

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, 2010 to September 30, 2011



FILED
02/21/2012

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HOSPITAL OFFICIALS

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



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 the business-type activities of Jay County Hospital (Hospital) as of and for the year ended September 30, 2011, which collectively comprise the Hospital's basic financial statements 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 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 includes consideration of internal control over financial reporting as a basis for designing 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 over reporting. 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2011, 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 of America.

The Management's 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 accounting principles generally accepted in the United States of America. 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 2, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2011. 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 2011 total inpatient admissions increased by 8% from fiscal year 2010. Total admissions during 2011 were 1,169. Patient days decreased, from 5,906 during 2010 to 6,129 during 2011. Outpatient registrations decreased 3% to 47,227.

The hospital experienced an increase in net assets of \$1.4 million during fiscal year 2011. This compares to an increase of \$1.3 million during fiscal year 2010 and a budgeted increase of \$.6 million.

Net patient service revenues for fiscal year 2011 were \$32.8 million, an increase of 11% from the previous year. Total operating expenses were \$31.7 million; this was an increase of 11% from 2010.

During fiscal year 2011 the Hospital purchased approximately \$2.8 million in capital assets. During fiscal year 2011, 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 2011.

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, 2011.

Statement of Net Assets:

(In millions)	2011	2010
Current assets	14.0	11.8
Noncurrent assets	11.9	13.1
Capital assets	16.0	15.3
Other assets	.5	.8
Total Assets	42.4	41.0

Current Liabilities	2.0	1.9
Long-term Liabilities	0.0	0.0
Total Liabilities	2.0	3.1

Net Assets		
Invested in capital assets, net of related debt	15.8	15.2
Restricted for capital acquisitions	0.0	0.0
Restricted for specific grant activities	0.0	0.0
Unrestricted	24.5	23.9
Total Net Assets	40.4	39.1
Total Liabilities and Net Assets	42.4	41.0

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

(In millions)	2011	2010
Revenue		
Net patient service revenue	32.3	28.5
Other revenues	0.5	0.6
Total Revenues	32.8	29.1

Expenses		
Salaries and benefits	18.5	16.6
Medical professional fees	1.0	0.4
Other professional fees	0.2	0.5
Maintenance and purchased services	5.7	5.5
Supplies and drugs	4.0	3.2
Insurance	0.4	0.4
Depreciation and amortization	2.0	1.8
Total Expenses	31.7	28.4

Operating income/(loss)	1.0	0.7
Nonoperating revenues (expenses)	0.2	0.4

Excess of revenues over expenses before capital grants and contributions, additions to permanent endowments, and special and extraordinary items	1.2	1.2
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Capital grants and contributions	0.1	0.1
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Increase in net assets	1.4	1.3
Net assets beginning of year	<u>39.1</u>	<u>37.8</u>
Net assets end of year	<u><u>40.4</u></u>	<u><u>39.1</u></u>

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

(In millions)	<u>2011 Actual</u>	<u>2011 Budget</u>
Revenue		
Net patient service revenue	32.3	30.8
Other revenues	<u>0.5</u>	<u>0.6</u>
Total Revenues	<u>32.8</u>	<u>31.4</u>
Expenses		
Salaries and benefits	18.5	17.8
Medical professional fees	1.0	0.5
Other professional fees	0.2	0.2
Maintenance and purchased services	5.7	5.6
Supplies and drugs	4.0	3.8
Insurance	0.4	0.4
Depreciation and amortization	<u>2.0</u>	<u>2.7</u>
Total Expenses	<u>31.7</u>	<u>31.0</u>
Operating income/(loss)	1.0	0.3
Nonoperating revenues (expenses)	<u>0.2</u>	<u>0.1</u>
Excess of revenues over expenses before capital grants and contributions, additions to permanent endowments, and special and extraordinary items	1.2	0.5
Capital grants and contributions	0.1	
Increase in net assets	1.4	0.5
Net assets beginning of year	<u>39.1</u>	<u>39.1</u>
Net assets end of year	<u><u>40.4</u></u>	<u><u>39.5</u></u>

Columns may not add due to rounding.

JAY COUNTY HOSPITAL
STATEMENT OF NET ASSETS
September 30, 2011

Assets

Current assets:	
Cash and cash equivalents	\$ 3,778,586
Patient accounts receivable, net of estimated uncollectibles	9,104,914
Supplies and other current assets	1,212,333
Noncurrent cash and investments:	
Internally designated	11,827,978
Restricted by contributors and grantors	79,398
Capital assets:	
Land and construction in progress	242,163
Depreciable capital assets, net of accumulated depreciation	15,390,910
Other assets	<u>867,902</u>
Total assets	<u>\$ 42,504,184</u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable and accrued expenses	\$ 626,404
Payroll and benefits payable	1,156,284
Estimated third-party payor settlements	216,000
Other current liabilities	<u>50,780</u>
Total liabilities	<u>2,049,468</u>
Net assets:	
Invested in capital assets	15,633,073
Restricted:	
Expendable for capital acquisitions	32,742
Expendable for specific grants	46,656
Unrestricted	<u>24,742,245</u>
Total net assets	<u>40,454,716</u>
Total liabilities and net assets	<u>\$ 42,504,184</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, 2011

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 32,302,483
Other	<u>468,033</u>
Total operating revenues	<u>32,770,516</u>
Operating expenses:	
Salaries and wages	13,800,576
Employee benefits	4,714,081
Supplies and services	11,077,148
Depreciation and amortization	<u>2,132,451</u>
Total operating expenses	<u>31,724,256</u>
Operating income	<u>1,046,260</u>
Nonoperating revenues (expenses):	
Investment income	137,592
Noncapital grants and contributions	73,756
Gain on investment in affiliated companies	23,833
Other	<u>(21,693)</u>
Total nonoperating revenues (expenses)	<u>213,488</u>
Excess of revenues over expenses before capital grants and contributions	1,259,748
Capital grants and contributions	<u>89,098</u>
Increase in net assets	1,348,846
Net assets beginning of the year	<u>39,105,870</u>
Net assets end of the year	<u><u>\$ 40,454,716</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, 2011

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 31,364,258
Payments to suppliers and contractors	(11,435,288)
Payments to employees and for employee benefits	(18,404,979)
Other receipts	<u>468,033</u>
Net cash provided by operating activities	<u>1,992,024</u>
Cash flows from noncapital financing activities:	
Noncapital grants and contributions	73,756
Other	<u>(21,693)</u>
Net cash provided by noncapital financing activities	<u>52,063</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	89,098
Purchase of capital assets	<u>(2,391,737)</u>
Net cash used by capital and related financing activities	<u>(2,302,639)</u>
Cash flows from investing activities:	
Purchase of other assets	(328,008)
Interest and dividends on investments	<u>207,175</u>
Net cash used by investing activities	<u>(120,833)</u>
Net decrease in cash and cash equivalents	(379,385)
Cash and cash equivalents at beginning of year	<u>16,001,228</u>
Cash and cash equivalents at end of year	<u>\$ 15,621,843</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 3,778,586
Restricted cash and cash equivalents	<u>11,843,257</u>
Total cash and cash equivalents	<u>\$ 15,621,843</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,046,260
Adjustments to reconcile operating income to net cash flows provided by operating activities:	
Depreciation and amortization	2,132,451
Increase in current assets:	
Accounts receivable	(938,225)
Inventory/supplies and other current assets	(382,696)
Increase (decrease) in current liabilities:	
Accounts payable	43,988
Wages and benefits payable	109,678
Other liabilities related to operating activities	<u>(19,432)</u>
Net cash provided by operating activities	<u>\$ 1,992,024</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. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Hospital has elected to apply subsequent private-sector guidance.

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 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.

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 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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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 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 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, contributors, or enabling legislation 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. 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 days off are 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 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.

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, 2011, the Hospital had deposit balances in the amount of \$15,621,843.

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.

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	\$ 11,721,577
Receivable from Medicare	6,154,879
Receivable from Medicaid	<u>2,443,487</u>
Total patient accounts receivable	20,319,943
Less allowance for uncollectible amounts	<u>11,215,029</u>
Patient accounts receivable, net	<u><u>\$ 9,104,914</u></u>

Accounts Payable and Accrued Expenses

Payable to suppliers	\$ 626,404
Payable to employees (including payroll taxes)	1,156,284
Other	<u>50,780</u>
Total accounts payable and accrued expenses	<u><u>\$ 1,833,468</u></u>

C. Capital Assets

Capital asset activity for the year ended September 30, 2011, 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>1,179,003</u>	<u>1,864,175</u>	<u>3,021,260</u>	<u>21,918</u>
Total capital assets, not being depreciated	<u>1,399,248</u>	<u>1,864,175</u>	<u>3,021,260</u>	<u>242,163</u>
Capital assets, being depreciated:				
Land improvements	854,541	36,948	-	891,489
Buildings and building service equipment	21,710,645	981,767	-	22,692,412
Fixed equipment	3,082,095	23,638	-	3,105,733
Major moveable equipment	<u>6,781,599</u>	<u>2,408,969</u>	<u>58,635</u>	<u>9,131,933</u>
Totals	<u>32,428,880</u>	<u>3,451,322</u>	<u>58,635</u>	<u>35,821,567</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>
Less accumulated depreciation for:				
Land improvements	810,745	9,169	-	819,914
Buildings and building service equipment	10,558,469	908,483	-	11,466,952
Fixed equipment	2,022,851	272,423	-	2,295,274
Major moveable equipment	<u>5,082,628</u>	<u>824,524</u>	<u>58,635</u>	<u>5,848,517</u>
Totals	<u>18,474,693</u>	<u>2,014,599</u>	<u>58,635</u>	<u>20,430,657</u>
Total capital assets, being depreciated, net	<u>13,954,187</u>	<u>1,436,723</u>	<u>-</u>	<u>15,390,910</u>
Total primary government capital assets, net	<u>\$ 15,353,435</u>	<u>\$ 3,300,898</u>	<u>\$ 3,021,260</u>	<u>\$ 15,633,073</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Expended to September 30, 2011</u>
Meditech patient care software system	<u>\$ 21,918</u>

E. Restricted Net Assets

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

	<u>September 30, 2011</u>
Bioterrorism Hospital Preparedness Grant:	
Emergency preparedness programs and equipment	\$ 46,656
Jay County Hospital Foundation Capital Campaign:	
Hospital renovations	<u>32,742</u>
Total expendable, restricted net assets	<u>\$ 79,398</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 acute care services and outpatient services rendered to Medicare 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. Inpatient nonacute 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.

2. Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 39 percent and 4 percent, respectively, of the Hospital's net patient revenue for the year ended September 30, 2011. 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 net patient service revenue for the year ended September 30, 2011 increased approximately \$314,638 as a result of final settlements for years that are no longer subject to audits, reviews, and investigations.

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 \$837,377.

H. 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	\$ 11,354,176
Accrued interest receivable	<u>64,119</u>
Total funded depreciation	<u>11,418,295</u>
Board designation:	
Cash and cash equivalents	<u>409,683</u>
Total internally designated	<u>\$ 11,827,978</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 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 \$1,412,995. Settled claims did not exceed commercial insurance coverage in the previous three years, but may exceed coverage during calendar year 2011.

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

Claim liabilities cannot be reasonably estimated.

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.

JAY COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 2011, and for the year then ended from the unaudited financial statements of the Affiliated Company follows:

Current assets	\$	98,189
Noncurrent assets		634,894
Equity		733,083
Revenue		139,199
Net income		18,806

D. Pension Plans

1. Defined Benefit Pension 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
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 5.0% of annual covered payroll.

Annual Pension Cost

For the year ended September 30, 2011, the Hospital's annual pension cost of \$538,620 for the Pension Plan was equal to the Hospital's required and actual contributions.

JAY COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

Annual required contribution	\$	647,202
Interest on net pension obligation		(5,189)
Adjustment to annual required contribution		<u>5,858</u>
Annual pension cost		647,871
Contributions made		<u>544,000</u>
Increase in net pension obligation		103,871
Net pension obligation, beginning of year		<u>(69,187)</u>
Net pension obligation, end of year	\$	<u><u>34,684</u></u>
Contribution rates:		
Hospital		5%
Plan members		0%
Actuarial valuation date		01-01-11
Actuarial cost method		Entry age normal cost
Amortization method		Level percentage of projected payroll
Amortization period		Level dollar open 30 year
Asset valuation method		Market value

Actuarial Assumptions

Investment rate of return	7.5%
Projected future salary increases:	
Total	4.0%
Attributed to inflation	3.0%
Attributed to merit/seniority	1.0%

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>
12-31-2008	\$ 427,694	114.1%	\$ (35,046)
12-31-2009	626,780	105.4%	(69,187)
12-31-2010	647,871	84.0%	34,684

JAY COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funded Status and Funding Progress for the Above Plan

The funded status of the plan as of January 1, 2011, the most recent actuarial valuation date is as follows:

	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
Employees' Pension Plan	\$ 8,535,337	\$ 10,247,804	\$ (1,712,467)	83%	\$ 9,506,624	(18%)

The schedule of funding progress, presented as RSI for the above plan following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 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 \$304,718. 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)
01-01-09	\$ 6,184,686	\$ 8,948,315	\$ (2,763,629)	69%	\$ 8,130,043	(34%)
01-01-10	7,355,276	9,485,335	(2,130,059)	78%	10,113,748	(21%)
01-01-11	8,535,337	10,247,804	(1,712,467)	83%	9,506,624	(18%)

JAY COUNTY HOSPITAL
AUDIT RESULTS AND COMMENTS

DEPOSITORY RECONCILEMENTS

The bank reconciliation of the operating cash account at September 30, 2011, had an unidentified variance of \$9,941 with the ledger balance exceeding the bank balance.

In addition, the following bank accounts had unidentified variances from the ledger balances:

Account	Ledger Balance	Reconciled Bank Balance	Unidentified Variance
Cash – Jay County Health Partners	\$ 72,889	\$ 84,194	\$ 11,305
Cash – Family Practice	189,217	438,886	249,669
Cash – West Jay	44,786	82,715	37,929
Cash – Jay Family Medicine	123,938	514,002	390,064
Cash – LSS Patient Accounts	1,216,603	526,636	(689,967)
Cash – TriCounty Surgical	198,268	199,268	1,000
Totals	<u>\$ 1,845,701</u>	<u>\$ 1,845,701</u>	<u>\$ -</u>

To provide for adequate safeguarding of cash and to enable the hospital to identify and correct errors on a timely basis, a reconciliation of the account balances recorded in the accounting records to the balances of the depository accounts should be performed by the hospital at least monthly. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 9)

OLD OUTSTANDING CHECKS

A review of the bank reconciliation of the operating cash account at of September 30, 2011 revealed 10 checks totaling \$1,784 outstanding in excess of two years.

Indiana Code 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

OVERPAYMENT COLLECTIONS

Overpayments of \$4,314 were made to three different vendors. Checks were sent to the vendors, then voided by the Hospital and reissued. However, all of the checks were cashed by the vendors resulting in duplicate payments. Refunds have not been received as of September 30, 2011.

Governmental units should collect any overpayments made. (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 2, 2012, with R. Joe Johnston, Executive Director; Don E. Michael, Treasurer; and John Nill, Hospital Board member.