State Board of Accounts

AUDIT REPORT
OF

HARRISON COUNTY HOSPITAL
A COMPONENT UNIT OF
HARRISON COUNTY, INDIANA

January 1, 2007 to December 31, 2007

B32329

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

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FILED
07/08/2008

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HOSPITAL OFFICIALS

Office	Official	Term
Chief Executive Officer	Steven L. Taylor	01-01-07 to 12-31-08
Chief Financial Officer	Jeffrey L. Davis	01-01-07 to 12-31-08
Chairman of the Hospital Board	Paul Martin	01-01-07 to 12-31-08
President of the Board of County Commissioners	James Goldman	01-01-07 to 12-31-08

STATE OF INDIANA

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of Harrison County Hospital (Hospital), and its aggregate discretely presented component unit 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 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital and its aggregate discretely presented component unit 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 Discussion and Analysis, as listed in the Table of Contents, is not a required part of the basic financial statements but is 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

June 17, 2008

HARRISON COUNTY HOSPITAL

Management Discussion and Analysis (MD&A)

This section of Harrison County Hospital's (HCH) annual financial statements presents background information and management discussion and analysis of the HCH financial performance for the year ended December 31, 2007. HCH reports results on a fiscal year of January 1 to December 31, and any reference to a year in this MD&A indicates the HCH fiscal years. This MD&A does not include a discussion and analysis of the activities and results of the Harrison County Hospital Foundation.

This MD&A should be read together with the financial statements and accompanying Notes to the Financial Statements included in this report.

Fiscal Year Change

HCH changed fiscal years for financial reporting purposes as of January 1, 2006. HCH previously reported on a fiscal year of October 1 to September 30, and now reports on a fiscal year of January 1 to December 31. The last fiscal year ended September 30 was 2005, with a short fiscal year reported for October 1, 2005 to December 31, 2005.

The decision to change the fiscal year was based on the desire of the hospital to align with the financial reporting of the governmental unit of Harrison County, and with the financial reporting of other industry entities. HCH also believes that the calendar year is more representative of the hospital's natural annual business cycle than the fiscal year ending September 30.

Financial Highlights

- HCH net assets increased by $5,211,855 in 2007, resulting from operating gains of $3,451,540, contributed capital of $655,000 and non-operating revenue of $1,105,315. The contributed capital includes $575,000 funded by HCH into Harrison MOB LLC, a discreet component unit of HCH.

- Total net patient revenue, net of provision for bad debt, increased by 1%, while operating expenses increased by 8.4%. Net operating income for the year was $3,451,540, a decrease of 39.8% from 2006.

- Long term debt, including current maturities, is $30,042,445. This amount consists of $30,000,000 in revenue bonds payable for the new hospital construction, and $42,445 payable that has been drawn on the medical office building construction loan. Principal payments on the revenue bonds will begin in October 2008.

- The Board of Trustees gave approval in September of 2005 for HCH to make application for the critical access hospital (CAH) designation. HCH was approved

as a CAH facility as of December 15, 2005. The CAH program under Medicare was developed to assist smaller hospitals that service rural areas and areas of critical need, as it provides alternative reimbursement methods for patient services. Under the CAH program, Medicare will reimburse HCH at 101% of the allowable costs of providing services to Medicare patients.

- Construction began in late 2005 and was completed in February 2008 on the $50 million replacement hospital facility. The funding was provided by: $30 million in variable rate revenue bonds, backed by a five year letter of credit commitment from J.P. Morgan Chase Bank, and issued through the Indiana Health and Educational Facility Finance Authority; a contribution from Harrison County of $12 million, which was funded from the sharing of gaming tax revenue; a grant from the Harrison County Community Foundation of $5 million; HCH cash reserves of $3 million. The revenue bonds were sold in November of 2005. Following the sale of the revenue bonds, HCH entered into an interest rate SWAP covering $25 million of the $30 million bond issue. The SWAP effectively fixes the interest rate at 3.81% for the life of those bonds. The grants were made in scheduled payments to HCH in September 2005, FY 2006 and FY 2007. Following is a general breakdown of the project costs:

* Land	$686,000
* Site Work and Building Construction	32,154,000
* Equipment (original plan)	9,300,000
* Equipment Added – MRI and CT Scan	2,200,000
* Architectural Design Fees	1,960,000
* Engineers, Consultants, Planners	1,226,000
* Bond Issuance Expenses	589,000
* Construction Period Interest	980,000
* Build-out for Tenant – Dialysis Ctr.	400,000
* Other	305,000
Total	$49,800,000

HCH has been researching the feasibility of, and planning for a new facility for a number of years. The primary reasons for building the replacement hospital are:

1. To replace an ageing and outdated facility, dating to 1950
2. Increased patient volumes have created the need for more space
3. To enhance functional areas for patient services, patient access, equipment, building and safety codes
4. The cost to build a new replacement facility is favorable in comparison to renovating the old structure
5. Relocating to a new site will provide greater visibility, better access to major roads, and room for future expansion
6. To allow HCH to remain competitive in the development of medical staff and new services

As of December 31, 2007, HCH has spent $40,506,700 in construction costs for the new facility. The project was completed at a total cost of approximately $49.8 million and the facility was placed into service during February 2008.

- In July 2006 HCH entered into an agreement with several physicians and healthcare providers to establish Harrison MOB, LLC. This entity was formed to invest in and operate a new medical office building to be located on the campus of the new HCH facility. HCH invested $1,155,000 and which includes ownership of approximately 55% of the shares of the LLC. As of December 31, 2007 total assets of the LLC were $2,429,895, and the limited activity of the LLC is included in the Financial Statements. The LLC began construction on the medical office building in 2007, with construction to be completed in late 2008. The total construction costs are estimated at $7,225,000, with $6,000,000 to be financed with a bank loan. More financial information on the LLC and the bank note is included in the Notes to the Financial Statements.

- In April 2008 the Harrison County Commissioners and the Board of Trustees formed an agreement to construct an ambulance station on the hospital campus, which will replace the ambulance station on the vacated hospital campus. The building will be an asset of the hospital. The estimated total cost of the building is $1,000,000, with $260,000 of the cost to be contributed by HCH and the balance to be funded by contributed capital from Harrison County. Construction of the building is to begin in 2008.

- In May 2008 the Harrison County Commissioners and the Board of Trustees approved the transfer of certain HCH land and buildings to Harrison County. The property to be transferred consists of the land and improvements, hospital buildings and medical office buildings that were taken out of service with the move to the new campus. The transfer is expected to take place on July 1, 2008. The properties carry an original cost of $14,022,099, and will have on June 30, 2008, total accumulated depreciation of $10,420,773, leaving a book value of $3,601,326. The resulting loss on disposal of the properties will be treated as an extraordinary item in the 2008 financial statements. The decision to transfer the property rather than selling it on the open market was based on the following factors:

    1. The property has limited resale potential in the Harrison County market and is expensive to maintain as a property for sale
    2. Harrison County is an affiliated governmental unit and has a current shortage of space for county offices
    3. Harrison County supported the construction of the new hospital facility with a sizeable contribution of capital
    4. The transfer to the County will promote the long term utilization and maintenance of the property, which is a benefit to the community

- HCH continues to implement an upgraded and expanded hospital information system. Current projects include the implementation of electronic medical records systems, which will capture and store patient medical records in an electronic format. This is a significant investment in technology which improves quality of information for clinical and financial management, which in turn will facilitate improved quality of care. The enhanced information systems will also allow for operational efficiencies as patient volumes increase, and will be vital in conforming to regulatory requirements which continue to expand in number and complexity.

The Financial Statements

The HCH financial statements consist of - a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These statements provide short-term and long-term financial information.

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets provide information on the HCH resources and its activities. These two statements report the net assets of HCH and its changes. Increases or decreases of the HCH net assets are one indicator of whether its financial health is improving or eroding. However, other non-financial factors such as changes in economic conditions, population growth, patient demographic changes, and new or changed government legislation should also be considered.

The Statement of Net Assets includes all of the HCH assets and liabilities, and the net assets, which can be thought of as the net worth of HCH. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the financial results of the HCH operations and presents revenue earned and expenses incurred. The other primary financial statement is the Statement of Cash Flows. This statement provides information about HCH sources and uses of cash during the year, and the cash flows from operating activities, capital and related financing activities, and investing activities.

A summary of the HCH Balance Sheets as of December 31, 2007 and 2006 is presented below, in 000's:

	2007	2006	$ Change	% Change
Assets:				
Cash and Investments	$10,263	$15,741	($5,478)	(34.8%)
Capital Assets	53,290	32,181	21,109	65.6%
Other Assets	10,519	9,241	1,278	13.8%
Restricted Assets - Cash	16,345	22,892	(6,547)	(28.6%)
Restricted Assets - Receivable	0	5,587	(5,587)	N/A
Total Assets	$90,417	$85,642	$4,775	5.6%
Liabilities:				
Long Term Debt Outstanding	$29,448	$30,000	($552)	(1.8%)
Current and Other Liabilities	6,446	6,330	116	1.8%
Total Liabilities	35,894	36,330	(436)	(1.2%)
Net Assets:				
Invested in Capital Assets - Net of Related Debt	22,855	11,138	11,717	105.2%
Unrestricted	31,522	20,179	11,343	56.2%
Restricted	146	17,995	(17,849)	(99.2%)
Total Net Assets	54,523	49,312	5,211	10.6%
Total Liabilities and Net Assets	$90,417	$85,642	$4,775	5.6%

The decrease in cash and investments and restricted cash, and the increase in capital assets is the result of the use of cash for the hospital construction project. The use of cash was offset somewhat by operating gains which generated positive cash flow from operations. Collections and reimbursements for patient services provided the primary source of cash.

Capital Assets have increased due to the construction in progress of the new $50 million hospital facility.

A summary of the HCH Statement of Operations and Changes in Net Assets as of December 31, 2007 and 2006 is presented below, in 000's:

	2007	2006	$ Change	% Change
Revenue:				
Net Patient Service Revenue, net of provision for Bad Debt: 2007 ($4,712); 2006 ($4,398)	$35,180	$34,820	$360	1.0%
Other	1,319	1,409	(90)	(6.4%)
Total Operating Revenue	36,499	36,229	270	0.7%
Expenses:				
Salaries and Benefits	18,740	17,352	1,388	8.0%
Medical Supplies and Drugs	3,311	3,364	(53)	(1.6%)
Depreciation and Amortization	2,118	1,952	166	8.5%
Other	8,878	7,830	1,048	13.4%
Total Operating Expenses	33,047	30,498	2,549	8.4%
Operating Income	3,452	5,731	(2,279)	(39.8%)
Non-Operating Revenue	1,117	640	477	74.5%
Non-Operating Expense	(12)	(164)	152	(92.7%)
Excess of Revenue over Expenses	4,557	6,207	(1,650)	(26.6%)
Capital Grants and Contributions	655	1,304	(649)	(49.8%)
Total Net Assets - Beginning of Year	49,311	41,800	7,511	18.0%
Total Net Assets - End of Year	$54,523	$49,311	$5,212	10.6%

Sources of Revenue

During 2007 and 2006 HCH derived substantially all of its revenue from patient service and other related programs. Revenue is received from Medicare and Medicaid programs, self pay patients, insurance carriers, preferred provider organizations, and managed care companies. Other revenue includes payments from Harrison County for the operation of the county ambulance service, totaling $828,710 in 2007 and $936,868 in 2006.

The following table presents the percentages of gross revenue for patient services, by payor, for the years ended December 31, 2007 and 2006, respectively.

Payor	2007	2006
Medicare	44.8%	43.5%
Medicaid	10.7%	11.3%
Anthem	16.7%	15.3%
Commercial Insurance	6.5%	7.3%
Managed Care	12.8%	15.0%
Self Pay	5.6%	5.0%
Other	2.9%	2.6%
Total	100.0%	100.0%

Operating and Financial Performance

The financial operating performance of HCH receded in 2007 compared to the prior year. This section will discuss the highlights of 2007 operations and changes in activity.

Revenue

Net patient revenue increased only slightly during 2007 primarily as a result of a decrease in inpatient volumes, offset in part with an overall rate increase on services and a slight increase in outpatient volumes. Further discussion of revenue activity follows.

- Overall outpatient visits to HCH increased by 3% in 2007. Contributing to this rise was an increase in emergency room visits, and the increased demand for diagnostic testing as the industry continues to rely more on these procedures for detection and diagnosis of disease and injuries.

- Inpatient activity decreased in terms of patient days by 8%. This decrease reflects mild cold, flu and allergy seasons in 2007, which resulted in fewer elderly and chronically ill patients requiring acute care. Historical inpatient activity remains flat, which reflects the continued shift in the industry from inpatient services to outpatient services, as technology improves to allow less invasive procedures and shorten the time of recovery.

- The portion of deductions from gross revenue recognized by HCH for uninsured care and charity care in 2007 was $6.2 million, or 7.8% of gross revenue, compared to $5.9 million, or 7.7% of gross revenue in 2006. Uninsured care is included in provision for bad debt expense and represents uncollected charges for services not covered by insurance, and for patients that do not have health

insurance. Charity care is recognized as a deduction from gross revenue, and represents charges written off that were incurred in providing care to uninsured and indigent patients. HCH has a policy and a commitment to provide emergency care to all patients without regard for their ability to pay for services. Over the past several years there has been a trend of increasing uninsured care. This can be attributed to the overall local economy and the health insurance industry climate, which has left more of the population without health insurance. In addition, those with health insurance often face significant increases in patient deductibles and co-insurance as companies try to offset large health insurance premium increases by shifting toward consumer driven health plans.

- During 2007 net Medicare settlements of $836,814 were received for the years 2006 and 2005, relating to the Medicare cost reports for those years. Under the Critical Access Hospital program, estimated interim payments are made by Medicare during the year, and then an initial settlement is made based on the cost report. The cost report determines the allowable cost of providing service to Medicare patients. The cost reports are then subject to subsequent reviews and audits, which may adjust the payment received or made on the initial settlement.

- Settlements of $1,615,121 were received in 2007 under the Indiana Medicaid program, relating to the State of Indiana's fiscal years of 2004 and 2005. These payments were made as part of the Disproportionate Share Hospital program, and are recorded as offsets to revenue adjustments in the HCH accounting records. These payments were made from funds that are available to partially cover the hospital's cost of care to Medicaid and uninsured patients. These amounts are determined by the State through subsequent reviews and audits.

Expenses

Total operating expenses increased by 8.4% in 2007. Factors that had an impact on expenses are discussed below.

- Salaries and benefits costs for 2007 increased by $1,388,000, an 8% increase from 2006. This increase was in line with budgeted projections and reflected an increase in employed physicians and their office staff; slight increases in labor for rising volumes of outpatient services; and the current high inflation indexes associated with healthcare labor and benefits costs.

- All expenses other than salaries and benefits rose by $1,161,000, an increase of 8.8% from 2006. Expenses for depreciation and amortization increased by $166,000 over 2006. This increase is due to the investment in new equipment in order to stay current with advancing technologies. In addition, professional fees increased $394,000, reflecting higher costs for emergency room physicians. Purchased services increased $584,000, due to additional expenses for contracted services in the areas of bad debt recovery and facility transition planning.

Long Term Debt

At fiscal year end 2007, HCH had total notes payable of $30 million, a slight decrease from $30.6 million at year end 2006. The $30 million balance primarily represents revenue bonds that HCH issued for the construction of the new hospital facility. Interest payments are currently being made on these bonds, with principal payments scheduled to begin in November 2008. The principal amount due on the revenue bonds in 2008 is $575,000. More detailed information on HCH's long term debt is presented in the Notes to the Financial Statements.

CAPITAL ASSETS

During 2007 HCH invested $23.2 million in various capital assets. A summary of the capital assets is presented below, in 000's:

	2007	2006	$ Change	% Change
Land and Land Improvements	$1,762	$1,772	($10)	(0.6%)
Buildings and Fixed Equipment	15,187	15,048	139	0.9%
Equipment	13,609	13,483	126	0.9%
Total Capital Assets	30,558	30,303	255	0.8%
Less Accumulated Depreciation	(20,621)	(20,307)	(314)	1.5%
Construction in Progress	43,353	22,185	21,168	95.4%
Capital Assets - Net	$53,290	$32,181	$21,109	65.6%

HCH continues to invest in capital equipment in order to meet the needs of the service area population. These capital improvements result in increased service capacity, greater efficiencies, and upgraded technology. Additionally, HCH continues to replace equipment as it becomes obsolete, as well as upgrade the capabilities of the hospital information systems. The large increase in Construction in Progress in 2007 is due to construction capital costs associated with the replacement hospital building project.

In connection with the move to a new hospital campus, certain capital assets will be retired or disposed of in 2008. A summary of those assets is presented below, in 000's.

	Cost	Accumulated Depreciation	Book Value 06/30/08
To be Transferred to Harrison County:			
Land and Land Improvements	$597,394	$541,964	$55,430
Buildings	13,424,705	9,878,809	3,545,896
Totals	$14,022,099	$10,420,773	$3,601,326
Retained from Former Campus:			
Land and Land Improvements	$446,248	$261,753	$184,495
Buildings	646,135	361,247	284,888
Totals	$1,092,383	$623,000	$469,383

The market value for the assets held for sale has not been determined as of the date of this report. These assets consist of single story physician office buildings and an EMS office and garage, as well as the land and improvements connected with these structures. The final disposition of these properties has not been determined as of the date of this report.

In addition, MRI equipment which was an operating lease buyout was sold for $327,500 in 2008, which will be recognized as a loss on disposal of $301,064. Other equipment and furnishings which have minimal book value will be donated or sold at auction in 2008.

The table below shows HCH's 2008 capital budget with projected spending of $17.6 million for capital projects. Equipment to be placed in service in 2008 will be purchased from operating cash and cash reserves. Capital expenditures for the hospital building project will be funded from the proceeds of revenue bonds. The medical office building project is to be funded with a $6 million bank loan and contributed cash from investors. The emergency medical services building will be funded with a $740,000 grant from Harrison County and $260,000 from HCH cash reserves.

Capital Budget (in 000's)	**2008**
Replacement Equipment	$1,065
Information Systems	1,540
New Hospital	6,495
Medical Office Building	7,460
EMS Building	1,000
Total Capital Budget	$17,560

More information on HCH's capital assets is presented in the Notes to the Financial Statements.

Economic and Industry Factors for 2008 Budget

The HCH Board of Trustees and management considered many factors when setting the 2008 budget. Of primary importance in setting the budget was the status of the economy and industry trends, which takes into account market forces and regulatory factors such as the following items:

- Population growth, demographic shifts, and the expanding need for services
- Continuously increasing expectations for quality improvement
- Advances in medical equipment technology and the need to replace obsolete equipment
- Privacy legislation – Health Insurance Portability and Accountability Act (HIPAA)
- Increasing emphasis on the integrity of public financial information
- Growing number of uninsured and underinsured patients
- Increasing costs of labor, medical supplies and drugs, and insurance
- Access to additional capital, and management of cash and debt levels
- Cash and resource requirements needed for the replacement hospital building project

The focus of management is to implement a multi-year plan that will consider expanded services, continuous quality improvement, cost control, capital requirements, and financing in support of net asset improvement.

Contacting HCH's Financial Manager

This report is designed to provide our citizens, customers, and creditors with a general overview of HCH's finances and to demonstrate accountability. If you have questions about this report or need additional information, contact the Chief Financial Officer, Jeffrey L. Davis at 812-738-4251.

HARRISON COUNTY HOSPITAL
STATEMENT OF NET ASSETS
December 31, 2007

Assets	Primary Government	Discrete Component Units	Total Reporting Entity
Current assets:			
Cash and cash equivalents	$ 2,221,287	$ 41,473	$ 2,262,760
Short-term investments	8,000,000	-	8,000,000
Patient accounts receivable, net of estimated uncollectibles of $5,953,392	4,297,598	-	4,297,598
Estimated third-party settlements	1,264,987	-	1,264,987
Supplies and other current assets	2,936,978	32,361	2,969,339
Noncurrent cash and investments:			
Internally designated	5,106,979	-	5,106,979
Held by trustee for construction	11,043,282	48,715	11,091,997
Restricted by contributors and grantors	145,687	-	145,687
Capital assets:			
Land and construction in progress	42,143,367	2,104,672	44,248,039
Depreciable capital assets, net of accumulated depreciation	9,042,161	-	9,042,161
Other assets:			
Investment in affiliated company	1,322,311		1,322,311
Other	462,417	202,674	665,091
Total assets	$ 87,987,054	$ 2,429,895	$ 90,416,949
Liabilities and Net Assets			
Current liabilities:			
Current maturities of long-term debt	$ 575,000	$ 19,773	$ 594,773
Accounts payable and accrued expenses	4,754,738	572,307	5,327,045
Other current liabilities	379,119	145,222	524,341
Long-term debt, net of current maturities	29,425,000	22,672	29,447,672
Total liabilities	35,133,857	759,974	35,893,831
Net assets:			
Invested in capital assets, net of related debt	21,185,528	1,669,921	22,855,449
Restricted:			
Expendable for capital acquisitions	145,687	-	145,687
Unrestricted	31,521,982	-	31,521,982
Total net assets	52,853,197	1,669,921	54,523,118
Total liabilities and net assets	$ 87,987,054	$ 2,429,895	$ 90,416,949

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

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

	Primary Government	Discrete Component Units	Total Reporting Entity
Operating revenues:			
Net patient service revenue (net of provision for bad debt)	$ 35,179,441	$ -	$ 35,179,441
Other	1,319,428	-	1,319,428
Total operating revenues	36,498,869	-	36,498,869
Operating expenses:			
Salaries and benefits	18,739,583	-	18,739,583
Professional fess and purchased services	6,400,366	-	6,400,366
Medical supplies and drugs	3,311,074	-	3,311,074
Insurance	590,271	-	590,271
Other supplies	1,216,762	-	1,216,762
Depreciation and amortization	2,103,599	13,942	2,117,541
Other	671,732	-	671,732
Total operating expenses	33,033,387	13,942	33,047,329
Operating income (loss)	3,465,482	(13,942)	3,451,540
Nonoperating revenues (expenses):			
Investment income	901,366	47,832	949,198
Interest expense	(12,010)	-	(12,010)
Noncapital grants and contributions	134,918	-	134,918
Gain on sale of equipment	33,209	-	33,209
Total nonoperating revenues (expenses)	1,057,483	47,832	1,105,315
Excess of revenues over expenses before capital grants and contributions	4,522,965	33,890	4,556,855
Capital grants and contributions	80,000	575,000	655,000
Increase in net assets	4,602,965	608,890	5,211,855
Net assets beginning of the year	48,250,232	1,061,031	49,311,263
Net assets end of the year	$ 52,853,197	$ 1,669,921	$ 54,523,118

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

HARRISON COUNTY 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	$ 35,705,909
Payments to suppliers and contractors	(12,864,758)
Payments to employees	(18,655,788)
Other receipts and payments, net	87,963
Net cash provided by operating activities	4,273,326
Cash flows from noncapital financing activities:	
Noncapital grants and contributions	134,918
Cash flows from capital and related financing activities:	
Capital grants and contributions	5,666,666
Proceeds from sale of assets	68,640
Principal paid on long-term debt	(589,783)
Interest paid on long-term debt	(12,010)
Purchase of capital assets	(21,124,970)
Net cash used by capital and related financing activities	(15,991,457)
Cash flows from investing activities:	
Interest and dividends on investments	892,480
Purchase of investments	(5,000,000)
Proceeds from sale of investments	11,822,983
Investment in affiliated company	(575,000)
Net cash provided by investing activities	7,140,463
Net decrease in cash and cash equivalents	(4,442,750)
Cash and cash equivalents at beginning of year	8,880,569
Cash and cash equivalents at end of year	$ 4,437,819
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	$ 2,221,287
Internally designated cash and cash equivalents	2,070,845
Restricted cash and cash equivalents	145,687
Total cash and cash equivalents	$ 4,437,819
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 3,465,482
Adjustments to reconcile operating income to net cash flows provided in operating activities:	
Depreciation and amortization	2,103,599
Provision for bad debts	4,712,394
Increase in current assets:	
Patient accounts receivable	(4,185,926)
Estimated third-party payor settlements	(560,239)
Supplies and other current assets	(655,256)
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	(652,178)
Other current liabilities	45,450
Net cash provided by operating activities	$ 4,273,326

Noncash investing, capital, and financing activities:
The Hospital received pledges totaling $5,666,666 with a present value adjustment of $80,000.

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

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

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

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

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

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

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the Statement of Revenues, Expenses, and Changes in Net Assets.

2. Use of Estimates

The preparation of financial statements in conformity with 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 fixed equipment, 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	$ 1,000	Not applicable	Not applicable
Land improvements	1,000	Straight-line	AHA guide
Buildings and fixed equipment	1,000	Straight-line	AHA guide
Equipment	1,000	Straight-line	AHA guide

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 capitalized by the Hospital during the current year was $409,663. The total interest expense capitalized by the discrete component unit during the current year was $987.

4. Net Assets

Net assets of the Hospital are classified in three 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, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note II.G.

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

Net assets of the discrete component unit are classified in one component.

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.

D. Grants and Contributions

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

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

E. Restricted Resources

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

F. Operating Revenues and Expenses

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

G. Compensated Absences

The Hospital's policy on paid days off (which includes vacation, sick leave, personal leave and holidays) allows full-time employees and regular part-time employees to accrue paid days off, to a maximum of 60 days.

Paid days off are 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 16-22-3-16 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. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Custodial credit risk is the risk that, in the event of a bank failure, Harrison MOB, LLC's, deposits may not be returned to it. Harrison MOB, LLC, does not have a formal policy regarding custodial credit risk for deposits. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

As of December 31, 2007, the Hospital had the following investments:

Investment Type	Primary Government Market Value	Investment Maturities (in Years) Less Than 1	1-2	More Than 2
U.S. treasuries and securities	$ 11,043,282	$ 11,043,282	$ -	$ -

Statutory Authorization for Investments

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 any 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 States Treasury or fully insured or guaranteed by the United States or any United States government agency; or (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.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Hospital does not have a formal investment policy for custodial credit risk for investments. At December 31, 2007, the Hospital did not hold investments with custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Hospital's investments did not have credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a Hospital's investment in a single issuer. The Hospital does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement. The Hospital's investments did not have concentration of credit risk.

Foreign Currency Risk

The Hospital does not have a formal policy in regards to foreign currency risk.

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	$ 6,673,515
Receivable from Medicare	3,211,122
Receivable from Medicaid	366,353
Total patient accounts receivable	10,250,990
Less allowance for uncollectible amounts	5,953,392
Patient accounts receivable, net	$ 4,297,598

Accounts Payable and Accrued Expenses	
Payable to employees	$ 649,352
Payable to suppliers	4,104,705
Other	681
Total accounts payable and accrued expenses	$ 4,754,738

C. Capital Assets

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

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 895,186	$ -	$ -	$ 895,186
Construction in progress	22,185,005	24,357,050	5,293,874	41,248,181
Total capital assets, not being depreciated	23,080,191	24,357,050	5,293,874	42,143,367
Capital assets, being depreciated:				
Land improvements	876,629	-	9,528	867,101
Buildings and fixed equipment	15,048,040	173,242	34,580	15,186,702
Equipment	13,483,016	1,930,377	1,804,105	13,609,288
Totals	29,407,685	2,103,619	1,848,213	29,663,091
Less accumulated depreciation for:				
Land improvements	764,555	52,814	9,528	807,841
Buildings and fixed equipment	9,920,998	479,530	31,468	10,369,060
Equipment	9,621,356	1,552,633	1,729,960	9,444,029
Totals	20,306,909	2,084,977	1,770,956	20,620,930
Total capital assets, being depreciated, net	9,100,776	18,642	77,257	9,042,161
Total primary government capital assets, net	$ 32,180,967	$ 24,375,692	$ 5,371,131	$ 51,185,528
Discretely Presented Component Unit				
Capital assets, not being depreciated:				
Construction in progress	$ -	$ 2,104,672	$ -	$ 2,104,672

D. Construction Commitments

Construction work in progress is composed of the following:

Primary Government Project	Total Project Authorized	Expended to December 31, 2007	Committed	Required Future Funding
Information systems	$ 1,032,556	$ 344,897	$ 687,659	$ -
New replacement hospital	36,625,000	33,927,404	2,697,596	-
New medical office building	179,151	179,151	-	-
Equipment	9,020,149	6,572,646	2,447,503	-
Building Improvement	417,300	224,083	193,217	-
Totals	$ 47,274,156	$ 41,248,181	$ 6,025,975	$ -
Discretely Presented Component Unit				
Project				
New medical office building	$ 7,225,000	$ 2,104,672	$ 5,120,328	$ -

E. Leases

Operating Leases

The Hospital has entered into various operating leases having initial or remaining noncancelable terms exceeding one year for MRI equipment and office space. Rental expenditures for these leases were $220,145 and $60,261, respectively. The following is a schedule by years of future minimum rental payments as of year end:

2008	$ 725,516
2009	45,196
Total	$ 770,712

F. 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
2005 Hospital construction revenue bonds	Variable	$ 30,000,000

Disclosure information for the 2005 Revenue Bond Issue which includes interest rate swap agreements follows:

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in November 2005, the Hospital entered into an interest rate swap in connection with its $30,000,000 Series 2005 auction rate bond. The intention of the swap was to effectively change the Hospital's variable interest rate on the bond to a synthetic fixed rate of 3.55%.

Under the swap agreement, the Hospital pays the counterparty, U.S. Bancorp Piper Jaffray Financial Products Inc., a fixed payment of 3.81% and receives a variable payment computed as 70% of the London Interbank Offered Rate (LIBOR). The swap has equal notional amount totaling $25,000,000 and the associated auction rate bonds have a $25,000,000 principal amount. The swap was entered into at the same time the bonds were issued in November 2005. Beginning in 2008, the notional value of the swap begins to decline by $575,000 and in increasing amounts in future years as the principal amount of the associated debt declines. The auction rate on the bonds closely approximates the Bond Market Association Municipal Swap Index (BMA). The bonds and related swap agreement mature on October 1, 2032. As of December 31, 2007, rates were as follows:

	Terms	Interest Rates (%)
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.81%
Variable payment from counterparty	70% of LIBOR	3.70%
Net interest rate swap payments		0.11%
Variable auction-rate bond payments		3.63%
Synthetic interest rate of bonds		3.74%

As of December 31, 2007, the swap had a negative fair value of $1,210,523. The negative fair value of the swap may be countered by reductions in total interest payments required by the auction rate bond, creating lower synthetic rates. Because the auction rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase.

As of December 31, 2007, the Hospital was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Hospital would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty is currently rated A+ by Standard & Poor's, Aa3 by Moody's Investors Service and AA- by Fitch Ratings. The swap agreement does not contain collateral provisions for either party.

The swap exposes the Hospital to basis risk should the relationship between LIBOR and auction rates converge, changing the synthetic rate on the bonds. If a change occurs that results in the rate moving to convergence, the expected cost savings may not be realized.

The derivative contracts use the International Swaps and Derivatives Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedules to the Master Agreements include additional termination events. The swap may be terminated by the Hospital if the counterparty's credit rating falls below BBB- by Standard & Poor's, Aa3 by Moody's Investors Service or if either rating is withdrawn or

suspended. The counterparty may terminate the swap agreement if the Hospital's rating by Standard & Poor's falls below BBB- or the rating is withdrawn or suspended. Either party may terminate the swap if the other fails to perform under the terms of the contract. If the swap is terminated, the auction rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Hospital would be liable to the counterparty for a payment equal to the swap's fair value.

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 Ending December 31	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swap, Net	Total Debt Service
2008	$ 575,000	$ 1,104,681	$ 32,842	$ 1,712,523
2009	595,000	1,083,221	32,204	1,710,425
2010	675,000	1,060,466	31,527	1,766,993
2011	865,000	1,033,734	30,733	1,929,467
2012	895,000	1,001,451	29,773	1,926,224
2013-2017	4,985,000	4,481,024	133,220	9,599,244
2018-2022	5,935,000	3,482,116	103,522	9,520,638
2023-2027	7,065,000	2,293,029	68,171	9,426,200
2028-2032	8,410,000	877,363	26,084	9,313,447
Totals	$ 30,000,000	$ 16,417,085	$ 488,076	$ 46,905,161

2. Harrison MOB, LLC, Mortgage Loan Payable

Harrison MOB, LLC, (LLC) obtained a mortgage loan in June 2007 for an amount up to $6,000,000, the final amount being determined by the actual costs of construction incurred. During the construction period of July 1, 2007 to December 31, 2008, a credit agreement is in place which calls for monthly interest payments based on the loan amount advanced. The interest is variable based on the daily London Interbank Offered Rate (LIBOR) plus 135 additional basis points during this period. As a measure to reduce the financing risk of the project until the building is completed and generating revenue, the Hospital is the guaranty of the loan during the construction period.

As of May 31, 2008, the amount of $1,866,686 has been advanced on the loan, and construction period interest of $7,538 has been paid by the LLC.

As a means to lower its borrowing costs, when compared against fixed-rate loans available in June 2007, the LLC entered into an interest rate swap in connection with $5,600,000 of the final loan amount. The interest rate swap agreement is effective as of January 1, 2009, at the completion of the construction period. The intention of the swap was to effectively change the LLC's variable interest rate on the bond to a synthetic fixed rate of 7.16%.

Under the swap agreement, the LLC pays the counterparty, Regions Financial Corporation, a fixed payment of 7.16% and receives a variable payment computed as LIBOR. The swap has equal notional amount totaling $5,600,000 and the associated mortgage loan will have a $5,600,000 principal amount. The swap was entered into at the same time the mortgage loan was executed in June 2007. Beginning in 2009, the notional value of the swap begins to decline by $92,380 and in increasing amounts in future years as the principal amount of the associated debt declines. The loan and related swap agreement matures on July 1, 2017. At that time the scheduled notional amount will be $4,534.154, and the LLC will refinance all or part of the remaining amount.

The swap exposes the LLC to basis risk should the relationship between LIBOR and loan rates converge, changing the synthetic rate on the loan. If a change occurs that results in the rate moving to convergence, the expected cost savings may not be realized.

The derivative contracts use the International Swaps and Derivatives Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedules to the Master Agreements include certain additional termination events. Either party may terminate the swap if the other fails to perform under the terms of the contract. If the swap is terminated, the loan would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the LLC would be liable to the counterparty for a payment equal to the swap's fair value.

3. Changes in Long-Term Liabilities

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

Primary Government	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue:					
Indiana Health and Educational Facility Financing Authority	$ 30,000,000	$ -	$ -	$ 30,000,000	$ 575,000
Notes payable	589,783	-	589,783	-	-
Total long-term liabilities	$ 30,589,783	$ -	$ 589,783	$ 30,000,000	$ 575,000
Discretely Presented Component Unit					
General long-term debt	$ -	$ 42,445	$ -	$ 42,445	$ 19,773

4. 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 IHEFFA:

Revenue from operations	$ 35,179,441
Investment income	901,366
Net gain on disposal of assets	33,209
Less:	
Expenses (excluding depreciation, amortization and interest on funded debt)	33,033,387
Total net revenue available for debt service	$ 6,503,656
Funded debt service for year	$ 1,739,430
Historical debt service coverage ratio	3:74

G. Restricted Net Assets

Hospital restricted, expendable net assets are available for the following purposes:

	2007
Expendable for capital acquisitions	
Building and equipment	$ 145,687

H. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were $1,508,941 for 2007.

I. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

Funded Depreciation - Amounts transferred from the Operating Fund by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by Indiana Code 16-22-3-13.

Internally designated:	
Funded depreciation:	
Cash and cash equivalents	$ 2,070,845
Investments	3,000,000
Accrued interest receivable	36,134
Total internally designated	$ 5,106,979

III. Other Information

A. Risk Management

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

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

Medical Benefits to Employees and Dependents

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees and dependents. The risk financing fund is accounted for in the General Fund where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of $40,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of payouts and other economic and social factors.

However, claim liabilities cannot be reasonably estimated.

B. Subsequent Events

The new hospital facility located at 1141 Hospital Drive, NW, Corydon, Indiana was completed and occupied on February 21, 2008. Capital assets purchased in 2008 include "buildings and fixed equipment" and "equipment" in the amounts of $7,384,000 and $3,241,000, respectively.

Hospital officials approved the donation of the old hospital facility and the old medical office buildings located at the campus at 245 Atwood Street to Harrison County, pending acceptance by County officials. The disposal of these facilities includes land, land improvements, and buildings, with a current book value of $28,475, $26,955, and $3,545,897, respectively.

The Hospital is holding other capital assets associated with the Hospital campus located at 245 Atwood Street for sale. The market value of these assets has not been determined as of the report date. The book value of the assets as of June 30, 2008, is $469,382.

The Hospital purchased a 1.5T MR System from GE Healthcare Financial Services, through an early buyout of a lease, for $628,563.55 (remaining lease payments in the amount of $348,563.55 plus $280,000 which represented the fair market value of the equipment). The Hospital subsequently sold the asset for $327,500.

The Hospital approved the construction of a new Emergency Medical Services (EMS) facility on the campus at 1141 Hospital Drive, NW, Corydon, Indiana, with an estimated cost of $1 million. The Hospital approved $260,000 toward the funding of the facility with the remainder to be funded with contributions.

C. Contingent Liabilities

Litigation

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

D. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital and its discrete component unit 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.

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

Harrison-Floyd Health Services, LLC

In 2004, the Hospital entered into an agreement with Floyd Memorial Hospital and Health Services to establish and operate a limited liability company, Harrison-Floyd Health Services, LLC. In accordance with this agreement, each hospital invested $150,000 for 50% equity interest in the LLC. The investment was made in the fiscal years 2004 and 2005. The LLC began operation in 2004. The investment is recorded on the equity method. The Hospital's investment in the affiliated company 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 unaudited financial statements of the affiliated company follows:

Current assets	$	35,724
Noncurrent assets		147,018
Current liabilities		14,583
Net assets		168,159
Revenue		85,600
Expenses		127,452
Net loss		41,852

Harrison MOB, LLC

On July 26, 2006, the Hospital entered into an agreement with several physicians and physician groups to establish and operate a medical office building to be located on the Hospital's campus in Corydon, Indiana, known as Harrison MOB, LLC. In accordance with this agreement, 68 Class A units and 37 Class B units were sold for $10,000 each, for an aggregate proceeds of $1,050,000. Each unit represents an equity interest of approximately .952% in the company. The Hospital purchased 58 units for an investment of $580,000 representing approximately 55.2% equity interest in the company. To date the medical office building is not operational. The Hospital committed to lease available finished square footage in the building up to a 90% occupancy level for the first five years and up to 85% occupancy level for the next five years. The investment is recorded on the equity method. The Hospital's investment in the affiliated company is included in the Other assets category of the Statement of Net Assets.

On May 30, 2007, the Harrison MOB, LLC, agreed to borrow a maximum principal amount of $6,000,000 from Regions Bank to acquire, construct and develop a 43,000 square-foot medical office building on the campus of Harrison County Hospital. The term of the loan will be 25 years. During the construction phase, the principal of and interest on the loan and all related costs, fees and other sums will be guaranteed by Harrison County Hospital.

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	$	2,178,506
Noncurrent assets		251,389
Current liabilities		737,302
Noncurrent liabilities		22,672
Net assets		1,669,921
Revenues		47,832
Expenses		13,942
Net income		33,890

F. Pension Plan

Hospital Pension Plan

Plan Description

The Hospital has a defined contribution pension plan administered by MetLife 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:

MetLife
c/o FasCare LLC
P.O. Box 173768
Denver, Colorado 80217-3768
Ph. (800) 543-2520

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members' contributions are voluntary and are established by written authorization for payroll deduction into an annuity savings account. The Hospital is required to contribute at an actuarially determined rate. The current rate is 5% of annual covered payroll. Employer and employee contributions to the plan for the year ending December 31, 2007 were $539,350 and $573,456, respectively.

HARRISON COUNTY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on June 17, 2008, with Paul Martin, Chairman of the Hospital Board; Steven L. Taylor, Chief Executive Officer; Jeffrey L. Davis, Chief Financial Officer; and Keith M. Lieber, Controller. Our audit disclosed no material items that warrant comment at this time.