



SCHNECK

Better Healthcare Begins Here

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2022 AND 2021

CPAs / ADVISORS



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

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying 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 balance sheets and statements of fiduciary net position as of December 31, 2022 and 2021, and the related statements of operations and changes in net position, changes in fiduciary net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Medical Center as of December 31, 2022 and 2021, and the respective changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Medical Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Medical Center adopted Government Accounting Standards Board Statement No. 87, *Leases*, during 2022. Our opinion is not modified with respect to this matter.

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center's ability to continue as a going concern for twelve months beyond the statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Medical Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center's ability to continue as a going concern for a reasonable period of time.

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 58-59, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2023, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

Blue & Co., LLC

Louisville, Kentucky
June 29, 2023

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2022 AND 2021

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, 2022 and 2021. This discussion and analysis should be read in conjunction with the accompanying Medical Center's financial statements.

FINANCIAL HIGHLIGHTS

The Medical Center's net position decreased \$20,105,011 from 2021 to 2022. During 2022, the Medical Center's total operating revenue increased by 1.9% to \$337,838,157 with total operating expenses increasing by 6.5% to \$333,439,174.

- The Medical Center did not raise rates during 2022.
- Additional providers were added in the areas of oncology, primary care, surgery and internal/sleep medicine. Volume increases were seen in these areas as well as neurology, pulmonology, urology, orthopedics, OB/GYN and pediatrics.
- A major renovation of the Schneck Family Care clinic in Scottsburg was completed in 2022. Several large capital projects were also started during the year to include the purchase of a new linear accelerator for the Cancer Center, expansion of the Laboratory area, replacement of a CT scanner and area expansion to accommodate it and the design of the OB level II nursery.
- Salaries and benefits costs increased \$11,955,609 primarily due to the use of agency labor to cover labor shortages in patient care areas. The cost of agency labor amounted to more than \$11.4 million for 2022.
- During 2022, the Medical Center adopted Government Accounting Standards Board Statement No. 87, *Leases*, which requires certain leases to be recorded in the statement of net position. Due to implementation of GASB 87, 2021 and 2020 balances have been restated.

The Medical Center's net position increased \$38,787,797 from 2020 to 2021. During 2021, the Medical Center's total operating revenue increased by 6.3% to \$331,380,885 with total operating expenses increasing by 8.5% to \$313,164,733.

- The Medical Center did not raise rates during 2021.
- The addition of providers contributed to growth in most physician practice offices, including pulmonary, pediatrics, internal medicine, neurosurgery, and primary care.
- The renovation of the outpatient care center, and addition of an operating room, were completed in the fall of 2021. This provided the Medical Center with additional space for surgical and pain procedures. It also created a centralized area for patients to register for services.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2022 AND 2021

- Government funding related to the public health emergency helped offset expenses that continued to be incurred due to the Coronavirus ("COVID-19") global pandemic (the "Pandemic"). This includes the cost of supplies, drugs, and labor.

FINANCIAL STATEMENTS

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2022 AND 2021

CONDENSED FINANCIAL INFORMATION

A summary of the Medical Center's balance sheets as of December 31, 2022 and 2021 is presented below:

	2022	2021 As restated	\$ Change	% Change
Assets				
Current assets	\$ 163,884,606	\$ 178,700,579	\$ (14,815,973)	-8.3%
Capital assets, net	217,395,611	233,018,019	(15,622,408)	-6.7%
Other assets	218,374,106	234,552,305	(16,178,199)	-6.9%
Total assets	599,654,323	646,270,903	(46,616,580)	-7.2%
Deferred outflows	10,477,443	8,128,247	2,349,196	28.9%
Total assets and deferred outflows	<u>\$ 610,131,766</u>	<u>\$ 654,399,150</u>	<u>\$ (44,267,384)</u>	-6.8%
Liabilities				
Current liabilities	\$ 64,901,156	\$ 68,821,529	\$ (3,920,373)	-5.7%
Long-term liabilities	108,463,526	126,161,968	(17,698,442)	-14.0%
Total liabilities	173,364,682	194,983,497	(21,618,815)	-11.1%
Pension deferred inflows	6,901,283	9,444,841	(2,543,558)	-26.9%
Total liabilities and deferred inflows	180,265,965	204,428,338	(24,162,373)	-11.8%
Net position				
Net investment in capital assets	104,920,571	104,423,863	496,708	0.5%
Restricted expendable net position	2,818,738	5,875,535	(3,056,797)	-52.0%
Restricted nonexpendable net position	312,157	390,053	(77,896)	-20.0%
Unrestricted	321,814,335	339,281,361	(17,467,026)	-5.1%
Total net position	429,865,801	449,970,812	(20,105,011)	-4.5%
Total liabilities and net position	<u>\$ 610,131,766</u>	<u>\$ 654,399,150</u>	<u>\$ (44,267,384)</u>	-6.8%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2022 AND 2021

A summary of the Medical Center's balance sheets as of December 31, 2021 and 2020 is presented below:

	2021 As restated	2020 As restated	\$ Change	% Change
Assets				
Current assets	\$ 178,700,579	\$ 164,146,918	\$ 14,553,661	8.9%
Capital assets, net	233,018,019	223,186,446	9,831,573	4.4%
Other assets	234,552,305	194,071,774	40,480,531	20.9%
Total assets	646,270,903	581,405,138	64,865,765	11.2%
Deferred outflows	8,128,247	9,182,709	(1,054,462)	-11.5%
Total assets and deferred outflows	\$ 654,399,150	\$ 590,587,847	\$ 63,811,303	10.8%
Liabilities				
Current liabilities	\$ 68,821,529	\$ 56,618,634	\$ 12,202,895	21.6%
Long-term liabilities	126,161,968	121,694,722	4,467,246	3.7%
Total liabilities	194,983,497	178,313,356	16,670,141	9.3%
Pension deferred inflows	9,444,841	1,091,476	8,353,365	765.3%
Total liabilities and deferred inflows	204,428,338	179,404,832	25,023,506	13.9%
Net position				
Net investment in capital assets	104,423,863	102,677,120	1,746,743	1.7%
Restricted expendable net position	5,875,535	6,082,792	(207,257)	-3.4%
Restricted nonexpendable net position	390,053	360,009	30,044	8.3%
Unrestricted	339,281,361	302,063,094	37,218,267	12.3%
Total net position	449,970,812	411,183,015	38,787,797	9.4%
Total liabilities and net position	\$ 654,399,150	\$ 590,587,847	\$ 63,811,303	10.8%

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2022 AND 2021

CONDENSED FINANCIAL INFORMATION

A summary of the Medical Center's statements of operations and changes in net position for the years ended December 31, 2022 and 2021 is presented below:

	2022	2021 As restated	\$ Change	% Change
Operating revenues				
Net patient service revenue	\$ 334,652,192	\$ 326,226,758	\$ 8,425,434	2.6%
Other revenue	3,185,965	5,154,127	(1,968,162)	-38.2%
Total operating revenues	337,838,157	331,380,885	6,457,272	1.9%
Operating expenses				
Salaries and benefits	185,699,279	173,743,670	11,955,609	6.9%
Supplies and drugs	43,528,781	44,580,495	(1,051,714)	-2.4%
Depreciation and amortization	28,653,044	25,841,646	2,811,398	10.9%
Other operating expenses	75,558,070	68,998,922	6,559,148	9.5%
Total operating expenses	333,439,174	313,164,733	20,274,441	6.5%
Income from operations	4,398,983	18,216,152	(13,817,169)	-75.9%
Nonoperating revenues	(24,503,994)	20,571,645	(45,075,639)	219.1%
Change in net position	\$ (20,105,011)	\$ 38,787,797	\$ (58,892,808)	-151.8%
Net position, end of year	\$ 429,865,801	\$ 449,970,812	\$ (20,105,011)	-4.5%

A summary of the Medical Center's statements of operations and changes in net position for the years ended December 31, 2021 and 2020 is presented below:

	2021 As restated	2020 As restated	\$ Change	% Change
Operating revenues				
Net patient service revenue	\$ 326,226,758	\$ 305,233,280	\$ 20,993,478	6.9%
Other revenue	5,154,127	6,403,177	(1,249,050)	-19.5%
Total operating revenues	331,380,885	311,636,457	19,744,428	6.3%
Operating expenses				
Salaries and benefits	173,743,670	170,085,935	3,657,735	2.2%
Supplies and drugs	44,580,495	43,109,513	1,470,982	3.4%
Depreciation and amortization	25,841,646	21,589,451	4,252,195	19.7%
Other operating expenses	68,998,922	53,952,661	15,046,261	27.9%
Total operating expenses	313,164,733	288,737,560	24,427,173	8.5%
Income from operations	18,216,152	22,898,897	(4,682,745)	-20.4%
Nonoperating revenues	20,571,645	24,044,665	(3,473,020)	14.4%
Change in net position	\$ 38,787,797	\$ 46,943,562	\$ (8,155,765)	-17.4%
Net position, end of year	\$ 449,970,812	\$ 411,183,015	\$ 38,787,797	9.4%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2022 AND 2021

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 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 2022, 2021, and 2020 are as follows:

<u>Payor Mix</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Medicare	39 %	39 %	40 %
Medicaid	27	26	25
Blue Cross	17	18	18
SIHO*	4	4	4
Other third-party payors	9	9	9
Self-pay	4	4	4
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

*Southeastern Indiana Health Organization

OPERATING AND FINANCIAL PERFORMANCE

The Medical Center's financial performance from operations was positive in 2022. The Medical Center's overall financial performance was negative in 2022. A discussion of the highlights of 2022 operations and changes in activity is presented below:

Revenues

The Medical Center's net patient service revenues increased by \$8,425,434 in 2022. Highlights of this change are as follows:

- The Medical Center did not raise rates during 2022.
- Patient volume increases were noted for births, surgeries, radiology, and laboratory.
- Additional providers were added in the areas of oncology, primary care, surgery and internal/sleep medicine. Volume increases were seen in these areas as well as neurology, pulmonology, urology, orthopedics, OB/GYN and pediatrics.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2022 AND 2021

Expenses

Total operating expenses increased by \$20,274,441 in 2022. Highlights of this change are as follows:

- Salaries and benefits costs increased \$11,955,609 primarily due to the use of agency labor to cover labor shortages in patient care areas. The cost of agency labor amounted to more than \$11.4 million for 2022.
- Other operating expenses increased \$6,559,148 due to due to increases in utilities, purchased services and maintenance contracts.

Nonoperating revenue (expenses)

- Nonoperating revenue (expenses) decreased by roughly \$45,075,639 due to poor investment performance during 2022.

The Medical Center's financial performance from operations was positive in 2021. The same is true for the Medical Center's overall financial performance. A discussion of the highlights of 2021 operations and changes in activity is presented below:

Revenues

The Medical Center's net patient service revenues increased by \$20,993,478 in 2021. Highlights of this change are as follows:

- The Medical Center did not raise rates in 2021.
- Patient volume increases were noted for patient days, emergency room visits, surgeries, respiratory therapy, and laboratory. Most service lines that were negatively impacted by the Public Health Emergency declared in 2020 saw volume increases in 2021.
- Inpatient admissions at the Medical Center decreased in 2021, but average length of stay increased.
- The addition of providers contributed to growth in most physician practice office, including pulmonary, pediatrics, internal medicine, neurosurgery, and primary care.

Expenses

Total operating expenses increased by \$24,427,173 in 2021. Highlights of this change are as follows:

- Salary and benefits costs increased \$3,657,735 due to labor needs during the continued public health emergency, and an increased need for the use of agency staffing due to clinical labor shortages.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2022 AND 2021

- Supplies and drug costs increased \$1,470,982 due to periods of high COVID-19 census throughout the year.

FINANCIAL ANALYSIS – CASH FLOWS

The Medical Center's 2022 cash flows increased \$13,725,417 primarily due to year over year reduction in accounts receivable. Due to the cyber event in late 2021 that prevented the processing of patient charges, there was a delay in billing and receipt of payments that led to a large accounts receivable balance at December 31, 2021. Accounts receivable returned to normal levels in 2022.

The Medical Center's 2021 cash flows increased \$5,380,734 due to increased outpatient volumes as a result of no interruptions of service lines, as COVID-19 vaccination rates increased during the year.

FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of individuals or units outside of the Medical Center. The Medical Center is the trustee or fiduciary responsible for assets, which can be used only for the trust beneficiaries per trust arrangements. The Medical Center is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Medical Center's fiduciary activities are reported in separate statements of fiduciary net position and statements of changes in fiduciary net position. The accounting for fiduciary funds is much like that used for proprietary funds. The Medical Center's Employees' Pension Plan and 457(f) Executive Deferred Compensation Plan are reported under the fiduciary funds. Since the resources of these funds are not available to support the Medical Center's own programs, they are not reflected in the government-wide financial statements. The statements of fiduciary net position and the statements of changes in fiduciary net position can be found on pages 9 and 10, respectively, of this report.

Capital Assets

	2022	2021 As restated	\$Change	%Change
Land and land improvements	\$ 16,764,371	\$ 15,936,098	\$ 828,273	5.2%
Buildings	159,087,242	159,243,331	(156,089)	-0.1%
Equipment	76,795,497	74,729,975	2,065,522	2.8%
Intangible right-to-use assets	120,314,958	120,314,958	-0-	0.0%
Construction in progress	7,747,531	884,119	6,863,412	776.3%
	<u>380,709,599</u>	<u>371,108,481</u>	<u>9,601,118</u>	<u>2.6%</u>
Less accumulated depreciation	163,313,988	138,090,462	25,223,526	18.3%
Capital assets, net	<u>\$ 217,395,611</u>	<u>\$ 233,018,019</u>	<u>\$ (15,622,408)</u>	<u>-6.7%</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2022 AND 2021

Net capital assets decreased in 2022 due to retirement of unused assets.

	2021	2020		
	As restated	As restated	\$Change	%Change
Land and land improvements	\$ 15,936,098	\$ 15,857,808	\$ 78,290	0.5%
Buildings	159,243,331	150,934,716	8,308,615	5.5%
Intangible right-to-use assets	120,314,958	99,320,778	20,994,180	21.1%
Equipment	74,729,975	67,834,985	6,894,990	10.2%
Construction in progress	884,119	3,635,898	(2,751,779)	-75.7%
	<u>371,108,481</u>	<u>337,584,185</u>	<u>33,524,296</u>	9.9%
Less accumulated depreciation	<u>138,090,462</u>	<u>114,397,739</u>	<u>23,692,723</u>	20.7%
Capital assets, net	<u>\$ 233,018,019</u>	<u>\$ 223,186,446</u>	<u>\$ 9,831,573</u>	4.4%

Net capital assets increased in 2021 due to renovation of the outpatient care center, the addition of an operating room, as well as the purchases of a new Da Vinci surgical robot and a new MRI machine.

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

Long-Term Debt

At December 31, 2022, the Medical Center had long-term debt (including current portion) of \$112,475,040 which is comprised of revenue bonds outstanding as well as various right-to-use lease liabilities.

At December 31, 2021, the Medical Center had long-term debt (including current portion) of \$128,594,156, which is comprised of revenue bonds outstanding as well as various right-to-use lease liabilities.

ECONOMIC FACTORS AND 2022 BUDGET

The Medical Center's Board and management considered many factors when establishing the 2023 budget. Included was the status of the economy, which takes into consideration market factors and other environmental factors such as the following items:

- The effect of the Coronavirus pandemic on the healthcare industry and the proposed ending of the declared public health emergency in 2023
- 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

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2022 AND 2021

- 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
- Volatility in the investment markets affecting returns on invested assets

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 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**

BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

	2022	2021 As restated
ASSETS		
Current assets		
Cash and cash equivalents	\$ 107,718,833	\$ 103,917,508
Investments	8,570,199	8,982,141
Patient accounts receivable, net of estimated uncollectibles of \$25,314,268 in 2022 and \$28,034,330 in 2021	32,400,990	49,527,675
Inventories	5,763,703	5,958,975
Prepaid expenses and other current assets	7,618,519	6,673,529
Estimated third-party payor settlements	-0-	1,030,373
Other assets, current portion	848,227	881,004
Current portion of assets whose use is limited	964,135	1,729,374
Total current assets	163,884,606	178,700,579
Assets whose use is limited, net of amount required to meet current obligations	206,626,891	217,377,090
Capital assets, net	217,395,611	233,018,019
Net pension asset	5,020,422	11,069,788
Other assets, net of current portion	6,726,793	6,105,427
Total assets	599,654,323	646,270,903
Deferred outflows	10,477,443	8,128,247
Total assets and deferred outflows	\$ 610,131,766	\$ 654,399,150

See accompanying notes to financial statements.

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

BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

LIABILITIES AND NET POSITION

	2022	2021 As restated
Current liabilities		
Accounts payable	\$ 31,298,854	\$ 32,478,861
Accrued personnel costs	14,354,825	15,714,567
Accrued expenses	36,752	56,593
Estimated third-party payor settlements	3,409,418	-0-
Refundable advances, current portion	-0-	4,695,793
Current portion of intangible right-to-use lease liabilities	14,854,875	14,173,518
Current portion of long-term debt	946,432	1,702,197
Total current liabilities	64,901,156	68,821,529
Long-term liabilities		
Intangible right-to-use liabilities, net of current portion	79,048,567	93,903,441
Long-term debt, net of current portion	17,625,166	18,815,000
Deferred compensation liabilities	11,789,793	13,443,527
Total long-term liabilities	108,463,526	126,161,968
Pension deferred inflows	6,901,283	9,444,841
Total liabilities and deferred inflows	180,265,965	204,428,338
Net position		
Net investment in capital assets	104,920,571	104,423,863
Restricted		
Expendable for debt service	-0-	2,824,954
Expendable for donor-restricted purposes	2,818,738	3,050,581
Nonexpendable perpetual trust	312,157	390,053
Unrestricted	321,814,335	339,281,361
Total net position	429,865,801	449,970,812
Total liabilities and net position	\$ 610,131,766	\$ 654,399,150

See accompanying notes to financial statements.

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

STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021 As restated
Operating revenues		
Net patient service revenue	\$ 334,652,192	\$ 326,226,758
Other revenue	3,185,965	5,154,127
Total operating revenues	<u>337,838,157</u>	<u>331,380,885</u>
Operating expenses		
Salaries and wages	163,701,721	157,553,971
Employee benefits and payroll taxes	21,997,558	16,189,699
Professional medical fees	2,795,027	3,537,657
Medical supplies	19,345,149	19,728,982
Other supplies	7,793,924	8,007,991
Drugs	16,389,708	16,843,522
Purchased services	49,158,325	41,295,067
Utilities	5,342,194	4,669,193
Insurance	4,651,159	4,236,204
Depreciation and amortization	28,653,044	25,841,646
Rent	280,189	4,027,116
Hospital assessment fee	5,879,579	4,182,798
Other operating expenses	7,451,597	7,050,887
Total operating expenses	<u>333,439,174</u>	<u>313,164,733</u>
Income from operations	4,398,983	18,216,152
Nonoperating revenues (expenses)	<u>(24,503,994)</u>	<u>20,571,645</u>
Change in net position	(20,105,011)	38,787,797
Net position, beginning of year	<u>449,970,812</u>	<u>411,183,015</u>
Net position, end of year	<u>\$ 429,865,801</u>	<u>\$ 449,970,812</u>

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021 As restated
Operating activities		
Cash received for patient services	\$ 356,218,668	\$ 302,025,106
Cash paid to/for employees	(187,650,997)	(171,305,099)
Cash paid to vendors and suppliers	(121,036,419)	(89,597,592)
Other receipts, net	3,185,965	5,154,127
Net cash flows from operating activities	50,717,217	46,276,542
Noncapital financing activities		
Noncapital contributions	521,473	884,211
Change in deferred revenues	(4,695,793)	(16,038,199)
Grant revenue	224,282	15,822,122
Net cash flows from noncapital financing activities	(3,950,038)	668,134
Capital and related financing activities		
Principal payments on intangible right-to-use lease liabilities	(14,173,517)	(12,237,999)
Principal payments on long-term debt	(1,943,402)	(1,945,000)
Interest paid	(4,805,707)	(4,473,585)
Purchase of capital assets	(13,374,457)	(14,064,017)
Proceeds from sale of capital assets	-0-	23,463
Change in bond premiums	(2,197)	(26,351)
(Gain) loss on disposal of capital assets	438,677	(68,573)
Borrowings on long-term debt	-0-	1,300,000
Net cash flows from capital and related financing activities	(33,860,603)	(31,492,062)
Investing activities		
Investment income	(20,018,957)	8,266,967
Other nonoperating revenues (expenses)	(425,085)	71,930
Change in investments	411,942	(230,340)
Change in assets whose use is limited	21,439,530	(22,099,053)
Change in other assets	(588,589)	3,918,616
Net cash flows from investing activities	818,841	(10,071,880)
Net change in cash and cash equivalents	13,725,417	5,380,734
Cash and cash equivalents, beginning of year	172,400,555	167,019,821
Cash and cash equivalents, end of year	\$ 186,125,972	\$ 172,400,555
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents in current assets	\$ 107,718,833	\$ 103,917,508
Cash and cash equivalents in assets whose use is limited	78,407,139	68,483,047
Total cash and cash equivalents	\$ 186,125,972	\$ 172,400,555

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021 As restated
Reconciliation of income from operations to net cash and cash equivalents from operating activities		
Income from operations	\$ 4,398,983	\$ 18,216,152
Adjustments to reconcile income from operations to net cash flows from operating activities		
Depreciation	28,558,188	25,746,793
Amortization	94,853	94,853
Provision for bad debts	10,498,554	16,444,673
Changes in operating assets and liabilities		
Patient accounts receivable	6,628,131	(38,968,232)
Inventories	195,272	226,510
Prepaid expenses and other current assets	(944,990)	1,821,693
Net pension asset	6,049,366	(9,736,952)
Pension and goodwill deferred outflows	(2,444,049)	959,609
Accounts payable	(1,180,007)	22,009,684
Accrued personnel costs	(1,359,742)	1,038,961
Accrued expenses	(19,841)	(76,062)
Estimated third-party payor settlements	4,439,791	(1,678,093)
Pension deferred inflows	(2,543,558)	8,353,365
Deferred compensation liabilities	(1,653,734)	1,823,588
Net cash flows from operating activities	\$ 50,717,217	\$ 46,276,542
Supplemental disclosures of noncash operating and capital and related financing activities		
Right-to-use lease asset additions	\$ -0-	\$ 20,994,180
Property and equipment acquired included in accounts payable	\$ -0-	\$ 475,059

See accompanying notes to financial statements.

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

STATEMENTS OF FIDUCIARY NET POSITION
DECEMBER 31, 2022 AND 2021

	2022	2021
	Pension (and other employee benefit) trust funds	Pension (and other employee benefit) trust funds
Assets		
Investments at fair value		
Money market funds	\$ 1,603,325	\$ 1,330,580
Mutual funds	7,060,338	8,537,500
Exchange traded funds	6,741,755	7,349,266
Common stocks	26,927,102	29,386,470
Total assets	\$ 42,332,520	\$ 46,603,816
Net position		
Restricted for:		
Pensions	\$ 41,593,276	\$ 45,812,798
Postemployment benefits other than pensions	739,244	791,018
Total net position	\$ 42,332,520	\$ 46,603,816

See accompanying notes to financial statements.

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

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
DECEMBER 31, 2022 AND 2021

	2022	2021
	Pension (and other employee benefit) trust funds	Pension (and other employee benefit) trust funds
Additions		
Contributions:		
Employer	\$ 138,384	\$ 107,538
Investments earnings		
Net increase (decrease) in fair value	(3,032,907)	13,061,033
Interest, dividends, and other	1,083,732	831,192
Total investment earnings	<u>(1,949,175)</u>	<u>13,892,225</u>
Total additions	(1,810,791)	13,999,763
Deductions		
Benefits paid to participants or beneficiaries	2,375,105	2,326,994
Administrative expenses	85,400	68,220
Total deductions	<u>2,460,505</u>	<u>2,395,214</u>
Net increase (decrease) in fiduciary net position	(4,271,296)	11,604,549
Net position - beginning of year	<u>46,603,816</u>	<u>34,999,267</u>
Net position - end of year	<u>\$ 42,332,520</u>	<u>\$ 46,603,816</u>

See accompanying notes to financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

HDC's financial statements, 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, and donations received.

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, the Clinic, JMB, and the Foundation (collectively the "Medical Center") in the preparation of the financial statements are summarized below:

Reporting Entity

The accompanying 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. The separate audited financial statements of HDC (including the Clinic) and the Foundation may be obtained by contacting the Hospital as follows:

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

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Financial Statement Presentation

The Governmental Accounting Standards Board ("GASB") is the independent, private-sector organization that establishes accounting and financial reporting standards for U.S. state and local governments that follow accounting principles generally accepted in the United States of America ("GAAP"). The Medical Center follows GASB accounting and financial reporting standards in the preparation of their financial statements.

Measurement Focus and Basis of Accounting

The 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, and Schneck Medical Center Retirement Allowance Plan 457(f) (the "Plans"), and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fiduciary Funds

Following the Medical Center's financial statements are separate financial statements for fiduciary funds. Fiduciary funds are excluded from the Medical Center's financial statements as these assets are held in a trust capacity for the various associates and cannot be used to support the Hospital's programs. These funds include the Jackson County Schneck Memorial Hospital Employees' Pension Plan and Schneck Medical Center Retirement Allowance Plan 457(f).

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 judgements.

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Cash and Cash Equivalents

Cash and cash equivalents as reported on the 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 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 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

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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 patients 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, 2022 and 2021 allowance for doubtful accounts balances were comprised of the following:

	2022	2021
Reserve for third-party payor balances	\$ 9,691,369	\$ 11,689,977
Reserve for self-pay balances	15,622,899	16,344,353
Total allowance for uncollectible accounts	<u>\$ 25,314,268</u>	<u>\$ 28,034,330</u>

Inventories

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

Investments and Assets Whose Use is Limited

Investments in certificates of deposit are reported in the 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; and assets that have been restricted by donors for specific purposes.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair market value in the balance sheets. Investment income or loss,

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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.

Pension and Goodwill Deferred Outflows

The Medical Center purchased certain assets of a physician 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, 2022 and 2021 was \$482,169 and \$577,022, 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.

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.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Advertising and Marketing Costs

Advertising and marketing costs are charged to operations when incurred. Advertising and marketing costs charged to operations were \$966,854 and \$701,696 for the years ended December 31, 2022 and 2021, 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 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, 2022, the 2018 - 2022 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, 2022 and 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying 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.

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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.

Reclassifications

Certain reclassifications have been made to the 2021 financial statements to correspond to the current year's format. Total net position and change in net position are unchanged due to these reclassifications.

Subsequent Events

The Medical Center has evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements were available to be issued, which is June 29, 2023.

**JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

2. CHANGE IN ACCOUNTING PRINCIPLE

On January 1, 2021, the Hospital adopted GASB Statement No. 87, *Leases*. This statement requires all leases that have a maximum possible term greater than 12 months to be recorded in the statements of net position. Previously, leases classified as operating leases were not recorded in the statement of net position. The following tables outlines the proper period adjustments necessary to adopt this standard:

	As Previously Stated December 31, 2021	Adjustment	As restated December 30, 2021
Balance Sheet			
Capital Assets, net	\$ 126,689,934	\$ 106,328,085	\$ 233,018,019
Total net position	(451,719,686)	1,748,874	(449,970,812)
Current portion of intangible right-to-use lease liabilities	-0-	(14,173,518)	(14,173,518)
Intangible right-to-use lease liabilities, net of current portion	-0-	(93,903,441)	(93,903,441)
	<u>\$ (325,029,752)</u>	<u>\$ -0-</u>	<u>\$ (325,029,752)</u>

	As Previously Stated December 31, 2021	Adjustment	As restated December 31, 2021
Statement of Operations			
Depreciation and amortization	\$ (11,854,773)	\$ (13,986,873)	\$ (25,841,646)
Rent	(20,229,449)	16,202,333	(4,027,116)
Nonoperating revenues (interest expense)	<u>24,535,979</u>	<u>(3,964,334)</u>	<u>20,571,645</u>
	(7,548,243)	(1,748,874)	(9,297,117)
Net position - December 31, 2020		<u>-0-</u>	
		<u>\$ (1,748,874)</u>	

	As Previously Stated December 31, 2021	Adjustment	As restated December 31, 2021
Statement of cash flows			
Operating activities (direct method)			
Cash paid to vendors and suppliers	\$ (105,818,292)	\$ 16,220,700	\$ (89,597,592)
Operating activities (indirect method)			
Income from operations	16,000,692	2,215,460	18,216,152
Depreciation	11,759,920	13,986,873	25,746,793
Capital and related financing activities			
Principal payments on intangible right-to-use lease liabilities	-0-	(12,237,999)	(12,237,999)
Investing activities			
Interest paid for long-term debt	(508,711)	(3,964,874)	(4,473,585)

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3. DEPOSITS AND INVESTMENTS

Deposits and investments are comprised of the following at December 31, 2022 and 2021:

	2022	2021
Carrying amount		
Cash and cash equivalents	\$ 186,120,558	\$ 172,400,555
Certificates of deposit	14,000,000	14,000,000
Brokered certificates of deposit	4,246,410	4,308,054
Market-linked certificates of deposit	343,817	410,827
Mutual funds	95,712,499	117,437,727
Exchange-traded funds	468,807	417,064
Money market mutual funds	20,360,947	20,064,336
Perpetual trust	312,157	390,053
Interest receivable	55,609	5,269
Fixed income guaranteed option	489,504	408,297
Common stocks	1,494,854	1,889,845
Preferred stocks	9,486	15,258
Annuities	265,410	258,828
Total	\$ 323,880,058	\$ 332,006,113
 Included in the balance sheet captions:		
Cash and cash equivalents	\$ 107,718,833	\$ 103,917,508
Investments	8,570,199	8,982,141
Assets whose use is limited	207,591,026	219,106,464
 Total	\$ 323,880,058	\$ 332,006,113

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, 2022 and 2021, the Medical Center had the following investments and maturities,

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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, 2022				
		Investment Maturities (in years)				
	Carrying Amount	Less than 1	1 - 5	6 - 10	More than 10	
Certificates of deposit	\$ 18,590,227	\$ 17,139,689	\$ 1,450,538	\$ -0-	\$ -0-	

		December 31, 2021				
		Investment Maturities (in years)				
	Carrying Amount	Less than 1	1 - 5	6 - 10	More than 10	
Certificates of deposit	\$ 18,718,881	\$ 15,478,335	\$ 3,240,546	\$ -0-	\$ -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.

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.

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Fair Value Measurements and Disclosures

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022 and 2021.

- *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.
- *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.
- *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.

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- *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.
- *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.
- *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 and preferred stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.
- *Annuities*: Valued at contract value, which approximates fair value, which represents deposits and reinvested interest, less any withdrawals plus accrued interest.

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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, 2022, are as follows:

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Small	\$ 7,323,233	\$ -0-	\$ -0-	\$ 7,323,233
Mid	17,879,984	-0-	-0-	17,879,984
Large	31,890,983	-0-	-0-	31,890,983
Foreign	11,906,134	-0-	-0-	11,906,134
Diversified emerging markets	5,360,833	-0-	-0-	5,360,833
World large stock	2,721,871	-0-	-0-	2,721,871
Intermediate core bond	9,937,909	-0-	-0-	9,937,909
Target date	7,244,139	-0-	-0-	7,244,139
Bank loan	12,841	-0-	-0-	12,841
Multisector bond	1,040,901	-0-	-0-	1,040,901
High-Yield bond	173,419	-0-	-0-	173,419
Emerging market bond	220,252	-0-	-0-	220,252
	<u>95,712,499</u>	<u>-0-</u>	<u>-0-</u>	<u>95,712,499</u>
Common stocks	1,494,854	-0-	-0-	1,494,854
Preferred stocks	9,486	-0-	-0-	9,486
Exchange-traded funds	468,807	-0-	-0-	468,807
Money market mutual funds	-0-	20,360,947	-0-	20,360,947
Brokered certificates of deposit	-0-	4,246,410	-0-	4,246,410
Market-linked certificates of deposit	-0-	343,817	-0-	343,817
Annuities	-0-	265,410	-0-	265,410
Fixed income guaranteed option	-0-	489,504	-0-	489,504
Perpetual trust, held by trustee	-0-	-0-	312,157	312,157
Total assets at fair value	<u>\$ 97,685,646</u>	<u>\$ 25,706,088</u>	<u>\$ 312,157</u>	123,703,891
Cash and cash equivalents				186,120,558
Certificates of deposit				14,000,000
Interest receivable				55,609
Total deposits and investments				<u>\$ 323,880,058</u>

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The following table set forth by level, within the hierarchy, the Medical Center’s fiduciary activities assets measured at fair value on a recurring basis as of December 31, 2022, are as follows:

Fiduciary Funds

	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Mutual funds	\$ 7,060,338	\$ -0-	\$ -0-	\$ 7,060,338
Common stocks				
Basic materials	562,105	-0-	-0-	562,105
Communication services	493,437	-0-	-0-	493,437
Consumer cyclical	814,954	-0-	-0-	814,954
Consumer defensive	567,904	-0-	-0-	567,904
Energy	764,818	-0-	-0-	764,818
Financial services	3,492,127	-0-	-0-	3,492,127
Healthcare	3,015,466	-0-	-0-	3,015,466
Industrials	4,066,290	-0-	-0-	4,066,290
Consumer discretionary	4,561,518	-0-	-0-	4,561,518
Consumer staples	108,715	-0-	-0-	108,715
Telecommunications	69,894	-0-	-0-	69,894
Real estate	2,257,240	-0-	-0-	2,257,240
Technology	5,118,143	-0-	-0-	5,118,143
Utilities	1,034,491	-0-	-0-	1,034,491
	<u>26,927,102</u>	<u>-0-</u>	<u>-0-</u>	<u>26,927,102</u>
Exchange-traded funds	6,741,755	-0-	-0-	6,741,755
Money market mutual funds	-0-	1,603,325	-0-	1,603,325
	<u>-0-</u>	<u>1,603,325</u>	<u>-0-</u>	<u>1,603,325</u>
Total assets at fair value	<u>\$ 40,729,195</u>	<u>\$ 1,603,325</u>	<u>\$ -0-</u>	<u>\$ 42,332,520</u>

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The following table set forth by level, within the hierarchy, the Medical Center's asset measured at fair value on a recurring basis as of December 31, 2021, are as follows:

	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Mutual funds				
Small	\$ 9,091,825	\$ -0-	\$ -0-	\$ 9,091,825
Mid	21,931,511	-0-	-0-	21,931,511
Large	34,506,034	-0-	-0-	34,506,034
Foreign	14,145,814	-0-	-0-	14,145,814
Diversified emerging markets	6,140,066	-0-	-0-	6,140,066
World large stock	9,273,802	-0-	-0-	9,273,802
Intermediate core bond	11,672,214	-0-	-0-	11,672,214
Target date	8,857,513	-0-	-0-	8,857,513
Bank loan	13,814	-0-	-0-	13,814
Short government	630,009	-0-	-0-	630,009
Multisector	1,175,125	-0-	-0-	1,175,125
	<u>117,437,727</u>	-0-	-0-	117,437,727
Common stocks	1,889,845	-0-	-0-	1,889,845
Preferred stocks	15,258	-0-	-0-	15,258
Exchange-traded funds	417,064	-0-	-0-	417,064
Money market mutual funds	-0-	20,064,336	-0-	20,064,336
Brokered certificates of deposit	-0-	4,308,054	-0-	4,308,054
Market-linked certificates of deposit	-0-	410,827	-0-	410,827
Annuities	-0-	258,828	-0-	258,828
Fixed income guaranteed option	-0-	408,297	-0-	408,297
Perpetual trust, held by trustee	-0-	-0-	390,053	390,053
Total assets at fair value	<u>\$ 119,759,894</u>	<u>\$ 25,450,342</u>	<u>\$ 390,053</u>	145,600,289
Cash and cash equivalents				172,400,555
Certificates of deposit				14,000,000
Interest receivable				5,269
Total deposits and investments				<u>\$ 332,006,113</u>

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The following table set forth by level, within the hierarchy, the Medical Center's fiduciary activities assets measured at fair value on a recurring basis as of December 31, 2021, are as follows:

Fiduciary Funds

	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Mutual funds	\$ 8,537,500	\$ -0-	\$ -0-	\$ 8,537,500
Common stocks				
Basic industries	4,198,236	-0-	-0-	4,198,236
Basic materials	284,825	-0-	-0-	284,825
Communication services	1,130,896	-0-	-0-	1,130,896
Consumer cyclical	3,273,536	-0-	-0-	3,273,536
Consumer defensive	1,380,076	-0-	-0-	1,380,076
Energy	639,403	-0-	-0-	639,403
Financial services	4,559,992	-0-	-0-	4,559,992
Healthcare	3,159,421	-0-	-0-	3,159,421
Industrials	1,673,178	-0-	-0-	1,673,178
Real estate	2,391,236	-0-	-0-	2,391,236
Technology	5,920,010	-0-	-0-	5,920,010
Utilities	775,661	-0-	-0-	775,661
	<u>29,386,470</u>	<u>-0-</u>	<u>-0-</u>	<u>29,386,470</u>
Exchange-traded funds	7,349,266	-0-	-0-	7,349,266
Money market mutual funds	-0-	1,330,580	-0-	1,330,580
Total assets at fair value	<u>\$ 45,273,236</u>	<u>\$ 1,330,580</u>	<u>\$ -0-</u>	<u>\$ 46,603,816</u>

The Medical Center's policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels 1, 2, and 3 during 2022 and 2021.

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The following summary sets forth a summary of changes in the fair values of the Medical Center's Level 3 assets for the years ended December 31, 2022 and 2021:

	2022	2021
	Perpetual Trust Held by Trustee	Perpetual Trust Held by Trustee
Balance, beginning of the year	\$ 390,053	\$ 360,009
Change in investment value	(77,896)	30,044
Balance, end of year	\$ 312,157	\$ 390,053

4. PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable reported as current assets at December 31, 2022 and 2021, consist of the following:

	2022	2021
Medicare	\$ 28,055,771	\$ 41,387,443
Medicaid	20,284,295	24,796,495
Blue Cross	10,148,465	24,224,246
Other insurance carriers	15,224,258	21,724,817
Patients	20,251,343	17,265,683
Total patient accounts receivable	93,964,132	129,398,684
Less allowance for contractals	36,248,874	51,836,679
Less allowance for uncollectible amounts	25,314,268	28,034,330
Patient accounts receivable, net	\$ 32,400,990	\$ 49,527,675

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5. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. Assets whose use is limited are reported at market value and include the following at December 31, 2022 and 2021:

Investment Summary by Type

	2022	2021
Cash and cash equivalents	\$ 78,407,139	\$ 68,483,047
Money market funds	20,355,537	20,064,336
Exchange-traded market funds	468,807	417,064
Interest receivable	55,609	5,269
Certificates of deposit	6,000,000	6,000,000
Brokered certificates of deposit	4,246,410	4,308,054
Market-linked certificates of deposit	343,817	410,827
Common stocks	924,651	907,704
Preferred stocks	9,486	15,258
Mutual funds	95,712,499	117,437,727
Perpetual trust, held by trustee	312,157	390,053
Fixed income guaranteed option	489,504	408,297
Annuities	265,410	258,828
	207,591,026	219,106,464
Less amount required for current obligations	964,135	1,729,374
Assets whose use is limited, net of amount required to meet current obligations	\$ 206,626,891	\$ 217,377,090

Investment Summary by Fund

Board-Designated Funds	\$ 192,670,338	\$ 199,397,349
Trustee-Held Funds	-0-	2,824,954
Donor-Restricted Funds	3,130,895	3,440,634
Deferred Compensation Funds	11,789,793	13,443,527
	11,789,793	13,443,527
Total	\$ 207,591,026	\$ 219,106,464

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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.

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6. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2022 and 2021, was as follows:

	2022			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	\$ 11,006,279	\$ 828,088	\$ 500	\$ 11,834,867
Land improvements	4,929,819	41,319	(41,634)	4,929,504
Buildings	159,243,331	1,485,544	(1,641,633)	159,087,242
Fixed equipment	8,253,197	716,317	(42,155)	8,927,359
Movable equipment	66,476,778	2,502,345	(1,110,985)	67,868,138
Construction in progress	884,119	7,800,844	(937,432)	7,747,531
Total historical cost	250,793,523	13,374,457	(3,773,339)	260,394,641
Less accumulated depreciation for				
Land improvements	(3,306,070)	(172,256)	31,216	(3,447,110)
Buildings	(66,407,276)	(6,996,161)	1,872,039	(71,531,398)
Fixed equipment	(5,370,272)	(391,182)	53,566	(5,707,888)
Movable equipment	(49,019,971)	(5,037,920)	1,377,842	(52,680,049)
Total accumulated depreciation	(124,103,589)	(12,597,519)	3,334,663	(133,366,445)
Total depreciable capital assets, net	126,689,934	776,938	(438,676)	127,028,196
Intangible right-to-use assets				
Buildings	118,887,343	-0-	-0-	118,887,343
Equipment	1,427,615	-0-	-0-	1,427,615
Total historical cost	120,314,958	-0-	-0-	120,314,958
Less accumulated depreciation for				
Buildings	(13,646,123)	(15,555,305)	(1)	(29,201,429)
Equipment	(340,750)	(405,364)	-0-	(746,114)
Total accumulated depreciation	(13,986,873)	(15,960,669)	(1)	(29,947,543)
Total intangible right-to-use assets, net	106,328,085	(15,960,669)	(1)	90,367,415
Capital assets, net	<u>\$ 233,018,019</u>	<u>\$ (15,183,731)</u>	<u>\$ (438,677)</u>	<u>\$ 217,395,611</u>

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	2021 - As restated			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	\$ 10,979,288	\$ -0-	\$ 26,991	\$ 11,006,279
Land improvements	4,878,520	51,299	-0-	4,929,819
Buildings	150,934,716	1,359,056	6,949,559	159,243,331
Fixed equipment	7,742,657	77,210	433,330	8,253,197
Movable equipment	60,092,328	8,476,942	(2,092,492)	66,476,778
Construction in progress	3,635,898	4,574,569	(7,326,348)	884,119
Total historical cost	238,263,407	14,539,076	(2,008,960)	250,793,523
Less accumulated depreciation for				
Land improvements	(3,120,088)	(185,982)	-0-	(3,306,070)
Buildings	(59,615,340)	(6,789,575)	(2,361)	(66,407,276)
Fixed equipment	(5,000,811)	(369,461)	-0-	(5,370,272)
Movable equipment	(46,661,500)	(4,414,902)	2,056,431	(49,019,971)
Total accumulated depreciation	(114,397,739)	(11,759,920)	2,054,070	(124,103,589)
Total depreciable capital assets, net	123,865,668	2,779,156	45,110	126,689,934
Intangible right-to-use assets				
Buildings	99,250,036	19,637,307	-0-	118,887,343
Equipment	70,742	1,356,873	-0-	1,427,615
Total historical cost	99,320,778	20,994,180	-0-	120,314,958
Less accumulated depreciation for				
Buildings	-0-	(13,646,123)	-0-	(13,646,123)
Equipment	-0-	(340,750)	-0-	(340,750)
Total accumulated depreciation	-0-	(13,986,873)	-0-	(13,986,873)
Total intangible right-to-use assets, net	99,320,778	7,007,307	-0-	106,328,085
Capital assets, net	<u>\$ 223,186,446</u>	<u>\$ 9,786,463</u>	<u>\$ 45,110</u>	<u>\$ 233,018,019</u>

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, 2022 and 2021.

Intangible right-to-use assets

In 2022, the Medical Center implemented the guidance in GASB Statement No. 87, Leases, and recognized the value of various surgical equipment and buildings leased under long-term contracts. Terms of the various leases are described in Note 12.

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7. OTHER ASSETS

At December 31, 2022 and 2021, other assets consist of the following:

	2022	2021
Physician notes receivable	\$ 1,812,636	\$ 1,883,227
Notes receivable	447,085	156,291
Investment in managed care company	1,372,706	1,127,782
Investment in RCG Columbus, LLC	974,900	974,900
Investment in captive insurance company	335,311	335,311
Captive insurance company subscriber savings	1,969,513	1,969,513
Investment in Inspire Health Partners	517,848	533,707
Other	145,021	5,700
Total other assets	7,575,020	6,986,431
Other assets, current portion	(848,227)	(881,004)
Other assets, net of current portion	\$ 6,726,793	\$ 6,105,427

Physician notes receivable are in varying amounts maturing through 2027. 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 vary and are at the prime rate + 1 percent to the prime rate (8.5% at December 31, 2022).

The Medical Center has an ownership interest in a healthcare managed care company of 33 percent. The Medical Center accounts for its investment using the equity method.

The Medical Center has 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

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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.

8. COMPENSATED ABSENCES

The Medical Center provides a paid time off (“PTO”) policy to employees for vacation, sick time, personal days, and holidays. Upon employment, full and part-time employees who are budgeted, scheduled, and work at least 37.5 hours per pay period accrue PTO from the date of hire. After completion of 3 months of service as a benefit eligible employee, PTO may be used with pay for the total amount accrued.

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

<u>Employee Type</u>	<u>Length of Service</u>	<u>PTO earned for each hour paid</u>	<u>Maximum PTO bank</u>
Non-exempt	0 - 2 years	0.0885	368 hours
Non-exempt	2 - 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, 2022 and 2021 was \$5,733,621 and \$6,218,223, respectively and is reported in accrued personnel costs on the financial statements.

9. EMPLOYEE HEALTH BENEFIT PLAN

The Medical Center operates a self-funded health plan covering substantially all employees. The Medical Center has an annual stop loss limit on the plan of \$100,000 per insured per year and an

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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 balance sheets.

Changes in the balance of claims liabilities during the years ended December 31, 2022 and 2021, were as follows:

	2022	2021
Accrued liability, beginning of year	\$ 1,294,787	\$ 1,527,901
Incurred claims, changes in estimates, and fees/premiums	13,648,962	9,237,948
Claim payments	(12,976,613)	(9,471,062)
Accrued liability, end of year	\$ 1,967,136	\$ 1,294,787

10. 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

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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.

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Employees Covered by Benefit Terms

At April 30, 2022 and 2021, the following employees were covered by the benefit terms:

	2022	2021
Inactive plan members or beneficiaries currently receiving benefits	303	289
Inactive plan members or beneficiaries entitled to but not yet receiving benefits	175	186
Active plan members	276	289
Total	754	764

Contributions

The annual required contributions for the years ended April 30, 2022 and 2021 and estimated liabilities as of May 1, 2022 and 2021 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, 2022 and 2021, 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, 2022 and 2021 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2022	2021
Inflation	2.50%	2.50%
Salary increases	Not applicable (Plan is frozen)	Not applicable (Plan is frozen)
Investment rate of return	6.00%	6.50%

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Mortality rates were based on the Society of Actuaries ("SOA") published mortality table: Pri-2012 annuitant/non-annuitant mortality tables (sex-distinct) with no mortality improvement.

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, 2022 and 2021.

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	40	4.5%
Domestic and foreign equities	60	8.2%
Total	100 %	

Discount Rate

The discount rate used to measure the total pension liability was 6 percent and 6.5 percent, respectively, as of April 30, 2022 and 2021, 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 2022 net pension (asset) liability of the Plan, calculated using the discount rate of 6 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 (5 percent) or 1-percentage-point higher (7 percent) than the current rate:

	1 % Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)
Net pension (asset) liability	\$ (951,079)	\$ (5,020,422)	\$ (8,421,318)

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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 2022 and 2021 Plan year was as follows:

	2022		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension (Asset) Liability
	(a)	(b)	(a) - (b)
Balances at 4/30/2021	\$ 34,743,011	\$ 45,812,798	\$ (11,069,787)
Changes of the year:			
Service cost	-0-	-0-	-0-
Interest	2,174,673	-0-	2,174,673
Difference between expected and actual experience	255,855	-0-	255,855
Change in assumptions	1,774,420	-0-	1,774,420
Benefit payments	(2,375,105)	(2,375,105)	-0-
Employer contributions	-0-	-0-	-0-
Net investment income	-0-	(1,759,017)	1,759,017
Administrative expenses	-0-	(85,400)	85,400
Other	-0-	-0-	-0-
Net changes	1,829,843	(4,219,522)	6,049,365
Balances at 4/30/2022	<u>\$ 36,572,854</u>	<u>\$ 41,593,276</u>	<u>\$ (5,020,422)</u>
	2021		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension (Asset) Liability
	(a)	(b)	(a) - (b)
Balances at 4/30/2020	\$ 33,068,853	\$ 34,401,689	\$ (1,332,836)
Changes of the year:			
Service cost	-0-	-0-	-0-
Interest	2,226,588	-0-	2,226,588
Difference between expected and actual experience	22,974	-0-	22,974
Change in assumptions	1,751,590	-0-	1,751,590
Benefit payments	(2,326,994)	(2,326,994)	-0-
Employer contributions	-0-	-0-	-0-
Net investment income	-0-	13,806,323	(13,806,323)
Administrative expenses	-0-	(68,220)	68,220
Other	-0-	-0-	-0-
Net changes	1,674,158	11,411,109	(9,736,951)
Balances at 4/30/2021	<u>\$ 34,743,011</u>	<u>\$ 45,812,798</u>	<u>\$ (11,069,787)</u>

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Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2022 and 2021, the Medical Center recognized pension expense (gain) of \$1,061,758 and \$(423,978), respectively. At December 31, 2022, 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, 4/30/2021	\$ 7,551,225	\$ (9,444,841)
Changes in assumptions	51,003	-0-
Liability experience gains (losses)	82,392	30,569
Investment gains (losses)	2,310,654	2,512,989
Balance, 4/30/2022	\$ 9,995,274	\$ (6,901,283)
	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance, 4/30/2020	\$ 8,510,834	\$ (1,091,476)
Changes in assumptions	531,533	-0-
Liability experience gains (losses)	(81,621)	58,410
Investment gains (losses)	(1,409,521)	(8,411,775)
Balance, 4/30/2021	\$ 7,551,225	\$ (9,444,841)

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
2023	\$ 1,858,591
2024	1,239,296
2025	(933,939)
2026	930,043
	\$ 3,093,991

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11. LONG-TERM DEBT

At December 31, 2022 and 2021, the Medical Center was obligated for long-term debt agreements as follows:

	2022	2021
<p>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 3.00% to 5.00%. Secured by gross revenues.</p>	\$ -0-	\$ 1,500,000
<p>Direct borrowing Series 2020 Revenue Refunding Bonds dated November 2020, payable in annual principal installments commencing February 2021 through February 2036 in amounts ranging from \$180,000 to \$1,580,000. The bonds were purchased by Jackson County Bank who will hold the bonds through maturity. Early redemption of any unpaid principal and accrued interest is allowable subsequent to February 15, 2025. Fixed interest rate of 2.35% on \$17,895,000. Secured by gross revenues.</p>	17,515,000	17,715,000
<p>Financing agreement with a third-party vendor for surgical equipment dated December 2021, payable in five annual installments of \$282,048, including interest, commencing January 2023 through January 2027. Fixed interest rate of 3.25%. Secured by equipment (NBV of \$1,056,598 as of December 31, 2022).</p>	<u>1,056,598</u>	<u>1,300,000</u>
	18,571,598	20,515,000
<p>Unamortized bond premium</p>	-0-	2,197
<p>Less current portion</p>	<u>(946,432)</u>	<u>(1,702,197)</u>
<p>Long-term debt, net of current portion</p>	<u>\$ 17,625,166</u>	<u>\$ 18,815,000</u>

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Long-term debt activity for the years ended December 31, 2022 and 2021 was as follows:

	2022				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 2010	\$ 1,500,000	\$ -0-	\$ (1,500,000)	\$ -0-	\$ -0-
Revenue bonds, series 2020	17,715,000	-0-	(200,000)	17,515,000	695,000
Bond premiums	2,197	-0-	(2,197)	-0-	-0-
Financing agreement	1,300,000	-0-	(243,402)	1,056,598	251,432
Total long-term debt	\$ 20,517,197	\$ -0-	\$ (1,945,599)	\$ 18,571,598	\$ 946,432

	2021				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 2010	\$ 3,265,000	\$ -0-	\$ (1,765,000)	\$ 1,500,000	\$ 1,500,000
Revenue bonds, series 2020	17,895,000	-0-	(180,000)	17,715,000	200,000
Bond premiums	28,548	-0-	(26,351)	2,197	2,197
Financing agreement	-0-	1,300,000	-0-	1,300,000	-0-
Total long-term debt	\$ 21,188,548	\$ 1,300,000	\$ (1,971,351)	\$ 20,517,197	\$ 1,702,197

Debt service requirements on long-term debt at December 31, 2022 are based on the interest rate modes in effect and are as follows:

Year Ending December 31,	Principal	Interest
2023	\$ 946,432	\$ 428,608
2024	1,304,726	397,127
2025	1,348,294	363,317
2026	1,397,146	328,302
2027	1,155,000	310,148
2028 - 2032	6,420,000	1,046,893
2033 - 2037	6,000,000	241,110
Total	\$ 18,571,598	\$ 3,115,505

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. Failure to meet any of these covenants would result in all principal and accrued interest due immediately without the granting of a waiver from the debt holders. Management believes the Medical Center was in compliance with all restrictive covenants during 2022 and 2021.

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12. INTANGIBLE RIGHT-TO-USE LEASE LIABILITIES

In 2022, the Hospital implemented GASB Statement No. 87, *Leases*, for accounting and reporting leases that had previously been reported as operating leases.

Building Leases

The Hospital leases buildings from limited liability companies for use as medical office buildings for clinical services and senior living services. The leases have terms varying from 24 to 192 months. The leases require monthly payments ranging from \$5,445 to \$740,564 expiring through February 2030. The present value of the buildings was determined using a discount rate of 4.25% based on the incremental borrowing rate. The leased buildings and accumulated amortization of the right-to-use assets are outlined in Note 6. The change in accounting principle is discussed in Note 2.

Equipment Leases

The Hospital also leases a variety of surgical equipment from various vendors for terms ranging from 42 to 60 months. The leases require monthly ranging from \$1,600 to \$34,703 expiring in December 2024. The present value of the leased surgical equipment was determined using discount rate of 4.25% based on the incremental borrowing rate. The Hospital has no plans to renew any of the leases at the expiration of the current lease terms. The leased equipment and accumulated amortization of the right-to-use assets are outlined in Note 6. The change in accounting principle is discussed in Note 2.

Remaining payments on these leases include:

	Building Leases		
	Principal	Interest	Total
2023	\$14,339,053	\$3,650,467	\$17,989,520
2024	14,996,375	3,027,967	18,024,342
2025	15,714,051	2,377,140	18,091,191
2026	16,431,403	1,695,035	18,126,438
2027	15,491,264	996,740	16,488,004
Thereafter	15,432,684	426,775	15,859,459
	\$92,404,830	\$12,174,124	\$104,578,954

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	Equipment Leases		
	Principal	Interest	Total
2023	\$515,820	\$53,718	\$569,538
2024	398,811	32,100	430,911
2025	116,871	22,580	139,451
2026	123,068	17,473	140,541
2027	128,402	12,139	140,541
Thereafter	215,640	8,761	224,401
	\$1,498,612	\$146,771	\$1,645,383

13. DEFERRED COMPENSATION PLANS

The Medical Center offers its employees deferred compensation plans in accordance with Internal Revenue Code Sections 457(b), 457(f), and 403(b). The 403(b) and 457(b) plans, available to all Medical Center employees, permit them to defer a portion of their salary until future years. The 457(f) plan, available to management, is funded by discretionary contributions by the Medical Center. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The deferred compensation assets and related liabilities under these plans are reported in the statements of fiduciary net position.

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, 2022 and 2021, the Medical Center recognized \$1,832,645 and \$1,858,731, respectively, in expense related to the 403(b) plan.

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14. 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, 2022 and 2021:

	2022	2021
Donor-restricted net position		
Dr. Bud Fund	\$ 669,077	\$ 807,044
Medical Technology Fund	126,661	126,648
Educational/Scholarship Fund	35,042	31,802
Women's Center Fund	10,176	10,175
Cancer Fund	318,438	308,856
Cancer Patient Support Fund	35,447	-0-
Hospice Fund	446,362	432,048
Diabetes Fund	60,604	-0-
EPIC Fund	457,653	411,669
Employee Humanitarian Fund	-0-	5,999
Giving Tuesday 2020 Fund	24,171	33,339
Giving Tuesday 2021 Fund	257,258	161,427
Restore Hope Restore Life Fund	377,849	721,574
 Total donor-restricted net position	 \$ 2,818,738	 \$ 3,050,581
 Nonexpendable restricted net position		
Perpetual trust, held by trustee	\$ 312,157	\$ 390,053

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.

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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.

Giving Tuesday 2020 Fund

The Giving Tuesday 2020 Fund was established to address the Medical Center's need for additional cleaning and disinfectant supplies and equipment resulting from the Coronavirus ("COVID-19") global pandemic (the "Pandemic").

Giving Tuesday 2021 Fund

The Giving Tuesday 2021 Fund was established to support the Medical Center's addition of a level II nurse, which allows for infants born between 32 and 35 weeks gestation to receive care locally.

Restore Hope Restore Life Fund

The Restore Hope Restore Life Fund was established to support the expansion and relocation of the Medical Center's rehabilitation department, including related equipment and furnishings related to cancer patients.

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.

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15. NET PATIENT SERVICE REVENUE

For the years ended December 31, 2022 and 2021, net patient service revenue was as follows:

	2022	2021
Gross patient service revenue		
Inpatient services	\$ 83,748,130	\$ 92,945,915
Outpatient services	416,824,297	394,841,499
Long-term care services	154,019,592	144,096,508
Total gross patient service revenue	654,592,019	631,883,922
Deductions from revenue		
Contractual allowances	(329,726,651)	(313,414,865)
Charity care	(1,314,047)	(1,728,343)
Bad debts	(10,498,554)	(16,444,673)
Medicaid DSH payments recognized*	-0-	2,073,881
Nursing homes UPL payments recognized**	21,599,425	23,856,836
Total deductions from revenue	(319,939,827)	(305,657,164)
Total net patient service revenue	\$ 334,652,192	\$ 326,226,758

* - Disproportionate Share (DSH)

** - Upper Payment Limit (UPL)

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, 2022 and 2021, was as follows:

	2022		2021	
	Revenues	Receivables	Revenues	Receivables
Medicare	39 %	30 %	39 %	32 %
Medicaid	27	21	26	19
Blue Cross	17	10	18	19
SIHO*	4	3	4	3
Other third-party payors	9	13	9	13
Patients	4	23	4	14
	100 %	100 %	100 %	100 %

*Southeastern Indiana Health Organization

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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 Medical Center'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 Medical Center'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 Medical Center.
- **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, 2022 and 2021, the Medical Center incurred estimated costs of \$669,355 and \$856,575, 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

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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 is 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.

16. HOSPITAL ASSESSMENT FEE

The purpose of the Hospital Assessment Fee ("HAF") Program is to fund the State share of enhanced Medicaid payments and Medicaid DSH payments for Indiana hospitals as reflected in the hospital assessment fee reported in the statements of operations and changes in net position. Previously, the State share was funded by government entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patient and result in increased Medicaid rates. The Medical Center recognized HAF program expense of \$5,879,579 and \$4,182,798 at December 31, 2022 and 2021, respectively. For the years ended December 31, 2022 and 2021, the Medical Center recognized revenue in net patient service revenue totaling \$-0- and \$2,073,881, respectively, relating to the DSH adjustments.

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17. NONOPERATING REVENUES (EXPENSES)

For the years ended December 31, 2022 and 2021, nonoperating revenues (expenses) were as follows:

	2022	2021
Investment income (loss)	\$ (19,982,409)	\$ 8,236,923
Interest expense	(4,785,129)	(461,379)
Gain (loss) on disposal of capital assets	(438,677)	68,573
Donations	(797,254)	(681,392)
Contributions and grants	1,352,496	1,634,821
Change in perpetual trust	(77,896)	30,044
Inspire, loss	(15,859)	(37,432)
Provider relief fund revenue	224,282	15,822,122
Miscellaneous gain (loss)	16,452	(4,040,635)
	\$ (24,503,994)	\$ 20,571,645

18. DEFERRED REVENUES

During the Medical Center’s fiscal year 2020, Provider Relief Fund grants authorized under the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act were distributed to healthcare providers impacted by the outbreak of the Pandemic under Catalog of Federal Domestic Assistance (“CFDA”) #93.498. Revenues from Provider Relief Fund grants are recognized to the extent of a combination of expenses incurred to directly respond to the Pandemic, and patient revenues lost as a result of the pandemic, and are included in the statements of operations and changes in net assets as provider relief fund revenue within nonoperating revenues. Patient revenues lost represent the deficiency of net patient service revenues recognized over the period impacted by the pandemic when compared with net patient service revenues recognized over the same period in the previous year.

The passage of the CARES Act also authorized CMS to expand the Medicare Accelerated and Advance Payment Program to a broader group of Medicare Part A providers and Part B suppliers. For the acute care hospital, the Medical Center was eligible to request up to 100% of the Medicare payments amount for a six-month period, respectively. The Medical Center was issued the accelerated/advance payment in April 2020. Recoupment of the advance payment began in 2021 following a one-year deferral period. During the one-year period, Medicare claims submitted by the Medical Center will continue to be reimbursed at standard rates, after which, the recoupment process will begin and 25% of payments for submitted claims will reduce the balance of the accelerated or advance payment over an 11 month period through March 2022. Following the initial 11 month recoupment period, 50% of payments for submitted claims will be withheld to reduce the balance of the accelerated advance payments over a 6 month period through September 2022. Any

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outstanding balance that has not been recouped in September 2022 will be due in full from the Medical Center to CMS. The advance payments were recouped in full during 2022.

At December 31, 2022 and 2021, and for the years ended, payments received, revenue recognized, and refundable advances were as follows:

December 31, 2022				
	Refundable Advances December 31, 2021	Payments Received / (Refunded)	Revenue Recognized	Refundable Advances December 31, 2022
Provider Relief Fund	\$ -0-	\$ 224,282	\$ (224,282)	\$ -0-
Medicare Accelerated and Advance Payment Program	4,695,793	\$ (4,695,793.00)	-0-	\$ -0-
	\$ 4,695,793	\$ (4,471,511)	\$ (224,282)	\$ -0-

December 31, 2021				
	Refundable Advances December 31, 2020	Payments Received / (Refunded)	Revenue Recognized	Refundable Advances December 31, 2021
Provider Relief Fund	\$ 8,434,646	\$ 7,387,476	\$ (15,822,122)	\$ -0-
Medicare Accelerated and Advance Payment Program	12,299,346	(7,603,553)	-0-	4,695,793
	\$ 20,733,992	\$ (216,077)	\$ (15,822,122)	\$ 4,695,793

19. PROFESSIONAL LIABILITY INSURANCE

The Indiana Medical Malpractice Act (ACT), IC 34-18 provides for a maximum recovery of \$1,800,000. The Act requires the Medical Center to maintain Medical malpractice liability insurance of \$500,000 per occurrence (\$10,000,000 in the annual aggregate). 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 able to be reasonably estimated. 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.

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The Medical Center maintains professional liability insurance through a multiprovider reciprocal risk retention group (the "Group"), in which premiums are accrued based on the Group's experience to date. As of December 31, 2022 and 2021, this provides protection from liability in amounts not to exceed as follows:

	2022	2021
Medical Center per occurrence	\$ 500,000	\$ 500,000
Medical Center aggregate	\$ 10,000,000	\$ 10,000,000
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, 2022 and 2021 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.

20. RELATED PARTY TRANSACTIONS

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 statements of operations and changes in net position, and is titled "investment in managed care company" in footnote 7. At December 31, 2022 and 2021, and for the years then ended, the Medical Center had the following related party transactions with SIHO:

	2022	2021
Patient accounts receivable	\$ 3,550,219	\$ 4,732,177
Gross patient revenue	\$ 25,432,483	\$ 23,307,394
Operating expenses	\$ 13,864,914	\$ 11,710,952

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21. 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.

22. CONTINGENCIES

Legal

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.

COVID-19

On March 11, 2020, the World Health Organization declared Coronavirus ("COVID-19") a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Medical Center's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of healthcare personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue, contributions and funding, and investment portfolio declines. Management believes the Medical Center is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at the date the financial statements were issued.

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23. COMMITMENTS

As of December 31, 2022, 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, 2022
Cancer Center linac expansion	March 2023	\$ 6,493,072	\$ 5,473,248
16 Slice GT CT project	June 2023	910,000	631,840
Lab expansion project	March 2023	1,181,000	403,620
All other projects	2023	10,845,000	1,238,823
		<u>\$ 19,429,072</u>	<u>\$ 7,747,531</u>

24. 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, 2022 is as follows:

	HDC	Foundation	JMB	Total
Balance sheet				
Assets				
Current assets	\$ 812,112	\$ 862,958	\$ 854,403	\$ 2,529,473
Assets whose use is limited	-0-	2,818,738	-0-	2,818,738
Capital assets, net	846,829	-0-	4,320,758	5,167,587
Other assets	135,671	-0-	-0-	135,671
Total assets and deferred outflows	<u>\$ 1,794,612</u>	<u>\$ 3,681,696</u>	<u>\$ 5,175,161</u>	<u>\$ 10,651,469</u>
Liabilities				
Current liabilities	\$ 216,772	\$ 25,000	\$ 1,114	\$ 242,886
Long-term liabilities	690,688	-0-	-0-	690,688
Total liabilities	907,460	25,000	1,114	933,574
Net position				
Net investment in capital assets	53,864	-0-	4,320,758	4,374,622
Restricted expendable	-0-	2,818,738	-0-	2,818,738
Unrestricted	833,288	837,958	853,289	2,524,535
Total net position	<u>887,152</u>	<u>3,656,696</u>	<u>5,174,047</u>	<u>9,717,895</u>
Total liabilities and net position	<u>\$ 1,794,612</u>	<u>\$ 3,681,696</u>	<u>\$ 5,175,161</u>	<u>\$ 10,651,469</u>

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	HDC	Foundation	JMB	Total
Statement of operations and changes in net position				
Operating revenues				
Net patient service revenue	\$ 225,311	\$ -0-	\$ -0-	\$ 225,311
Other operating revenue	<u>218,052</u>	<u>318,242</u>	<u>854,603</u>	<u>1,390,897</u>
Total operating revenues	443,363	318,242	854,603	1,616,208
Operating expenses				
Depreciation and amortization	117,614	-0-	311,500	429,114
Other operating expenses	<u>729,091</u>	<u>357,872</u>	<u>439,484</u>	<u>1,526,447</u>
Total operating expenses	<u>846,705</u>	<u>357,872</u>	<u>750,984</u>	<u>1,955,561</u>
Income (loss) from operations	(403,342)	(39,630)	103,619	(339,353)
Nonoperating revenues (expenses)	<u>(409,296)</u>	<u>(663,110)</u>	<u>-0-</u>	<u>(1,072,406)</u>
Change in net position	(812,638)	(702,740)	103,619	(1,411,759)
Net position - beginning of year	<u>1,699,790</u>	<u>4,359,436</u>	<u>5,070,428</u>	<u>11,129,654</u>
Net position - end of year	<u>\$ 887,152</u>	<u>\$ 3,656,696</u>	<u>\$ 5,174,047</u>	<u>\$ 9,717,895</u>
	HDC	Foundation	JMB	Total
Statement of cash flows				
Cash provided by				
Operating activities	\$ (125,094)	\$ (145,828)	\$ 408,830	\$ 137,908
Capital and related financing activities	275,964	-0-	(966,625)	(690,661)
Investing activities	<u>(409,296)</u>	<u>111,873</u>	<u>-0-</u>	<u>(297,423)</u>
Total	(258,426)	(33,955)	(557,795)	(850,176)
Cash - beginning of year	<u>969,113</u>	<u>326,714</u>	<u>1,402,583</u>	<u>2,698,410</u>
Cash - end of year	<u>\$ 710,687</u>	<u>\$ 292,759</u>	<u>\$ 844,788</u>	<u>\$ 1,848,234</u>

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Condensed component unit information for all of its blended components as of and for the year ended December 31, 2021 is as follows:

	HDC	Foundation	JMB	Total
Balance sheet				
Assets				
Current assets	\$ 1,375,460	\$ 1,308,855	\$ 1,405,818	\$ 4,090,133
Assets whose use is limited	-0-	3,050,581	-0-	3,050,581
Capital assets, net	1,338,435	-0-	3,665,724	5,004,159
Other assets	<u>251,953</u>	<u>-0-</u>	<u>-0-</u>	<u>251,953</u>
Total assets and deferred outflows	<u>\$ 2,965,848</u>	<u>\$ 4,359,436</u>	<u>\$ 5,071,542</u>	<u>\$ 12,396,826</u>
Liabilities				
Current liabilities	\$ 473,093	\$ -0-	\$ 1,114	\$ 474,207
Long-term liabilities	<u>792,965</u>	<u>-0-</u>	<u>-0-</u>	<u>792,965</u>
Total liabilities	1,266,058	-0-	1,114	1,267,172
Net position				
Net investment in capital assets	447,442	-0-	3,665,724	4,113,166
Restricted expendable	-0-	3,050,581	-0-	3,050,581
Restricted nonexpendable	-0-	-0-	-0-	-0-
Unrestricted	<u>1,252,348</u>	<u>1,308,855</u>	<u>1,404,704</u>	<u>3,965,907</u>
Total net position	<u>1,699,790</u>	<u>4,359,436</u>	<u>5,070,428</u>	<u>11,129,654</u>
Total liabilities and net position	<u>\$ 2,965,848</u>	<u>\$ 4,359,436</u>	<u>\$ 5,071,542</u>	<u>\$ 12,396,826</u>
	HDC	Foundation	JMB	Total
Statement of operations and changes in net position				
Operating revenues				
Net patient service revenue	\$ 1,762,277	\$ -0-	\$ -0-	\$ 1,762,277
Other operating revenue	<u>2,328,488</u>	<u>330,430</u>	<u>738,562</u>	<u>3,397,480</u>
Total operating revenues	4,090,765	330,430	738,562	5,159,757
Operating expenses				
Depreciation and amortization	212,758	-0-	241,662	454,420
Other operating expenses	<u>3,472,572</u>	<u>378,334</u>	<u>431,490</u>	<u>4,282,396</u>
Total operating expenses	<u>3,685,330</u>	<u>378,334</u>	<u>673,152</u>	<u>4,736,816</u>
Income (loss) from operations	405,435	(47,904)	65,410	422,941
Nonoperating revenue (expenses)	<u>(35,697)</u>	<u>309,846</u>	<u>-0-</u>	<u>274,149</u>
Change in net position	369,738	261,942	65,410	697,090
Net position - beginning of year	<u>1,330,052</u>	<u>4,097,494</u>	<u>5,005,018</u>	<u>10,432,564</u>
Net position - end of year	<u>\$ 1,699,790</u>	<u>\$ 4,359,436</u>	<u>\$ 5,070,428</u>	<u>\$ 11,129,654</u>

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	HDC	Foundation	JMB	Total
Statement of cash flows				
Cash provided by				
Operating activities	\$ 627,059	\$ (285,065)	\$ 316,798	\$ 658,792
Noncapital financing activities	(134,001)	-0-	-0-	(134,001)
Capital and related financing activities	-0-	-0-	(635,164)	(635,164)
Investing activities	(185,464)	198,042	-0-	12,578
Total	307,594	(87,023)	(318,366)	(97,795)
 Cash - beginning of year	 661,519	 413,737	 1,720,949	 2,796,205
Cash - end of year	\$ 969,113	\$ 326,714	\$ 1,402,583	\$ 2,698,410

REQUIRED SUPPLEMENTARY INFORMATION

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

	2022	2021	2020	2019	2018	2017	2016
Total pension liability							
Service cost	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Interest	2,174,673	2,226,588	2,301,237	2,283,328	2,150,623	2,127,933	2,077,981
Difference between expected and actual experience	255,855	22,974	254,455	(12,770)	82,553	(110,540)	216,064
Change in assumptions	1,774,420	1,751,590	2,724,867	-0-	1,321,201	40,006	39,514
Benefit payments	(2,375,105)	(2,326,994)	(2,131,990)	(1,944,408)	(1,839,340)	(1,727,210)	(1,654,220)
Net change in total pension liability	1,829,843	1,674,158	3,148,569	326,150	1,715,037	330,189	679,339
Total pension liability - beginning	34,743,011	33,068,853	29,920,284	29,594,134	27,879,097	27,548,908	26,869,569
Total pension liability - ending (a)	\$ 36,572,854	\$ 34,743,011	\$ 33,068,853	\$ 29,920,284	\$ 29,594,134	\$ 27,879,097	\$ 27,548,908
Plan fiduciary net position							
Employer contributions	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Net transfers into (out of) trust	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Net investment income	(1,759,017)	13,806,323	(2,732,753)	1,887,878	4,124,238	5,660,569	(2,126,387)
Benefit payments	(2,375,105)	(2,326,994)	(2,131,990)	(1,944,408)	(1,839,340)	(1,727,210)	(1,654,220)
Administrative expenses	(85,400)	(68,220)	(45,373)	(100,898)	(46,265)	(104,316)	(42,455)
Other	-0-	-0-	-0-	(75)	(50)	(50)	-0-
Net change in plan fiduciary net position	(4,219,522)	11,411,109	(4,910,116)	(157,503)	2,238,583	3,828,993	(3,823,062)
Plan fiduciary net position - beginning	45,812,798	34,401,689	39,311,805	39,469,308	37,230,725	33,401,732	37,224,794
Plan fiduciary net position - ending (b)	\$ 41,593,276	\$ 45,812,798	\$ 34,401,689	\$ 39,311,805	\$ 39,469,308	\$ 37,230,725	\$ 33,401,732
Medical Center net pension (asset) liability - ending (a) - (b)	\$ (5,020,422)	\$ (11,069,787)	\$ (1,332,836)	\$ (9,391,521)	\$ (9,875,174)	\$ (9,351,628)	\$ (5,852,824)
Plan fiduciary net position as a percentage of the total net pension liability	113.73%	131.86%	104.03%	131.39%	133.37%	133.54%	121.25%
Covered payroll	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Medical Center net pension (asset) liability as a percentage of covered payroll	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable

*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.

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SCHEDULE OF MEDICAL CENTER CONTRIBUTIONS

	Actuarially determined contribution	Employer contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a % of covered payroll
4/30/2022	\$ -0-	\$ -0-	\$ -0-	Not Applicable	Not Applicable
4/30/2021	-0-	-0-	-0-	Not Applicable	Not Applicable
4/30/2020	-0-	-0-	-0-	Not Applicable	Not Applicable
4/30/2019	-0-	-0-	-0-	Not Applicable	Not Applicable
4/30/2018	-0-	-0-	-0-	Not Applicable	Not Applicable
4/30/2017	-0-	-0-	-0-	Not Applicable	Not Applicable
4/30/2016	-0-	-0-	-0-	Not Applicable	Not Applicable
4/30/2015	-0-	-0-	-0-	Not Applicable	Not Applicable
4/30/2014	-0-	-0-	-0-	Not Applicable	Not Applicable
4/30/2013	-0-	-0-	-0-	Not Applicable	Not Applicable
4/30/2012	-0-	-0-	-0-	Not Applicable	Not Applicable

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	6.50%
Retirement age	65
Mortality	SOA published mortality table: Pri-2012 annuitant/non-annuitant mortality



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**Report of Independent Auditors on Internal Control Over Financial Reporting and on
 Compliance and Other Matters Based on an Audit of Financial Statements
 Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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 balance sheet as of December 31, 2022, and the related statements of operations and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Medical Center's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention with those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002, that we consider to be significant deficiencies.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Medical Center's Response to Finding

The Medical Center's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Medical Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Louisville, Kentucky
June 29, 2023

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

SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2022

SIGNIFICANT DEFICIENCIES

2022-001

Segregation of Duties – Cash Receipts

Criteria – The Medical Center’s internal control processes should ensure that employees handling cash are not able to adjust patient accounts receivable balances.

Condition – During our audit procedures, we noted that certain cashiers have the ability to both receive patient payments and post adjustments or write-offs to patient accounts receivable balances.

Cause – The cause of this deficiency is due to the lack of internal controls related to segregation of duties.

Effect – The effect is a deficiency in the design of internal control procedures to prevent misappropriation of cash.

Recommendation – We recommend that the Medical Center review these processes to prevent employees from having the ability to both collect patient payments and adjust patient accounts receivable balances.

Management’s Response – To respond to this lack of segregation of duties, the Medical Center has had in place certain mitigating internal controls, including management’s review and approval of charity care write-offs and review and approval of bad debt write-offs. In addition, the majority of patient payments received are not in cash, which results in a lower risk of material misappropriation. Lastly, there are three cashiers that currently receive cash payments. Management has performed a cost benefit analysis surrounding this lack of segregation of duties, and has concluded that currently the cost of strengthening internal controls in this area outweigh the benefits.

2022-002

Segregation of Duties – Nursing Homes

Criteria – The Medical Center’s internal control processes at their nursing homes should ensure proper segregation of duties.

Condition – During our audit procedures, we noted that certain nursing homes have few accounting personnel, making it difficult to have a proper segregation of duties.

Cause – The cause of this deficiency is due to the lack of personnel required to ensure proper segregation of duties over various internal control processes.

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

SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2022

Effect – The effect is a deficiency in the design of internal control procedures to ensure proper segregation of duties.

Recommendation – We recommend that the Medical Center review these processes to ensure a design of proper segregation of duties over internal control processes at their nursing homes. We also recommend that existing internal controls be documented as performed by appropriate sign-off and dating of reviews, approvals, and processes.

Management's Response – Management has performed a cost benefit analysis surrounding this lack of segregation of duties, and has concluded that currently the cost of strengthening internal controls in this area outweighs the benefits.

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

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
DECEMBER 31, 2022

SIGNIFICANT DEFICIENCIES

2021-001

Segregation of Duties – Cash Receipts

Condition and Criteria – During our audit procedures, we noted that certain cashiers have the ability to both receive patient payments and post adjustments or write-offs to patient accounts receivable balances. The Medical Center’s internal control processes should ensure that employees handling cash are not able to adjust patient accounts receivable balances.

Recommendation – We recommended that the Medical Center review these processes to prevent employees from having the ability to both collect patient payments and adjust patient accounts receivable balances.

Current Year Resolution – Based on the 2022 audit results, we identified a similar, repeat occurrence of this prior year finding. Therefore, we included this matter in our 2022 findings.

2021-002

Segregation of Duties – Nursing Homes

Condition and Criteria – During our audit procedures, we noted that certain nursing homes had few accounting personnel, making it difficult to have a proper segregation of duties. The Medical Center’s internal control processes at their nursing homes should ensure proper segregation of duties.

Recommendation – We recommended that the Medical Center review these processes to ensure a design of proper segregation of duties over internal control processes at their nursing homes. We also recommended that existing internal controls be documented as performed by appropriate sign-off and dating of reviews, approvals, and processes.

Current Year Resolution – Based on the 2022 audit results, we identified a similar, repeat occurrence of this prior year finding. Therefore, we included this matter in our 2022 findings.

MATERIAL WEAKNESS

2021-003

Information Technology Risk Assessment and Intrusion Detection System

Condition and Criteria – During our audit procedures, we noted that the Medical Center sustained a cyberattack. The Medical Center should ensure that existing controls and protocols are operating effectively to prevent and outside parties from accessing its networks.

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

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
DECEMBER 31, 2022

Recommendation – We recommended that the Medical Center assess cybersecurity policies, procedures, and internal controls to strengthen and reinforce existing policies, procedures, and internal controls.

Current Year Resolution – Based on the 2022 audit results, we noted no similar findings related to this issue.