

**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, 2012 to September 30, 2013



FILED
03/13/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	R. Joe Johnston David W. Hyatt	10-01-12 to 04-30-13 05-01-13 to 12-31-14
Treasurer	Don E. Michael	06-01-12 to 05-31-14
Chairman of the Hospital Board	David A. Littler	06-01-12 to 05-31-14
President of the Board of County Commissioners	Milo M. Miller, Jr.	01-01-12 to 12-31-14



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Jay County Hospital (Hospital), a component unit of Jay County, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Hospital as of September 30, 2013, and the changes in financial position and cash flows, where applicable, thereof and for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America, requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.


Paul D. Joyce, CPA
State Examiner

January 23, 2014

FINANCIAL STATEMENTS

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

JAY COUNTY HOSPITAL
STATEMENT OF NET POSITION
September 30, 2013

Assets

Current assets:	
Cash and cash equivalents	\$ 4,604,744
Patient accounts receivable, net of estimated uncollectibles	10,615,648
Supplies and other current assets	946,110
Noncurrent cash and investments:	
Internally designated	14,577,139
Interest receivable	9,180
Restricted by contributors and grantors	111,188
Capital assets:	
Land and construction in progress	459,224
Depreciable capital assets, net of accumulated depreciation	13,106,459
Other assets	614,356
Total assets	\$ 45,044,048

Liabilities

Current liabilities:	
Accounts payable and accrued expenses	\$ 652,581
Payroll and benefits payable	1,394,049
Estimated third-party payor settlements	805,587
Other current liabilities	74,750
Total liabilities	2,926,967

Net Position

Net investment in capital assets	13,565,683
Restricted:	
Expendable for capital acquisitions	22,939
Expendable for specific purposes	88,249
Unrestricted	28,440,210
Total net position	42,117,081
Total liabilities and net position	\$ 45,044,048

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

JAY COUNTY HOSPITAL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended September 30, 2013

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 35,097,005
Other	<u>484,500</u>
Total operating revenues	<u>35,581,505</u>
Operating expenses:	
Salaries and wages	14,255,818
Employee benefits	5,615,786
Supplies and services	12,653,385
Depreciation and amortization	<u>2,158,896</u>
Total operating expenses	<u>34,683,885</u>
Operating income	<u>897,620</u>
Nonoperating revenues (expenses):	
Investment income	27,692
Noncapital grants and contributions	43,949
Loss on investment in affiliated companies	(10,006)
Other	<u>(23,768)</u>
Total nonoperating revenues (expenses)	<u>37,867</u>
Excess of revenues over expenses before capital grants and contributions	935,487
Capital grants and contributions	<u>61,400</u>
Increase in net position	996,887
Total net position beginning of the year	<u>41,120,194</u>
Total net position ending of the year	<u><u>\$ 42,117,081</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, 2013

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 35,118,087
Payments to suppliers and contractors	(11,223,073)
Payments to employees and for employee benefits	(19,784,646)
Other receipts	<u>484,500</u>
Net cash provided by operating activities	<u>4,594,868</u>
Cash flows from noncapital financing activities:	
Noncapital grants and contributions	43,949
Other	<u>(23,768)</u>
Net cash provided by noncapital financing activities	<u>20,181</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	61,400
Purchase of capital assets	<u>(900,578)</u>
Net cash used by capital and related financing activities	<u>(839,178)</u>
Cash flows from investing activities:	
Interest and dividends on investments	<u>26,384</u>
Net increase in cash and cash equivalents	3,802,255
Cash and cash equivalents at beginning of year	<u>15,490,816</u>
Cash and cash equivalents at end of year	<u><u>\$ 19,293,071</u></u>
Reconciliation of cash and cash equivalents to the Statement of Net Position:	
Cash and cash equivalents in current assets	\$ 4,604,744
Restricted cash and cash equivalents	<u>14,688,327</u>
Total cash and cash equivalents	<u><u>\$ 19,293,071</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 897,620
Adjustments to reconcile operating income to net cash flows provided by operating activities:	
Depreciation and amortization	2,158,896
Decrease in current assets:	
Accounts receivable	21,082
Inventory/supplies and other current assets	568,324
Increase in current liabilities:	
Accounts payable	108,610
Wages and benefits payable	86,958
Estimated third-party payor settlements	683,969
Other liabilities related to operating activities	<u>69,409</u>
Net cash provided by operating activities	<u><u>\$ 4,594,868</u></u>
Noncash investing, capital and financing activities:	
Capital assets acquired through accounts payable	<u><u>\$ 48,292</u></u>

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

JAY COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Blended Component Unit

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

B. Enterprise Fund Accounting

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

C. Assets, Liabilities, and Net Position

1. Deposits and Investments

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

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

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.

JAY COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 Position.

2. Use of Estimates

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

3. Capital Assets

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

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

	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 Position

Net position of the Hospital is classified in three components.

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

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

JAY COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

The financial statements report \$111,188 of restricted assets, of which \$22,939 is restricted by enabling legislation.

D. Grants and Contributions

From time to time, the Hospital receives grants from Jay County and the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

E. Restricted Resources

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

F. Operating Revenues and Expenses

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

G. Net Patient Service Revenue

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

H. Charity Care

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

I. Supplies

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

JAY COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

J. Compensated Absences

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

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

K. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Accounts Payable and Accrued Expenses

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

Estimated Third-Party Payor Settlements

The carrying amount reported in the Statement of Net Position 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, 2013, the Hospital had deposit balances in the amount of \$19,293,071.

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	\$ 12,365,150
Receivable from Medicare	4,642,531
Receivable from Medicaid	<u>1,759,530</u>

Total patient accounts receivable	18,767,211
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Less allowance for uncollectible amounts	<u>8,151,563</u>
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Patient accounts receivable, net	<u><u>\$ 10,615,648</u></u>
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Accounts Payable and Accrued Expenses

Payable to suppliers	\$ 652,581
Payable to employees (including payroll taxes)	1,394,049
Other	<u>74,750</u>

Total accounts payable and accrued expenses	<u><u>\$ 2,121,380</u></u>
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C. Capital Assets

Capital asset activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Primary government:				
Capital assets, not being depreciated:				
Land	\$ 220,245	\$ -	\$ -	\$ 220,245
Construction in progress	<u>275,701</u>	<u>878,138</u>	<u>914,860</u>	<u>238,979</u>
Total capital assets, not being depreciated	<u>495,946</u>	<u>878,138</u>	<u>914,860</u>	<u>459,224</u>
Capital assets, being depreciated:				
Land improvements	915,689	-	-	915,689
Buildings and building service equipment	22,750,807	18,452	-	22,769,259
Fixed equipment	3,105,733	-	-	3,105,733
Major moveable equipment	<u>9,928,246</u>	<u>967,140</u>	-	<u>10,895,386</u>
Totals	<u>36,700,475</u>	<u>985,592</u>	-	<u>37,686,067</u>

JAY COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Primary government (continued):				
Less accumulated depreciation for:				
Land improvements	830,096	11,451	-	841,547
Buildings and building service equipment	12,376,987	894,963	-	13,271,950
Fixed equipment	2,560,478	264,705	-	2,825,183
Major moveable equipment	6,748,908	892,020	-	7,640,928
Totals	22,516,469	2,063,139	-	24,579,608
Total capital assets, being depreciated, net	14,184,006	(1,077,547)	-	13,106,459
Total primary government capital assets, net	<u>\$ 14,679,952</u>	<u>\$ (199,409)</u>	<u>\$ 914,860</u>	<u>\$ 13,565,683</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Expended to September 30, 2013</u>
ER Phase 2 Meditech	\$ 33,804
LSS Data Systems - E-Prescribe	23,946
West Jay Design	4,075
Patient Discharge - Meditech	33,705
Generator Project	7,018
LSS Data Systems - Public Health Interfaces	5,000
Meditech - Continuum of Care Documentation	6,475
Meditech - Patient Health Portal	18,614
GE Medical Systems - Heart Monitors	98,542
Speech Recognition for Doctors	7,800
Total	<u>\$ 238,979</u>

E. Restricted Net Assets

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

	<u>September 30, 2013</u>
Bioterrorism Hospital Preparedness Grant:	
Emergency preparedness programs and equipment	\$ 22,939
Jay County Hospital Foundation:	
Capital contributions and education	88,249
Total expendable, restricted net assets	<u>\$ 111,188</u>

JAY COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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:

1. Medicare

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

2. Medicaid

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

Revenue from the Medicare and Medicaid programs accounted for approximately 49 percent and 6 percent, respectively, of the Hospital's net patient revenue for the year ended September 30, 2013. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

G. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$600,044.

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 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.

JAY COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Internally designated:	
Funded depreciation:	
Cash and cash equivalents	\$ 14,153,053
Accrued interest receivable	<u>9,180</u>
Total funded depreciation	<u>14,162,233</u>
Board designation:	
Cash and cash equivalents	<u>424,086</u>
Total internally designated	<u>\$ 14,586,319</u>

III. Other Information

A. Risk Management

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

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

Medical Benefits to Employees and Dependents

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees and dependents. The risk financing fund is accounted for in the Employee Health Trust Account where assets are set aside as needed for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$50,000 (due to their claims history, one employee is lasered at \$175,000 and another at \$250,000) and aggregate claims in excess of \$1,479,435. Settled claims may exceed coverage during calendar year 2013.

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 percent 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, 2013, and for the year then ended from the unaudited financial statements of the Affiliated Company follows:

Current assets	\$	91,487
Noncurrent assets		621,829
Equity		713,316
Revenue		140,910
Net income		(15,106)

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 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 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 5.77 percent of annual covered payroll.

Annual Pension Cost

For the year ended September 30, 2013, the Hospital's annual pension cost of \$559,126 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	\$ 558,903
Interest on net pension obligation	(1,733)
Adjustment to annual required contribution	<u>1,956</u>
Annual pension cost	559,126
Contributions made	<u>600,000</u>
Increase in net pension obligation	(40,874)
Net pension obligation, beginning of year	<u>(23,107)</u>
Net pension obligation, end of year	<u><u>\$ (63,981)</u></u>

Contribution rates:

Hospital	5.77%
Plan members	0%
Actuarial valuation date	01-01-13
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

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12-31-10	\$ 647,871	84.0%	\$ 34,684
12-31-11	554,109	110.4%	(23,107)
12-31-12	559,126	107.3%	(63,981)

Funded Status and Funding Progress for the Above Plan

The funded status of the plan as of January 1, 2013, the most recent actuarial valuation date is as follows:

JAY COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

	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	<u>\$ 10,158,593</u>	<u>\$ 11,895,533</u>	<u>\$ 1,736,940</u>	85%	<u>\$ 8,097,702</u>	(21%)

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 percent 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 percent of the employee's annual covered salary and a 50 percent match of the employee's contribution up to a maximum of 5 percent of the employee's covered salary. Employee contributions to the plan were \$379,095. 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)
01-01-11	\$ 8,535,337	\$ 10,247,804	\$ (1,712,467)	83%	\$ 9,506,624	(18%)
01-01-12	8,919,179	11,108,620	(2,189,441)	80%	9,016,992	(24%)
01-01-13	10,158,593	11,895,533	(1,736,940)	85%	8,097,702	(21%)

JAY COUNTY HOSPITAL
AUDIT RESULTS AND COMMENTS

CERTIFIED REPORT NOT FILED

The Hospital did not file a Certified Report of Names, Addresses, Duties and Compensation of Public Employees (Form 100-R) with the Indiana State Board of Accounts for 2013.

Indiana Code 5-11-13-1 states in part:

"Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

BANK ACCOUNT RECONCILIATION

Depository reconciliations of the Operating Cash balance to the bank account balance were prepared; however, the reconciliation presented at September 30, 2013, indicated an unidentified amount of \$8,381. The cash balance per the ledger was more than the reconciled bank balance.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

JAY COUNTY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on January 23, 2014, with David W. Hyatt, Executive Director; Don E. Michael, Treasurer; William W. Hinkle, Chairman of the Finance Committee; and David A. Littler, Chairman of the Hospital Board.