

**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, 2008 to September 30, 2009



**FILED**  
02/23/2010



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HOSPITAL OFFICIALS

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



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of Jay County Hospital (Hospital) as of and for the year ended September 30, 2009, 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 respective financial position of the Hospital as of September 30, 2009, and the respective 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

January 26, 2010

## 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, 2009. 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 2009 total inpatient admissions increased by slightly, less than 1%, from fiscal year 2008. Total admissions during 2009 were 1,276. Patient days decreased, from 6,966 to 6,876. Outpatient registrations decreased 4%.

The hospital experienced an increase in net assets of \$1.0 million during fiscal year 2009. This compares to an increase of \$4.9 million during fiscal year 2008 and a budgeted increase of \$1.0 million.

Net patient service revenues for fiscal year 2009 were \$26.7 million, an increase of 2% from the previous year. Total operating expenses were \$25.7 million; this was an increase of 11% from 2008. Operating expenses increased significant due to the startup of a hospital based physician practice.

During fiscal year 2009 the Hospital purchased approximately \$8.9 million in capital assets. The largest expenditures were related to major renovation project completed during the fiscal year. During fiscal year 2009, 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 2009.

### 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, 2009.

#### Statement of Net Assets:

(In millions)	<u>2009</u>	<u>2008</u>
Current assets	11.7	11.3

Noncurrent assets	13.8	13.3
Capital assets	14.3	13.6
Other assets	1.1	1.2
Total Assets	<u>40.9</u>	<u>39.7</u>
Current Liabilities	3.1	3.6
Long-term Liabilities	0.0	0.0
Total Liabilities	<u>3.1</u>	<u>3.6</u>
Net Assets		
Invested in capital assets, net of related debt	14.3	13.6
Restricted for capital acquisitions	0.0	0.0
Restricted for specific grant activities	0.1	0.1
Unrestricted	23.4	22.4
Total Net Assets	<u>37.8</u>	<u>36.1</u>
Total Liabilities and Net Assets	<u>40.9</u>	<u>39.7</u>

**Statement of Revenues and Expenses and Changes in Net Assets:  
Compared to Prior Year**

(In millions)	<u>2009</u>	<u>2008</u>
Revenue		
Net patient service revenue	26.5	26.6
Other revenues	0.5	0.5
Total Revenues	<u>27.0</u>	<u>27.0</u>
Expenses		
Salaries and benefits	14.3	11.6
Medical professional fees	0.5	0.5
Other professional fees	0.9	0.8
Maintenance and purchased services	5.3	5.2
Supplies and drugs	3.1	3.1
Insurance	0.3	0.3
Depreciation and amortization	1.3	1.0
Total Expenses	<u>25.7</u>	<u>22.6</u>
Operating income/(loss)	1.3	4.4
Nonoperating revenues (expenses)	<u>0.3</u>	<u>0.5</u>
Excess of revenues over expenses	1.6	4.9

before capital grants and contributions, additions to permanent endowments, and special and extraordinary items

Capital grants and contributions	0.2	0.4
Increase in net assets	1.7	5.3
Net assets beginning of year	<u>36.1</u>	<u>30.8</u>
Net assets end of year	<u><u>37.8</u></u>	<u><u>36.1</u></u>

**Statement of Revenues and Expenses and Changes in Net Assets:  
Compared to Budget**

(In millions)	<u>2009 Actual</u>	<u>2009 Budget</u>
Revenue		
Net patient service revenue	26.8	26.1
Other revenues	<u>0.5</u>	<u>0.5</u>
Total Revenues	<u><u>27.0</u></u>	<u><u>26.6</u></u>
Expenses		
Salaries and benefits	14.3	13.7
Medical professional fees	0.5	0.5
Other professional fees	0.9	0.9
Maintenance and purchased services	5.3	6.0
Supplies and drugs	3.1	3.1
Insurance	0.3	0.2
Depreciation and amortization	<u>1.3</u>	<u>1.6</u>
Total Expenses	<u><u>25.7</u></u>	<u><u>26.0</u></u>
Operating income/(loss)	1.3	0.7
Nonoperating revenues (expenses)	<u>0.3</u>	<u>0.6</u>
Excess of revenues over expenses	1.6	1.3
before capital grants and contributions, additions to permanent endowments, and special and extraordinary items		
Capital grants and contributions	0.2	
Increase in net assets	1.7	1.3
	<u><u>36.1</u></u>	<u><u>36.1</u></u>

Net assets beginning of year

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Net assets end of year

37.8

37.4

Columns may not add due to rounding.

JAY COUNTY HOSPITAL  
STATEMENT OF NET ASSETS  
September 30, 2009

Assets

Current assets:	
Cash and cash equivalents	\$ 3,922,418
Patient accounts receivable, net of estimated uncollectibles	7,061,879
Supplies and other current assets	674,346
Noncurrent cash and investments:	
Internally designated	13,741,012
Restricted by contributors and grantors	143,393
Capital assets:	
Land	220,245
Depreciable capital assets, net of accumulated depreciation	14,050,400
Other assets	<u>1,112,251</u>
 Total assets	 <u>\$ 40,925,944</u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable and accrued expenses	\$ 1,003,044
Payroll and benefits payable	1,194,630
Estimated third-party payor settlements	833,000
Other current liabilities	<u>84,919</u>
 Total liabilities	 <u>3,115,593</u>
Net assets:	
Invested in capital assets	14,270,645
Restricted:	
Expendable for capital acquisitions	36,459
Expendable for specific grants	106,934
Unrestricted	<u>23,396,313</u>
 Total net assets	 <u>37,810,351</u>
 Total liabilities and net assets	 <u>\$ 40,925,944</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, 2009

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 26,454,331
Other	<u>544,145</u>
Total operating revenues	<u>26,998,476</u>
Operating expenses:	
Salaries and wages	10,738,527
Employee benefits	3,620,475
Supplies and services	10,141,357
Depreciation and amortization	<u>1,279,535</u>
Total operating expenses	<u>25,779,894</u>
Operating income	<u>1,218,582</u>
Nonoperating revenues (expenses):	
Investment income	395,302
Noncapital grants and contributions	19,032
Loss on investment in affiliated companies	(65,519)
Other	<u>(23,860)</u>
Total nonoperating revenues (expenses)	<u>324,955</u>
Excess of revenues over expenses before capital grants and contributions	1,543,537
Capital grants and contributions	<u>151,987</u>
Increase in net assets	1,695,524
Net assets beginning of the year	<u>36,114,827</u>
Net assets end of the year	<u><u>\$ 37,810,351</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, 2009

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 25,201,975
Payments to suppliers and contractors	(10,405,242)
Payments to employees and for employee benefits	(14,287,108)
Other receipts and payments, net	<u>544,145</u>
Net cash provided by operating activities	<u>1,053,770</u>
Cash flows from noncapital financing activities:	
Noncapital grants and contributions	19,032
Other	<u>(15,961)</u>
Net cash provided by noncapital financing activities	<u>3,071</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	151,987
Proceeds from sale of capital assets	11,025
Purchase of capital assets	<u>(2,011,793)</u>
Net cash used by capital and related financing activities	<u>(1,848,781)</u>
Cash flows from investing activities:	
Interest and dividends on investments	<u>354,084</u>
Net decrease in cash and cash equivalents	(437,856)
Cash and cash equivalents at beginning of year	<u>18,094,450</u>
Cash and cash equivalents at end of year	<u>\$ 17,656,594</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 3,922,418
Restricted cash and cash equivalents	<u>13,734,176</u>
Total cash and cash equivalents	<u>\$ 17,656,594</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,218,582
Adjustments to reconcile operating income to net cash flows used in operating activities:	
Depreciation and amortization	1,279,535
(Increase) decrease in current assets:	
Accounts receivable	(1,075,356)
Inventory/supplies and other current assets	79,107
Increase (decrease) in current liabilities:	
Accounts payable	(332,893)
Wages and benefits payable	71,894
Estimated third-party payor settlements	(177,000)
Other liabilities related to operating activities	<u>(10,099)</u>
Net cash provided by operating activities	<u>\$ 1,053,770</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. 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.

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

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 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:

	<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
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. 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.

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

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 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 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.

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. IC 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 depositor eligible to receive

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

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	\$ 7,625,636
Receivable from Medicare	3,486,848
Receivable from Medicaid	<u>1,435,732</u>
 Total patient accounts receivable	 12,548,216
 Less allowance for uncollectible amounts	 <u>5,486,337</u>
 Patient accounts receivable, net	 <u><u>\$ 7,061,879</u></u>

Accounts Payable and Accrued Expenses

Payable to suppliers	<u><u>\$ 1,003,044</u></u>
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C. Capital Assets

Capital asset activity for the year ended September 30, 2009, 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>6,532,095</u>	<u>1,113,698</u>	<u>7,645,793</u>	<u>-</u>
 Total capital assets, not being depreciated	 <u>6,752,340</u>	 <u>1,113,698</u>	 <u>7,645,793</u>	 <u>220,245</u>
Capital assets, being depreciated:				
Land improvements	818,175	40,637	4,271	854,541
Buildings and building service equipment	14,098,037	7,658,806	135,021	21,621,822
Fixed equipment	1,799,728	6,708	-	1,806,436
Major moveable equipment	<u>5,987,946</u>	<u>837,737</u>	<u>337,762</u>	<u>6,487,921</u>
 Totals	 <u>22,703,886</u>	 <u>8,543,888</u>	 <u>477,054</u>	 <u>30,770,720</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	800,580	6,960	4,271	803,269
Buildings and building service equipment	9,029,991	710,736	123,916	9,616,811
Fixed equipment	1,738,956	16,409	-	1,755,365
Major moveable equipment	4,329,388	545,430	329,943	4,544,875
Totals	<u>15,898,915</u>	<u>1,279,535</u>	<u>458,130</u>	<u>16,720,320</u>
Total capital assets, being depreciated, net	<u>6,804,971</u>	<u>7,264,353</u>	<u>18,924</u>	<u>14,050,400</u>
Total primary government capital assets, net	<u>\$ 13,557,311</u>	<u>\$ 8,378,051</u>	<u>\$ 7,664,717</u>	<u>\$ 14,270,645</u>

D. Restricted Net Assets

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

	<u>2009</u>
Bioterrorism Hospital Preparedness Grant:	
Emergency preparedness programs and equipment	\$ 106,934
Jay County Hospital Foundation Capital Campaign:	
Hospital renovations	<u>36,459</u>
Total expendable, restricted net assets	<u>\$ 143,393</u>

E. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$295,457 for 2009.

F. 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 IC 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.

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Internally designated:	
Funded depreciation:	
Cash and cash equivalents	\$ 13,374,928
Accrued interest receivable	<u>150,228</u>
Total funded depreciation	13,525,156
Board designation:	
Cash and cash equivalents	<u>215,856</u>
Total internally designated	<u>\$ 13,741,012</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 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 \$1,070,764. Settled claims did not exceed commercial insurance coverage in the previous three years, but may exceed coverage during calendar year 2009.

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

Claim liabilities cannot be reasonably estimated.

B. Subsequent Events

Dissolution of Midwest Health Strategies, Inc.

Due to continued financial losses, the Midwest Health Strategies joint venture, will be dissolved effective January 1, 2010.

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Dissolution of the Jay County MRI, LLC

Due to changes in federal law, the Jay County MRI, LLC joint venture, was dissolved effective October 1, 2009, and the Hospital assumed ownership of the MRI equipment along with the balance of the capital lease for the equipment. The balance of the debt assumed was \$1,398,320.

Medicare Settlement

The Hospital received \$611,577 during November 2009 for settlement of the fiscal year 2008 Medicare Cost Report. Payables to Medicare totaling \$833,000, for the fiscal years 2008 and 2009 Medicare Cost Reports, are accrued as of September 30, 2009.

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 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 of \$7,778 to Midwest Health Strategies, Inc., for an 8% membership interest. The Corporation began operations on 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.

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.

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 is based on the 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.

Summarized financial information as of June 30, 2008 and September 30, 2009, and for the year then ended from the audited and unaudited financial statements of the Affiliated Companies follows:

	Jay County Medical Facilities, LLC	Midwest Health Strategies, LLC	Jay County MRI, LLC
	Unaudited Fiscal Year Ended 09-30-09	Audited Fiscal Year Ended 06-30-08	Unaudited Fiscal Year Ended 09-30-09
Current assets	\$ 59,783	\$ 18,832,070	\$ 749,244
Noncurrent assets	689,726	2,192,269	1,278,965
Current liabilities	-	22,024,022	-
Noncurrent liabilities	-	-	1,398,319
Net assets	749,509	(999,683)	629,889
Revenue	144,080	16,625,654	377,410
Net loss	23,012	(335,872)	(81,972)

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 they occur. During 2009, net patient service revenues in the accompanying statements of operations were increased by \$747,000 to reflect changes in the estimated settlements for certain prior years.

F. Pension Plans

1. Defined Benefit Plan

Jay County Hospital Employees' Pension Plan

Plan Description

For employees hired prior to January 1, 2009, the Hospital has a defined benefit pension plan administered by McCready and Keene, Inc., as authorized by IC 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  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Jay County Hospital  
500 W. Votaw St.  
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 7.7% of annual covered payroll.

Actuarial Information for the Above Plan

Annual required contribution	\$	427,937
Interest on net pension obligation		1,884
Adjustment to annual required contribution		<u>(2,127)</u>
Annual pension cost		427,694
Contributions made		<u>487,857</u>
Decrease in net pension obligation		(60,163)
Net pension obligation, beginning of year		<u>25,117</u>
Net pension obligation, end of year	\$	<u><u>(35,046)</u></u>
Contribution rates:		
Hospital		7.7%
Plan members		-
Actuarial valuation date		January 1, 2009
Actuarial cost method		Entry age normal cost
Amortization method		Level percentage of projected payroll
Amortization period		12 years
Asset valuation method		Market value

Actuarial Assumptions

Investment rate of return		7.7 %
Projected future salary increases:		
Total		4%
Attributed to inflation		4%

JAY COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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>
12-31-06	\$ 366,766	104.8%	\$ 44,214
12-31-07	395,183	104.8%	25,117
12-31-08	427,694	114.1%	(35,046)

2. 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 plans 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. The plan has not been in existence for a complete valuation period, therefore, a report on the plan is not yet available.

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 \$2,707. The employer does not contribute until the end of the plan year.

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)
01-01-07	\$ 6,108,008	\$ 6,249,428	\$ (141,420)	98%	\$ 6,713,624	(2%)
01-01-08	6,806,883	7,788,932	(982,049)	87%	7,053,058	(14%)
01-01-09	6,184,686	8,948,315	(2,763,629)	69%	8,130,043	(34%)

JAY COUNTY HOSPITAL  
EXIT CONFERENCE

The contents of this report were discussed on January 26, 2010, with Don Michael, Treasurer; R. Joe Johnston, Executive Director; and John Nill, member of the Hospital Board. Our audit disclosed no material items that warrant comment at this time.