impairment was recognized during the years ended December 31, 2018 and 2017.

6. OTHER ASSETS

At December 31, 2018 and 2017, other assets consist of the following:

	2018	2017
Physician notes receivable	$ 1,844,570	$ 1,406,357
Notes receivable	16,759	16,173
Investment in managed care company	3,360,735	4,291,957
Investment in RCG Columbus, LLC	974,900	974,900
Investment in captive insurance company	335,311	335,311
Captive insurance company subscriber savings	1,663,525	1,275,029
Investment in Inspire Health Partners	899,170	373,878
Other	7,500	4,552
Total other assets	9,102,470	8,678,157
Other assets, current portion	(758,253)	(561,722)
Other assets, net of current portion	$ 8,344,217	$ 8,116,435

Physician notes receivable are in varying amounts maturing through 2024. 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 (6.50 percent at December 31, 2018).

The Medical Center is a partial owner of a healthcare managed care company. The Medical Center has a 33 1/3 percent ownership interest and accounts for its investment using the equity method.

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

The Medical Center is a 7.1 percent owner of Tecumseh Health Reciprocal Risk Retention Group (the "Captive"), a risk retention company created to purchase professional liability and general liability insurance for its members. The Medical Center accounts for this investment using the cost method. In addition, the Captive retains a subscriber savings account for each of its members based upon the premiums paid in and the resulting claims paid out, plus other factors. Members are paid the balance of their subscriber savings account once they leave the Captive in accordance with the terms of the Captive agreement.

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

Separate financial statements related to the joint ventures described above may be obtained by contacting Medical Center management.

7. COMPENSATED ABSENCES

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

The rate at which full-time employees earn PTO and the maximum number of hours that may be banked are as follows:

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

PTO days are accrued when incurred. The PTO accrual at December 31, 2018 and 2017 was $5,238,437 and $4,940,112, respectively and is reported in accrued personnel costs on the consolidated financial statements.

8. EMPLOYEE HEALTH BENEFIT PLAN

The Medical Center operates a self-funded health plan covering substantially all employees. The Medical Center has an annual stop loss limit on the plan of $100,000 per insured per year and an aggregate stop loss limit of approximately $8,500,000. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of pay out, and other economic and social factors. The accrued liability for claims liabilities is recorded in accrued personnel costs on the consolidated balance sheets.

Changes in the balance of claims liabilities during the years ended December 31, 2018 and 2017, were as follows:

	2018	2017
Accrued liability, beginning of year	$ 1,480,665	$ 1,086,278
Incurred claims, changes in estimates, and fees/premiums	11,156,391	10,549,003
Claim payments	(11,048,337)	(10,154,616)
Accrued liability, end of year	$ 1,588,719	$ 1,480,665

9. DEFINED BENEFIT PENSION PLAN

Plan Description

The Medical Center sponsors a single-employer, defined benefit pension plan established to provide retirement, termination/severance, disability, and survivor benefits for Medical Center employees. The Plan was established on May 1, 1975 and was last restated effective May 1, 2013. Benefit provisions are established or may be amended at any time by the action of the Plan's Board of Trustees. The Medical Center functions as the plan administrator of the defined benefit pension plan, as authorized by IC 16-22-3-11. A publicly available financial report that includes the defined benefit pension plan's financial statements and required supplementary information may be obtained by contacting:

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

Benefits Provided

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

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

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

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

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

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

Funding Policy

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

Employees Covered by Benefit Terms

At April 30, 2018, the following employees were covered by the benefit terms:

	2018
Inactive plan members or beneficiaries currently receiving benefits	267
Inactive plan members or beneficiaries entitled to but not yet receiving benefits	128
Active plan members	386
Total	781

Contributions

The annual required contributions for the year ended April 30, 2018 and estimated liabilities as of May 1, 2018 were determined as part of the actuarial valuations using the Entry Age actuarial cost method. The Medical Center intends to contribute to the Plan each year such amounts as may be required to operate the Plan on a sound actuarial basis.

Net Pension (Asset) Liability

The total pension liability was measured as of May 1, 2018, and the total pension liability used to calculate the net pension (asset) liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the May 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2018
Inflation	2.50%
Salary increases	Not applicable (Plan is frozen)
Investment rate of return	8%

Mortality rates were based on the SOA published mortality table: RP-2014 mixed collar table adjusted from 2006 using MP-2018 (separate tables for male and female participants).

The actuarial value of assets was determined using the Market Value method and the trust information furnished by PNC Institutional Investments as of April 30, 2018.

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

Asset Class	Target Allocation		Long-Term Expected Real Rate of Return
Cash	-0-	%	0.0%
Fixed income securities	5		3.3%
Domestic and foreign equities	95		4.9%
Total	100	%	

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of April 30, 2018, and is equal to the long-term expected return on plan investments. The projection cash flows used to determine the discount rate assumed that employer contributions would be made at the actuarially calculated rate computed to prevent the deterioration in the actuarial status of the trust. The future contribution assumption was based upon the review of recent Medical Center contribution history compared to the corresponding actuarially determined contributions. Based on this assumption, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Sensitivity of the Net Pension (Asset) Liability

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

	1 % Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net pension (asset) liability	$ (6,719,665)	$ (9,875,174)	$ (12,528,146)

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

Changes in the Net Pension (Asset) Liability

The change in the net pension (asset) liability during the 2018 Plan year was as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) - (b)
Balances at 4/30/2017	$ 27,879,097	$ 37,230,725	$ (9,351,628)
Changes of the year:			
Service cost	-0-	-0-	-0-
Interest	2,150,623	-0-	2,150,623
Difference between expected and actual experience	82,553	-0-	82,553
Change in assumptions	1,321,201	-0-	1,321,201
Benefit payments	(1,839,340)	(1,839,340)	-0-
Employer contributions	-0-	-0-	-0-
Net investment income	-0-	4,124,238	(4,124,238)
Administrative expenses	-0-	(46,265)	46,265
Other	-0-	(50)	50
Net changes	1,715,037	2,238,583	(523,546)
Balances at 4/30/2018	$ 29,594,134	$ 39,469,308	$ (9,875,174)

<u>Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions</u>

For the year ended December 31, 2018, the Medical Center recognized pension expense (gain) of $(472,037). At December 31, 2018, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance, 4/30/2017	$ 3,200,177	$ (2,636,891)
Changes in assumptions	1,078,174	-0-
Liability experience gains (losses)	36,964	55,941
Investment gains (losses)	(987,622)	(234,966)
Balance, 4/30/2018	$ 3,327,693	$ (2,815,916)

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

Year ended April 30:	Amount
2019	$ 379,350
2020	440,854
2021	(546,768)
2022	36,319
2023	202,022
	$ 511,777

10. LONG-TERM DEBT

At December 31, 2018 and 2017, the Medical Center was obligated for long-term debt agreements as follows:

	2018	2017
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.	$ 6,550,000	$ 8,075,000
IHEFFA Series 2006B Revenue Bonds dated May 2006, payable in annual principal installments commencing February 2007 through February 2036 in amounts ranging from $150,000 to $950,000. In May 2013, bonds were converted to long-mode and issued to Capital One Public Funding, LLC and Jackson County Bank who will hold the bonds through February 2023 at which time a balloon payment is due for all remaining unpaid principal and interest. In February 2023, Capital One and Jackson County Bank may exercise a put option on the bonds, or refinance the remaining principal with the Medical Center. Fixed interest rate of 2.8% on $18,795,000. Secured by gross revenues.	18,195,000	18,345,000
	24,745,000	26,420,000

Unamortized bond premium	81,248	107,599
Less current portion	(1,781,351)	(1,701,351)
Long-term debt, net of current portion	$ 23,044,897	$ 24,826,248

Long-term debt activity for the years ended December 31, 2018 and 2017 was as follows:

2018	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 2006B	$ 18,345,000	$ -0-	$ (150,000)	$ 18,195,000	$ 150,000
Revenue bonds, series 2010	8,075,000	-0-	(1,525,000)	6,550,000	1,605,000
Bond premiums	107,599	-0-	(26,351)	81,248	26,351
Total long-term debt	$ 26,527,599	$ -0-	$ (1,701,351)	$ 24,826,248	$ 1,781,351

2017	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 2006B	$ 18,495,000	$ -0-	$ (150,000)	$ 18,345,000	$ 150,000
Revenue bonds, series 2010	9,530,000	-0-	(1,455,000)	8,075,000	1,525,000
Bond premiums	133,950	-0-	(26,351)	107,599	26,351
Total long-term debt	$ 28,158,950	$ -0-	$ (1,631,351)	$ 26,527,599	$ 1,701,351

Debt service requirements on long-term debt at December 31, 2018 are based on the interest rate modes in effect and are as follows:

Year Ending December 31,	Principal	Interest
2019	$ 1,781,351	$ 832,235
2020	1,856,351	750,810
2021	1,941,351	664,310
2022	1,652,195	571,860
2023	150,000	492,660
2024 - 2028	17,445,000	-0-
Total	$ 24,826,248	$ 3,311,875

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 2018 and 2017.

11. DEFERRED COMPENSATION PLAN

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

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Medical Center (without being restricted to the provisions of benefits under the plans), subject only to the claims of the Medical Center's general creditors. Participants' rights under the plans are equal to those of general creditors of the Medical Center in an amount equal to the fair market value of the deferred account for each participant. The Medical Center believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future. The deferred compensation assets and related liabilities under these plans are reported in the consolidated balance sheets as assets whose use is limited and deferred compensation liabilities, respectively. The amounts recognized as both deferred compensation assets and liabilities were $8,725,706 and $9,652,250 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017, the Medical Center recognized $1,580,149 and $1,389,668, respectively, in expense related to the 403(b) plan.

12. DONOR-RESTRICTED AND NONEXPENDABLE RESTRICTED NET POSITION

Donor-restricted net position amounts are donor-restricted for a specific use or by the passage of time. Nonexpendable restricted net position amounts include a perpetual trust. Donor-restricted and nonexpendable restricted net position amounts include the following at December 31, 2018 and 2017:

	2018	2017
Donor-restricted net position		
Dr. Bud Fund	$ 538,435	$ 572,349
Medical Technology Fund	126,342	126,023
Educational/Scholarship Fund	26,063	-0-
Women's Center Fund	3,667	3,332
Cancer Fund	546,507	510,292
Hospice Fund	386,293	365,830
EPIC Fund	252,281	259,469
Employee Humanitarian Fund	3,143	3,676
Total donor-restricted net position	$ 1,882,731	$ 1,840,971
Nonexpendable restricted net position		
Perpetual trust, held by trustee	$ 301,276	$ 339,041

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.

Medical Technology Fund

The Medical Technology Fund was established to address the rapid changes in medical technology and related increased costs to replace outdated equipment. The assets of the fund are used to purchase medical equipment.

Cancer Fund

The Cancer Fund was established to provide support for the detection/prevention of cancer.

Hospice Fund

The Hospice Fund was established to support Hospice program and patient needs.

EPIC Fund

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

Perpetual Trust, Held by Trustee

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

13. NET PATIENT SERVICE REVENUE

For the years ended December 31, 2018 and 2017, net patient service revenue was as follows:

	2018	2017
Gross patient service revenue		
Inpatient services	$ 65,282,074	$ 67,887,904
Outpatient services	315,572,198	298,902,271
Long-term care services	156,673,760	165,372,202
Total gross patient service revenue	537,528,032	532,162,377
Deductions from revenue		
Contractual allowances	(259,194,813)	(256,342,537)
Charity care	(4,575,366)	(1,997,840)
Bad debts	(17,562,591)	(17,069,320)
Medicaid DSH payments recognized	3,453,828	2,302,552
Nursing homes UPL payments recognized	23,547,897	24,857,697
Total deductions from revenue	(254,331,045)	(248,249,448)
Total net patient service revenue	$ 283,196,987	$ 283,912,929

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, 2018 and 2017, was as follows:

	2018				2017			
	Revenues		Receivables		Revenues		Receivables	
Medicare	40	%	28	%	40	%	27	%
Medicaid	26		17		27		21	
Blue Cross	17		10		16		9	
SIHO*	3		3		4		2	
Other third-party payors	7		14		7		12	
Patients	7		28		6		29	
	100	%	100	%	100	%	100	%

*Southeastern Indiana Health Organization

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

- ***Medicare***. The Medical Center is a provider of services to patients entitled to coverage under Title XVIII (Medicare) of the Health Insurance Act. The Medical Center is reimbursed for Medicare inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG) and Medicare outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The Hospital's classification of patients under the Medicare program and the appropriateness of their admissions are subject to an independent review by a peer review organization under contract with the Hospital.

- ***Medicaid***. The Medical Center is a provider of services to patients entitled to coverage under Title XIX (Medicaid) of the Health Insurance Act. The Medical Center is reimbursed for Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG) and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. There is no cost settlement for either of the inpatient or outpatient programs.

- ***Charity Care***. The Medical Center provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Medical Center does not collect amounts deemed to be charity care, they are not reported as revenue. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Medical Center's total operating expenses divided by gross patient service revenue. For the years ended December 31, 2018 and 2017, the Medical Center incurred estimated costs of $2,286,991 and $999,322 , respectively.

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

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

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigation and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers.

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

14. ELECTRONIC HEALTH RECORDS (EHR) INCENTIVE PAYMENTS

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

The Medical Center recognizes EHR incentive payments as grant income when there is reasonable assurance that the Medical Center will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2018 and 2017, the Medical Center recognized approximately $30,963 and $29,555, respectively, in EHR incentive payments as grant income using the cliff recognition method. Under the cliff recognition method, the Medical Center records income at the end of EHR reporting period in which compliance is achieved. EHR incentive income is included in other revenue on the consolidated statements of operations and changes in net position. EHR incentive income is recognized based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

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

15. HOSPITAL ASSESSMENT FEE

The purpose of the Hospital Assessment Fee ("HAF") Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share ("DSH") payments for Indiana hospitals as reflected in the hospital assessment fee reported in the consolidated statements of operations and changes in net position. Previously, the State share was funded by government entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patient and result in increased Medicaid rates. The Medical Center recognized HAF program expense of $6,520,582 and $5,216,041 at December 31, 2018 and 2017, respectively. For the years ended December 31, 2018 and 2017, the Medical Center recognized revenue in net patient service revenue totaling $3,453,828 and $2,302,552, respectively, relating to the DSH adjustments.

16. NONOPERATING REVENUES (EXPENSES)

For the years ended December 31, 2018 and 2017, nonoperating revenues (expenses) were as follows:

	2018	2017
Investment income (loss)	$ (6,327,588)	$ 12,045,097
Interest expense	(597,515)	(754,221)
Gain (loss) on disposal of capital assets	(322,579)	(70,937)
Donations	(41,984)	(314,261)
Contributions and grants	867,477	1,014,766
Change in perpetual trust	(37,765)	28,826
Inspire, gain (loss)	525,292	310,108
Miscellaneous	(66,930)	(56,998)
Total nonoperating revenues (expenses)	$ (6,001,592)	$ 12,202,380

17. PROFESSIONAL LIABILITY INSURANCE

The Indiana Medical Malpractice Act, IC 34-18, provided for a maximum recovery of $1,250,000 for an occurrence of malpractice through June 30, 2017. Starting July 1, 2017, the Act provides for a maximum recovery of $1,650,000 through the period ending June 30, 2017, and $1,800,000 beginning June 30, 2019. The Act required the Medical Center to maintain Medical malpractice liability insurance in the amount of at least $250,000 per occurrence ($5,000,00 in the annual aggregate) through June 30, 2017. Starting July 1, 2017, the Act requires the Medical Center to maintain medical malpractice liability insurance of $400,000 per occurrence ($8,000,000 in the annual aggregate) through the period ending June 30, 2019, and $500,000 per occurrence ($10,000,000 in the annual aggregate) beginning July 1, 2019. The Act also requires the Medical Center to pay a surcharge to the State Patient's Compensation Fund (the "Fund"). The Fund is used to pay medical malpractice claims in excess of the per occurrence and annual aggregate amounts noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

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:

	2018	2017
Medical Center per occurrence	$ 400,000	$ 400,000
Medical Center aggregate	$ 8,000,000	$ 8,000,000
Group umbrella aggregate	$ 10,000,000	$ 10,000,000
Group first additional umbrella aggregate	10,000,000	10,000,000
Group second additional umbrella aggregate	10,000,000	10,000,000
Total Group umbrella aggregate	$ 30,000,000	$ 30,000,000

Liabilities for incurred but not reported losses at December 31, 2018 and 2017 are not determinable; however, in management's opinion, such liabilities, if any, will not have a material effect on the Medical Center's financial position and its malpractice and general liability insurance is adequate to cover losses, if any. Should the policies not be renewed or replaced with appropriate insurance coverage, claims based upon occurrences during these terms, but reported subsequently, will be uninsured. The Medical Center intends to continue carrying such insurance.

18. RELATED PARTY TRANSACTIONS

Jackson County Bank

The Medical Center's President and Chief Executive Officer serves as a member of the Board of Directors for Jackson County Bank ("JCB"). At December 31, 2018 and 2017, and for the years then ended, the Medical Center had the following related party transactions with JCB:

	2018	2017
Deposits	$ 57,922,770	$ 56,748,314
Bonds payable	$ 2,900,016	$ 2,925,012
Interest income	$ 265,644	$ 225,993
Interest expense	$ 80,617	$ 81,403

Southeastern Indiana Health Organization (SIHO)

The Medical Center is a 33 percent owner of the SIHO insurance company. This investment is reported in Other Assets on the consolidated statements of operations and changes in net position, and is titled “investment in managed care company” in footnote 6. At December 31, 2018 and 2017, and for the years then ended, the Medical Center had the following related party transactions with SIHO:

	2018	2017
Patient accounts receivable	$ 1,917,094	$ 2,638,257
Gross patient revenue	$ 18,778,218	$ 20,826,476
Operating expenses	$ 13,853,871	$ 12,770,011

19. CONCENTRATIONS OF CREDIT RISK

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

20. OPERATING LEASES

The Medical Center leases certain building space and equipment under noncancelable operating leases expiring in various years through 2023. Minimum future rental payments under these noncancelable operating leases, as of December 31, 2018, are as follows:

Year Ending December 31,	Amount
2019	$ 404,689
2020	360,355
2021	142,568
2022	69,972
2023	69,972
Total minimum payments	$ 1,047,556

The Medical Center incurred $20,585,304 and $20,551,628 in total rent expense for the years ended December 31, 2018 and 2017, respectively, under cancelable and noncancelable operating leases.

21. CONTINGENCIES

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

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

HIPAA

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

22. COMMITMENTS

As of December 31, 2018, the Medical Center has construction and renovation project commitments as follows:

Project	Expected Date of Completion	Estimated Total Cost of Project	Costs Incurred as of December 31, 2018
ICU Relocation	2019	$ 2,610,000	$ 1,300,051
Operating room expansion	2019	1,374,500	62,296
MOB and garage	2019	41,670,870	20,190,460
3N Relocation	2019	2,937,000	38,167
All other projects	2019	1,593,860	1,224,720
		$ 50,186,230	$ 22,815,694

23. 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, 2018 is as follows:

	HDC	Foundation	JMB	Total
Balance sheet				
Assets				
Current assets	$ 1,103,027	$ 967,161	$ 1,325,783	$ 3,395,971
Assets whose use is limited	-0-	1,882,731	-0-	1,882,731
Capital assets, net	699,025	-0-	3,293,083	3,992,108
Other assets	456,502	-0-	-0-	456,502
Total assets	2,258,554	2,849,892	4,618,866	9,727,312
Deferred outflows	-0-	-0-	-0-	-0-
Total assets and deferred outflows	$ 2,258,554	$ 2,849,892	$ 4,618,866	$ 9,727,312
Liabilities				
Current liabilities	$ 1,151,020	$ 3,860	$ 1,114	$ 1,155,994
Long-term liabilities	356,250	-0-	-0-	356,250
Total liabilities	1,507,270	3,860	1,114	1,512,244
Net position				
Net investment in capital assets	699,025	-0-	3,293,083	3,992,108
Restricted expendable	-0-	1,882,731	-0-	1,882,731
Restricted nonexpendable	-0-	-0-	-0-	-0-
Unrestricted	52,259	963,301	1,324,669	2,340,229
Total net position	751,284	2,846,032	4,617,752	8,215,068
Total liabilities and net position	$ 2,258,554	$ 2,849,892	$ 4,618,866	$ 9,727,312

	HDC	Foundation	JMB	Total
Statement of operations and changes in net position				
Operating revenues				
Net patient service revenue	$ 2,214,550	$ -0-	$ -0-	$ 2,214,550
Other operating revenue	2,496,196	356,658	771,991	3,624,845
Total operating revenues	4,710,746	356,658	771,991	5,839,395
Operating expenses				
Depreciation and amortization	112,612	-0-	201,752	314,364
Other operating expenses	4,687,536	402,569	383,608	5,473,713
Total operating expenses	4,800,148	402,569	585,360	5,788,077
Income (loss) from operations	(89,402)	(45,911)	186,631	51,318
Non-operating gains (losses)	125	120,439	-0-	120,564
Change in net position	(89,277)	74,528	186,631	171,882
Net position - beginning of year	840,561	2,771,504	4,431,121	8,043,186
Net position - end of year	$ 751,284	$ 2,846,032	$ 4,617,752	$ 8,215,068

	HDC	Foundation	JMB	Total
Statement of cash flows				
Cash provided by				
Operating activities	$ (378,918)	$ 369,531	$ 388,680	$ 379,293
Capital and related financing activities	(11,185)	-0-	(335,203)	(346,388)
Investing activities	(42,777)	(401,114)	-0-	(443,891)
Total	(432,880)	(31,583)	53,477	(410,986)
Cash - beginning of year	869,018	183,997	1,261,572	2,314,587
Cash - end of year	$ 436,138	$ 152,414	$ 1,315,049	$ 1,903,601

Condensed component unit information for all of its blended components as of and for the year ended December 31, 2017 is as follows:

	HDC	Foundation	JMB	Total
Balance sheet				
Assets				
Current assets	$ 1,432,726	$ 930,533	$ 1,272,604	$ 3,635,863
Assets whose use is limited	-0-	1,840,971	-0-	1,840,971
Capital assets, net	800,452	-0-	3,159,631	3,960,083
Other assets	726,322	-0-	-0-	726,322
Total assets	2,959,500	2,771,504	4,432,235	10,163,239
Deferred outflows	-0-	-0-	-0-	-0-
Total assets and deferred outflows	$ 2,959,500	$ 2,771,504	$ 4,432,235	$ 10,163,239
Liabilities				
Current liabilities	$ 1,537,689	$ -0-	$ 1,114	$ 1,538,803
Long-term liabilities	581,250	-0-	-0-	581,250
Total liabilities	2,118,939	-0-	1,114	2,120,053
Net position				
Net investment in capital assets	800,452	-0-	3,159,631	3,960,083
Restricted expendable	-0-	1,840,971	-0-	1,840,971
Restricted nonexpendable	-0-	-0-	-0-	-0-
Unrestricted	40,109	930,533	1,271,490	2,242,132
Total net position	840,561	2,771,504	4,431,121	8,043,186
Total liabilities and net position	$ 2,959,500	$ 2,771,504	$ 4,432,235	$ 10,163,239

	HDC	Foundation	JMB	Total
Statement of operations and changes in net position				
Operating revenues				
Net patient service revenue	$ 2,007,702	$ -0-	$ -0-	$ 2,007,702
Other operating revenue	2,383,146	305,197	785,875	3,474,218
Total operating revenues	4,390,848	305,197	785,875	5,481,920
Operating expenses				
Depreciation and amortization	102,696	-0-	188,084	290,780
Other operating expenses	4,383,687	353,764	409,383	5,146,834
Total operating expenses	4,486,383	353,764	597,467	5,437,614
Income (loss) from operations	(95,535)	(48,567)	188,408	44,306
Non-operating gains (losses)	(55,222)	540,326	-0-	485,104
Change in net position	(150,757)	491,759	188,408	529,410
Net position - beginning of year	991,318	2,279,745	4,242,713	7,513,776
Net position - end of year	$ 840,561	$ 2,771,504	$ 4,431,121	$ 8,043,186

	HDC	Foundation	JMB	Total
Statement of cash flows				
Cash provided by				
Operating activities	$ 588,487	$ 184,937	$ 376,043	$ 1,149,467
Capital and related financing activities	(479,503)	-0-	-0-	(479,503)
Investing activities	(60,443)	(192,805)	-0-	(253,248)
Total	48,541	(7,868)	376,043	416,716
Cash - beginning of year	820,477	191,865	885,529	1,897,871
Cash - end of year	$ 869,018	$ 183,997	$ 1,261,572	$ 2,314,587

24. 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. 84, *Fiduciary Activities*, issued January 2017, will be effective for periods beginning after December 15, 2018. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. It establishes criteria for identifying activities of all state and local governments, which is generally focused on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private purpose trust funds, and (4) custodial funds.

Lastly, this Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for periods beginning after December 15, 2019. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It established a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, issued March 2018, will be effective for periods beginning after June 15, 2018. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, issued June 2018, will be effective for periods beginning after December 15, 2019. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost incurred for financial statements prepared using the economic resources management focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

REQUIRED SUPPLEMENTARY INFORMATION

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

	2018	2017	2016	2015
Total pension liability				
Service cost	$ -0-	$ -0-	$ -0-	$ -0-
Interest	2,150,623	2,127,933	2,077,981	2,056,704
Difference between expected and actual experience	82,553	(110,540)	216,064	(278,935)
Change in assumptions	1,321,201	40,006	39,514	38,454
Benefit payments	(1,839,340)	(1,727,210)	(1,654,220)	(1,430,850)
Net change in total pension liability	1,715,037	330,189	679,339	385,373
Total pension liability - beginning	27,879,097	27,548,908	26,869,569	26,484,196
Total pension liability - ending (a)	$ 29,594,134	$ 27,879,097	$ 27,548,908	$ 26,869,569
Plan fiduciary net position				
Employer contributions	$ -0-	$ -0-	$ -0-	$ -0-
Net transfers into (out of) trust	-0-	-0-	-0-	-0-
Net investment income	4,124,238	5,660,569	(2,126,387)	3,223,583
Benefit payments	(1,839,340)	(1,727,210)	(1,654,220)	(1,430,850)
Administrative expenses	(46,265)	(104,316)	(42,455)	(67,884)
Other	(50)	(50)	-0-	(37,011)
Net change in plan fiduciary net position	2,238,583	3,828,993	(3,823,062)	1,687,838
Plan fiduciary net position - beginning	37,230,725	33,401,732	37,224,794	35,536,956
Plan fiduciary net position - ending (b)	$ 39,469,308	$ 37,230,725	$ 33,401,732	$ 37,224,794
Medical Center net pension (asset) liability - ending (a) - (b)	$ (9,875,174)	$ (9,351,628)	$ (5,852,824)	$ (10,355,225)
Plan fiduciary net position as a percentage of the total net pension liability	133.37%	133.54%	121.25%	138.54%
Covered payroll	N/A	N/A	N/A	N/A
Medical Center net pension (asset) liability as a percentage of covered payroll	N/A	N/A	N/A	N/A

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

SCHEDULE OF MEDICAL CENTER CONTRIBUTIONS

	Actuarially determined contribution	Employer contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a % of covered payroll
4/30/2018	$ -0-	$ -0-	$ -0-	N/A	N/A
4/30/2017	-0-	-0-	-0-	N/A	N/A
4/30/2016	-0-	-0-	-0-	N/A	N/A
4/30/2015	-0-	-0-	-0-	N/A	N/A
4/30/2014	-0-	-0-	-0-	N/A	N/A
4/30/2013	-0-	-0-	-0-	N/A	N/A
4/30/2012	-0-	-0-	-0-	N/A	N/A
4/30/2011	-0-	-0-	-0-	N/A	N/A

Notes to Schedule

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

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

Actuarial cost method	Entry Age
Amortization method	Level dollar, open
Remaining amortization method	30 years
Asset valuation method	Market value
Inflation	2.50%
Salary increases	Not applicable (Plan is frozen)
Investment rate of return	8.00%
Retirement age	65
Mortality	SOA published mortality table: RP-2014 mixed collar table adjusted from 2006 using MP-2018