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September 20, 2018

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

We have reviewed the audit report opined on by Blue & Co. LLC, Independent Public Accountants, for the period October 1, 2017 to March 1, 2018.

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 March 1, 2018, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts

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

AND

REQUIRED SUPPLEMENTARY INFORMATION

MARCH 1, 2018

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 sheet as of March 1, 2018, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the five month period ended March 1, 2018, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audit. We conducted our audit 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 audit 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 March 1, 2018, and the results of its operations, changes in its net position and its cash flows for the five month period ended March 1, 2018 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 2 to the consolidated financial statements, the Hospital terminated its long-term care lease agreements for the long-term care facilities effective October 1, 2017. As a result, the Hospital transferred assets of approximately \$10,622,000 and liabilities of \$10,622,000 to the long-term care facilities.

Also as discussed in Note 2 to the consolidated financial statements, on March 1, 2018 the Hospital and Indiana University Health, Inc. (IU Health) entered into an affiliation and asset transfer agreement whereby IU Health assumed substantially all of the Hospital's assets and liabilities and transferred them to Indiana University Health Jay, a new entity under IU Health.

Our opinion is not modified with respect to these matters.

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 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 Governmental Accounting Standards Board, 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
August 15, 2018

REQUIRED SUPPLEMENTARY INFORMATION

JAY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

MARCH 1, 2018

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 as of and for the five month period ended March 1, 2018. 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.

Financial Highlights

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, Inc. (IU Health), Indiana University Health Ball Memorial, Inc. (IUH Ball), and Indiana University Health Jay, Inc. (IUH Jay). The Agreement was effective March 1, 2018 and included among other terms, conditions, and stipulations, IU Health acquiring substantially all of the Hospital's assets and assuming substantially all of the Hospital's liabilities, except for specific excluded assets and liabilities related to the Foundation. The assets and liabilities were then transferred from IU Health to IUH Jay. The Foundation's assets and liabilities were transferred to IUH Jay Foundation. IU Health is the sole corporate member of IUH Jay Foundation and appoints its governing board. IUH Jay Foundation will continue to support the activities of IUH Jay.

Substantially all of the financial changes for the five month period ended March 1, 2018 relate to the termination of the long-term care agreements on October 1, 2017 and the affiliation and subsequent transfer of assets and liabilities to IUH Jay on March 1, 2018.

- The Hospital's total assets and deferred outflows decreased approximately \$44,859,000 or 100% during the five month period ended March 1, 2018. Total liabilities and deferred inflows decreased \$11,011,000 or 100% during the five month period ended March 1, 2018.
- The Hospital's net position decreased approximately \$33,848,000 or 100% in the five month period ended March 1, 2018.
- The Hospital reported an operating loss of approximately \$2,630,000 for the five month period ended March 1, 2018. The operating income for the year ended September 30, 2017 was \$1,628,000.
- The Hospital recognized other changes in net position of approximately \$31,030,000 during the five month period ended March 1, 2018 which \$31,000,000 related to the transfer of assets and liabilities to IUH Jay.
- On October 1, 2017, the Hospital terminated all of its long-term care agreements. The Hospital did not recognize any gross patient service revenue related to long-term care during the five month period ended March 1, 2018 compared to approximately \$86,240,000 of gross patient service revenue for the year ended September 30, 2017.

JAY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

MARCH 1, 2018

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 sheet includes 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 revenue earned and expenses incurred are accounted for in the consolidated statement of revenues, expenses and changes in net position.

Finally, the purpose of the consolidated statement 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 Condensed Consolidated Balance Sheet and Consolidated Statement 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)

MARCH 1, 2018

Table 1 – Condensed Consolidated Balance Sheets

	3/1/18	9/30/17	Change
Assets			
Current assets	\$ -0-	\$ 21,840,545	\$ (21,840,545)
Assets whose use is limited	-0-	3,684,633	(3,684,633)
Capital assets, net	-0-	16,555,126	(16,555,126)
Other assets	-0-	1,086,693	(1,086,693)
Total assets	-0-	43,166,997	(43,166,997)
Deferred outflows			
Total assets and deferred outflows	-0-	1,692,033	(1,692,033)
	\$ -0-	\$ 44,859,030	\$ (44,859,030)
Liabilities			
Current liabilities	\$ -0-	\$ 10,449,580	\$ (10,449,580)
Long-term liabilities	-0-	154,087	(154,087)
Total liabilities	-0-	10,603,667	(10,603,667)
Deferred inflows			
Total liabilities and deferred inflows	-0-	406,877	(406,877)
	-0-	11,010,544	(11,010,544)
Net position			
Net investment in capital assets	-0-	16,358,846	(16,358,846)
Restricted	-0-	436,457	(436,457)
Unrestricted	-0-	17,053,183	(17,053,183)
Total net position	-0-	33,848,486	(33,848,486)
Total liabilities and net position	\$ -0-	\$ 44,859,030	\$ (44,859,030)

The significant change in the Hospital's assets and deferred outflows was in current assets and net capital assets which decreased by approximately \$38,396,000 as of March 1, 2018 compared to September 30, 2017. Total liabilities and deferred inflows decreased \$11,011,000 as of March 1, 2018 compared to September 30, 2017. Net position decreased by \$33,848,000 as of March 1, 2018 compared to September 30, 2017. These changes were primarily the result of the Agreement and transfer of assets and liabilities to IUH Jay as of March 1, 2018 and the Hospital terminating all of its long-term care agreements effective October 1, 2017.

JAY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

MARCH 1, 2018

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

	Five Months Ended 3/1/18	Year Ended 9/30/17	Change
Operating revenues			
Net patient service revenue	\$ 13,825,819	\$ 102,845,125	\$ (89,019,306)
Other operating revenue	1,630,043	2,742,679	(1,112,636)
Total operating revenues	15,455,862	105,587,804	(90,131,942)
Operating expenses			
Salaries, wages and benefits	10,041,317	20,056,127	(10,014,810)
Professional fees and contract services	3,739,172	50,753,545	(47,014,373)
Supplies	1,859,732	9,976,472	(8,116,740)
Depreciation and amortization	854,070	2,205,708	(1,351,638)
Other	1,591,198	20,968,047	(19,376,849)
Total operating expenses	18,085,489	103,959,899	(85,874,410)
Operating income (loss)	(2,629,627)	1,627,905	(4,257,532)
Nonoperating revenues (expenses)	(189,055)	122,609	(311,664)
Other changes in net position	(31,029,804)	-0-	(31,029,804)
Change in net position	(33,848,486)	1,750,514	(4,569,196)
Net position			
Beginning of period	33,848,486	32,097,972	1,750,514
End of period	\$ -0-	\$ 33,848,486	\$ (33,848,486)

As the Agreement and transfer of assets and liabilities to IUH Jay was effective as of March 1, 2018, the consolidated statement of revenues, expenses, and changes in net position reflect five months of activity in 2018 compared to a full year of activity in 2017.

Total operating revenue decreased approximately \$90,132,000 during the five month period ended March 1, 2018 mainly due to the termination of the long-term care service agreements on October 1, 2017 and five months of activity in the current period compared to twelve months of activity during the prior year. Net patient service revenue accounted for \$89,019,000 of the decrease for the five month period ended March 1, 2018.

Expenses decreased by approximately \$85,874,000 during the five month period ended March 1, 2018. Professional fees and contract services decreased by \$47,014,000 mainly due to all long-term care service agreements being terminated effective October 1, 2017 and five months of activity in the current period compared to twelve months of activity during the prior year. Other expenses decreased by \$19,377,000 due to decreases in facility and equipment leases and other operating expenses due to the long-term care service agreements being terminated effective October 1, 2017.

JAY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

MARCH 1, 2018

Nonoperating revenues (expenses) decreased by approximately \$312,000 due mainly to Foundation activity over the five month period ended March 1, 2018 compared to the year ended September 30, 2017.

The operating loss for the five month period ended March 1, 2018 was approximately \$2,630,000 compared to operating income of \$1,628,000 for the year ended September 30, 2017.

Other changes in net position was approximately \$31,030,000 which primarily related to the Hospital's transfer of assets and liabilities to IUH Jay of \$31,000,000 at March 1, 2018. When combined with other activity, resulted in a total decrease in change in net position of approximately \$33,848,000 for the five month period ended March 1, 2018 compared to an increase of approximately \$1,751,000 for the year ended September 30, 2017.

Table 3 – Condensed Consolidated Statement 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 decreased approximately \$8,424,000 during the five month period ended March 1, 2018. Operating activities decreased cash and cash equivalents of \$11,060,000 during 2018 mainly from the loss from operations and the settlements of operating liabilities. Noncapital financing activities increased cash and cash equivalents by \$4,000 mainly due to contributions received during 2018. Capital and related financing decreased cash and cash equivalents by \$83,000 during 2018 mainly as the result of expenditures for property and equipment. Investing activities increased cash and cash equivalents by \$2,715,000 in 2018 due to proceeds received from the sale of investments.

The following is a summary of cash flows:

Cash flows data	Five		Change
	Months Ended 3/1/18	Year Ended 9/30/17	
From operating activities	\$ (11,060,631)	\$ 1,938,304	\$ (12,998,935)
From noncapital financing activities	3,813	39,105	(35,292)
From capital and related financing activities	(82,601)	(3,513,697)	3,431,096
From investing activities	2,715,229	4,472,414	(1,757,185)
Change in cash and cash equivalents	<u>\$ (8,424,190)</u>	<u>\$ 2,936,126</u>	<u>\$ (11,360,316)</u>

JAY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

MARCH 1, 2018

Capital Assets

During the five month period ended March 1, 2018, the Hospital invested minimally in capital assets, net of asset disposals and transfers. Capital assets are comprised of the following as of March 1, 2018 and September 30, 2017.

	3/1/18	9/30/17	Change
Land	\$ -0-	\$ 347,733	\$ (347,733)
Land improvements	-0-	952,332	(952,332)
Buildings and improvements	-0-	26,558,290	(26,558,290)
Equipment	-0-	19,490,766	(19,490,766)
Construction in process	-0-	4,568	(4,568)
	-0-	47,353,689	(47,353,689)
Less accumulated depreciation	-0-	30,798,563	(30,798,563)
Capital assets, net	\$ -0-	\$ 16,555,126	\$ (16,555,126)

Approximately \$13,695,000 in net capital assets was transferred to IUH Jay at March 1, 2018. More detailed information about the Hospital's capital assets is presented in the notes to the consolidated financial statements.

Debt Administration

The Hospital had a capital lease during the five month period ended March 1, 2018 with the outstanding balance of \$182,000 transferred to IUH Jay as part of the Agreement effective March 1, 2018. More detailed information about the Hospital's long-term debt is presented in the notes to the consolidated financial statements.

Economic Outlook

Due to continued pressure on operating margins and cash flows, the Hospital executed the Agreement with IUH Jay effective March 1, 2018. The Foundation will continue to support IUH Jay as it did with Jay County Hospital.

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 SHEET

MARCH 1, 2018

ASSETS AND DEFERRED OUTFLOWS

Assets

Cash and cash equivalents	\$	-0-
Patient accounts receivable, net of allowance		-0-
Inventory		-0-
Other current assets		-0-
Total current assets		<u>-0-</u>

Assets whose use is limited

Internally designated		-0-
Donor restricted		-0-
Total assets whose use is limited		<u>-0-</u>

Capital assets, net

-0-

Other assets

Pension asset		-0-
Other		-0-
Total other assets		<u>-0-</u>
Total assets		-0-

Deferred outflows

-0-

Total assets and deferred outflows	\$	<u>-0-</u>
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LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Current liabilities

Accounts payable	\$	-0-
Accrued salaries, wages, and related liabilities		-0-
Accrued expenses and other current liabilities		-0-
Estimated third-party payor settlements		-0-
Current portion of capital lease obligations		-0-
Total current liabilities		<u>-0-</u>

Long-term capital lease obligations

-0-

Total liabilities		-0-
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Deferred inflows

-0-

Total liabilities and deferred inflows		<u>-0-</u>
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Net position

Net investment in capital assets		-0-
Restricted		
Non-expendable		-0-
Donor restricted - expendable		-0-
Total restricted		<u>-0-</u>
Unrestricted		-0-
Total net position		<u>-0-</u>
Total liabilities and net position	\$	<u><u>-0-</u></u>

See accompanying notes to consolidated financial statements.

JAY COUNTY HOSPITAL

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FIVE MONTH PERIOD ENDED MARCH 1, 2018

Operating revenues

Net patient service revenue	\$ 13,825,819
Other operating revenue	1,630,043
Total operating revenues	<u>15,455,862</u>

Operating expenses

Salaries and wages	7,428,394
Employee benefits	2,612,923
Professional fees and contract services	3,739,172
Supplies	1,859,732
Insurance	188,749
Facility and equipment leases	6,076
Repairs and maintenance	263,868
Utilities	267,367
HAF program	559,351
Depreciation and amortization	854,070
Other	305,787
Total operating expenses	<u>18,085,489</u>
Operating loss	(2,629,627)

Nonoperating revenues (expenses)

Investment income	1,539
Contributions	3,813
Other	(194,407)
Total nonoperating revenues (expenses)	<u>(189,055)</u>

Other changes in net position

Transfer to IUH Jay Foundation	(29,312)
Transfer to IUH Jay	(31,000,492)
Total other changes in net position	<u>(31,029,804)</u>
Change in net position	(33,848,486)

Net position

Beginning of period	33,848,486
End of period	<u>\$ -0-</u>

See accompanying notes to consolidated financial statements.

JAY COUNTY HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS FIVE MONTH PERIOD ENDED MARCH 1, 2018

Operating activities

Cash received from patients and third-party payors	\$ 9,727,870
Cash paid for employees' salaries, wages and benefits	(12,555,619)
Cash paid to vendors for goods and services	(12,234,774)
Other operating receipts, net	4,001,892
Net cash flows from operating activities	<u>(11,060,631)</u>

Noncapital financing activities

Contributions and other	3,813
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Capital and related financing activities

Acquisition and construction of capital assets	(65,321)
Cash paid for principal on capital leases	(13,811)
Cash paid for interest on capital leases	(3,469)
Net cash flows from financing activities	<u>(82,601)</u>

Investing activities

Investment income	1,539
Other nonoperating expenses	(190,986)
Proceeds from sale of investments	2,904,676
Net cash flows from investing activities	<u>2,715,229</u>
Net change in cash and cash equivalents	(8,424,190)

Cash and cash equivalents

Beginning of period	8,424,190
End of period	<u>\$ -0-</u>

Reconciliation of cash and cash equivalents to the consolidated balance sheet

Cash and cash equivalents	
In current assets	\$ -0-
In assets whose use is limited	-0-
Total cash and cash equivalents	<u>\$ -0-</u>

See accompanying notes to consolidated financial statements.

JAY COUNTY HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS FIVE MONTH PERIOD ENDED MARCH 1, 2018

Reconciliation of operating loss to net cash flows from operating activities

Operating loss	\$ (2,629,627)
Adjustments to reconcile operating loss to net cash flows from operating activities	
Depreciation and amortization	854,070
Provision for bad debts	2,008,108
Changes in operating assets and liabilities	
Patient accounts receivable	(5,723,404)
Inventory and other current assets	2,465,760
Pension asset	778,704
Other assets	307,989
Deferred outflows	1,692,033
Accounts payable	(5,275,883)
Accrued salaries, wages, and related liabilities	(2,514,302)
Accrued expenses and other current liabilities	(2,234,549)
Estimated third-party payor settlements	(382,653)
Deferred inflows	(406,877)
Net cash flows from operating activities	<u>\$ (11,060,631)</u>

Supplemental cash flows information

Transfer of assets and liabilities to IUH Jay Foundation	\$ 29,312
Transfer of assets and liabilities to IUH Jay	\$ 31,000,492
Transfer of long-term care assets and liabilities	\$ 10,622,000

See accompanying notes to consolidated financial statements.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 1, 2018

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

The consolidated financial statements of the Hospital are intended to present the financial position and the 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 March 1, 2018 and the changes in its financial position or its cash flows for the five month period 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.

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.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 1, 2018

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 included 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 maintained its cash in accounts, which at times, may have exceeded federally insured limits. The Hospital did not experience any losses in such accounts. The Hospital believed it is not exposed to any significant credit risk on cash and cash equivalents.

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable were recorded at the time services to patients were performed. The Hospital was 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 classified as Critical Access Status by Medicare and was paid for Medicare services based upon a cost reimbursement methodology. Differences between the total program billed charges and the payments received were reflected as deductions from revenue. At year-end, a cost report for hospital-based services was filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement was 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 was settled. Amounts for unresolved cost reports were reflected in estimated third-party payor settlements on the consolidated balance sheet. During the five month period ended March 1, 2018, the Hospital did not recognize a change in net position in the consolidated statement 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 had agreements with certain commercial carriers. Reimbursement for services under these agreements included discounts from established charges and other payment methodologies. Patient charges under these programs, on which no interim payments had been received, were included in patient accounts receivable at the estimated net realizable value of such charges.

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 1, 2018

Management estimated 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 was valued at the lower of cost or net realizable value with cost being determined on the first-in, first-out method. Inventory consisted of medical supplies and pharmaceuticals.

Other Current Assets and Other Assets

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

Intangible assets related to the amortization of medical records for purchased physician practices. The intangibles assets were amortized over their useful life of approximately 8 years. Amortization expense for the five month period ended March 1, 2018 was approximately \$11,000.

Assets Whose Use is Limited

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

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

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

Capital Assets and Depreciation

Capital assets, which include land, land improvements, buildings and improvements, and equipment, were reported at historical cost. Contributed or donated assets were 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) was \$2,500 per item, or a group of items with an aggregate cost of at least \$5,000. All capital assets other than land were depreciated or amortized (in the case of capital leases) using the straight-line method over the estimated useful lives of capital assets which ranged from 3-40 years. For depreciated assets, the cost of normal maintenance and repairs that did not add to the value of the asset or materially extend assets live were not capitalized.

JAY COUNTY HOSPITAL

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Net Position

The net position of the Hospital was classified into four components. (1) Net investment in capital assets represented 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 included the principal portion of permanent endowments, if any, and non-controlling interests owned by external investors. (3) Restricted expendable net position included assets that must be used for a particular purpose, as specified by creditors, grantors, or contributions external to the Hospital. (4) Unrestricted net position was the remaining net position that does not meet the definition of net investment in capital assets or restricted.

Restricted non-expendable net position included non-controlling interest, which represented the portion of net position that was owned by the investors who were external to and not included in the consolidated financial statements as of March 01, 2018. The Hospital consolidated 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 the five month period ended March 1, 2018 follows:

	Controlling interest	Noncontrolling interest	Total
Balance, beginning of period	\$ 324,693	\$ 171,391	\$ 496,084
Operating income	1,882	4,458	6,340
Transfer to IUH Jay	(326,575)	(175,849)	(502,424)
Balance, end of period	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Restricted Resources

The Hospital first applied restricted resources when an expense was incurred for purposes for which both restricted and unrestricted net position were available.

Consolidated Statement of Revenues, Expenses and Changes in Net Position

The Hospital's consolidated statement of revenues, expenses and changes in net position distinguished 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 included contributions received for purposes other than capital asset acquisition, and other nonoperating activities and were 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

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Electronic Health Records (EHR) Incentive Payments

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

The payment calculation was 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 was completely phased out in the fifth year.

The Hospital recognized EHR incentive payments as grant income when there was reasonable assurance that the Hospital would 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 the five month period ended March 1, 2018, the Hospital recognized \$-0- in EHR incentive payments using the ratable recognition method. Under the ratable recognition method, the Hospital recognized income ratably over the entire EHR reporting period when it was reasonably assured at the outset of the EHR reporting period that it would comply with the minimum requirements of the programs.

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

Grants and Contributions

From time to time, the Hospital and Foundation received contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) were recognized when all eligibility requirements, including time requirements were met. Grants and contributions could be restricted for either specific operating purposes or for capital purposes. Amounts that were unrestricted or that were restricted to a specific operating purpose were reported as nonoperating revenues. Amounts, if any, restricted to capital acquisitions were reported as nonoperating revenues and expenses.

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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 statement of revenues, expenses and changes in net position, an estimated \$93,000 arose from providing services to charity patients for the five month period ended March 1, 2018. 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 the five month period ended March 1, 2018 was approximately \$34,000.

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

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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, 2017. 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, 2017. 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 March 1, 2018, 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 Indiana Medical Malpractice Act, IC 34-18 (Act) provides a maximum recovery of \$1,650,000 for an occurrence of malpractice until June 30, 2019, and \$1,800,000 thereafter. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$400,000 per occurrence (\$8,000,000 or \$12,000,000 in the annual aggregate based on hospital bed size) until June 30, 2019. Starting July 1, 2019, the Act will require the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 or \$15,000,000 in the annual aggregate based on hospital bed size). The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

JAY COUNTY HOSPITAL

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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.

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 August 15, 2018.

2. LONG-TERM CARE SERVICES AND ASSET TRANSFER AGREEMENT

Long-Term Care Operations

The Hospital leased the operations of certain long-term care facilities by way of arrangements with managers of these facilities which provided inpatient and therapy services. Generally, gross revenues from the operation of the long-term care facilities were the property of the Hospital and the Hospital was responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements were in effect, the performance of all activities of the managers were on behalf of the Hospital and the Hospital retained the authority and legal responsibility for the operation of the facilities.

JAY COUNTY HOSPITAL

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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 paid the managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. The Hospital terminated all of its long-term care agreements effective October 1, 2017.

The following is a summary of assets and liabilities transferred from the Hospital to the respective managers of the long-term care facilities on October 1, 2017.

Assets

Cash and cash equivalents	\$ 2,624,244
Patient accounts receivable, net	5,633,364
Capital assets, net	2,083,125
Other assets	281,351
Total assets	<u>\$ 10,622,084</u>

Liabilities

Accounts payable	\$ 3,964,392
Accrued expenses and other current liabilities	6,657,692
Total liabilities	<u>\$ 10,622,084</u>

Affiliation and Asset Transfer Agreement

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, Inc. (IU Health), Indiana University Health Ball Memorial, Inc. (IUH Ball), and Indiana University Health Jay, Inc. (IUH Jay). The Agreement was effective March 1, 2018 and included among other terms, conditions, and stipulations, IU Health acquiring substantially all of the Hospital's assets and assuming substantially all of the Hospital's liabilities, except for specific excluded assets and liabilities related to the Foundation. The assets and liabilities were transferred from IU Health to IUH Jay on March 1, 2018.

JAY COUNTY HOSPITAL

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The following is a summary of the transfer to IUH Jay:

Assets	
Cash and cash equivalents	\$ 9,421,505
Patient accounts receivable, net	6,757,256
Inventory	505,374
Other current assets	2,955,295
Capital assets, net	13,695,380
Pension asset	1,219,047
Other assets	15,511
Total assets	\$ 34,569,368
Liabilities	
Accounts payable	\$ 1,060,513
Accrued salaries and related liabilities	2,090,534
Accrued expenses and other current liabilities	6,899
Estimated third-party payor settlements	228,461
Capital lease obligations	182,469
Total liabilities	\$ 3,568,876
Transfer to IUH Jay	\$ 31,000,492

The pension asset of approximately \$1,219,000 as of March 1, 2018 (see Note 7) did transfer to IUH Jay. Subsequent to March 1, 2018, the defined benefit pension plan is in the process of being terminated with the benefits distributed to the participants through lump sum or annuity payments.

The Foundation's assets and liabilities, consisting of cash of approximately \$29,000 as of March 1, 2018, were transferred to IUH Jay Foundation. IU Health is the sole corporate member of IUH Jay Foundation and appoints its governing board. IUH Jay Foundation will continue to support the activities of IUH Jay.

3. CAPITAL ASSETS

Capital asset activity for the five month period ended March 1, 2018 is as follows.

	9/30/17	Additions	Retirements	Transfers	3/1/18
Land	\$ 347,733	\$ -0-	\$ -0-	\$ (347,733)	\$ -0-
Land improvements	952,332	-0-	-0-	(952,332)	-0-
Buildings and improvements	26,558,290	-0-	-0-	(26,558,290)	-0-
Equipment	19,490,766	65,321	-0-	(19,556,087)	-0-
Construction in process	4,568	-0-	-0-	(4,568)	-0-
Total capital assets	47,353,689	65,321	-0-	(47,419,010)	-0-
Less accumulated depreciation	30,798,563	842,943	-0-	(31,641,506)	-0-
Capital assets, net	\$ 16,555,126	\$ (777,622)	\$ -0-	\$ (15,777,504)	\$ -0-

JAY COUNTY HOSPITAL

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Approximately \$13,695,000 of the capital asset transfer was to IUH Jay and \$2,083,000 related to the long-term care services. There were no significant outstanding commitments for capital assets as of March 1, 2018.

4. LONG-TERM DEBT

During 2017, the Hospital entered into a capital lease agreement for certain equipment. The capital lease obligation had imputed interest of 5.45%, matures in 2022, and was collateralized by equipment with cost and accumulated depreciation of approximately \$182,000 as of March 1, 2018. A summary of long-term debt for the five month period ended March 1, 2018 follows:

	9/30/17	Additional Borrowings	Payments	Transfers	3/1/18
Capital lease obligations	<u>\$ 196,280</u>	<u>\$ -0-</u>	<u>\$ 13,811</u>	<u>\$ (182,469)</u>	<u>\$ -0-</u>

5. 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.

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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 the five month period ended March 1, 2018, the Hospital recognized HAF Program expense of approximately \$559,000. The HAF Program expense is included in operating expenses in the consolidated statement 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 statement revenues, expenses and changes in net position.

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 \$87,000 during the five month period ended March 1, 2018. 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 the five month period ended March 1, 2018:

Inpatient services	\$ 6,602,913
Outpatient services	38,004,069
Gross patient service revenue	<u>44,606,982</u>
Contractual allowances	28,544,482
Charity care	228,573
Provision for bad debts	<u>2,008,108</u>
Deductions from revenue	<u>30,781,163</u>
Net patient service revenue	<u>\$ 13,825,819</u>

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6. 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 the five month period ended March 1, 2018 was approximately \$1,109,000.

Changes in the balance of claim liabilities for the five month period ended March 1, 2018 is as follows:

Unpaid claims, beginning of period	\$	672,710
Incurred claims and changes in estimates		1,108,721
Claim payments		(1,233,545)
Transfer to IUH Jay		(547,886)
Unpaid claims, end of period	\$	<u>-0-</u>

7. 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. 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.

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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 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 the five month period ended March 1, 2018, the actuarially determined Hospital's contribution was 0.00% as a percentage of covered payroll. Pension expense of approximately \$845,000 was recorded for the five month period ended March 1, 2018.

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Employees Covered by Benefit Terms

As of March 1, 2018, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	137
Inactive plan members entitled to but not yet receiving benefits	61
Active plan members	120
	<hr/>
	318
	<hr/>

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 the five month period ended March 1, 2018 and estimated liabilities were determined as part of the actuarial valuations using the Entry Age Normal cost method. During the five month period ended March 1, 2018, the Hospital did not contribute to the Plan.

Net Pension Liability

The Hospital's net pension liability was measured as of March 1, 2018 based on valuation data as of January 1, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018.

Actuarial assumptions

The total pension liability in the March 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	0.0%
Investment rate of return	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 the five month period ended March 1, 2018.

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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.

Best estimates of arithmetic plan's target asset allocation as of March 1, 2018 is summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00% for the five month period ended March 1, 2018. 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 March 1, 2018:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension (asset) liability	\$ 447,289	\$ (1,219,047)	\$ (2,673,752)

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

Changes in the Net Pension Liability

The changes in the net pension liability during the five month period ended March 1, 2018 was as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) - (b)
Balances, beginning of period	\$ 13,506,641	\$ 14,285,345	\$ (778,704)
Changes during the period			
Interest	390,059	-0-	390,059
Differences between expected and actual experience	(245,707)	-0-	(245,707)
Benefit payments, including refunds of member contributions	(266,386)	(266,386)	-0-
Net investment income	-0-	584,695	(584,695)
Net change	(122,034)	318,309	(440,343)
Balances, end of period	<u>\$ 13,384,607</u>	<u>\$ 14,603,654</u>	<u>\$ (1,219,047)</u>

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

As of March 1, 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance, beginning of period	\$ 1,692,033	\$ (406,877)
Differences between expected and actual experience	-0-	(245,707)
Amortization of expected versus actual	(326,610)	281,811
Changes of assumptions		
Amortization of changes in assumptions	(988,830)	-0-
Differences between projected versus actual earnings on plan investments	-0-	(171,924)
Amortization of projected versus actual earnings on plan investments	(376,593)	542,697
Balance, end of period	<u>\$ -0-</u>	<u>\$ -0-</u>

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 1, 2018

8. 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 the five month period ended March 1, 2018 was approximately \$151,000.

9. 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 revenues from self-pay and third party payors for the five month period ended March 1, 2018 was as follows:

Medicare	40%
Medicaid	19%
Blue Cross	19%
Commercial and other payors	16%
Self-pay payors	6%
	<hr/>
	100%
	<hr/>

JAY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 1, 2018

10. 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 as of and for the five month period ended March 1, 2018:

	Foundation	JCMF
Balance sheet		
Assets		
Total assets	\$ -0-	\$ -0-
Liabilities		
Total liabilities	\$ -0-	\$ -0-
Net position		
Total net position	-0-	-0-
Total liabilities and net position	\$ -0-	\$ -0-
Statement of revenues, expenses and changes in net position		
Revenues		
Other operating revenue	\$ -0-	\$ 54,069
Contributions	3,813	-0-
Total revenues	3,813	54,069
Expenses		
Depreciation	-0-	10,330
Other expenses	241,116	37,399
Total expenses	241,116	47,729
Transfers to IUH Jay Foundation/IUH Jay	(29,312)	(502,424)
Change in net position	(266,615)	(496,084)
Net position		
Beginning of period	266,615	496,084
End of period	\$ -0-	\$ -0-
Statement of cash flows		
Net cash flows from		
Operating activities	\$ (266,615)	\$ (572,190)
Capital and related financing activities	-0-	540,913
Investing activities	265,066	2,622
Change in cash and cash equivalents	(1,549)	(28,655)
Cash and cash equivalents		
Beginning of period	1,549	28,655
End of period	\$ -0-	\$ -0-

11. 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 \$60,000 for the five month period ended March 1, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

JAY COUNTY HOSPITAL

SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS MARCH 1, 2018

	3/1/2018	9/30/2017	9/30/2016	9/30/2015	9/30/2014
Total pension liability					
Service cost	\$ -0-	\$ 86,588	\$ 285,672	\$ 306,419	\$ 314,705
Interest	390,059	1,196,265	1,072,338	1,014,367	950,749
Differences between expected and actual experience	(245,707)	(528,267)	544,350	(90,261)	(87,053)
Changes in benefit terms	-0-	(3,900,929.0)	-0-	-0-	-0-
Changes of assumptions	-0-	(49,704)	1,635,751	18,449	67,505
Benefit payments	(266,386)	(600,453)	(494,283)	(416,261)	(362,497)
Net change in pension liability	(122,034)	(3,796,500)	3,043,828	832,713	883,409
Total pension liability - beginning	13,506,641	17,303,141	14,259,313	13,426,600	12,543,191
Total pension liability - ending (a)	<u>\$ 13,384,607</u>	<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	\$ -0-	\$ 400,000	\$ 584,186	\$ 444,124	\$ 475,000
Net investment income	584,695	1,374,257	888,191	4,896	851,395
Benefit payments	(266,386)	(600,453)	(494,283)	(416,261)	(362,497)
Net change in plan fiduciary net position	318,309	1,173,804	978,094	32,759	963,898
Plan fiduciary net position - beginning	14,285,345	13,111,541	12,133,447	12,100,688	11,136,790
Plan fiduciary net position - ending (b)	<u>\$ 14,603,654</u>	<u>\$ 14,285,345</u>	<u>\$ 13,111,541</u>	<u>\$ 12,133,447</u>	<u>\$ 12,100,688</u>
Net pension (asset) liability (a) - (b)	<u>\$ (1,219,047)</u>	<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	109.11%	105.77%	75.78%	85.09%	90.12%
Covered payroll	\$ 6,378,593	\$ 6,901,321	\$ 7,750,792	\$ 7,427,908	\$ 7,941,509
Net pension liability as a % of covered payroll	-19.11%	-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

MARCH 1, 2018

Plan Period/ Year End	Actuarially Determined Contribution	Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as % of Covered Payroll
2/28/2018	\$ -0-	\$ -0-	\$ -0-	\$ 6,378,593	0.00%
9/30/2017	\$ 213,730	\$ 400,000	\$ (186,270)	\$ 6,901,321	5.80%
9/30/2016	\$ 743,455	\$ 400,000	\$ 343,455	\$ 7,750,792	5.16%
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%

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	February 28, 2018										
Administrative expense load	None assumed										
Retirement Rates	<table style="margin-left: 40px; border-collapse: collapse;"> <thead> <tr> <th style="border-bottom: 1px solid black; padding: 2px 10px;">Age</th> <th style="border-bottom: 1px solid black; padding: 2px 10px;">Rate</th> </tr> </thead> <tbody> <tr> <td style="padding: 2px 10px;">55-61</td> <td style="padding: 2px 10px;">3%</td> </tr> <tr> <td style="padding: 2px 10px;">62</td> <td style="padding: 2px 10px;">25%</td> </tr> <tr> <td style="padding: 2px 10px;">63-64</td> <td style="padding: 2px 10px;">10%</td> </tr> <tr> <td style="padding: 2px 10px;">65</td> <td style="padding: 2px 10px;">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										