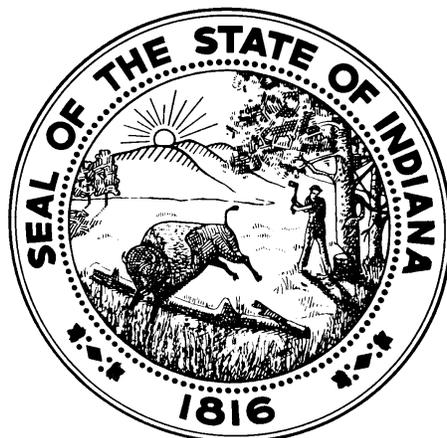


**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

AUDIT REPORT  
OF

JAY COUNTY HOSPITAL  
A COMPONENT UNIT OF  
JAY COUNTY, INDIANA

October 1, 2006 to September 30, 2007



**FILED**  
03/03/2008



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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	R. Joe Johnston	10-01-06 to 09-30-08
Treasurer	Don Michael	06-01-06 to 05-31-08
Chairman of the Hospital Board	Dean Jetter	06-01-06 to 05-31-08
President of the Board of County Commissioners	Milo M. Miller, Jr.	01-01-06 to 12-31-08



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

**INDEPENDENT AUDITOR'S REPORT**

TO: THE OFFICIALS OF THE JAY COUNTY HOSPITAL, JAY COUNTY, INDIANA

We have audited the accompanying basic financial statements of the Jay County Hospital (Hospital) as of and for the year ended September 30, 2007, as listed in the Table of Contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Midwest Health Strategies, Inc., an affiliated company, financial information from which is presented in Note III, D. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Midwest Health Strategies, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, except for the unaudited financial information presented in Note III, D, on which we express no opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2007, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

The Management Discussion and Analysis and Schedule of Funding Progress as listed in the Table of Contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

STATE BOARD OF ACCOUNTS

February 4, 2008

## Jay County Hospital Management's Discussion and Analysis

This discussion and analysis of the financial performance of Jay County Hospital provides an overview of the Hospital's financial activities for the fiscal year ended September 30, 2007. This discussion and analysis should be reviewed in conjunction with the accompanying financial statements.

The annual financial report consists of two parts: the management discussion and analysis and the financial statements. The management discussion provides a summary analysis of the financial activities for the fiscal year. The financial statements provide more detailed information regarding financial activities and results.

During fiscal year 2007 total inpatient admissions increased by 3% from fiscal year 2006. Total admissions during 2007 were 1,213. Patient days also increased, from 6,190 to 6,741. Outpatient registrations increased slightly.

The hospital experienced an increase in net assets of \$3.2 million during fiscal year 2007. This compares to an increase of \$2.6 million during fiscal year 2006 and a budgeted increase of \$2.2 million.

Net patient service revenues for fiscal year 2007 were \$22.8 million, an increase of 8% from the previous year. Total operating expenses were \$20.8 million; this was an increase of 7% from 2006. Expenses increased for employee wages and maintenance and purchased services. These increases were largely due to the purchase of a physician office and beginning to provide hospital outpatient therapy services.

During fiscal year 2007 the Hospital purchased approximately \$1.2 million in capital assets. The largest expenditures were related to the beginning of a major renovation project estimated at over \$7 million, purchase of automated pharmacy dispensing units, purchase of ultrasound equipment, and the purchase of a physician office building. During fiscal year 2007, Jay County Hospital did not borrow any funds; all capital disbursements were paid from cash or internally designated accounts. Jay County Hospital has no long-term debt.

Following are summary financial statements for fiscal year 2007.

## Summarized Financial Statement Information

The following information documents in summary form the financial information related to the activities of the hospital for the fiscal year ending September 30, 2007.

### Statement of Net Assets:

(In millions)	<u>2007</u>	<u>2006</u>
Current assets	11.1	9.8
Noncurrent assets	12.8	11.4
Capital assets	7.9	7.2
Other assets	1.4	0.7
Total Assets	<u>33.2</u>	<u>29.2</u>
Current Liabilities	2.3	1.5
Long-term Liabilities	0.0	0.0
Total Liabilities	<u>2.3</u>	<u>1.5</u>
Net Assets		
Invested in capital assets, net of related debt	7.9	7.2
Restricted for capital acquisitions	0.3	0.0
Restricted for specific grant activities	0.1	0.0
Unrestricted	22.6	20.4
Total Net Assets	<u>30.8</u>	<u>27.7</u>
Total Liabilities and Net Assets	<u>33.2</u>	<u>29.2</u>

### Statement of Revenues and Expenses and Changes in Net Assets:

(In millions)	<u>2007</u>	<u>2006</u>
Revenue		
Net patient service revenue	22.8	21.1
Other revenues	0.5	0.5
Total Revenues	<u>23.3</u>	<u>21.6</u>

Expenses		
Salaries and benefits	10.6	10.3
Medical professional fees	0.5	0.5
Other professional fees	0.8	0.5
Maintenance and purchased services	4.6	3.9
Medical supplies and drugs	2.5	2.5
Insurance	0.2	0.1
Other supplies	0.6	0.6
Depreciation and amortization	1.1	1.0
Total Expenses	<u>20.8</u>	<u>19.4</u>
Operating income/(loss)	2.5	2.2
Nonoperating revenues (expenses)	<u>0.5</u>	<u>0.4</u>
Increase in net assets	3.0	2.6
Net assets beginning of year	<u>27.7</u>	<u>25.0</u>
Net assets end of year	<u><u>30.8</u></u>	<u><u>27.7</u></u>

Columns may not add due to rounding.

JAY COUNTY HOSPITAL  
STATEMENT OF NET ASSETS  
September 30, 2007

Assets

Current assets:	
Cash and cash equivalents	\$ 4,716,462
Patient accounts receivable, net of estimated uncollectibles	5,467,311
Supplies and other current assets	933,870
Noncurrent cash and investments:	
Internally designated	12,395,569
Restricted by contributors and grantors	391,623
Capital assets:	
Land	220,245
Construction in progress	909,643
Depreciable capital assets, net of accumulated depreciation	6,765,976
Other assets	<u>1,384,420</u>
 Total assets	 <u>\$ 33,185,119</u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable and accrued expenses	\$ 1,399,573
Estimated third-party payor settlements	515,970
Other current liabilities	377,724
Other long-term liabilities	<u>44,214</u>
 Total liabilities	 <u>2,337,481</u>
 Net assets:	
Invested in capital assets, net of related debt	7,895,863
Restricted:	
Expendable for capital acquisitions	263,531
Expendable for specific grant activities	128,092
Unrestricted	<u>22,560,152</u>
 Total net assets	 <u>30,847,638</u>
 Total liabilities and net assets	 <u>\$ 33,185,119</u>

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

JAY COUNTY HOSPITAL  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
Year Ended September 30, 2007

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 22,812,947
Other	<u>495,130</u>
Total operating revenues	<u>23,308,077</u>
Operating expenses:	
Salaries and benefits	10,571,790
Medical professional fees	459,804
Other professional fees	760,147
Maintenance and purchases services	4,599,002
Medical supplies and drugs	2,520,806
Insurance	188,148
Other supplies	574,437
Depreciation and amortization	<u>1,140,297</u>
Total operating expenses	<u>20,814,431</u>
Operating income	<u>2,493,646</u>
Nonoperating revenues (expenses):	
Investment income	533,716
Noncapital grants and contributions	66,650
Other	<u>(119,129)</u>
Total nonoperating revenues	<u>481,237</u>
Excess of revenues over expenses before capital grants and contributions	2,974,883
Capital grants and contributions	<u>213,531</u>
Increase in net assets	3,188,414
Net assets beginning of the year	<u>27,659,224</u>
Net assets end of the year	<u><u>\$ 30,847,638</u></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, 2007

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 21,670,519
Payments to suppliers and contractors	(9,108,059)
Payments to employees	(10,430,387)
Other receipts and payments, net	<u>376,001</u>
Net cash provided by operating activities	<u>2,508,074</u>
Cash flows from noncapital financing activities:	
Noncapital grants and contributions	<u>66,651</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	213,531
Purchase of capital assets	<u>(1,283,745)</u>
Net cash used by capital and related financing activities	<u>(1,070,214)</u>
Cash flows from investing activities:	
Investment in affiliated company	(735,000)
Interest and dividends on investments	<u>646,020</u>
Net cash used by investing activities	<u>(88,980)</u>
Net increase in cash and cash equivalents	1,415,531
Cash and cash equivalents at beginning of year	<u>15,861,287</u>
Cash and cash equivalents at end of year	<u>\$ 17,276,818</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 4,716,462
Restricted cash and cash equivalents	<u>12,560,356</u>
Total cash and cash equivalents	<u>\$ 17,276,818</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 2,493,646
Adjustments to reconcile operating income to net cash flows used in operating activities:	
Depreciation and amortization	1,140,297
Adjustments to net pension obligation	44,214
Nonoperating expenses	(119,129)
(Increase) decrease in current assets:	
Patient accounts receivable	(833,492)
Supplies and other current assets	(562,739)
Other assets	89,863
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	(92,921)
Other current liabilities	57,365
Estimated third-party payor settlements	<u>290,970</u>
Net cash provided in operating activities	<u>\$ 2,508,074</u>
Noncash investing, capital, and financing activities:	
Capital asset additions of \$528,121 were in accounts payable at September 30, 2007.	

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. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

C. Assets, Liabilities and Net Assets or Equity

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 90 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.

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

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 Assets.

2. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements	\$ 2,500	Straight-line	5 to 25 years
Buildings and building service equipment	2,500	Straight-line	5 to 40 years
Fixed equipment	2,500	Straight-line	4 to 20 years
Major movable equipment	2,500	Straight-line	3 to 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. There was no interest expense incurred by the Hospital during the current fiscal year.

4. Net Assets

Net assets of the Hospital are classified in three components.

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation.

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

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 Assets 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. Compensated Absences

The Hospital's policy on paid days off (which includes vacation, sick leave, and holidays) allows all employees who are 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 days off are accrued when incurred and reported as a liability.

II. Detailed Notes

A. Deposits and Investments

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 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. Balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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:

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 4,986,195
Receivable from Medicare	2,669,703
Receivable from Medicaid	<u>757,363</u>
 Total patient accounts receivable	 8,413,261
 Less allowance for uncollectible amounts	 <u>2,945,950</u>
 Patient accounts receivable, net	 <u>\$ 5,467,311</u>

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 596,743
Payable to suppliers	<u>802,830</u>
 Total accounts payable and accrued expenses	 <u>\$ 1,399,573</u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2007, 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	\$ -	\$ -	\$ 220,245
Construction in progress	<u>-</u>	<u>909,643</u>	<u>-</u>	<u>909,643</u>
 Total capital assets, not being depreciated	 <u>220,245</u>	 <u>909,643</u>	 <u>-</u>	 <u>1,129,888</u>
Capital assets, being depreciated:				
Land improvements	825,008	-	-	825,008
Buildings and building service equipment	13,856,033	159,450	-	14,015,483
Fixed equipment	1,798,809	45,168	-	1,843,977
Major movable equipment	<u>4,999,133</u>	<u>697,605</u>	<u>-</u>	<u>5,696,738</u>
 Totals	 <u>21,478,983</u>	 <u>902,223</u>	 <u>-</u>	 <u>22,381,206</u>

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Land improvements	796,792	5,340	-	802,132
Buildings and building service equipment	8,314,915	501,357	-	8,816,272
Fixed equipment	1,496,031	215,131	-	1,711,162
Major movable equipment	<u>3,867,195</u>	<u>418,469</u>	<u>-</u>	<u>4,285,664</u>
Totals	<u>14,474,933</u>	<u>1,140,297</u>	<u>-</u>	<u>15,615,230</u>
Total capital assets, being depreciated, net	<u>7,004,050</u>	<u>(238,074)</u>	<u>-</u>	<u>6,765,976</u>
Total primary government capital assets, net	<u>\$ 7,224,295</u>	<u>\$ 671,569</u>	<u>\$ -</u>	<u>\$ 7,895,864</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to September 30, 2007</u>	<u>Committed</u>	<u>Required Future Funding</u>
MRI/Radiology renovation	<u>\$ 1,618,611</u>	<u>\$ 909,643</u>	<u>\$ 708,968</u>	<u>\$ -</u>

E. Restricted Net Assets

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

	<u>2007</u>
Indiana Tobacco Prevention and Cessation Agency Grant:	
Tobacco use prevention programs	\$ 6,886
Bioterrorism Hospital Preparedness Grant:	
Emergency preparedness programs and equipment	121,206
Jay County Hospital Foundation Capital Campaign:	
Hospital renovations	<u>263,531</u>
Total expendable, restricted net assets	<u>\$ 391,623</u>

F. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$305,472 for fiscal year 2007.

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

G. Internally Designated Assets

Noncurrent 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.
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	\$ 11,763,124
Accrued interest receivable	<u>225,612</u>
Total funded depreciation	<u>11,988,736</u>
Board designation:	
Cash and cash equivalents	405,609
Accrued interest receivable	<u>1,224</u>
Total board designation	<u>406,833</u>
Total internally designated	<u><u>\$ 12,395,569</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 and dependents (excluding postemployment 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 disaster 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

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees. The risk financing fund is accounted for in the Employee Health Trust Account where assets are set aside for claim settlements. An excess policy through commercial

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

insurance covers individual claims in excess of \$50,000 and aggregate claims in excess of \$923,887 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

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

Claim liabilities cannot be reasonably estimated.

B. Subsequent Events

Construction Project

The Hospital has started a construction project that will make extensive changes to the first floor and the main entrance. The total project is expected to cost approximately \$7,000,000 and will be funded from cash on hand and by contributions solicited by a capital campaign sponsored by the Jay County Hospital Foundation.

C. 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 assets for cash and cash equivalents approximates its fair value.

Accounts Payable and Accrued Expenses

The carrying amount reported in the statement of net assets for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the statement of net assets for estimated third-party payor settlements approximates its fair value.

D. Investment in Affiliated Companies

In 2002, the Hospital entered into an agreement with two unrelated hospitals and Cardinal Health Ventures, Inc., to establish and operate Midwest Health Strategies, Inc., to provide physical occupational, speech and rehabilitation therapy services to the general public of East Central Indiana. In accordance with this agreement, Jay County Hospital transferred physical therapy equipment with a book value \$7,778 to Midwest Health Strategies, Inc., for an 8% membership interest. The Corporation began operation July 1, 2002. 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 cost method

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

In 2007, the Hospital purchased an interest in Jay County MRI, LLC. Jay County MRI, LLC was formed June 1, 2006, for the purpose of owning, operating, and maintaining a magnetic imaging scanner (MRI) to lease to the Jay County Hospital. The Hospital's interest in the Corporation is 98% which was based on their initial contribution of \$735,000. 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.

The Hospital's investment in affiliated companies is included in the Other Assets category of the Statement of Net Assets.

Summarized financial information as of June 30, 2007, and September 30, 2007, and for the fiscal years then ended from the audited and unaudited financial statements of the Affiliated Companies follows:

	Jay County Medical Facilities, LLC	Midwest Health Strategies, Inc.	Jay County MRI, LLC
	Unaudited Fiscal Year Ended 9-30-07	Audited Fiscal Year Ended 6-30-07	Unaudited Fiscal Year Ended 9-30-07
Current assets	\$ 19,881,510	\$ 93,910	\$ 749,982
Noncurrent assets	2,410,111	676,672	-
Current liabilities	22,955,432	52	-
Net assets	(663,811)	770,582	749,982
Revenue	18,111,189	153,572	-
Net loss	(1,692,205)	(2,785)	(18)

E. Estimated Third-Party Settlements

Regulations in effect require annual retroactive settlements for third-party settlements based upon cost reports filed by the Hospital. These retroactive settlements are estimated and recorded in the accompanying financial statements. Changes in these estimates are reflected in the year in which the settlement occurs. During 2007, net patient service revenues in the accompanying statements of operations were decreased by \$244,064, to reflect changes in the estimated settlements for certain prior years.

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

F. Pension Plan

Jay County Hospital Employees' Pension Plan

Plan Description

The Hospital has a defined benefit pension plan administered by McCreedy and Keene, Inc., as authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. 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 Street  
Portland, IN 47371  
Ph. (260) 726-7131

Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital is required to contribute at an actuarially determined rate. The current rate is 5.9% of annual covered payroll.

Actuarial Information for the Above Plan

Annual required contribution	\$	369,214
Interest on net pension obligation		5,829
Adjustment to annual required contribution		<u>(8,277)</u>
Annual pension cost		366,766
Employer contributions made		(384,200)
Interest on actual employer contributions		<u>(16,073)</u>
Decrease in net pension obligation		(33,507)
Net pension obligation, beginning of year		<u>77,721</u>
Net pension obligation, end of year	\$	<u><u>44,214</u></u>
Contribution rates:		
Hospital		5.9%
Plan members		-
Actuarial valuation date		January 1, 2007
Actuarial cost method		Frozen initial liability
Amortization method		Level percentage of projected payroll
Amortization period		12 years
Asset valuation method		Market value

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Assumptions

Investment rate of return	7.5%
Projected future salary increases:	
Total	4%
Attributed to inflation	4%

Three Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12-31-04	\$ 283,726	100.4%	\$ 53,149
12-31-05	326,145	89.7%	77,721
12-31-06	366,766	104.8%	44,214

JAY COUNTY HOSPITAL  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Jay County Hospital Employees' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-05	\$ 5,404,225	\$ 5,553,585	\$ (149,360)	97%	\$ 6,073,018	(2%)
01-01-06	5,624,868	5,799,030	(174,162)	97%	6,345,765	(3%)
01-01-07	6,108,008	6,249,428	(141,420)	98%	6,713,624	(2%)

JAY COUNTY HOSPITAL  
AUDIT RESULTS AND COMMENTS

CAPITAL ASSETS

The Hospital had not taken a physical inventory of capital assets since February, 2004.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable Capital Asset Form. A complete inventory should be taken at least every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 6)

OFFICIAL BOND

As also noted in the prior Report 29535, the Hospital's (public official name schedule) blanket bond for the term starting July 23, 2006, and to date, has not been filed in the Office of the County Recorder.

Indiana Code 16-22-2-9(c) states in part: "The executive director and all persons whose duty it is to handle funds of the hospital must execute a corporate surety bond in the amount and with conditions required by the board. . . . All bonds required by this subsection must be approved by the board and filed with the county recorder."

APPROVAL OF FORMS

As also noted in prior Reports 26613 and 29535, neither the Hospital's computerized accounting system, nor the forms produced by it, had been submitted to the State Board of Accounts for approval. Prescribed forms are not in use.

The State Board of Accounts is charged by law with the responsibility of prescribing and installing a system of accounting and reporting which shall be uniform for every public office and every public account of the same class. (Indiana Code 5-11-1-2)

A prescribed form is one which is put into general use for all offices of the same class, whereas an approved form is a computerized form for special use in a particular office. All governmental units are required by law to use the forms prescribed by this department; however, if it is desirable to use a different form or to have a prescribed form modified to conform for computer applications, a letter and three copies of the proposed form may be submitted to the State Board of Accounts for approval. No form should be printed and placed into use, other than a prescribed form, without prior approval. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 1)

JAY COUNTY HOSPITAL  
AUDIT RESULTS AND COMMENTS  
(Continued)

CREDIT CARDS

Our review of credit card purchases disclosed the following exceptions:

1. There was no supporting documentation for some of the charges on the credit card statements reviewed and some of the charges were supported only by the credit card slip or a purchase order.
2. Payments to the credit card company were made by electronic funds transfer and were not included on the register of claims submitted to the Hospital Board for approval.
3. Payments were made for late fees and interest totaling \$78.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter

1)

JAY COUNTY HOSPITAL  
EXIT CONFERENCE

The contents of this report were discussed on February 4, 2008, with Don Michael, Treasurer; R. Joe Johnston, Executive Director; and John Nill, member of the Hospital Board. The officials concurred with our audit findings.