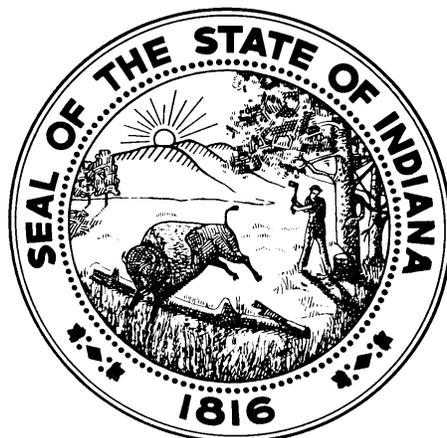


**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

AUDIT REPORT  
OF

CLARK MEMORIAL HOSPITAL  
A COMPONENT UNIT OF  
CLARK COUNTY, INDIANA

January 1, 2007 to December 31, 2007



**FILED**  
09/03/2008



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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Martin Padgett	01-01-07 to 12-31-08
Chief Financial Officer	Kirk Strack	01-01-07 to 12-31-08
Chairman of the Hospital Board	Dr. Gordon Gutmann Pat Thompson	01-01-07 to 12-31-07 01-01-08 to 12-31-08
President of the Board of County Commissioners	Edward Meyer	01-01-07 to 12-31-08



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Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CLARK MEMORIAL HOSPITAL, CLARK COUNTY, INDIANA

We have audited the accompanying basic financial statements of Clark Memorial Hospital (Hospital), as of and for the year ended December 31, 2007, as listed in the Table of Contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Southern Indiana Rehab Hospital, Jewish Hospital, and St. Mary's Healthcare Network (Affiliated Companies). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the investment in Affiliated Companies in the amount of \$4,540,184, as of December 31, 2007, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital as of December 31, 2007, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis and Schedule of Funding Progress, as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

STATE BOARD OF ACCOUNTS

August 13, 2008

## Management Discussion and Analysis

Our discussion and analysis of Clark Memorial Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal year ended December 31, 2007. Please read it in conjunction with the Hospital's financial statements and accompanying notes to the financial statements.

### Using This Annual Report

This annual report consists of two parts – *management's discussion and analysis*, and the *basic financial statements*.

- In the "*management discussion and analysis*" section of this report the management of the hospital discuss various components of the annual report and provide an analysis of the current financial statement information.
- The "*basic financial statement*" section of this report includes a series of financial statements, which provide information about the activities of the Hospital as a whole. The Statement of Net Assets reveals the assets and liabilities of the Hospital on December 31, 2007 while the Statement of Revenues, Expenses and Changes in Net Assets summarizes the changes in the assets and liabilities for the year then ended. The Statement of Cash Flows summarizes the change in cash and cash equivalents as a result of the financial activity during the year. The Notes to the Financial Statements disclose additional information addressed within the body of the financial statements.

### Financial Highlights

Overall, the positive financial results for FY07 are due primarily to a strong case mix, expense control in significant expense categories such as benefits, supplies, and professional fees and Medicaid Intergovernmental Transfer payments (IGT). It is important to note, that the net income results for FY07 represent an approximate \$1,000,000 increase over FY06, excluding the loss on the hospital's swap arrangement. Specifically, although acute care days were under budget, case mix finished the fiscal period 4% over budget, thus driving reimbursement. Additionally, payer mix for the period was favorable against budget due to commercial payers increasing their mix. As in past fiscal years, outpatient volume continued to be a barrier to higher financial performance and competition continues to place additional constraints on overall volume stability.

### Summarized Financial Statement Information

The following information documents in summary form the financial information related to the activities of the hospital for the last year.

	<u>2007</u>	<u>2006</u>
Revenue		
Net Patient service revenue	118,312,917	114,970,763
Other revenues	<u>2,709,028</u>	<u>2,296,052</u>
Total Revenues	<u>121,021,945</u>	<u>117,266,815</u>
Expenses		
Salaries and benefits	62,781,053	59,819,297
Medical supplies and drugs	37,975,645	22,872,466
Other	7,186,619	22,860,863
Depreciation and amortization	<u>9,812,011</u>	<u>8,835,168</u>
	<u>117,755,328</u>	<u>114,387,794</u>
Operating income (loss)	3,266,617	2,879,021
Nonoperating revenues (expenses)	(1,513,052)	(1,522,965)
Capital Contributions, Grants, etc.	<u>45,729</u>	<u>202,657</u>
Increase (decrease) in net assets	1,799,294	1,558,713
Net assets beginning of year	<u>75,943,585</u>	<u>74,384,872</u>
Net assets end of year	<u>\$ 77,742,879</u>	<u>\$ 75,943,585</u>

## Capital Assets and Debt Administration

### Capital Assets

At the end of 2007, the Hospital had approximately \$46.9 million invested in capital assets, net of related debt. More detailed information about the Hospital's capital assets is presented in Note II.C. to the financial statements. The table below documents the type of assets that make up the Capital Assets held by the Hospital as of December 31, 2007.

	Capital Assets at Year-end Net of Depreciation (000's)	
	2007	2006
Land	\$ 6,570	\$ 6,264
Construction in progress	4,264	8,798
Land improvements	1,491	1,442
Building and improvements	89,631	84,064
Equipment	78,334	76,200
<b>Total</b>	<b>180,290</b>	<b>176,768</b>
Less Accumulation depreciation	97,213	89,372
<b>Capital Assets (Net)</b>	<b>\$ 83,077</b>	<b>\$ 87,396</b>

#### Debt

At year-end, the Hospital had approximately \$34.2 million in loans and bond issues outstanding, versus \$35.7 million at the end of the previous year. More detailed information about the Hospital's long-term liabilities is presented in Note II E, F and G to the financial statements. The table below documents the debt held and its use:

	Outstanding Debt At Year End (000's)	
	2007	2006
Revenue bonds	\$ 29,250	\$ 31,192
Capital leases	3,266	4,027
Loans	1,719	541
<b>Total Debt</b>	<b>\$ 34,235</b>	<b>\$ 35,760</b>

#### Contacting the Hospital's Management

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Administrator at (812) 283-2178.

CLARK MEMORIAL HOSPITAL  
STATEMENT OF NET ASSETS  
December 31, 2007

Assets

Current assets:	
Cash and cash equivalents	\$ 14,686,548
Patient accounts receivable, net of estimated uncollectibles of \$44,886,937	22,603,504
Other receivables	2,101,616
Supplies and other current assets	2,913,047
Noncurrent cash and investments:	
Internally designated	55,419
Other long-term investments	600,000
Restricted by contributors and grantors	75,796
Capital assets:	
Land and construction in progress	10,833,854
Depreciable capital assets, net of accumulated depreciation	72,243,402
Other assets	<u>6,986,195</u>
Total assets	<u>\$ 133,099,381</u>

Liabilities and Net Assets

Current liabilities:	
Short term liabilities	\$ 1,718,790
Current maturities of long-term debt	2,151,835
Accounts payable and accrued expenses	4,598,832
Estimated third-party payor settlements	856,000
Other current liabilities	13,767,569
Long-term debt, net of current maturities	<u>32,263,476</u>
Total liabilities	<u>55,356,502</u>
Net assets:	
Invested in capital assets, net of related debt	50,561,596
Restricted:	
Expendable for specific operating activities	10,670
Nonexpendable permanent endowments	65,126
Unrestricted	<u>27,105,487</u>
Total net assets	<u>77,742,879</u>
Total liabilities and net assets	<u>\$ 133,099,381</u>

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

CLARK MEMORIAL HOSPITAL  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
Year Ended December 31, 2007

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 118,312,917
Other	<u>2,709,028</u>
Total operating revenues	<u>121,021,945</u>
Operating expenses:	
Salaries and benefits	62,781,053
Medical supplies and drugs	37,975,645
Other supplies	7,186,619
Depreciation and amortization	<u>9,812,011</u>
Total operating expenses	<u>117,755,328</u>
Operating income	<u>3,266,617</u>
Nonoperating revenues (expenses):	
Investment income	673,829
Unrealized holding loss on swap contract	(759,137)
Interest expense	(1,980,292)
Gain on investment in affiliated companies	<u>552,548</u>
Total nonoperating revenues (expenses)	<u>(1,513,052)</u>
Excess of revenues over expenses before capital grants and contributions	1,753,565
Capital grants and contributions	<u>45,729</u>
Increase in net assets	1,799,294
Net assets beginning of the year	<u>75,943,585</u>
Net assets end of the year	<u>\$ 77,742,879</u>

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

CLARK MEMORIAL HOSPITAL  
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS  
Year Ended December 31, 2007

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 116,361,014
Payments to suppliers and contractors	(52,395,092)
Payments to employees	(63,044,648)
Other receipts and payments, net	<u>4,615,121</u>
Net cash provided by operating activities	<u>5,536,395</u>
Cash flows from capital and related financing activities:	
Line of credit proceeds	1,718,790
Acquisition and construction of capital assets	(5,472,428)
Capital grants and contributions	45,729
Principal paid on long-term debt	(3,266,168)
Interest paid on long-term debt	<u>(1,926,963)</u>
Net cash used by capital and related financing activities	<u>(8,901,040)</u>
Cash flows from investing activities:	
Interest on investments	673,829
Increase in investment in affiliated company	1,349,760
Proceeds from sale of investments	<u>200,000</u>
Net cash provided by investing activities	<u>2,223,589</u>
Net decrease in cash and cash equivalents	(1,141,056)
Cash and cash equivalents at beginning of year	<u>15,958,819</u>
Cash and cash equivalents at end of year	<u>\$ 14,817,763</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 14,686,548
Restricted cash and cash equivalents	<u>131,215</u>
Total cash and cash equivalents	<u>\$ 14,817,763</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 3,266,617
Adjustments to reconcile operating income to net cash flows provided in operating activities:	
Depreciation and amortization	9,812,011
Provision for bad debts	22,040,687
(Increase) decrease in current assets:	
Patient accounts receivable	(23,992,590)
Supplies and other current assets	(132,435)
Other receivables	2,042,870
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	(7,100,393)
Other current liabilities	(263,595)
Estimated third-party payor settlements	<u>(136,777)</u>
Net cash provided in operating activities	<u>\$ 5,536,395</u>
Noncash investing, capital, and financing activities:	
The Hospital entered into a construction loan in the amount of \$1,800,000 for the construction of their Henryville facility.	

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

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

On October 20, 1982, the Board of County Commissioners of Clark County, upon written request of the Hospital Board of Trustees created the Clark Memorial Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

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

Blended Component Unit

The Clark Memorial Hospital Foundation (Foundation) is a significant blended component unit of the Hospital. The primary government appoints a voting majority of the Foundation's board and is able to impose its will. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

Short-term investments are investments with remaining maturities of up to 90 days.

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

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

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

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as non-operating revenues in the statement of revenues, expenses, and changes in net assets.

2. Use of Estimates

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

3. Capital Assets

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements	\$ 1	Straight-line	Common Useful Life
Buildings and improvements	1	Straight-line	Common Useful Life
Equipment	1,000	Straight-line	Common Useful Life

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Hospital during the current year was \$1,980,292. Of the amount, \$20,398 was included as part of the cost of capital assets under construction in connection with new medical facilities and various other renovation projects.

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

4. Net Assets

Net assets of the Hospital are classified in four components.

Net assets invested in capital assets, net of related debt consist of 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.

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

Restricted nonexpendable net assets equal the principal portion of permanent endowments.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

D. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

E. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, state law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note II (H).

F. Restricted Resources

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

G. Operating Revenues and Expenses

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

H. Compensated Absences

Hospital employees earn sick leave at the rate of 28 to 72 hours per year. Unused sick leave may be accumulated to a maximum of 960 hours. Accumulated sick leave is not paid to employees upon termination.

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The Hospital's policy on paid time off (which includes vacation and holidays) allows full-time employees and regular part-time employees to accrue paid time-off at rates from 160 hours to 280 hours per year based on the number of years of service. Paid time off may be accumulated to a maximum of two times the employee's annual accrual rate. Accumulated paid time off is paid to employees through cash payments upon termination or change of status from benefit status to a nonbenefit status.

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

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-15 requires only that money in the Hospital funds be deposited in the manner determined by the governing board. The Hospital does not have a formal policy regarding custodial credit risk for deposits. At December 31, 2007, the bank balance held at JPMorgan Chase Bank in the amount of \$11,311,009 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-Hospital's name. The remaining bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20. As of December 31, 2007, the Hospital had the following investments:

<u>Investment Type</u>	<u>Market Value</u>
Mutual Funds	<u>\$ 4,482,493</u>

Investment Policies

Indiana Code 16-22-3-20 authorizes the Hospital to invest in: (1) any interest-bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana; (2) repurchase or resale agreements involving the purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States or and United States government agency in which type of agreement the amount of money must be fully collateralized by interest-bearing obligations as determined by the current market value computed on the day the agreement is effective; (3) mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana; (4) securities backed by the full faith and credit of the United State Treasury or fully insured or guaranteed by the United States or and United State government agency; (5) pooled fund investments for participating hospitals offered, managed, and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

B. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts:

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 48,053,780
Receivable from Medicare	13,356,558
Receivable from Medicaid	<u>6,080,103</u>
 Total patient accounts receivable	 67,490,441
 Less allowance for uncollectible amounts	 <u>44,886,937</u>
 Patient accounts receivable, net	 <u><u>\$ 22,603,504</u></u>

Accounts Payable and Accrued Expenses

Payable to suppliers	\$ 3,925,203
Other	<u>673,629</u>
 Total accounts payable and accrued expenses	 <u><u>\$ 4,598,832</u></u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 6,264,282	\$ 305,756	\$ -	\$ 6,570,038
Construction in progress	<u>8,797,954</u>	<u>5,134,422</u>	<u>9,668,560</u>	<u>4,263,816</u>
 Total capital assets, not being depreciated	 <u>15,062,236</u>	 <u>5,440,178</u>	 <u>9,668,560</u>	 <u>10,833,854</u>
Capital assets, being depreciated:				
Land improvements	1,441,983	49,401	-	1,491,384
Buildings and improvements	84,064,115	6,010,243	443,104	89,631,254
Equipment	<u>76,200,235</u>	<u>3,997,629</u>	<u>1,863,976</u>	<u>78,333,888</u>
 Totals	 <u>161,706,333</u>	 <u>10,057,273</u>	 <u>2,307,080</u>	 <u>169,456,526</u>

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Land improvements	815,856	63,778	-	879,634
Buildings and improvements	32,362,384	4,004,628	232,553	36,134,459
Equipment	56,193,888	5,743,605	1,738,462	60,199,031
 Totals	 <u>89,372,128</u>	 <u>9,812,011</u>	 <u>1,971,015</u>	 <u>97,213,124</u>
 Total capital assets, being depreciated, net	 <u>72,334,205</u>	 <u>245,262</u>	 <u>336,065</u>	 <u>72,243,402</u>
 Total primary government capital assets, net	 <u>\$ 87,396,441</u>	 <u>\$ 5,685,440</u>	 <u>\$ 10,004,625</u>	 <u>\$ 83,077,256</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2007</u>	<u>Committed</u>	<u>Required Future Funding</u>
ORSOS update	\$ 500,813	\$ 500,813	\$ -	\$ -
Radiology Information System	232,041	232,041	-	-
Henryville Medical Center	1,368,508	1,120,562	247,946	-
Various small projects	2,414,510	2,410,400	4,110	-
 Totals	 <u>\$ 4,515,872</u>	 <u>\$ 4,263,816</u>	 <u>\$ 252,056</u>	 <u>\$ -</u>

E. Leases

Capital Leases

The Hospital has entered into capital leases for CT and MRI equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of year end, are as follows:

2008	\$ 949,810
2009	1,005,640
2010	1,005,640
2011	<u>727,538</u>
 Total minimum lease payments	 3,688,628
 Less amount representing interest	 <u>422,967</u>
 Present value of net minimum lease payments	 <u>\$ 3,265,661</u>

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Assets acquired through capital leases still in effect are as follows:

Equipment \$ 4,292,316

F. Short-Term Liabilities

The Hospital uses a revolving line of credit and short-term loans/notes to finance a variety of Hospital expansion projects. During 2007, the Hospital obtained a line of credit for the relocation of its finance department into a new building. The Hospital also obtained a construction loan for the construction of a medical facility in Henryville, Indiana.

Short-term debt activity for the year ended was as follows:

	Beginning Balance	Issued/ Draws	Redeemed Repayments	Ending Balance
Line of credit, loans, notes	\$ -	\$ 1,718,790	\$ -	\$ 1,718,790
	-	1,718,790	-	1,718,790

G. Long-Term Liabilities

1. Revenue Bonds

The Hospital issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
Indiana Health Facility Financing Authority (IHFFA) \$20,000,000 2001 Revenue Bonds	4.69%*	\$ 15,825,000
Indiana Health Facility Financing Authority (IHFFA) \$9,500,000 Series A 2004 Revenue Bonds	4.27%*	9,500,000
Indiana Health Facility Financing Authority (IHFFA) \$5,500,000 Series B 2004 Revenue Bonds	4.77%*	3,925,000
Total		\$ 29,250,000

\*Synthetic interest rate – see interest rate swap note below.

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
2008	\$ 1,385,000	\$ 1,333,998
2009	1,450,000	1,268,649
2010	1,515,000	1,200,234
2011	1,580,000	1,128,754
2012	1,650,000	1,054,207
2013-2017	9,425,000	4,051,049
2018-2022	10,165,000	1,714,554
2023-2024	<u>2,080,000</u>	<u>8,693,130</u>
Totals	<u>\$ 29,250,000</u>	<u>\$ 20,444,575</u>

Interest Rate Swap – Risk Management

The Hospital has utilized certain derivative financial instruments as a part of its risk management strategy to reduce interest rate risk. Derivatives are not used for trading or speculative activities. The Hospital recognizes all derivatives on the Statement of Net Assets at fair value. On the date the derivative instrument was entered into, the Hospital designated the derivative as a hedge of the variability of cashflows to be received or paid related to a recognized asset or liability ("Cashflow Hedge"). The Hospital formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Information obtained from JPMorgan Chase Bank, indicates the Hospital has a long-term liability on the interest rate swap notes in the amount of \$1,899,651 at December 31, 2007. This amount is included in the "Long Term Debt, Net of Current Maturities" on the Statement of Net Assets.

The Hospital also formally assessed, both at the inception of the hedge, and on an ongoing basis, whether each derivative is highly effective in offsetting changes in cashflows of the hedged item. If it is determined that a derivative is not highly effective as a hedge or if a derivative ceases to be a highly effective hedge, the Hospital will discontinue hedge accounting prospectively.

In December 2001, and again in April 2004, the Hospital entered into interest rate swap agreements, with maturities through 2021 and 2024, to manage its exposure by effectively converting a substantial portion of its indebtedness from variable rate to fixed rate. The average annual notional amounts of interest rate swap contracts subject to fixed rates were \$29,250,000 for the fiscal year 2007. These agreements involve the exchange of variable rate payments for fixed rate payments without the effect of leverage and without the exchange of the underlying face amount. Fixed interest rate payments for the 2001 issue, the

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2004 issue (Issue A) and the 2004 issue (Issue B), were at a weighted average as shown in the following table. Interest rate differentials paid under these agreements were recognized as adjustments to interest expense, and amounted to \$163,871 for the year ended December 31, 2007.

	2001 Issue	2004A Issue	2004B Issue
Interest rate swaps:			
Fixed payment to counterparty	4.06%	3.97%	4.53%
Less: variable payment from counterparty LIBOR%	3.42%	3.67%	3.88%
Net interest rate swap payments	0.64%	0.30%	0.65%
Variable rate bond payments	4.04%	3.97%	4.12%
Synthetic interest rate on bonds	4.69%	4.27%	4.77%

As of December 31, 2007, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their terms, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Year Ended December 31	Variable-Rate Bonds		Swaps	Total
	Principal	Interest	Net Interest	Debt Service
2008	\$ 1,385,000	\$ 1,178,674	\$ 155,324	\$ 2,718,998
2009	1,450,000	1,122,258	146,391	2,718,649
2010	1,515,000	1,063,196	137,038	2,715,234
2011	1,580,000	1,001,487	127,267	2,708,754
2012	1,650,000	937,131	117,076	2,704,207
2013-2017	9,425,000	3,621,275	429,774	13,476,049
2018-2022	10,165,000	1,549,634	164,920	11,879,554
2023-2024	2,080,000	7,512,231	1,180,900	10,773,130
Totals	<u>\$ 29,250,000</u>	<u>\$ 17,985,886</u>	<u>\$ 2,458,690</u>	<u>\$ 49,694,575</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Revenue:					
Hospital Association	\$ 625,000	\$ -	\$ 625,000	\$ -	\$ -
Indiana Health Facility Financing Authority	30,575,000	-	1,325,000	29,250,000	1,385,000
Less deferred amount on refunding	<u>8,170</u>	<u>-</u>	<u>8,170</u>	<u>-</u>	<u>-</u>
Total bonds payable	31,191,830	-	1,941,830	29,250,000	1,385,000
Capital leases	4,026,786	-	761,125	3,265,661	766,835
Loans payable	<u>540,900</u>	<u>1,718,790</u>	<u>540,900</u>	<u>1,718,790</u>	<u>1,718,790</u>
Total long-term liabilities	<u>\$ 35,759,516</u>	<u>\$ 1,718,790</u>	<u>\$ 3,243,855</u>	<u>\$ 34,234,451</u>	<u>\$ 3,870,625</u>

3. Net Revenue Available for Debt Service

The following disclosures concerning net revenue available for debt service applicable to the years ended December 31, 2007, are required by terms of the financing agreement between the Hospital and IHFFA:

Revenue from operations	\$ 121,021,945
Investment income	673,829
Less:	
Expenses (excluding depreciation, amortization and interest on funded debt)	<u>107,943,317</u>
Total net revenue available for debt service	<u>\$ 13,752,457</u>
Funded debt service for year	<u>\$ 2,725,268</u>
Historical debt service coverage ratio	<u>5.1:1</u>

4. Revenue Bond Covenants

The Hospital issued bonds in the amounts of \$20,000,000 and \$15,000,000 in 2001 and 2004, respectively. Covenants for these bonds required that four financial tests be met. The Hospital was not in compliance with one of the covenants which required the ratio of current assets to current liabilities to not be less than 2:1. As of December 31, 2007, the Hospital's ratio was 1.8:1, as calculated below:

Current assets	\$ 42,304,715
Current liabilities	<u>23,093,026</u>
Ratio current assets to current liabilities	<u>1.8</u>

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

H. Endowments and Restricted Net Assets

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

	2007
Expendable for specific operating activities:	
Board approved activities	\$ 8,683
Nursing scholarships	1,987
Total expendable, restricted net assets	\$ 10,670

Unless the contributor provides specific instructions, state statute permits the Hospital Board to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the Hospital Board is required to consider the Hospital's "long-and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

Restricted nonexpendable net assets as of year end represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the Hospital's permanent endowments are expendable to support these programs as established by the contributor:

	2007
Board approved activities	\$ 47,315
Nursing scholarships	17,811
Total restricted nonexpendable net assets	\$ 65,126

I. Charity Care

Charges excluded from revenue under the Hospital's charity care policy totaled \$4,755,514 for 2007.

J. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

Designated Funds – Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Board designation:	
Cash and cash equivalents	\$ 55,419

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

III. Other Information

A. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

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

Job Related Illnesses or Injuries to Employees

The Hospital's Operational Fund services the risk of loss on work related illnesses and injuries to employees. An excess policy through commercial insurance covers individual claims in excess of \$250,000 per year or an aggregate for all individuals of \$961,093. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

B. Related Party Transactions

In 1992, the Hospital entered into an agreement with MedGroup Management, Inc. (MedGroup), an affiliate of Jewish Hospital and St. Mary's HealthCare, Inc., whereby MedGroup would supervise, manage, and operate the Hospital. According to the agreement, MedGroup will provide the Chief Executive Officer (who will be appointed by the Hospital's Board of Directors) and the Chief Financial Officer.

Compensation and fees paid by the Hospital to MedGroup for 2007 were \$799,200. Payments in the amount of \$14,493,212 were made to Jewish Hospital and St. Mary's HealthCare, Inc., and its related entities for healthcare and other related services during 2007.

C. Subsequent Events

In 2008, the Hospital obtained a mortgage loan in the amount of \$1,697,622 after the completion of its Henryville, Indiana, medical office building.

D. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Investments

Fair values, which are the amounts reported in the Statement of Net Assets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Accounts Payable and Accrued Expenses

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

Estimated Third-Party Payor Settlements

The carrying amount reported in the Statement of Net Assets for estimated third-party payor settlements approximates its fair value.

E. Investment in Affiliated Companies

Rehabilitation Hospital

In 1993, the Hospital entered into an agreement with two other hospitals to establish and operate a rehabilitation hospital, Southern Indiana Rehab Hospitals (SIRH). In accordance with this agreement, each hospital invested \$5,500,000 for a 33 1/3% equity interest in the rehabilitation hospital. The investment was made in the year 1993. The rehabilitation hospital began operation in 1994. The investment is recorded on the equity method. The Hospital's investment in affiliated companies is included in the Other Assets category of the Statement of Net Assets.

Summarized financial information as of December 31, 2007, and for the year then ended from the audited financial statements of the Affiliated Company follows:

Current assets	\$ 6,442,307
Noncurrent assets	9,078,452
Current liabilities	2,129,903
Noncurrent liabilities	5,311,304
Stockholder's equity	8,079,552
Revenue	15,725,728
Net income	125,403

The Affiliated Company was paying the debt service on loans obtained by the participating members to finance their initial investment in the Affiliated Company. The Affiliated Company reported the amount due on the loan as a noncurrent liability and not in stockholder's equity. On April 26, 2001, the Affiliated Company issued bonds of \$10,550,000 to refinance the loans obtained by the participating members. Clark Memorial Hospital had provided a corporate guaranty on 25% of the credit facility.

Charges billed by Clark Memorial Hospital to SIRH for services and supplies were \$840,651 for 2007.

No equity distributions were received by Clark Memorial Hospital from the facility in 2007.

Cardiac Catheterization Facility

In 1996, the Hospital entered into an agreement with Jewish Hospital and St. Mary's Healthcare, Inc., to establish and operate a facility to provide cardiac catheterization services. In accordance with this agreement, each hospital has a 50% equity interest in the cardiac catheterization facility. The investment was made in the year 1996 and the facility began operations in 1996. The investment is recorded on the equity method. The Hospital's investment in affiliated companies is included in the Other Assets category of the Statement of Net Assets.

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Summarized financial information as of December 31, 2007, and for the year then ended from the audited financial statements of the Affiliated Company follows:

Current assets	\$ 1,989,970
Noncurrent assets	2,363,479
Current liabilities	828,001
Stockholder's equity	3,525,448
Revenue	8,440,409
Net income	586,841

Equity distributions were received by Clark Memorial Hospital from the facility in 2007 in the amount of \$1,025,000.

Regional Service Center

In 1996, the Hospital entered into an agreement with eight other hospitals to establish and operate a regional service center to provide purchasing and supply distribution services to the hospitals owned and managed by Jewish Hospital and St. Mary's Healthcare, Inc. In accordance with this agreement, Clark Memorial Hospital invested \$1,293,500 for a 20% equity interest in the Regional Service Center. The investment was made in the year 1999 and the Regional Service Center began operations in the same year. In the year 2000, Clark Memorial Hospital sold 8.18% of its equity interest in the Regional Service Center for \$519,423, reducing its interest to 11.92%. Upon the withdrawal of one member hospital at December 31, 2002, Clark Memorial Hospital's equity interest changed to 12.43%.

During 2004, the members of the Company amended the operating agreement dated January 1, 1999, to allow for annual ownership adjustments. This adjustment is based on the aggregate purchases from the Company of all members during the fiscal year most recently ended. Clark Memorial Hospital's equity interest at December 31, 2007 was 13%.

The Hospital's investment in affiliated companies is included in the Other Assets category of the Statement of Net Assets.

Summarized financial information as of December 31, 2007, and for the year then ended from the audited financial statements of the Affiliated Company follows:

Current assets	\$ 21,265,196
Noncurrent assets	495,563
Current liabilities	7,917,054
Stockholder's equity	13,843,705
Revenue	112,596,570
Net income	1,148,497

The Regional Service Center leases warehouse and office space under a lease agreement that expires on August 1, 2011. Future minimum rental payments for the noncancelable portion of the lease total \$2,366,618.

In 2007, services and supplies in the amount of \$11,006,703 were provided by the distribution center to the Hospital. Equity distributions were received from the Regional Service Center in the amount of \$37,667 in 2007.

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Comprehensive Outpatient Rehabilitation Facility (CORF)

In 1999, the Hospital entered into an agreement with a related hospital to establish and operate a comprehensive outpatient rehabilitation facility. In accordance with this agreement, the Hospital has a 50% equity interest in the comprehensive outpatient rehabilitation facility. The comprehensive outpatient rehabilitation facility began operation in 1999. The investment is recorded on the equity method. The Hospital's investment in affiliated companies is included in the Other Asset category of the Statement of Net Assets.

Summarized financial information as of December 31, 2007, and for the year then ended from the unaudited financial statements of the Affiliated Company follows:

Revenue	\$ 949,834
Net income	154,886

Amounts for balance sheet accounts are not presented because CORF's net assets are included in the Jewish Hospital and St. Mary's Healthcare Inc. combined balance sheet. No separate Statement of Net Assets is prepared for CORF.

The Hospital received rental income for the CORF facility from Frazier Rehab Center in the amount of \$15,973 in 2007.

The Hospital is obligated by contract to remit one-half of all net losses from the operation of the CORF to Frazier, and Frazier shall pay to the Hospital one-half of all net profits from the operation of CORF.

Equity distributions were received by Clark Memorial Hospital from the facility in 2007 in the amount of \$126,833.

Health Care Staffing Agency

In 2002, the Hospital entered into an agreement with two related hospitals to establish and operate a health care staffing agency and cost share support services, Healthstaff Solutions, LLC. In accordance with this agreement, the Hospital invested \$13,371 for an 11.14% equity interest in the health care staffing agency. The investment was made by the Hospital and the health care staffing agency began operation in the year 2002. The investment is recorded on the cost method. The Hospital's investment in affiliated companies is included in the Other Assets category of the Statement of Net Assets.

Summarized financial information as of December 31, 2007, and for the year then ended for the audited financial statements of the Affiliated Company follows:

Current assets	\$ 88,000
Current liabilities	466,000
Stockholder's equity	378,000
Revenue	817,000
Net loss	(343,000)

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Southern Home Care/Visiting Nurse Association

In 2002, the Hospital entered into an agreement with a related hospital to establish and operate a home health care agency. In accordance with this agreement, the hospital has a 60% equity interest in the home healthcare agency. The home health care agency began operation in 2002. The investment is recorded on the equity method. The Hospital's investment in affiliated companies is included in the Other Asset category of the Statement of Net Assets.

Summarized financial information as of December 31, 2007, and for the year then ended from the unaudited financial statements of the Affiliated Companies follows:

Current assets	\$ 811,471
Current liabilities	494,244
Stockholder's equity	303,443
Revenue	(23,994)
Net loss	(187,714)

F. Estimated Third-Party Settlements

Regulations in effect require annual retroactive settlements for third-party settlements based upon cost reports filed by the Hospital. These retroactive settlements are estimated and recorded in the accompanying financial statements. Changes in these estimates are reflected in the year in which they occur. During 2007, net patient service revenues in the accompanying statements of operations were increased by \$564,777, to reflect changes in the estimated settlements for certain prior years.

G. Pension Plan

Clark Memorial Hospital Retirement Plan

Plan Description

The Hospital has a defined benefit pension plan administered by Clark Memorial Hospital as authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

Clark Memorial Hospital  
P.O. Box 69  
Jeffersonville, IN 47131-0069  
Ph. (812) 283-2448

Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members are not required to contribute to the plan. The Hospital is required to contribute at an actuarially determined rate. The current rate is 0% of annual covered payroll. However, annual pension costs for 2007, determined in accordance with GASB 27, were \$2,099,256

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

Annual required contribution	\$ 2,030,433
Interest on net pension obligation	358,585
Adjustment to annual required contribution	<u>(398,152)</u>
Annual pension cost	1,990,866
Contributions made	<u>2,099,256</u>
Decrease in net pension obligation	(108,390)
Net pension obligation, beginning of year	<u>6,581,571</u>
Net pension obligation, end of year	<u><u>\$ 6,473,181</u></u>
Contribution rates:	
Hospital	0%
Plan members	0%
Actuarial valuation date	01-01-07
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of projected payroll, closed
Amortization period (from date)	35 years
Asset valuation method	Market value of trust assets

Actuarial Assumptions

Investment rate of return	8%
Projected future salary increases:	5%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Clark Memorial Hospital Retirement Plan	12-31-05	\$ 1,867,305	7%	\$ 4,483,627
	12-31-06	2,097,944	0%	6,581,571
	12-31-07	1,990,866	105%	6,473,181

CLARK MEMORIAL HOSPITAL  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Clark Memorial Hospital Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-05	\$ 33,488,639	\$ 33,823,028	\$ (334,389)	99%	\$ 40,397,635	(1%)
01-01-06	32,260,125	35,571,205	(3,311,080)	91%	38,890,153	(9%)
01-01-07	34,418,996	37,045,025	(2,626,029)	93%	40,404,314	(6%)

CLARK MEMORIAL HOSPITAL  
AUDIT RESULT AND COMMENT

REVENUE BOND CONVENANTS

The Hospital issued bonds in the amounts of \$20,000,000 and \$15,000,000 in 2001 and 2004, respectively. Financial covenants contained with the bond documents require that four separate financial tests be met. The Hospital did not comply with the following financial test requirement:

The ratio of current assets to current liabilities shall not be less than 2:1. As of December 31, 2007, the Hospital's ratio was 1.8:1.

The hospital is responsible for complying with the decisions of the governing board as evidenced in the board minutes or other written memoranda. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 9)

CLARK MEMORIAL HOSPITAL  
EXIT CONFERENCE

The contents of this report were discussed on August 13, 2008, with Martin Padgett, Executive Director; Kirk Strack, Chief Financial Officer; and Todd Hoffman, Controller.