

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

AUDIT REPORT  
OF

JAY COUNTY HOSPITAL  
A COMPONENT UNIT OF  
JAY COUNTY, INDIANA

October 1, 2014 to September 30, 2015



**FILED**  
06/09/2016



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Independent Auditor's Report .....	3-4
Basic Financial Statements and Accompanying Notes:	
Statement of Net Position.....	6
Statement of Revenues, Expenses, and Changes in Net Position .....	7
Statement of Cash Flows - Restricted and Unrestricted Funds .....	8
Notes to Financial Statements.....	9-23
Required Supplementary Information:	
Schedule of Changes in the Hospital's Pension Liability and Related Ratios.....	24
Schedules of Hospital's Contributions .....	25
Other Report .....	26

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Chief Executive Officer	David W. Hyatt	01-01-14 to 12-31-16
Treasurer	Don E. Michael	06-01-14 to 05-31-16
Chairman of the Hospital Board	David A. Littler	06-01-14 to 05-31-16
President of the Board of County Commissioners	Milo M. Miller, Jr. Faron D. Parr	01-01-14 to 12-31-14 01-01-15 to 12-31-16



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF JAY COUNTY HOSPITAL, A COMPONENT UNIT OF JAY COUNTY, INDIANA

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Jay County Hospital (Hospital), a component unit of Jay County, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the Table of Contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Hospital, as of September 30, 2015, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in the Hospital's Pension Liability and Related Ratios, and Schedule of Hospital's Contributions, as listed in the Table of Contents, 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 audit 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America, requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government 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. Our opinion on the basic financial statements is not affected by this missing information.

  
Paul D. Joyce, CPA  
State Examiner

March 21, 2016

## BASIC FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

The financial statements and accompanying notes were prepared by management of the Hospital. The financial statements and notes are presented as intended by the Hospital.

JAY COUNTY HOSPITAL  
STATEMENT OF NET POSITION  
September 30, 2015

Assets

Current assets:	
Cash and cash equivalents	\$ 2,315,878
Patient accounts receivable, net of estimated uncollectibles	16,141,375
Supplies and other current assets	749,553
Noncurrent cash and investments:	
Internally designated	15,462,072
Interest receivable	8,709
Restricted by contributors and grantors	85,012
Capital assets:	
Land and construction in progress	1,081,030
Depreciable capital assets, net of accumulated depreciation	11,765,947
Other assets	<u>535,383</u>
Total assets	<u>48,144,959</u>

Deferred outflows of resources:	
Pension contributions (Note III.D)	<u>737,719</u>
Total assets and deferred outflows of resources	<u>\$ 48,882,678</u>

Liabilities

Current liabilities:	
Accounts payable and accrued expenses	\$ 503,336
Payroll and benefits payable	1,499,370
Noncurrent liabilities:	
Pension liability (Note III.D)	<u>2,125,868</u>
Total liabilities	<u>4,128,574</u>

Deferred inflows of resources:	
Pension contributions (Note III.D)	<u>72,207</u>
Total liabilities and deferred inflows of resources	<u>4,200,781</u>

Net position

Invested in capital assets	12,846,977
Restricted:	
Expendable for specific purposes	85,012
Unrestricted	<u>31,749,908</u>
Total net position	<u>44,681,897</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 48,882,678</u>

The accompanying notes are an integral part of the financial statements.

JAY COUNTY HOSPITAL  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
Year Ended September 30, 2015

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 38,328,763
Other	<u>631,567</u>
Total operating revenues	<u>38,960,330</u>
Operating expenses:	
Salaries and wages	15,425,498
Employee benefits	5,738,454
Supplies and services	13,948,097
Depreciation and amortization	<u>1,971,350</u>
Total operating expenses	<u>37,083,399</u>
Operating income	<u>1,876,931</u>
Nonoperating revenues (expenses):	
Investment income	17,580
Noncapital grants and contributions	39,260
Loss on investment in affiliated companies	(23,808)
Other	<u>(32,918)</u>
Total nonoperating revenues (expenses)	<u>114</u>
Excess of revenues over expenses before capital grants and contributions	1,877,045
Capital grants and contributions	<u>34,817</u>
Increase in net position	1,911,862
Total net position beginning of the year	44,095,947
Change in accounting policy (Note III.D)	<u>(1,325,912)</u>
Total net position ending of the year	<u>\$ 44,681,897</u>

The accompanying notes are an integral part of the financial statements.

JAY COUNTY HOSPITAL  
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS  
Year Ended September 30, 2015

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 33,366,096
Payments to suppliers and contractors	(14,385,115)
Payments to employees and for employee benefits	(20,964,900)
Other receipts	<u>631,567</u>
Net cash used by operating activities	<u>(1,352,352)</u>
Cash flows from noncapital financing activities:	
Noncapital grants and contributions	39,260
Other	<u>(32,918)</u>
Net cash provided by noncapital financing activities	<u>6,342</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	34,817
Purchase of capital assets	<u>(2,236,366)</u>
Net cash used by capital and related financing activities	<u>(2,201,549)</u>
Cash flows from investing activities:	
Interest and dividends on investments	<u>24,653</u>
Net decrease in cash and cash equivalents	(3,522,906)
Cash and cash equivalents at beginning of year	<u>21,385,868</u>
Cash and cash equivalents at end of year	<u>\$ 17,862,962</u>
Reconciliation of cash and cash equivalents to the Statement of Net Position:	
Cash and cash equivalents in current assets	\$ 2,315,878
Restricted cash and cash equivalents	<u>15,547,084</u>
Total cash and cash equivalents	<u>\$ 17,862,962</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,876,931
Adjustments to reconcile operating income to net cash flows provided by operating activities:	
Depreciation and amortization	1,971,350
(Increase) Decrease in current assets:	
Patient accounts receivable	(4,962,667)
Supplies and other current assets	32,692
Increase (Decrease) in current liabilities:	
Accounts payable and accrued expenses	(352,302)
Payroll and benefits payable	64,609
Other current liabilities	(117,408)
Other liabilities related to operating activities	<u>134,443</u>
Net cash used by operating activities	<u>\$ (1,352,352)</u>

The accompanying notes are an integral part of the financial statements.

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Jay County Hospital (Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Jay County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Jay County.

The accompanying financial statements present the activities of the Hospital (primary government) and its significant component unit. The component unit discussed below is included in the Hospital's reporting entity because of the significance of its operational or financial relationship with the Hospital. The blended component unit, although a legally separate entity, is in substance part of the government's operations and exists solely to provide services for the government; data from this unit is combined with data of the primary government.

Blended Component Unit

The Jay County Hospital Foundation is a significant blended component unit of the Hospital. The primary government appoints a voting majority of the Foundation's board and a financial benefit/burden relationship exists between the Hospital and the Foundation. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

C. Assets, Liabilities and Net Position

1. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less.

Short-term investments are investments with remaining maturities of up to ninety days.

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

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Investments in affiliated companies are reported using the equity method of accounting, or at cost, as applicable.

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the Statement of Revenues, Expenses, and Changes in Net Position.

2. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land improvements	\$ 5,000	Straight-line	5-25 years
Buildings and building service equipment	5,000	Straight-line	5-40 years
Fixed equipment	5,000	Straight-line	4-20 years
Major moveable equipment	5,000	Straight-line	3-32 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

4. Net Position

Net position of the Hospital is classified in three components.

Net investment in capital assets consists of capital assets net of accumulated depreciation.

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Restricted expendable are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, contributors, or enabling legislation external to the hospital.

Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted.

The financial statements report \$85,012 of restricted assets.

D. Grants and Contributions

From time to time, the Hospital receives grants from Jay County and the State of Indiana 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. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

E. Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

F. Operating Revenues and Expenses

The Hospital's Statement of Revenues, Expenses and Changes in Net Position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

G. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue represents the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

H. Charity Care

The Hospital has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis.

I. Supplies

Inventories of drugs and other supplies are stated at the lower of cost (first-in, first-out) or market.

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

J. Compensated Absences

The Hospital's policy on paid time-off (which includes vacation, sick leave, and holidays) allows all employees regularly scheduled at least 30 hours a week in regular employment status to accrue paid time-off (PTO) to a maximum of 480 hours. PTO is paid to employees through a lump sum cash payment upon termination if not discharged and if proper notice of leaving employment is given.

Paid time off is accrued when incurred and reported as a liability.

K. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

The carrying amount reported in the Statement of Net Position for cash and cash equivalents approximates its fair value.

Accounts Payable and Accrued Expenses

The carrying amount reported in the Statement of Net Position for accounts payable and accrued expenses approximates its fair value.

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-16 allows a Hospital Governing Board to deposit public funds in a financial institution. The Hospital does not have a deposit policy for custodial credit risk. At September 30, 2015, the Hospital had deposit balances in the amount of \$17,862,962.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20.

B. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts:

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 14,462,988
Receivable from Medicare	7,397,002
Receivable from Medicaid	<u>4,103,638</u>
 Total patient accounts receivable	 25,963,628
 Less allowance for uncollectible amounts	 <u>9,822,253</u>
 Patient accounts receivable, net	 <u><u>\$ 16,141,375</u></u>

Accounts Payable and Accrued Expenses

Payable to suppliers	\$ 503,336
Payable to employees (including payroll taxes)	<u>1,499,370</u>
 Total accounts payable and accrued expenses	 <u><u>\$ 2,002,706</u></u>

C. Capital Assets

Capital asset activity for the year ended September 30, 2015 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 220,245	\$ 127,488	\$ -	\$ 347,733
Construction in progress	<u>225,070</u>	<u>1,943,643</u>	<u>1,435,416</u>	<u>733,297</u>
 Total capital assets, not being depreciated	 <u>445,315</u>	 <u>2,071,131</u>	 <u>1,435,416</u>	 <u>1,081,030</u>
Capital assets, being depreciated:				
Land improvements	936,209	16,123	-	952,332
Buildings and building service equipment	23,326,257	-	-	23,326,257
Fixed equipment	3,105,733	554,134	-	3,659,867
Major moveable equipment	<u>11,458,037</u>	<u>1,030,394</u>	<u>-</u>	<u>12,488,431</u>
 Totals	 <u>38,826,236</u>	 <u>1,600,651</u>	 <u>-</u>	 <u>40,426,887</u>
Less accumulated depreciation for:				
Land improvements	851,132	12,281	-	863,413
Buildings and building service equipment	14,144,372	873,792	-	15,018,164
Fixed equipment	3,089,889	10,579	-	3,100,468
Major moveable equipment	<u>8,630,902</u>	<u>1,047,993</u>	<u>-</u>	<u>9,678,895</u>
 Totals	 <u>26,716,295</u>	 <u>1,944,645</u>	 <u>-</u>	 <u>28,660,940</u>
 Total capital assets, being depreciated, net	 <u>12,109,941</u>	 <u>(343,994)</u>	 <u>-</u>	 <u>11,765,947</u>
 Total primary government capital assets, net	 <u><u>\$ 12,555,256</u></u>	 <u><u>\$ 1,727,137</u></u>	 <u><u>\$ 1,435,416</u></u>	 <u><u>\$ 12,846,977</u></u>

JAY COUNTY HOSPITAL  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Expended to September 30, 2015</u>
Oxygen Storage	\$ 1,917
Endochoice Colonoscope Project; OB Fetal Software/Hardware	629,272
Colonoscope Software	12,012
JFM Remodel; Master Facilities Plan	<u>90,096</u>
 Total	 <u><u>\$ 733,297</u></u>

E. Restricted Net Assets

Restricted, expendable net assets are available for the following purposes:

	<u>September 30, 2015</u>
Jay County Hospital Foundation:	
Capital contributions and education	<u>\$ 85,012</u>
 Total expendable, restricted net assets	 <u><u>\$ 85,012</u></u>

F. Net Patient Service Revenue

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

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

1. Medicare

Inpatient and outpatient services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. Geropsych services rendered to Medicare program beneficiaries are paid at prospectively determined rates.

2. Medicaid

Inpatient acute care services and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Revenue from the Medicare and Medicaid programs accounted for approximately 42 percent and 5 percent, respectively, of the Hospital's net patient revenue for the year ended September 30, 2015. 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.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, HMO's, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

G. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$693,436.

H. Internally Designated Assets

Non-current cash and investments internally designated include the following:

1. Funded Depreciation - Amounts transferred from the Operating Fund by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by Indiana Code 16-22-3-13.

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Designated Funds - Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Internally designated:	
Funded depreciation:	
Cash and cash equivalents	\$ 7,936,277
Investment accounts	7,112,000
Accrued interest receivable	<u>8,709</u>
Total funded depreciation	<u>15,056,986</u>
Board designation:	
Cash and cash equivalents	<u>413,795</u>
Total internally designated	<u><u>\$ 15,470,781</u></u>

III. Other Information

A. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding post-employment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees and Dependents

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees and dependents. The risk financing fund is accounted for in the Employee Health Trust Account where assets are set aside as needed for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$50,000 and aggregate claims in excess of \$1,897,325. Settled claims will not exceed coverage during calendar year 2015.

Claim expenditures are reported as expense in the fiscal year that they are paid.

Claim liabilities cannot be reasonably estimated

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

B. Contingent Liabilities

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

C. Investment in Affiliated Company

In 2004, the Hospital entered into an agreement with Cardinal Health Ventures, Inc., to establish Jay County Medical Facilities, LLC to purchase a medical office building and then lease the facilities to health care providers. The Hospital's interest in the Corporation is 65% which was based on their initial contribution of \$422,750. Profits and losses of the Corporation will be distributed among the members in proportion to their respective percentage interests. The investment is recorded on the equity method.

Summarized financial information as of September 30, 2015, and for the year then ended from the unaudited financial statements of the Affiliated Company follows:

Current assets	\$	104,508
Noncurrent assets		596,005
Current liabilities		975
Equity		699,538
Revenue		114,228
Net income		(37,602)

D. Pension Plans

1. Defined Benefit Pension Plan

Jay County Hospital Employees' Pension Plan

Plan Description

For employees hired prior to January 1, 2009 only, the Hospital contributes to the Jay County Hospital Employees' Pension Plan, a single-employer defined benefit pension plan administered by Jay County Hospital, as authorized by IC 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Hospital has the right to amend, eliminate future benefits, or terminate the plan. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

Jay County Hospital  
500 W. Votaw St.  
Portland, IN 47371  
Ph. 260-726-1837

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Plan Membership

At September 30, 2015, plan membership consisted of the following:

Inactive plan members and beneficiaries currently receiving benefits	115
Inactive plan members entitled to but not yet receiving benefits	49
Active plan members	<u>156</u>
 Total members	 <u><u>320</u></u>

Benefits Provided

The plan's benefit formula provides a normal retirement benefit in a monthly amount equal to the sum of (1) and (2), with a guaranteed minimum:

- (1) Based upon your monthly plan compensation (average of highest 5 consecutive total calendar year wages or salary divided by 12) and benefit service (one year of benefit service for each calendar year in which at least 1,000 hours of employment are credited) as of December 31, 1988:

\$5.00 X benefit service, plus

$\frac{3}{4}$ % of monthly plan compensation in excess of \$550.00 X benefit service; and

- (2) Based on monthly plan compensation and benefit service earned after December 31, 1988: 1.1% of your monthly plan compensation X benefit service as of the date of determination

Guaranteed minimum - minimum amount of monthly normal retirement benefit must be \$11.00 X benefit service as of normal retirement date (last day of the month in which age 65 is reached).

Early retirement date is the last day on any retirement month after reaching age 55 and completing 5 years of vested service. If quit working for the Hospital before January 1, 1989, 10 years of vesting service are required to receive a vested termination benefit.

Late retirement date (continuing to work after reaching normal retirement age) is the last day of the month in which actual retirement occurs.

Retirement due to disability is the last day of any month in which retirement begins because a disability has occurred.

No post-employment benefit changes are provided by the plan.

Contributions

Per Article III, Section 3.02 of the plan, the Hospital shall, from time to time, contribute to the plan such amounts as are determined by the Plan Administrator to be sufficient, upon an appropriate actuarial basis, to provide the benefits under the plan. For the year ended September 30, 2015, the actuarially determined Hospital's contribution was 5.98% as a percentage of covered payroll. Pension expense of \$578,568 was recorded for the year ended September 30, 2015.

Per Article III, Section 3.03 of the plan, participants shall not be required or permitted to make contributions under the plan.

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Investment Policy

Jay County Hospital, as the plan sponsor and plan administrator, recognizes that it has the ultimate responsibility for managing the plan assets. The plan trustees serve as the committee that manages all aspects of plan administration, including management and control of the assets of the plan. To ensure compliance with the Investment Policy Statement, the committee retains the ability to review investment performance. Plan assets shall be diversified across asset classes so as to achieve a balance between risk and return. The current allocation was developed using data provided by the plan's actuary, an examination of the plan's liabilities, and the historical relationships of risk and return among asset classes. It is designed to provide a high probability of meeting or exceeding the plan's return objectives at a reasonable level of risk. To ensure that the plan meets its overall goal, the plan will seek to achieve and maintain a fully funded status (100% funding). Therefore, the asset allocation process should be dynamic. Cash is not considered a strategic holding. The target allocation as of September 30, 2015 is summarized in the following table:

Asset Class	Target Allocation Percentage	Arithmetic Basis Long-Term Expected Real Rate of Return
Fixed Income	49%	1.96%
Domestic Equity	33%	5.88%
International Equity	17%	7.84%
Cash	1%	0.00%
Total	100%	

Long-term expected rate of return is 7.50%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These expected rates of return are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Rate of Return

For the twelve month period ended September 30, 2015, the account return on plan assets was .08%.

Net Pension Liability of the Plan

The components of the net pension liability of the plan at September 30, 2015, were as follows:

Total pension liability	\$ 14,259,313
Plan fiduciary net position	(12,133,447)
Net pension liability	2,125,866
Plan fiduciary net position as a percent of the total pension liability	85.09%

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The plan fiduciary net position has been determined using generally accepted accounting principles, in conjunction with the entry age normal actuarial cost method.

Significant Actuarial Assumptions

Measurement Date	September 30, 2015
Inflation	3.00% per year
Annual Pay Increases	4.00% per year
Cost of Living Increases	None
Mortality Rates	IRS 2015 sex distinct RP-2000

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Base on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Net pension liability	\$ 3,959,341	\$ 2,125,866	\$ 501,282

Deferred Outflow of Resources and Deferred Inflow of Resources

At September 30, 2015 the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the follow sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences Between Expected and Actuarial Experience	\$ -	\$ 72,207
Changes in Assumptions	14,759	-
Differences Between Projected and Actual Earnings	<u>722,960</u>	<u>-</u>
Totals	<u>\$ 737,719</u>	<u>\$ 72,207</u>

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Other amounts reported as deferred outflows of resources and deferred inflow of resources related to pensions will be recognized in pension expense as follows:

2016	\$	166,378
2017		166,378
2018		166,378
2019		166,376
2020		-
Thereafter		-
		-
Total	\$	665,510

2. Financial Statements for Defined Benefit Pension Plan

Jay County Hospital, the plan administrator, includes basic financial information of the pension plan within the Hospital's financial statements. The plan's financial position has been determined on the accounting basis used by the Hospital. The plan's financial information may be obtained at the contact address described above.

STATEMENT OF FIDUCIARY NET POSITION

	Jay County Hospital Employees' Pension Plan
<b>Assets</b>	
Cash and deposits	\$ 2,000,779
Investments:	
Fixed income	4,811,649
Domestic equity	3,468,754
International equity	1,852,265
Total investments	10,132,668
Total Assets	12,133,447
<b>Liabilities</b>	
	-
Net position restricted for pensions	\$ 12,133,447

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

	Jay County Hospital Employees' Pension Plan
<b>Additions</b>	
Employer contributions	\$ 444,124
Interest and dividends	256,055
Net increase (decrease) in fair value of investments	(251,159)
Net investment income	4,896
Total Additions	449,020
<b>Deductions</b>	
Benefit payments (including refunds of member contributions)	416,261
Net increase in Net Position	32,759
<b>Net Position Restricted for Pensions</b>	
Beginning of year	12,100,688
End of year	\$ 12,133,447

3. Defined Contribution Pension Plan

Jay County Hospital 403(b) Pension Plan

Plan Description

On January 1, 2009 the Hospital started a defined contribution pension plan as authorized by Indiana Code 16-22-3-11. The plan is administered by the Hospital in conjunction with the plan's appointed actuary, trustee and investment manager. The plan provides retirement and death benefits to plan members and beneficiaries. The plan was established by a written 403(b) adoption agreement.

Funding Policy and Annual Pension Cost

The voluntary contribution elections for plan members are established by the written plan adoption agreement. Plan members can elect to contribute up to 100% of their annual covered salary. The plan includes a provision for the Hospital to contribute to the plan at its discretion. The Hospital's current approved discretionary contribution rate is 2% of the employee's annual covered salary and a 50% match of the employee's contribution up to a maximum of 5% of the employee's covered salary. Employee contributions to the plan were \$431,960. The employer does not contribute until the end of the plan year.

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

E. Subsequent Events

Contract with CarDon

The Hospital acquired the nursing home bed licenses of two nursing homes managed by CarDon and Associates ("CarDon"). The Hospital will lease the real property and tangible personal property of CarDon (Cumberland Trace acquired October 1, 2015 and Copper Trace acquired October 12, 2015). CarDon will manage the day-to-day operations of these facilities. The Hospital is able to receive additional Upper Payment Limit ("UPL") reimbursements from Medicaid through the Intergovernmental Transfer Rental ("IGT") program. The Hospital will share the net UPL reimbursement with CarDon. Expected net UPL reimbursement to the Hospital is approximately \$20,000 per month.

JAY COUNTY HOSPITAL  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN THE HOSPITAL'S PENSION LIABILITY AND RELATED RATIOS  
Last 10 years\*

Jay County Hospital Employees' Pension Plan	<u>2015</u>	<u>2014</u>
<b>TOTAL PENSION LIABILITY</b>		
Service cost	\$ 306,419	\$ 314,705
Interest	1,014,367	950,749
Differences between expected and actual experience	(90,261)	(87,053)
Changes of assumptions	18,449	67,505
Benefit payments	<u>(416,261)</u>	<u>(362,497)</u>
Net change in total pension liability	832,713	883,409
Total pension liability - beginning of year	<u>13,426,600</u>	<u>12,543,191</u>
Total pension liability - end of year (a)	<u>\$ 14,259,313</u>	<u>\$ 13,426,600</u>
<b>PLAN FIDUCIARY NET POSITION</b>		
Contributions - employer	\$ 444,124	\$ 475,000
Net investment income	4,896	851,395
Benefit payments	<u>(416,261)</u>	<u>(362,497)</u>
Net change in plan fiduciary net position	32,759	963,898
Plan fiduciary net position - beginning of year	<u>12,100,688</u>	<u>11,136,790</u>
Plan fiduciary net position - end of year (b)	<u>\$ 12,133,447</u>	<u>\$ 12,100,688</u>
Net Pension Liability - end of year (a) - (b)	<u>\$ 2,125,866</u>	<u>\$ 1,325,912</u>
Plan fiduciary net position as a percentage of the total pension liability	85.09%	90.12%
Covered-employee payroll	\$ 7,427,908	\$ 7,941,509
Net pension liability as percentage of covered-employee payroll	28.62%	16.70%

Notes to Schedule:

\*Information presented for the years information is available

JAY COUNTY HOSPITAL  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF HOSPITAL'S CONTRIBUTIONS  
Last 10 years

Jay County Hospital Employees' Pension Plan	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution	\$ 409,055	\$ 402,188	\$ 467,361	\$ 558,903	\$ 554,445
Contributions in relation to the actuarially determined contribution*	<u>444,124</u>	<u>475,000</u>	<u>536,400</u>	<u>600,000</u>	<u>611,900</u>
Contribution deficiency (excess)	<u>\$ (35,069)</u>	<u>\$ (72,812)</u>	<u>\$ (69,039)</u>	<u>\$ (41,097)</u>	<u>\$ (57,455)</u>
Covered-employee payroll	\$ 7,427,908	\$ 7,941,509	\$ 8,097,702	\$ 9,016,992	\$ 9,506,624
Contributions as a percentage of covered-employee payroll	5.98%	5.98%	6.62%	6.65%	6.44%

Jay County Hospital Employees' Pension Plan	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarially determined contribution	\$ 647,202	\$ 626,441	\$ 427,937	\$ 396,576	\$ 369,214
Contributions in relation to the actuarially determined contribution*	<u>544,000</u>	<u>660,921</u>	<u>487,857</u>	<u>414,280</u>	<u>400,273</u>
Contribution deficiency (excess)	<u>\$ 103,202</u>	<u>\$ (34,480)</u>	<u>\$ (59,920)</u>	<u>\$ (17,704)</u>	<u>\$ (31,059)</u>
Covered-employee payroll	\$ 10,113,748	\$ 8,130,043	\$ 7,053,058	\$ 6,713,624	\$ 6,345,765
Contributions as a percentage of covered-employee payroll	5.38%	8.13%	6.92%	6.17%	6.31%

Notes to schedule:

\*Contributions shown are based on fiscal years for 2015 and 2014. For all other years, contributions are shown on a calendar year.

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

Actuarial cost method	Entry age normal
Inflation	3.00% per year
Annual pay increases	4.00% per year
Investment return	7.50% per year, compounded annually, net of investment expenses
Mortality rates	IRS 2015 sex distinct RP-2000

#### OTHER REPORT

In addition to this report, a Supplemental Compliance Report has been issued for the Hospital. That report can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.