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May 15, 2018

Board of Directors
Jay County Hospital
500 West Votaw Street
Portland, IN 47371

We have reviewed the audit report prepared by Blue & Co. LLC, Independent Public Accountants, for the period October 1, 2016 to September 30, 2017. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Report of Independent Auditors, the financial statements included in the report present fairly the financial condition of the Jay County Hospital, as of September 30, 2017, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The audit report is filed with this letter in our office as a matter of public record.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner



CONSOLIDATED FINANCIAL STATEMENTS

WITH

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2017 AND 2016

JAY COUNTY HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Jay County Hospital
Portland, Indiana

We have audited the accompanying consolidated financial statements of Jay County Hospital (the Hospital), a component unit of Jay County, which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Board of Trustees
Jay County Hospital
Portland, Indiana

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2017 and 2016, and the results of its operations, changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios, and the Schedule of Contributions be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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.

Blue & Co., LLC

Indianapolis, Indiana
April 27, 2018

REQUIRED SUPPLEMENTARY INFORMATION

JAY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2017 AND 2016

This section of Jay County Hospital's (the Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance. This MD&A does include a discussion and analysis of the activities and results of the Hospital and its blended component units, Jay County Hospital Foundation, Inc. (the Foundation) and Jay County Medical Facilities, LLC (JCMF). Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

Subsequent Events

In November 2017, the Hospital entered into to an affiliation and asset transfer agreement (the Agreement) with the following Indiana nonprofit corporations, Indiana University Health (IU Health), Indiana University Health Ball Memorial (IUH Ball), and Indiana University Health Jay (IUH Jay). The Agreement is effective March 1, 2018 and includes among other terms, conditions, and stipulations, IUH Jay will acquire substantially all of the Hospital's assets and assume substantially all of the Hospital's liabilities, except for specific excluded assets and liabilities.

The Hospital terminated all of its long-term care agreements effective October 1, 2017.

Financial Highlights

- The Hospital's total assets and deferred outflows increased approximately \$3,350,000 or 8.1% during 2017. This compares to an increase of \$1,512,000 or 3.8% during 2016.
- Total liabilities and deferred inflows increased approximately \$1,600,000 or 17.0% during 2017. This compares to an increase of \$4,644,000 or 97.4% during 2016.
- The Hospital's net position increased approximately \$1,751,000 or 5.5% in 2017. This compares to a decrease of \$3,132,000 or 8.9% in 2016.
- The Hospital reported operating income of approximately \$1,628,000 for 2017, representing an increase of approximately \$5,280,000 in comparison to the 2016 results.
- The Hospital added capital assets of approximately \$3,702,000 during 2017. Net additions and disposals combined with depreciation expense of approximately \$2,179,000 resulted in net capital assets increasing approximately \$1,524,000 from 2016.
- During 2017, the Hospital's assets whose use is limited decreased approximately \$6,245,000 from 2016 as a result of the use of cash for operations while cash and cash equivalents increased by \$4,773,000 over 2016.

JAY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2017 AND 2016

- In 2017, the Hospital entered into four additional agreements to lease the operations of long-term care facilities. The Hospital recognized approximately \$86,240,000 of gross patient service revenue related to long-term care during 2017. This compares to \$27,343,000 of gross patient service revenue related to long-term care during 2016.

Using This Annual Report

The Hospital's consolidated financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These consolidated financial statements and related notes provide information about the activities and the financial position of the Hospital.

The consolidated balance sheets include all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities).

All of the current year and prior year revenue earned and expenses incurred are accounted for in the consolidated statements of revenues, expenses and changes in net position.

Finally, the purpose of the consolidated statements of cash flows is to provide information about the Hospital's cash flows from operating activities, noncapital financing activities, capital and related financing activities, including capital additions, and investing activities. This statement provides information on the sources and uses of cash and cash equivalents and the change in cash and cash equivalents balances during the year.

The Consolidated Balance Sheets and Consolidated Statements of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's net position is the difference between assets and deferred outflows and liabilities and deferred inflows. It is one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

JAY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2017 AND 2016

Table 1 – Consolidated Balance Sheets

	2017	2016	2017-2016 Change	2015	2016 - 2015 Change
Assets					
Current assets	\$ 21,840,545	\$ 13,605,929	\$ 8,234,616	\$ 10,179,936	\$ 3,425,993
Assets whose use is limited	3,684,633	9,929,166	(6,244,533)	15,555,793	(5,626,627)
Capital assets, net	16,555,126	15,031,828	1,523,298	13,442,984	1,588,844
Other assets	1,086,693	624,353	462,340	80,050	544,303
Total assets	43,166,997	39,191,276	3,975,721	39,258,763	(67,487)
Deferred outflows	1,692,033	2,317,521	(625,488)	737,719	1,579,802
Total assets and deferred outflows	<u>\$ 44,859,030</u>	<u>\$ 41,508,797</u>	<u>\$ 3,350,233</u>	<u>\$ 39,996,482</u>	<u>\$ 1,512,315</u>
Liabilities					
Current liabilities	\$ 10,449,580	\$ 5,165,068	\$ 5,284,512	\$ 2,568,491	\$ 2,596,577
Long-term liabilities	154,087	4,191,600	(4,037,513)	2,125,868	2,065,732
Total liabilities	10,603,667	9,356,668	1,246,999	4,694,359	4,662,309
Deferred inflows	406,877	54,157	352,720	72,207	(18,050)
Total liabilities and deferred inflows	11,010,544	9,410,825	1,599,719	4,766,566	4,644,259
Net position					
Net investment in capital assets	16,358,846	15,031,828	1,327,018	13,442,984	1,588,844
Restricted	436,457	529,075	(92,618)	329,217	199,858
Unrestricted	17,053,183	16,537,069	516,114	21,457,715	(4,920,646)
Total net position	33,848,486	32,097,972	1,750,514	35,229,916	(3,131,944)
Total liabilities and net position	<u>\$ 44,859,030</u>	<u>\$ 41,508,797</u>	<u>\$ 3,350,233</u>	<u>\$ 39,996,482</u>	<u>\$ 1,512,315</u>

Total assets and deferred outflows increased approximately \$3,350,000 during 2017. The significant changes in the Hospital's assets were in current assets with an increase of \$8,235,000 mainly related to patient accounts receivable for the new long-term care facilities and the transfer of assets whose use is limited to cash and cash equivalents to subsidize Hospital operations. Deferred outflows decreased \$625,000 in 2017 related to the Hospital's defined pension plan activity.

Total liabilities and deferred inflows increased by approximately \$1,600,000 during 2017. The significant changes included an increase in accounts payable and accrued expenses and other current liabilities due to long-term care activity and a decrease in amount the pension liability of \$4,192,000 due to the defined benefit plan being frozen during 2017.

Net position increased by approximately \$1,751,000 from 2016 to 2017. The increase relates to operating income of \$1,628,000 in 2017. The changes to the defined benefit plan created a reduction to the pension expense of \$4,644,000 compared to 2016. Pension expense was a credit of \$3,592,000 in 2017 compared to an expense of \$1,052,000 in 2016.

JAY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2017 AND 2016

Total assets and deferred outflows increased approximately \$1,512,000 during 2016. The significant changes in the Hospital's assets were in current assets with an increase of \$3,426,000 mainly related to long-term care operations and assets whose use is limited with a decrease of \$5,627,000 related to transfers to subsidize operations. Deferred outflows increased \$1,580,000 in 2016 related to the Hospital's defined pension plan activity.

Total liabilities and deferred inflows increased by approximately \$4,644,000 in 2016. The significant changes included an increase in accounts payable and accrued expenses and other current liabilities due to long-term care activity and an increase in amount the pension liability of \$2,066,000.

Net position decreased by approximately \$3,132,000 from 2015 to 2016. The decrease relates to an operating loss of \$3,652,000 in 2016.

Table 2 – Consolidated Statements of Revenues, Expenses and Changes in Net Position

	2017	2016	2017-2016 Change	2015	2016 - 2015 Change
Operating revenues					
Net patient service revenue	\$ 102,845,125	\$ 56,637,040	\$ 46,208,085	\$ 38,328,762	\$ 18,308,278
Other operating revenue	2,742,679	1,264,019	1,478,660	631,567	632,452
Total operating revenues	105,587,804	57,901,059	47,686,745	38,960,329	18,940,730
Operating expenses					
Salaries, wages and benefits	20,056,127	24,234,243	(4,178,116)	21,163,955	3,070,288
Professional fees and contract services	50,753,545	20,244,972	30,508,573	6,803,415	13,441,557
Supplies	9,976,472	6,253,041	3,723,431	4,158,016	2,095,025
Depreciation and amortization	2,205,708	1,747,631	458,077	1,971,351	(223,720)
Other	20,968,047	9,072,994	11,895,053	2,986,664	6,086,330
Total operating expenses	103,959,899	61,552,881	42,407,018	37,083,401	24,469,480
Operating income (loss)	1,627,905	(3,651,822)	5,279,727	1,876,928	(5,528,750)
Nonoperating revenues (expenses)	122,609	519,878	(397,269)	34,934	484,944
Change in net position	1,750,514	(3,131,944)	4,882,458	1,911,862	(5,043,806)
Net position					
Beginning of year	32,097,972	35,229,916	(3,131,944)	33,318,054	1,911,862
End of year	\$ 33,848,486	\$ 32,097,972	\$ 1,750,514	\$ 35,229,916	\$ (3,131,944)

The Hospital's performance in 2017 was favorable with a positive return on equity of 5.2% compared to prior year negative return of 9.8%. The increase is the result of revenues increasing approximately \$47,687,000 compared to an increase in expenses of \$42,407,000 for 2017.

Total operating revenue increased approximately \$47,687,000 mainly related to long-term care services. Net patient service revenue accounted for \$46,208,000 of the increase in 2017.

JAY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

SEPTEMBER 30, 2017 AND 2016

Expenses increased by approximately \$42,407,000 between 2017 and 2016. Salaries, wages and benefits decreased by \$4,178,000 mainly related to the pension expense for change in the defined benefit plan. Professional fees and contract services increased \$30,509,000, between 2017 and 2016 mainly due to long-term care services.

Nonoperating revenues (expenses) decreased by approximately \$397,000 due to a decrease in investment income and contributions between years. Contributions were \$39,000 in 2017 compared to \$308,000 in 2016 related to the Foundation's activity.

The Hospital's performance in 2016 was unfavorable with a negative return on equity of 9.8% compared to prior year of positive return of 5.4%. The decrease is the result of expenses increasing approximately \$24,469,000 compared to an increase in revenue of \$18,941,000 for 2016.

Total operating revenue increased approximately \$18,941,000 mainly related to long-term care services. Net patient service revenue accounted for \$18,308,000 of the increase in 2016.

Expenses increased by approximately \$24,469,000 between 2016 and 2015. Salaries, wages and benefits increased by approximately \$3,070,000 mainly due to the defined benefit plan expense. Professional fees and contract services, as well as facility and equipment leases increased over 2016 mainly due to long-term care services.

Nonoperating revenues (expenses) increased by approximately \$485,000 due to an increase in investment income and contributions between years. Contributions were \$308,000 in 2016 compared to \$55,000 in 2015 related to the Foundation's activity.

Table 3 – Consolidated Statements of Cash Flows

The final required statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balances during the reporting period?"

Total cash and cash equivalents increased approximately \$2,936,000 in 2017. Operating activities increased cash and cash equivalents of \$1,938,000 during 2017 mainly from the income from operations. Noncapital financing activities increased cash and cash equivalents by \$39,000 mainly due to contributions received during 2017. Capital and related financing decreased cash and cash equivalents by \$3,514,000 during 2017 mainly as the result of expenditures for property and equipment. Investing activities increased cash and cash equivalents by \$4,472,000 in 2017 due to proceeds received from the sale of investments.

JAY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2017 AND 2016

Total cash and cash equivalents decreased approximately \$8,533,000 in 2016. Operating activities decreased cash and cash equivalents of \$2,359,000 mainly from the loss from operations. Noncapital financing activities increased cash and cash equivalents by \$308,000 mainly due to contributions received. Capital and related financing decreased cash and cash equivalents by \$3,310,000 mainly as the result of expenditures for property and equipment. Investing activities decreased cash and cash equivalents by \$3,173,000 as cash was used from investments to subsidize operations and increased expenditures.

Cash and cash equivalents decreased in 2015 due mainly to operating activities, \$1,352,000 use of cash and cash equivalents, and capital and related financing activities, \$2,202,000 use of cash and cash equivalents.

The following is a summary of cash flows:

Cash flows data			2017-2016		
	2017	2016	Change	2015	2016 -2015 Change
From operating activities	\$ 1,938,304	\$ (2,358,647)	\$ 4,296,951	\$ (1,352,352)	\$ (1,006,295)
From noncapital financing activities	39,105	307,624	(268,519)	6,342	301,282
From capital and related financing activities	(3,513,697)	(3,309,620)	(204,077)	(2,201,549)	(1,108,071)
From investing activities	4,472,414	(3,172,823)	7,645,237	24,653	(3,197,476)
Change in cash and cash equivalents	<u>\$ 2,936,126</u>	<u>\$ (8,533,466)</u>	<u>\$ 11,469,592</u>	<u>\$ (3,522,906)</u>	<u>\$ (5,010,560)</u>

Capital Assets

During 2017, the Hospital invested approximately \$3,695,000 in capital assets net of asset disposals compared to \$1,347,000 in 2016. During 2016, the Hospital invested \$1,347,000 in capital assets net of asset disposals compared to \$3,636,000 in 2015. Please refer to the notes to the consolidated financial statements for more detailed information on capital assets.

The change in capital assets is outlined in the following table:

			2017-2016		
	2017	2016	Change	2015	2016-2015 Change
Land	\$ 347,733	\$ 347,733	\$ -0-	\$ 347,733	\$ -0-
Land improvements	952,332	952,332	-0-	952,332	-0-
Buildings and improvements	26,558,290	24,038,676	2,519,614	24,130,226	(91,550)
Equipment	19,490,766	17,326,515	2,164,251	16,148,301	1,178,214
Construction in process	4,568	993,703	(989,135)	733,298	260,405
	<u>47,353,689</u>	<u>43,658,959</u>	<u>3,694,730</u>	<u>42,311,890</u>	<u>1,347,069</u>
Less accumulated depreciation	30,798,563	28,627,131	2,171,432	28,868,906	(241,775)
Capital assets, net	<u>\$ 16,555,126</u>	<u>\$ 15,031,828</u>	<u>\$ 1,523,298</u>	<u>\$ 13,442,984</u>	<u>\$ 1,588,844</u>

JAY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2017 AND 2016

Debt Administration

The Hospital entered into a capital lease during 2017 for approximately \$227,000 with an outstanding balance of \$196,000 as of September 30, 2017. More detailed information about the Hospital's long-term debt is presented in the notes to the consolidated financial statements.

Economic Outlook

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure because of changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. The ongoing challenge facing the Hospital is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant cost factor affecting the Hospital is the increases in labor costs due to the increasing competition for quality health care workers. Uncompensated care is also a significant factor on the Hospital's margin.

Contacting Hospital Management

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's financial condition. If you have any questions about this report, you may contact the Hospital's Administrative offices at 500 West Votaw Street, Portland, Indiana 47371.

JAY COUNTY HOSPITAL

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2017 AND 2016

ASSETS AND DEFERRED OUTFLOWS

	2017	2016
Current assets		
Cash and cash equivalents	\$ 7,640,010	\$ 2,867,290
Patient accounts receivable, net of allowance for uncollectible accounts of \$8,966,503 in 2017 and \$11,815,062 in 2016	11,734,775	8,764,486
Inventory	514,222	511,239
Other current assets	1,951,538	1,462,914
Total current assets	<u>21,840,545</u>	<u>13,605,929</u>
Assets whose use is limited		
Internally designated	3,419,567	9,585,330
Donor restricted	265,066	343,836
Total assets whose use is limited	<u>3,684,633</u>	<u>9,929,166</u>
Capital assets, net	16,555,126	15,031,828
Other assets		
Intangible assets, net	26,638	53,344
Pension asset	778,704	-0-
Other	281,351	571,009
Total other assets	<u>1,086,693</u>	<u>624,353</u>
Total assets	43,166,997	39,191,276
Deferred outflows	1,692,033	2,317,521
Total assets and deferred outflows	<u>\$ 44,859,030</u>	<u>\$ 41,508,797</u>

See accompanying notes to consolidated financial statements.

JAY COUNTY HOSPITAL

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2017 AND 2016

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

	2017	2016
Current liabilities		
Accounts payable	\$ 5,275,883	\$ 1,938,438
Accrued salaries, wages, and related liabilities	2,514,302	2,151,840
Accrued expenses and other current liabilities	2,234,549	613,899
Estimated third-party payor settlements	382,653	460,891
Current portion of capital lease obligations	42,193	-0-
Total current liabilities	10,449,580	5,165,068
Long-term liabilities		
Long-term capital lease obligations	154,087	-0-
Pension liability	-0-	4,191,600
Total liabilities	10,603,667	9,356,668
Deferred inflows	406,877	54,157
Total liabilities and deferred inflows	11,010,544	9,410,825
Net position		
Net investment in capital assets	16,358,846	15,031,828
Restricted		
Non-expendable	171,391	185,239
Donor restricted - expendable	265,066	343,836
Total restricted	436,457	529,075
Unrestricted	17,053,183	16,537,069
Total net position	33,848,486	32,097,972
Total liabilities, deferred inflows and net position	\$ 44,859,030	\$ 41,508,797

See accompanying notes to consolidated financial statements.

JAY COUNTY HOSPITAL

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
Operating revenues		
Net patient service revenue	\$ 102,845,125	\$ 56,637,040
Other operating revenue	2,742,679	1,264,019
Total operating revenues	105,587,804	57,901,059
Operating expenses		
Salaries and wages	17,444,955	17,261,080
Employee benefits	2,611,172	6,973,163
Professional fees and contract services	50,753,545	20,244,972
Supplies	9,976,472	6,253,041
Insurance	436,633	439,667
Facility and equipment leases	7,223,406	2,890,191
Repairs and maintenance	890,208	614,843
Utilities	1,662,237	1,005,406
HAF program	1,200,978	635,508
Depreciation and amortization	2,205,708	1,747,631
Other	9,554,585	3,487,379
Total operating expenses	103,959,899	61,552,881
Operating income (loss)	1,627,905	(3,651,822)
Nonoperating revenues (expenses)		
Investment income	102,626	238,699
Contributions	39,105	307,624
Other	(19,122)	(26,445)
Total nonoperating revenues (expenses)	122,609	519,878
Change in net position	1,750,514	(3,131,944)
Net position		
Beginning of year	32,097,972	35,229,916
End of year	\$ 33,848,486	\$ 32,097,972

See accompanying notes to consolidated financial statements.

JAY COUNTY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
Operating activities		
Cash received from patients and third-party payors	\$ 99,796,598	\$ 55,343,442
Cash paid for employees' salaries, wages and benefits	(19,693,665)	(23,265,233)
Cash paid to vendors for goods and services	(77,231,576)	(35,624,452)
Other operating receipts (disbursements), net	(933,053)	1,187,596
Net cash flows from operating activities	1,938,304	(2,358,647)
Noncapital financing activities		
Contributions and other	39,105	307,624
Capital and related financing activities		
Acquisition and construction of capital assets	(3,474,819)	(3,309,620)
Cash paid for principal on long-term debt	(31,201)	-0-
Cash paid for interest on long-term debt	(7,677)	-0-
Net cash flows from financing activities	(3,513,697)	(3,309,620)
Investing activities		
Investment income	102,626	238,699
Other nonoperating revenues (expenses)	57,786	107,332
Purchase of investments	(870,025)	(5,840,877)
Proceeds from sale of investments	5,182,027	2,322,023
Net cash flows from investing activities	4,472,414	(3,172,823)
Net change in cash and cash equivalents	2,936,126	(8,533,466)
Cash and cash equivalents		
Beginning of year	5,488,064	14,021,530
End of year	\$ 8,424,190	\$ 5,488,064
Reconciliation of cash and cash equivalents to the consolidated balance sheet		
Cash and cash equivalents		
In current assets	\$ 7,640,010	\$ 2,867,290
In assets whose use is limited	784,180	2,620,774
Total cash and cash equivalents	\$ 8,424,190	\$ 5,488,064

See accompanying notes to consolidated financial statements.

JAY COUNTY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
Reconciliation of operating income (loss) to net cash flows from operating activities		
Operating income (loss)	\$ 1,627,905	\$ (3,651,822)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities		
Depreciation and amortization	2,205,708	1,747,631
Provision for bad debts	2,353,266	7,174,548
Changes in operating assets and liabilities		
Patient accounts receivable	(5,323,555)	(8,929,037)
Inventory and other current assets	(491,607)	(1,220,121)
Pension asset	(778,704)	-0-
Other assets	316,364	(544,303)
Deferred outflows	625,488	(1,579,802)
Accounts payable	3,337,445	1,113,691
Accrued salaries, wages, and related liabilities	362,462	969,010
Accrued expenses and other current liabilities	1,620,650	52,985
Estimated third-party payor settlements	(78,238)	460,891
Pension liability	(4,191,600)	2,065,732
Deferred inflows	352,720	(18,050)
Net cash flows from operating activities	<u>\$ 1,938,304</u>	<u>\$ (2,358,647)</u>
Supplemental cash flows information		
Property acquired through capital lease obligation	\$ 227,481	\$ -0-

See accompanying notes to consolidated financial statements.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Jay County Hospital (the Hospital) is a county facility and operates under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provides short-term inpatient, outpatient, physician and long-term health care services. The Board of County Commissioners of Jay County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between Jay County (the County) and the Hospital. For these reasons, the Hospital is considered a component unit of the County.

The consolidated financial statements of the Hospital are intended to present the financial position, changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of the Hospital. They do not purport to, and do not, present the financial position of the County as of September 30, 2017 and 2016 and the changes in its financial position or its cash flows for the years then ended.

Accounting principles generally accepted in the United States require that these consolidated financial statements present the Hospital and its blended component units, collectively referred to as the "primary government." The blended component units, as discussed below, are included in the Hospital's reporting entity because of the significance of their operational or financial relationship with the Hospital. Blended component units, although legally separate entities, are in substance part of the primary government's operations and exist solely to provide services for the primary government; data from these units is consolidated with data of the primary government.

Basis of Consolidation

The accompanying consolidated financial statements of the Hospital include the accounts of the blended component unit - Jay County Hospital Foundation, Inc. (the Foundation), a separate not-for-profit entity organized to support the operations of the Hospital. The consolidated financial statements also include Jay County Medical Facilities, LLC (JCMF), a blended component unit of the Hospital. JCMF is a separate for-profit entity organized to support the operations of the Hospital by owning and renting real property. The Hospital has a majority ownership in JCMF.

All significant intercompany transactions have been eliminated in the consolidated financial statements. The separate financial statements for each of the entities discussed above may be obtained through contacting management of the Hospital.

New Accounting Standards

During 2017, the Hospital implemented GASB Statement No. 82 *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. There was no material impact to the consolidated financial statement disclosures as a result of adoption of this standard as these disclosures have been provided historically.

Long-Term Care Operations

The Hospital leases the operations of certain long-term care facilities by way of an arrangement with managers of these facilities which provide inpatient and therapy services. Generally, gross revenues from the operation of the long-term care facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the managers shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

The Hospital entered into lease agreements with the long-term care facilities to lease the facilities managed by the respective managers. Concurrently, the Hospital entered into agreements with the managers to manage the leased facilities. As part of the agreements, the Hospital pays the managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. The agreements expire at various times through 2018. Generally, all parties involved can terminate the agreements without cause with 90 days written notice.

Measurement Focus and Basis of Accounting

The consolidated financial statements are reported using the economic resources measurement focus and on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include deposits and investments in highly liquid debt instruments with an original maturity date of 90 days or less from the date of purchase. The Hospital maintains its cash in accounts, which at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes it is not exposed to any significant credit risk on cash and cash equivalents.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is classified as Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At year-end, a cost report for hospital-based services is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party programs. These programs have audited the year-end cost report filed with the Medicare program through September 30, 2016 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports are reflected in estimated third-party payor settlements on the consolidated balance sheets. During 2017 and 2016, the Hospital recognized increases in net position of approximately \$293,000 and \$163,000, respectively, in the consolidated statements of revenues, expenses and changes in net position due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

The Hospital has entered into agreements with certain commercial carriers. Reimbursement for services under these agreements includes discounts from established charges and other payment methodologies. Patient charges under these programs, on which no interim payments have been received, are included in patient accounts receivable at the estimated net realizable value of such charges.

Management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

Inventory

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out method. Inventory consists of medical supplies and pharmaceuticals.

Other Current Assets and Other Assets

Other current assets consist of prepaid expenses, other reimbursement receivables related to long-term care services and various other current items. These assets are classified as current as they are expected to be utilized during 2018. Other assets consist of intangible assets, a pension asset related to the Hospital's defined benefit plan, and assets related to long-term care services.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

Intangible assets of approximately \$27,000 and \$53,000 as of September 30, 2017 and 2016, respectively, relate to the amortization of medical records for purchased physician practices. The intangibles assets are amortized over their useful life of approximately 8 years. Amortization expense for both 2017 and 2016 was approximately \$26,500. Amortization expense in 2018 is expected to approximate \$26,500 for the year.

Assets Whose Use is Limited

Assets whose use is limited are stated at fair market value in the consolidated financial statements. These assets include investments designated by the Hospital Board for internal purposes and investments restricted by donors for a specific purpose or time.

These investments consist primarily of cash and cash equivalents, certificates of deposit, and mutual funds. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenues (expenses) in the consolidated statements of revenues, expenses and changes in net position.

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

Capital Assets and Depreciation

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at historical cost. Contributed or donated assets are reported at estimated fair value at the time received. The capitalization threshold (the dollar values above which asset acquisitions are added to the capital asset accounts) is \$2,500 per item, or a group of items with an aggregate cost of at least \$5,000. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method over the estimated useful lives of capital assets which range from 3-40 years. For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Net Position

The net position of the Hospital is classified into four components. (1) Net investment in capital assets represents capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) Restricted non-expendable net position includes the principal portion of permanent endowments, if any, and non-controlling interests owned by external investors. (3) Restricted expendable net position includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributions external to the Hospital. (4) Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

Restricted non-expendable net position includes non-controlling interest, which represents the portion of net position that is owned by the investors who are external to and not included in the consolidated financial statements of approximately \$171,000 and \$185,000 as of September 30, 2017 and 2016, respectively. The Hospital consolidates as a blended component unit, JCMF, in which external investors have a minority, non-controlling financial interest.

The total net position activity for the controlling and non-controlling portions related to JCMF for 2017 and 2016 follows:

	2017		
	Controlling interest	Noncontrolling interest	Total
Balance, beginning of year	\$ 350,411	\$ 185,239	\$ 535,650
Operating loss	(25,718)	(13,848)	(39,566)
Balance, end of year	<u>\$ 324,693</u>	<u>\$ 171,391</u>	<u>\$ 496,084</u>

	2016		
	Controlling interest	Noncontrolling interest	Total
Balance, beginning of year	\$ 455,333	\$ 244,205	\$ 699,538
Operating loss	(104,922)	(58,966)	(163,888)
Balance, end of year	<u>\$ 350,411</u>	<u>\$ 185,239</u>	<u>\$ 535,650</u>

Restricted Resources

The Hospital first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Consolidated Statements of Revenues, Expenses and Changes in Net Position

The Hospital's consolidated statements 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. Nonoperating revenues include contributions received for purposes other than capital asset acquisition, and other nonoperating activities and are reported as nonoperating revenues or expenses. Operating expenses are generally all expenses incurred to provide health care services, other than interest costs.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30). The related EHR incentive payments are paid out over a four-year transition schedule and are based upon data that is captured in the Hospital's cost reports.

The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific requirements. In addition, the consolidated financial statement effects of the income must be both recognizable and measurable. During 2017 and 2016, the Hospital recognized approximately \$-0- and \$129,000, respectively, in EHR incentive payments, respectively, using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the programs.

EHR incentive income is included in other operating revenue in the consolidated statements of revenues, expenses and changes in net position. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur. Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the programs, subject to future audits and may be subject to repayment upon a determination of noncompliance.

Grants and Contributions

From time to time, the Hospital and Foundation receive 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, if any, restricted to capital acquisitions are reported as nonoperating revenues and expenses.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy on a sliding scale on the basis of financial need. Because the Hospital does not pursue collection of approved charity care balances, the charges are not reflected in net revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient service revenue.

Of the Hospital's total expenses reported within the consolidated statements of revenues, expenses and changes in net position, an estimated \$212,000 and \$163,000 arose from providing services to charity patients for 2017 and 2016, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's expenses to gross patient service revenue.

Advertising and Community Relations

The Hospital expenses advertising and community relations costs as they are incurred. Total advertising expenses for 2017 and 2016 were approximately \$89,000 and \$156,000, respectively.

Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service under separate policies for sick, vacation and personal leaves. The estimated amount of unused vacation is reported as a liability within the accrued salaries, wages, and related liabilities on the consolidated balance sheet.

Pensions

For purposes of measuring the net pension asset or liability, deferred outflows and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Hospital's defined benefit pension plan (the Plan), and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 22, of the Indiana statutes and, accordingly, is generally exempt from federal income tax under Section 115 of the Internal Revenue Code (IRC) of 1986. As a governmental entity under Section 115 of the IRC, the Hospital is not required to file an income tax return.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

The Foundation is a tax-exempt organization under IRC 501(c)(3). As such, it is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax. The Foundation has filed its federal and state income tax returns for periods through September 30, 2016. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

JCMF is a Limited Liability Company (LLC) and profit and loss are passed through to the members of the LLC. JCMF has filed its federal and state income tax returns for periods through December 31, 2016. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and its component units and recognize a tax liability if the Hospital or its component units have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and its component units and has concluded that as of September 30, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

Medical Malpractice

The Hospital participates in the State of Indiana Patient Compensation Fund (the Fund) and is covered under the Indiana Medical Malpractice Act (the Act). The Act provides for a maximum recovery of \$1,650,000 per occurrence (\$8,000,000 or \$12,000,000 annual aggregate based on hospital bed size), \$400,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the Fund.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

The Hospital has commercial insurance for malpractice (in addition to coverage under the Act) under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding \$400,000, if not covered under the Act, or aggregate claims exceeding \$8,000,000, if not covered under the Act, for claims asserted in the policy year. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on the occurrences during the claims-made term, but reported subsequently, will be uninsured. The Hospital is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. No claims have been settled during the past three years that have exceeded policy coverage limits. The cost of this insurance policy represents the Hospital's cost for such claims for the year, and it has been charged to operations as a current expense.

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Hospital has purchased commercial insurance for general liability and employee medical claims.

Litigation

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

Reclassifications

Certain amounts in the prior year consolidated financial statements were reclassified to conform with the current year presentation. The reclassification had no impact on previously reported net position or change in net position.

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued which is April 27, 2018.

2. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include:

Internally designated – Amounts transferred by the Hospital's 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's buildings as authorized by IC 16-22-3-13.

Donor restricted – Foundation amounts restricted by donors which include expendable amounts based on donor stipulations.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

The composition of assets whose use is limited includes the following as of September 30, 2017 and 2016:

	2017	2016
Internally designated		
Certificates of deposit	\$ 912,031	\$ 2,051,006
Money market deposit accounts	519,114	2,276,938
Mutual funds	1,988,422	5,257,386
Total internally designated	3,419,567	9,585,330
Restricted by donors		
Cash	265,066	343,836
Total assets whose use is limited	\$ 3,684,633	\$ 9,929,166

3. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Investments (assets whose use is limited) are carried at fair market value except for money market deposit accounts and certificates of deposit which are carried at contract value. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

As of September 30, 2017 and 2016, the Hospital, Foundation and JCMF had the following investments and maturities, all of which were held in the respective names by custodial banks that are agents of the Hospital, Foundation and JCMF.

	September 30, 2017				
	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Hospital					
Certificates of deposit	\$ 912,031	\$ 912,031	\$ -0-	\$ -0-	\$ -0-
Mutual funds	1,988,422	1,988,422	-0-	-0-	-0-
	\$ 2,900,453	\$ 2,900,453	\$ -0-	\$ -0-	\$ -0-

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

		September 30, 2016				
		Investment Maturities (in years)				
		Carrying Amount	Less than 1	1-5	6-10	More than 10
Hospital						
	Certificates of deposit	\$ 2,051,006	\$ 2,051,006	\$ -0-	\$ -0-	\$ -0-
	Mutual funds	5,257,386	5,257,386	-0-	-0-	-0-
		<u>\$ 7,308,392</u>	<u>\$ 7,308,392</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Interest rate risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – 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.

Concentration of credit risk – The Hospital maintains its investments, which at times may exceed federally insured limits, and has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

Deposits consist of the following as of September 30, 2017 and 2016:

	2017	2016
Carrying amount		
Deposits	\$ 8,424,190	\$ 5,488,064
Investments	2,900,453	7,308,392
	<u>\$ 11,324,643</u>	<u>\$ 12,796,456</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 7,640,010	\$ 2,867,290
Assets whose use is limited	3,684,633	9,929,166
	<u>\$ 11,324,643</u>	<u>\$ 12,796,456</u>

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

4. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2017 or 2016.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of September 30, 2017 and 2016.

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

The following tables set forth by level, within the hierarchy, the Hospital's assets and liabilities measured at fair value on a recurring basis as of September 30, 2017 and 2016.

	September 30, 2017			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Mutual funds				
Fixed income	\$ 1,988,422	\$ 1,988,422	\$ -0-	\$ -0-
Cash and cash equivalents	784,180			
Certificates of deposit	912,031			
Total assets whose use is limited	\$ 3,684,633			

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Mutual funds				
Fixed income	\$ 4,080,878	\$ 4,080,878	\$ -0-	\$ -0-
Large blend	883,568	883,568	-0-	-0-
Large growth	292,940	292,940	-0-	-0-
Total mutual funds	5,257,386	\$ 5,257,386	\$ -0-	\$ -0-
Cash and cash equivalents	2,620,774			
Certificates of deposit	2,051,006			
Total assets whose use is limited	\$ 9,929,166			

As of September 30, 2017 and 2016, the market value of investments exceeded the cost by approximately \$18,000 and \$250,000, respectively. The gains and (losses) included in earnings for 2017 and 2016 are attributable to the change in unrealized gains and (losses) relating to assets held as of September 30, 2017 and 2016 and are reported in the consolidated statements of revenues, expenses and changes in net position as a component of investment income.

The Hospital holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

5. 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 the following amounts as of September 30, 2017 and 2016:

	2017	2016
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 13,859,385	\$ 16,571,720
Receivable from Medicare	5,637,716	5,863,840
Receivable from Medicaid	3,993,382	3,059,395
Receivable from long-term care operations	6,360,708	2,481,227
Total patient accounts receivable	29,851,191	27,976,182
Less contractual allowances	9,149,913	7,396,634
Less allowance for uncollectible amounts	8,966,503	11,815,062
Patient accounts receivable, net	\$ 11,734,775	\$ 8,764,486
Accounts payable and accrued expenses		
Payable to suppliers and other accrued expenses	\$ 7,510,432	\$ 2,552,337
Payable to employees (including payroll taxes and benefits)	2,514,302	2,151,840
Total accounts payable and accrued expenses	\$ 10,024,734	\$ 4,704,177

6. CAPITAL ASSETS

Capital asset activity for 2017 and 2016 is as follows.

	September 30,				September 30,
	2016	Additions	Retirements	Transfers	2017
Land	\$ 347,733	\$ -0-	\$ -0-	\$ -0-	\$ 347,733
Land improvements	952,332	-0-	-0-	-0-	952,332
Buildings and improvements	24,038,676	2,421,516	-0-	98,098	26,558,290
Equipment	17,326,515	1,250,427	(7,570)	921,394	19,490,766
Construction in process	993,703	30,357	-0-	(1,019,492)	4,568
Total capital assets	43,658,959	3,702,300	(7,570)	-0-	47,353,689
Less accumulated depreciation	28,627,131	2,179,002	(7,570)	-0-	30,798,563
Capital assets, net	\$ 15,031,828	\$ 1,523,298	\$ -0-	\$ -0-	\$ 16,555,126

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

	September 30, 2015	Additions	Retirements	Transfers	September 30, 2016
Land	\$ 347,733	\$ -0-	\$ -0-	\$ -0-	\$ 347,733
Land improvements	952,332	-0-	-0-	-0-	952,332
Buildings and improvements	24,130,226	1,835,272	(1,962,551)	35,729	24,038,676
Equipment	16,148,301	689,830	-0-	488,384	17,326,515
Construction in process	733,298	784,518	-0-	(524,113)	993,703
Total capital assets	42,311,890	3,309,620	(1,962,551)	-0-	43,658,959
Less accumulated depreciation	28,868,906	1,720,776	(1,962,551)	-0-	28,627,131
Capital assets, net	<u>\$ 13,442,984</u>	<u>\$ 1,588,844</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 15,031,828</u>

There were no significant outstanding commitments for capital assets as of September 30, 2017.

7. LONG-TERM DEBT

During 2017, the Hospital entered into a capital lease agreement for certain equipment. The capital lease obligation has imputed interest of 5.45%, matures in 2022, and is collateralized by equipment with cost and accumulated depreciation of approximately \$227,000 and \$31,000, respectively, as of September 30, 2017. A summary of long-term debt as of September 30, 2017 follows:

	September 30, 2016	Additional Borrowings	Payments	September 30, 2017	Current Portion
Capital lease obligations	<u>\$ -0-</u>	<u>\$ 227,481</u>	<u>\$ 31,201</u>	<u>\$ 196,280</u>	<u>\$ 42,193</u>

Scheduled principal and interest repayments on capital lease obligations are as follows:

Year Ending September 30,	Principal	Interest	Total
2018	\$ 42,193	\$ 9,644	\$ 51,837
2019	44,548	7,289	51,837
2020	47,035	4,802	51,837
2021	49,661	2,176	51,837
2022	12,843	117	12,960
	<u>\$ 196,280</u>	<u>\$ 24,028</u>	<u>\$ 220,308</u>

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

8. PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement arrangements with major third-party payors is as follows:

Medicare

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital was granted Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients.

Medicaid and the Indiana Hospital Assessment Fee Program

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

During 2012, the Indiana Hospital Assessment Fee (HAF) Program was approved by the Centers for Medicare & Medicaid Services (CMS). The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals.

The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. During 2017 and 2016, the Hospital recognized HAF Program expense of approximately \$1,201,000 and \$636,000, respectively. The HAF Program expense is included in operating expenses in the consolidated statements of revenues, expenses and changes in net position. The Medicaid rate increases under the HAF Program are included in patient service revenue in the consolidated statements revenues, expenses and changes in net position.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Hospital Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient service revenue of approximately \$1,460,000 and \$1,668,000 during 2017 and 2016, respectively. These programs are administered by the State of Indiana, but rely on Federal funding.

Other Payors

The Hospital also has entered into payment agreements with certain commercial insurance carriers 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.

The following is a summary of patient service revenue for 2017 and 2016:

	2017	2016
Inpatient services	\$ 18,129,035	\$ 20,831,900
Outpatient services	90,618,919	86,164,787
Long-term care services	86,240,174	27,343,288
Gross patient service revenue	194,988,128	134,339,975
Contractual allowances	89,192,336	70,103,995
Charity care	597,401	424,392
Provision for bad debts	2,353,266	7,174,548
Deductions from revenue	92,143,003	77,702,935
Net patient service revenue	<u>\$ 102,845,125</u>	<u>\$ 56,637,040</u>

9. EMPLOYEE HEALTH AND DENTAL BENEFITS

The Hospital is self-insured for medical and related health benefits provided to employees and their families. A stop/loss policy through commercial insurance covers individual claims in excess of \$50,000 per individual per policy year, with an aggregate limit of approximately \$2,596,000. The individual and aggregate stop/loss policy covers only health claims incurred by providers other than the Hospital. In-house claims are not covered under the individual and aggregate stop/loss. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends, including frequency and amounts of payouts, and other economic and social factors. Total health insurance expense for 2017 and 2016 was approximately \$4,130,000 and \$4,386,000 respectively.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

Changes in the balance of claim liabilities for 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Unpaid claims, beginning of year	\$ 672,710	\$ 564,808
Incurred claims and changes in estimates	4,129,504	4,385,641
Claim payments	(4,129,504)	(4,277,739)
Unpaid claims, end of year	<u>\$ 672,710</u>	<u>\$ 672,710</u>

10. DEFINED BENEFIT PENSION PLAN

Plan Description

The Hospital has a defined benefit pension plan, Retirement Plan for Employees of Jay County Hospital (the Plan) as authorized by IC 16-22-3-11. The Plan is a single-employer plan which provides retirement and death benefits to Plan members and beneficiaries. The Plan was established by written agreement by the Hospital Board of Trustees. Nyhart is the actuary and third party administrator of the Plan. Charles Schwab Trust Company (Charles Schwab) is the custodian of the Plan's assets. During 2017, the Hospital froze benefits to a majority of Plan participants whose benefits were fully vested at that time and began offering retirement benefits to employees through a tax deferred annuity plan (see Note 11). For more information on the Plan, participants should contact the administrative offices at the Hospital.

Benefits Provided

The Plan principally provides retirement benefits. For those participants who continue to accrue benefits, the following summarizes benefits available.

An employee whose first date of employment is on or after January 1, 2009 may not become a participant. Participants are fully vested after 5 years of service or attaining normal retirement age. For a participant entering the Plan before December 31, 1988, the normal retirement date is the first day of the month coincident with or following age 65. Normal retirement age for a participant entering the Plan after December 31, 1988 shall mean the later of (i) the participant's age at which the participant first becomes entitled to full or unreduced Old Age Insurance Benefits pursuant to the Social Security Act, as amended, based solely on the participant's year of birth, or (ii) the participant's age on the fifth anniversary of the date the participant first entered the Plan. The early retirement date for vested participants who entered the Plan before December 31, 1988 and terminate employment prior to the Normal Retirement Date can occur once an employee has attained age 55 with 5 years of credited service. Participants entering the Plan after December 31, 1988, who terminate employment prior to Normal Retirement Date, shall be eligible for an early retirement benefit on the first day of the calendar month coincident with or next following the later of: (a) the date which is 10 years prior to the date the participant attains normal retirement age; or (b) the date on which the participant completes 10 years of credited service. The monthly amount of normal retirement benefit payable to a participant on the

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

normal form of retirement benefit shall be equal to the sum of: 1) \$5.00 multiplied by benefit services as of December 31, 1988; 2) 0.75% of monthly plan compensation as of December 31, 1988 in excess of \$550 multiplied by benefit service as of December 31, 1988; 3) and 1.1% of monthly plan compensation multiplied by benefit service earned after December 31, 1988. The monthly amount of Early Retirement benefit payable to a participant on the early retirement form of retirement benefit shall be equal to the accrued retirement benefit, reduced by 0.25%, for each month by which commencement of a participant's early retirement benefit precedes his Normal Retirement Date. Disability retirement benefits are not available under the Plan. Death benefits under the Plan vary based on the participant's years of credited service, average annual compensation and other factors as defined under the Plan.

Funding Policy

The contributions of the Hospital to the Plan meet the minimum funding requirements established by the Plan. The entire cost of the Plan is borne by the Hospital. Therefore, active plan members are not required to contribute to the Plan. The Hospital is required to contribute at actuarially determined amounts. The contribution requirement is determined using an accepted actuarial cost method.

For 2017 and 2016, the actuarially determined Hospital's contribution was 5.80% and 7.54% as a percentage of covered payroll, respectively. A credit to pension expense of approximately \$3,592,000 was recorded for 2017. Pension expense of approximately \$1,052,000 was recorded for 2016.

Employees Covered by Benefit Terms

As of September 30, 2017 and 2016, the following employees were covered by the benefit terms:

	<u>2017</u>	<u>2016</u>
Inactive plan members or beneficiaries currently receiving benefits	130	119
Inactive plan members entitled to but not yet receiving benefits	56	51
Active plan members	132	149
	<u>318</u>	<u>319</u>

Contributions

The contribution requirements of Plan members are established and can be amended by the Hospital's Board of Trustees. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Hospital is required to contribute at an actuarially determined rate. The annual required contributions for 2017 and 2016 and estimated liabilities were determined as part of the actuarial valuations using the Entry Age Normal cost method. During 2017 and 2016, the Hospital contributed approximately \$400,000 and \$584,000 to the Plan, respectively.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

Net Pension Liability

The Hospital's net pension liability was measured as of September 30, 2017 and 2016 based on valuation data as of January 1, 2017 and January 1, 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 and January 1, 2016.

Actuarial assumptions

The total pension liability in the September 30, 2017 and 2016 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2017</u>	<u>2016</u>
Inflation	3.0%	3.0%
Salary increases	0.0%	4.0%
Investment rate of return	7.0%	7.0%

The Plan does not pay a regular or ad-hoc cost of living adjustment. Therefore, the cost of living increase assumption used in determining net pension liability is not applicable.

Mortality rates were based on the RP-2014 with generational improvements from 2006 based on the Social Security Administration's assumptions from the 2016 Trustees' Report for 2017 and the RP-2014 sex distinct mortality with generational improvements projected beginning in 2006 based on the Social Security Administration's assumptions from the 2014 Trustees' Report for 2016.

Pension plan investments are recorded at fair market value. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These expected future real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

Best estimates of arithmetic plan's target asset allocation as of September 30, 2017 and 2016 are summarized in the following tables:

Asset Class	2017		2016	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	49%	3.00%	49%	1.96%
Domestic equity	33%	6.50%	33%	6.00%
International equity	17%	7.50%	17%	7.00%
Cash	1%	1.00%	1%	1.00%
Total	100%	18.00%	100%	15.96%

Discount Rate

The discount rate used to measure the total pension liability was 7.00% for both 2017 and 2016. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will continue to follow the current funding policy. Based on those assumptions, the pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability

The following presents the net pension (asset) liability of the Hospital, calculated using the discount rate of 7.00%, as well as what the Hospital's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate as of September 30, 2017:

	1% Decrease	Current	1% Increase
	(6.00%)	Discount Rate (7.00%)	(8.00%)
Net pension (asset) liability	\$ 784,699	\$ (778,704)	\$ (2,471,593)

Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial report.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

Changes in the Net Pension Liability

The changes in the net pension liability during 2017 and 2016 were as follows:

	2017		
	Total Pension	Plan Fiduciary	Net Pension
	Liability (a)	Net Position (b)	(Asset) Liability (a) - (b)
Balances, beginning of year	\$ 17,303,141	\$ 13,111,541	\$ 4,191,600
Changes during the year			
Service cost	86,588	-0-	86,588
Interest	1,196,265	-0-	1,196,265
Changes in benefit terms	(3,900,929)	-0-	(3,900,929)
Differences between expected and actual experience	(528,267)	-0-	(528,267)
Changes of assumptions	(49,704)	-0-	(49,704)
Benefit payments, including refunds of member contributions	(600,453)	(600,453)	-0-
Contributions - employer	-0-	400,000	(400,000)
Net investment income	-0-	1,374,257	(1,374,257)
Net change	(3,796,500)	1,173,804	(4,970,304)
Balances, end of year	\$ 13,506,641	\$ 14,285,345	\$ (778,704)
	2016		
	Total Pension	Plan Fiduciary	Net Pension
	Liability (a)	Net Position (b)	(Asset) Liability (a) - (b)
Balances, beginning of year	\$ 14,259,313	\$ 12,133,447	\$ 2,125,866
Changes during the year			
Service cost	285,672	-0-	285,672
Interest	1,072,338	-0-	1,072,338
Differences between expected and actual experience	544,350	-0-	544,350
Changes of assumptions	1,635,751	-0-	1,635,751
Benefit payments, including refunds of member contributions	(494,283)	(494,283)	-0-
Contributions - employer	-0-	584,186	(584,186)
Net investment income	-0-	888,191	(888,191)
Net change	3,043,828	978,094	2,065,734
Balances, end of year	\$ 17,303,141	\$ 13,111,541	\$ 4,191,600

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of September 30, 2017 and 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance, beginning of year	\$ 2,317,521	\$ (54,157)
Differences between expected and actual experience	-0-	(528,267)
Amortization of expected versus actual	(108,870)	546,319
Changes of assumptions	-0-	(49,704)
Amortization of changes in assumptions	(330,840)	49,704
Differences between projected versus actual earnings on plan investments	-0-	(463,465)
Amortization of projected versus actual earnings on plan investments	(185,778)	92,693
Balance, end of year	\$ 1,692,033	\$ (406,877)
	2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance, beginning of year	\$ 737,719	\$ (72,207)
Differences between expected and actual experience	544,350	-0-
Amortization of expected versus actual	(108,870)	18,050
Changes of assumptions	1,635,751	-0-
Amortization of changes in assumptions	(330,840)	-0-
Differences between projected versus actual earnings on plan investments	25,189	-0-
Amortization of projected versus actual earnings on plan investments	(185,778)	-0-
Balance, end of year	\$ 2,317,521	\$ (54,157)

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending September 30,	
2018	\$ 514,743
2019	514,741
2020	348,365
2021	(92,693)
	<u>\$ 1,285,156</u>

11. DEFINED CONTRIBUTION PENSION PLAN

The Hospital maintains a 403(b) retirement savings plan administered by Nyhart. Charles Schwab is the custodian and holds the plan assets. This plan provides retirement benefits to plan members and beneficiaries. Reports for the plan are available by contacting the Hospital's administrative offices. During 2017, the plan was amended to allow employees hired prior to January 2009 to participate since the defined benefit plan was frozen during the year. The contribution requirements of members of the plan are established and can be amended by written agreement. Eligible employees are not required to contribute to the plan. The Hospital can elect discretionary contributions to the plan as determined by the Board of Trustees. 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 annual salary. Employer contribution expenses to the plan for 2017 and 2016 are approximately \$477,000 and \$202,000, respectively.

12. CONCENTRATIONS OF CREDIT RISK

The Hospital is located in Portland, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross patient accounts receivable and gross patient revenues from self-pay and third party payors as of and for the years ended September 30, 2017 and 2016 was as follows:

	2017		2016	
	Receivables	Revenue	Receivables	Revenue
Medicare	24%	40%	23%	39%
Medicaid	17%	20%	12%	20%
Blue Cross	6%	20%	5%	20%
Commercial and other payors	12%	16%	13%	17%
Self-pay payors	41%	4%	47%	4%
	100%	100%	100%	100%

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

13. BLENDED COMPONENT UNITS

The Hospital's consolidated financial statements include the accounts of its blended component units. Below is condensed financial information of the component units for 2017 and 2016.

	2017		
	Foundation	JCMF	Total
Balance sheet			
Assets			
Current assets	\$ 1,549	\$ 28,655	\$ 30,204
Due from Hospital	-0-	2,622	2,622
Capital assets	-0-	540,913	540,913
Other assets	265,066	2,622	267,688
Total assets	<u>\$ 266,615</u>	<u>\$ 574,812</u>	<u>\$ 841,427</u>
Liabilities			
Accounts payable	\$ -0-	\$ 78,728	\$ 78,728
Net position			
Net investment in capital assets	-0-	540,913	540,913
Restricted	265,066	-0-	265,066
Unrestricted	1,549	(44,829)	(43,280)
Total net position	<u>266,615</u>	<u>496,084</u>	<u>762,699</u>
Total liabilities and net position	<u>\$ 266,615</u>	<u>\$ 574,812</u>	<u>\$ 841,427</u>
Statement of revenues, expenses and changes in net position			
Revenues			
Other operating revenue	\$ -0-	\$ 121,394	\$ 121,394
Contributions	39,105	-0-	39,105
Total revenues	<u>39,105</u>	<u>121,394</u>	<u>160,499</u>
Expenses			
Depreciation	-0-	18,939	18,939
Other expenses	122,787	142,021	264,808
Total expenses	<u>122,787</u>	<u>160,960</u>	<u>283,747</u>
Change in net position	<u>(83,682)</u>	<u>(39,566)</u>	<u>(123,248)</u>
Net position			
Beginning of year	<u>350,297</u>	<u>535,650</u>	<u>885,947</u>
End of year	<u>\$ 266,615</u>	<u>\$ 496,084</u>	<u>\$ 762,699</u>
Statement of cash flows			
Net cash flows from			
Operating activities	\$ (83,682)	\$ 11,484	\$ (72,198)
Capital and related financing activities	-0-	-0-	-0-
Investing activities	78,770	-0-	78,770
Change in cash and cash equivalents	<u>(4,912)</u>	<u>11,484</u>	<u>6,572</u>
Cash and cash equivalents			
Beginning of year	<u>6,461</u>	<u>17,171</u>	<u>23,632</u>
End of year	<u>\$ 1,549</u>	<u>\$ 28,655</u>	<u>\$ 30,204</u>

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

	2016		
	Foundation	JCMF	Total
Balance sheet			
Assets			
Current assets	\$ 6,461	\$ 17,171	\$ 23,632
Due from Hospital	-0-	4,367	4,367
Capital assets	-0-	559,852	559,852
Other assets	343,836	4,479	348,315
Total assets	\$ 350,297	\$ 585,869	\$ 936,166
Liabilities			
Accounts payable	\$ -0-	\$ 50,219	\$ 50,219
Net position			
Net investment in capital assets	-0-	559,852	559,852
Restricted	343,836	-0-	343,836
Unrestricted	6,461	(24,202)	(17,741)
Total net position	350,297	535,650	885,947
Total liabilities and net position	\$ 350,297	\$ 585,869	\$ 936,166
Statement of revenues, expenses and changes in net position			
Revenues			
Other operating revenue	\$ -0-	\$ 99,600	\$ 99,600
Contributions	307,624	-0-	307,624
Total revenues	307,624	99,600	407,224
Expenses			
Depreciation	-0-	36,153	36,153
Other expenses	61,598	227,335	288,933
Total expenses	61,598	263,488	325,086
Change in net position	246,026	(163,888)	82,138
Net position			
Beginning of year	104,271	699,538	803,809
End of year	\$ 350,297	\$ 535,650	\$ 885,947
Statement of cash flows			
Net cash flows from			
Operating activities	\$ 246,026	\$ (87,100)	\$ 158,926
Capital and related financing activities	-0-	-0-	-0-
Investing activities	(343,836)	-0-	(343,836)
Change in cash and cash equivalents	(97,810)	(87,100)	(184,910)
Cash and cash equivalents			
Beginning of year	104,271	104,271	208,542
End of year	\$ 6,461	\$ 17,171	\$ 23,632

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

14. COMMITMENTS AND CONTINGENCIES

The Hospital has various operating leases for office space that are on a month-to-month basis. Expenses related to these leases approximated \$129,000 and \$74,000 for 2017 and 2016, respectively. Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$7,216,000 and \$3,426,000 for 2017 and 2016, respectively. The long-term care leases can be terminated with 90 day notice by either the lessor or the Hospital.

15. SUBSEQUENT EVENTS

In November 2017, the Hospital entered into to an affiliation and asset transfer agreement (the Agreement) with the following Indiana nonprofit corporations, Indiana University Health (IU Health), Indiana University Health Ball Memorial (IUH Ball), and Indiana University Health Jay (IUH Jay). The Agreement is effective March 1, 2018 and includes among other terms, conditions, and stipulations, IUH Jay will acquire substantially all of the Hospital's assets and assume substantially all of the Hospital's liabilities, except for specific excluded assets and liabilities.

The Hospital terminated all of its long-term care agreements effective October 1, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

JAY COUNTY HOSPITAL

SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS SEPTEMBER 30, 2017

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 86,588	\$ 285,672	\$ 306,419	\$ 314,705
Interest	1,196,265	1,072,338	1,014,367	950,749
Differences between expected and actual experience	(528,267)	544,350	(90,261)	(87,053)
Changes in benefit terms	(3,900,929)	-0-	-0-	-0-
Changes of assumptions	(49,704)	1,635,751	18,449	67,505
Benefit payments	(600,453)	(494,283)	(416,261)	(362,497)
Net change in pension liability	(3,796,500)	3,043,828	832,713	883,409
Total pension liability - beginning	17,303,141	14,259,313	13,426,600	12,543,191
Total pension liability - ending (a)	<u>\$ 13,506,641</u>	<u>\$ 17,303,141</u>	<u>\$ 14,259,313</u>	<u>\$ 13,426,600</u>
Plan fiduciary net position				
Contributions - employer	\$ 400,000	\$ 584,186	\$ 444,124	\$ 475,000
Net investment income	1,374,257	888,191	4,896	851,395
Benefit payments	(600,453)	(494,283)	(416,261)	(362,497)
Net change in plan fiduciary net position	1,173,804	978,094	32,759	963,898
Plan fiduciary net position - beginning	13,111,541	12,133,447	12,100,688	11,136,790
Plan fiduciary net position - ending (b)	<u>\$ 14,285,345</u>	<u>\$ 13,111,541</u>	<u>\$ 12,133,447</u>	<u>\$ 12,100,688</u>
Net pension liability (asset) (a) - (b)	<u>\$ (778,704)</u>	<u>\$ 4,191,600</u>	<u>\$ 2,125,866</u>	<u>\$ 1,325,912</u>
Plan fiduciary net position as a % of total pension liability	105.77%	75.78%	85.09%	90.12%
Covered payroll	\$ 6,901,321	\$ 7,750,792	\$ 7,427,908	\$ 7,941,509
Net pension liability (asset) as a % of covered payroll	-11.28%	54.08%	28.62%	16.70%

* The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Hospital will present information for those years for which information is available.

JAY COUNTY HOSPITAL

SCHEDULE OF CONTRIBUTIONS SEPTEMBER 30, 2017

Plan Year End	Actuarially Determined Contribution	Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as % of Covered Payroll
9/30/2017	\$ 213,730	\$ 400,000	\$ (186,270)	\$ 6,901,321	5.80%
9/30/2016	\$ 743,455	\$ 584,186	\$ 159,269	\$ 7,750,792	7.54%
9/30/2015	\$ 409,055	\$ 444,124	\$ (35,069)	\$ 7,427,908	5.98%
9/30/2014	\$ 402,188	\$ 475,000	\$ (72,812)	\$ 7,941,509	5.98%
9/30/2013	\$ 467,361	\$ 536,400	\$ (69,039)	\$ 8,097,702	6.62%
9/30/2012	\$ 558,903	\$ 600,000	\$ (41,097)	\$ 9,016,992	6.65%
9/30/2011	\$ 554,445	\$ 611,900	\$ (57,455)	\$ 9,506,624	6.44%
9/30/2010	\$ 647,202	\$ 544,000	\$ 103,202	\$ 10,113,748	5.38%
9/30/2009	\$ 626,441	\$ 660,921	\$ (34,480)	\$ 8,130,043	8.13%
9/30/2008	\$ 427,937	\$ 487,857	\$ (59,920)	\$ 7,053,058	6.92%

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of January 1.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal										
Asset valuation method	Gains or losses on Market Value of Assets are recognized over five years, subject to a 20% corridor around the Market Value of Assets										
Market value of assets	Equal to the fair value of assets as of valuation date										
Interest rate	7.00% per year, compounded annually, net of investment expenses										
Inflation	3.00% per year										
Annual pay increases	Not applicable; all benefit accruals are frozen effective February 22, 2017										
Measurement date	January 1										
Administrative expense load	None assumed										
Retirement Rates	<table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Age</th> <th style="text-align: center;">Rate</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">55-61</td> <td style="text-align: center;">3%</td> </tr> <tr> <td style="text-align: center;">62</td> <td style="text-align: center;">25%</td> </tr> <tr> <td style="text-align: center;">63-64</td> <td style="text-align: center;">10%</td> </tr> <tr> <td style="text-align: center;">65</td> <td style="text-align: center;">100%</td> </tr> </tbody> </table>	Age	Rate	55-61	3%	62	25%	63-64	10%	65	100%
Age	Rate										
55-61	3%										
62	25%										
63-64	10%										
65	100%										
Withdrawal rates	Sarason Table T-6; Active participants who terminate in the valuation are assumed to take their reduced benefit at age 55										
Disability rates	None assumed										
Mortality	RP-2014 with generational improvements from 2006 based on the 2016 Social Security Administration Trustee's Report										