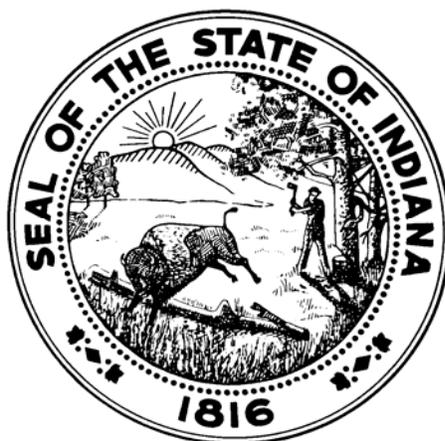


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

CLARK MEMORIAL HOSPITAL
A COMPONENT UNIT OF
CLARK COUNTY, INDIANA

January 1, 2006 to December 31, 2006



FILED
08/08/2007

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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Martin Padgett	01-01-06 to 12-31-07
Chief Financial Officer	Kirk Strack	01-01-06 to 12-31-07
Chairman of the Hospital Board	Dr. Gordon Gutmann	01-01-06 to 12-31-07
President of the Board of County Commissioners	Edward Meyer	01-01-06 to 12-31-07



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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, 2006, 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 and the Jewish Hospital and St. Mary's Healthcare Network Regional Service Center, (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 \$4,464,000, as of December 31, 2006, 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, 2006, 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 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

July 3, 2007

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, 2006. 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 “ *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, 2006 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

As a result of the renegotiation of two large commercial payer contracts, the hospital witnessed increased reimbursement in 2006. Clark Memorial Hospital continues to strengthen the balance sheet through cash collection improvements as well as balanced capital expenditures. Additionally, the hospital continues to adhere to productivity standards, while simultaneously pursuing supply chain standardization. Finally, controlling overall expense by incorporating a monthly accountability process has lead to decreases in departmental expenses. A team member theft was discovered and the hospital took immediate action with a detailed investigation and actively involving the proper authorities. A claim was also filed with the hospital insurance company for reimbursement of stolen funds. There is a criminal suit still pending for the amount not covered by insurance and due to Clark Memorial Hospital from the team member.

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>2006</u>	<u>2005</u>
Current Assets	\$ 42,363,382	\$ 34,692,801
Noncurrent assets	1,972,136	4,454,285
Capital assets	87,396,441	79,781,500
Other assets	<u>7,834,820</u>	<u>8,711,242</u>
Total assets	<u>139,566,779</u>	<u>127,639,828</u>
Current Liabilities	31,072,278	21,571,251
Long-term debt	<u>32,550,916</u>	<u>31,683,705</u>
Total Liabilities	<u>63,623,194</u>	<u>53,254,956</u>
Net Assets		
Invested in capital assets, net of related debt	51,636,927	45,510,995
Nonexpendable permanent endowments	73,083	73,083
Expendable for specific operating activities	3,317	3,317
Unrestricted	<u>24,230,258</u>	<u>28,797,477</u>
Total Net Assets	<u>75,943,585</u>	<u>74,384,872</u>
Revenue		
Net Patient service revenue	114,970,763	96,901,920
Other revenues	<u>2,296,052</u>	<u>2,058,415</u>
Total Revenues	<u>117,266,815</u>	<u>98,960,335</u>
Expenses		
Salaries and benefits	59,819,297	59,233,580
Medical supplies and drugs	22,872,466	21,847,516
Other	22,860,863	21,550,858
Depreciation and amortization	<u>8,835,168</u>	<u>8,257,618</u>
	<u>114,387,794</u>	<u>110,889,572</u>
Operating gain	2,879,021	(11,929,237)
Nonoperating revenues (expenses)	(1,522,965)	19,477
Capital Contributions, Grants, etc.	<u>202,657</u>	<u>289,279</u>
Increase (decrease) in net assets	1,558,713	(11,620,481)
Net assets beginning of year	<u>74,384,872</u>	<u>86,005,353</u>
Net assets end of year	<u>\$ 75,943,585</u>	<u>\$ 74,384,872</u>

Capital Assets and Debt Administration

Capital Assets

At the end of 2006 the Hospital had approximately \$87 million invested in capital assets. 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, 2006.

	Capital Assets at Year-end Net of Depreciation (000's)	
	2006	2005
Land	\$ 6,264	\$ 7,060
Construction in progress	8,798	5,360
Land improvements	1,442	1,442
Building and improvements	84,064	78,979
Equipment	76,200	71,505
Total	176,768	164,346
Less Accumulation depreciation	89,372	84,565
Capital Assets (Net)	\$ 87,396	\$ 79,781

Debt

At year-end the Hospital had approximately \$35.7 million in loans and bond issues outstanding, versus \$34.2 million at the end of the previous year. The Hospital has elected to adopt FASB 133, *Accounting for Derivative Instruments and Hedging Activities*. The resulting market present value is \$1,140,514 recorded as Interest Swap Liability. More detailed information about the Hospital's long-term liabilities is presented in Note II F to the financial statements. The table below documents the debt held and its use:

	Outstanding Debt At Year End (000's)	
	2006	2005
Revenue bonds	\$ 31,200	\$ 33,623
Capital leases	4,027	-
Loans	541	647
Total Debt	\$ 35,768	\$ 34,270

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, 2006

Assets

Current assets:	
Cash and cash equivalents	\$ 14,786,683
Patient accounts receivable, net of estimated uncollectibles of \$42,102,878	20,651,601
Other receivables	4,144,486
Supplies and other current assets	2,780,612
Noncurrent cash and investments:	
Internally designated	1,061,450
Held by trustee for debt service	34,286
Other long-term investments	800,000
Restricted by contributors and grantors	76,400
Capital assets:	
Land and construction in progress	15,062,236
Depreciable capital assets, net of accumulated depreciation	72,334,205
Other assets	<u>7,834,820</u>
Total assets	<u>\$ 139,566,779</u>

Liabilities and Net Assets

Current liabilities:	
Current maturities of long-term debt	\$ 3,208,598
Accounts payable and accrued expenses	11,699,225
Estimated third-party payor settlements	992,777
Other current liabilities	15,171,678
Long-term debt, net of current maturities	<u>32,550,916</u>
Total liabilities	<u>63,623,194</u>
Net assets:	
Invested in capital assets, net of related debt	51,636,927
Restricted:	
Expendable for specific operating activities	3,317
Nonexpendable permanent endowments	73,083
Unrestricted	<u>24,230,258</u>
Total net assets	<u>75,943,585</u>
Total liabilities and net assets	<u>\$ 139,566,779</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, 2006

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 114,970,763
Other	<u>2,296,052</u>
Total operating revenues	<u>117,266,815</u>
Operating expenses:	
Salaries and benefits	59,819,297
Medical supplies and drugs	22,872,466
Other supplies	22,860,863
Depreciation and amortization	<u>8,835,168</u>
Total operating expenses	<u>114,387,794</u>
Operating income	<u>2,879,021</u>
Nonoperating revenues (expenses):	
Investment income	1,006,384
Unrealized holding loss on swap contract	(1,140,514)
Interest expense	(1,628,084)
Gain on sale of equipment	25,699
Gain on investment in affiliated companies	<u>213,550</u>
Total nonoperating revenues (expenses)	<u>(1,522,965)</u>
Excess of revenues over expenses before capital grants and contributions	1,356,056
Capital grants and contributions	<u>202,657</u>
Increase in net assets	1,558,713
Net assets beginning of the year	<u>74,384,872</u>
Net assets end of the year	<u>\$ 75,943,585</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, 2006

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 113,512,825
Payments to suppliers and contractors	(39,511,282)
Payments to employees	(54,654,010)
Other receipts and payments, net	<u>584,995</u>
Net cash provided by operating activities	<u>19,932,528</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	202,657
Line of credit proceeds	2,390,110
Principal paid on long-term debt	(5,811,740)
Interest paid on long-term debt	(1,985,877)
Purchase of capital assets	(11,433,814)
Proceeds from sale of capital assets	<u>25,699</u>
Net cash used by capital and related financing activities	<u>(16,612,965)</u>
Cash flows from investing activities:	
Interest on investments	1,006,384
Unrealized holding loss on swap contract	(1,140,514)
Decrease in investment with affiliated companies	1,013,905
Proceeds from sale of investments	<u>1,640,000</u>
Net cash provided by investing activities	<u>2,519,775</u>
Net increase in cash and cash equivalents	5,839,338
Cash and cash equivalents at beginning of year	<u>10,119,481</u>
Cash and cash equivalents at end of year	<u>\$ 15,958,819</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 14,786,683
Restricted cash and cash equivalents	<u>1,172,136</u>
Total cash and cash equivalents	<u>\$ 15,958,819</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 2,879,021
Adjustments to reconcile operating income to net cash flows provided in operating activities:	
Depreciation and amortization	8,835,168
Provision for bad debts	19,162,706
(Increase) decrease in current assets:	
Patient accounts receivable	(20,620,644)
Supplies and other current assets	1,927,207
Other receivables	(1,458,363)
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	4,294,840
Other current liabilities	5,165,287
Estimated third-party payor settlements	<u>(252,694)</u>
Net cash provided in operating activities	<u>\$ 19,932,528</u>

Noncash investing, capital, and financing activities:

The Hospital entered into capital lease obligations of \$4,292,316 for new equipment in 2006.

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 outpatient 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 units. The component unit discussed above is included in the Hospital's reporting entity because of the significance of its operational or financial relationship with the Hospital. A blended component unit, although a legally separated 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 Units

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 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 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 \$2,110,968. Of the amount, \$482,884 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 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.

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. Deposits 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, 2006, the Hospital had the following investments:

	<u>Primary Government</u> <u>Market Value</u>
Mutual funds	<u>\$ 6,592,771</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 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; (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	\$ 41,188,418
Receivable from Medicare	11,288,451
Receivable from Medicaid	<u>10,277,610</u>
 Total patient accounts receivable	 62,754,479
 Less allowance for uncollectible amounts	 <u>42,102,878</u>
 Patient accounts receivable, net	 <u>\$ 20,651,601</u>

Accounts Payable and Accrued Expenses

Payable to suppliers	\$ 7,321,996
Other	<u>4,377,229</u>
 Total accounts payable and accrued expenses	 <u>\$ 11,699,225</u>

Other Current Liabilities

Payable to Employees	\$ 11,919,056
Other	<u>3,252,622</u>
 Total accounts payable and accrued expenses	 <u>\$ 15,171,678</u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2006, 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	\$ 7,060,458	\$ 1,700	\$ 797,876	\$ 6,264,282
Construction in progress	<u>5,360,669</u>	<u>40,487,164</u>	<u>37,049,879</u>	<u>8,797,954</u>
 Total capital assets, not being depreciated	 <u>12,421,127</u>	 <u>40,488,864</u>	 <u>37,847,755</u>	 <u>15,062,236</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:				
Land improvements	1,441,641	342	-	1,441,983
Buildings and improvements	78,979,433	5,162,234	77,552	84,064,115
Equipment	<u>71,504,507</u>	<u>8,923,176</u>	<u>4,227,448</u>	<u>76,200,235</u>
Totals	<u>151,925,581</u>	<u>14,085,752</u>	<u>4,305,000</u>	<u>161,706,333</u>
Less accumulated depreciation for:				
Land improvements	755,553	60,303	-	815,856
Buildings and improvements	28,655,272	3,720,254	13,142	32,362,384
Equipment	<u>55,154,383</u>	<u>5,055,285</u>	<u>4,015,780</u>	<u>56,193,888</u>
Totals	<u>84,565,208</u>	<u>8,835,842</u>	<u>4,028,922</u>	<u>89,372,128</u>
Total capital assets, being depreciated, net	<u>67,360,373</u>	<u>5,249,910</u>	<u>276,078</u>	<u>72,334,205</u>
Total primary government capital assets, net	<u>\$ 79,781,500</u>	<u>\$ 45,738,774</u>	<u>\$ 38,123,833</u>	<u>\$ 87,396,441</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, 2006</u>	<u>Committed</u>	<u>Required Future Funding</u>
Clarksville Medical Plaza	\$ 3,350,555	\$ 2,915,534	\$ 435,021	\$ -
Clark Imaging Hunter Station	26,075	26,075	-	-
Various Small Projects	<u>5,893,634</u>	<u>5,856,345</u>	<u>37,289</u>	<u>-</u>
Totals	<u>\$ 9,270,264</u>	<u>\$ 8,797,954</u>	<u>\$ 472,310</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:

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2007		\$ 949,810
2008		1,005,640
2009		1,005,640
2010		1,005,640
2011		<u>727,538</u>
Total minimum lease payments		4,694,268
Less amount representing interest		<u>667,482</u>
Present value of net minimum lease payments		<u>\$ 4,026,786</u>

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

Equipment	<u>\$ 4,292,316</u>
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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 2005, the Hospital obtained a line of credit for the construction of a medical facility located in Sellersburg, Indiana. Through an agreement, upon the construction's completion, the facility will be purchased by a group of physicians, at which time the line of credit will be paid from the proceeds. As of December 31, 2006, the project was complete, sale to the physicians group was complete and the existing debt paid.

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

	<u>Beginning Balance</u>	<u>Issued/ Draws</u>	<u>Redeemed Repayments</u>	<u>Ending Balance</u>
Line of credit, loans, notes	<u>\$ 569,299</u>	<u>\$ 2,390,110</u>	<u>\$ 2,959,409</u>	<u>\$ -</u>

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:

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Purpose	Interest Rates	Amount
Hospital Association, \$9,550,000 1998 Revenue Bonds	4.45% to 4.65%	\$ 625,000
Indiana Health Facility Financing Authority (IHFFA), \$20,000,000 2001 Revenue Bonds	4.25%*	16,605,000
Indiana Health Facility Financing Authority (IHFFA), \$9,500,000 Series A 2004 Revenue Bonds	3.91%*	9,500,000
Indiana Health Facility Financing Authority (IHFFA), \$5,500,000 Series B 2004 Revenue Bonds	4.14%*	<u>4,470,000</u>
Total		<u>\$ 31,200,000</u>

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

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
2007	\$ 1,950,000	\$ 1,277,308
2008	1,385,000	1,207,037
2009	1,450,000	1,148,767
2010	1,515,000	1,087,761
2011	1,580,000	1,024,019
2012-2016	9,020,000	4,065,864
2017-2021	11,240,000	2,028,139
2022-2024	<u>3,060,000</u>	<u>242,385</u>
Totals	<u>\$ 31,200,000</u>	<u>\$ 12,081,280</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 ("Cash-flow 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 JP Morgan Chase Bank shows the Hospital has a short-term liability on the interest rate swap notes in the amount of \$1,140,514 at December 31, 2006. This amount is included in "Other current liabilities" 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.

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$30,575,000 for fiscal year 2006. 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 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 \$145,142 for the year ended December 31, 2006.

	<u>Terms</u>	<u>2001 Issue</u>	<u>2004A Issue</u>	<u>2004B Issue</u>
Interest rate swaps:				
Fixed payment to counterparty	Fixed	4.06%	3.97%	4.53%
Less: Variable payment from counterparty	LIBOR%	<u>3.30%</u>	<u>3.56%</u>	<u>5.03%</u>
Net interest rate swap payments		.76%	.41%	(.50%)
Variable rate bond payments		<u>3.50%</u>	<u>3.50%</u>	<u>4.64%</u>
Synthetic interest rate on bonds		<u>4.25%</u>	<u>3.91%</u>	<u>4.14%</u>

At December 31, 2006, 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	<u>Variable-Rate Bonds</u>		Swaps	Total
	<u>Principal</u>	<u>Interest</u>	<u>Net Interest</u>	<u>Debt Service</u>
2007	\$ 1,325,000	\$ 1,120,660	\$ 142,118	\$ 2,587,778
2008	1,385,000	1,068,109	138,928	2,592,037
2009	1,450,000	1,013,233	135,534	2,598,767
2010	1,515,000	955,797	131,964	2,602,761
2011	1,580,000	895,805	128,214	2,604,019
2012-2016	9,020,000	3,505,173	560,691	13,085,864
2017-2021	11,240,000	1,750,072	278,067	13,268,139
2022-2024	<u>3,060,000</u>	<u>217,094</u>	<u>25,291</u>	<u>3,302,385</u>
Totals	<u>\$ 30,575,000</u>	<u>\$ 10,525,943</u>	<u>\$ 1,540,807</u>	<u>\$ 42,641,750</u>

2. Loans Payable

The Hospital has entered into a loan. Annual debt service requirements to maturity for the loan, including interest of \$3,074, are as follows:

2007	<u>\$ 543,974</u>
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CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

<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	\$ 1,835,000	\$ -	\$ 1,210,000	\$ 625,000	\$ 625,000
Indiana Health Facility Financing Authority	31,845,000	-	1,270,000	30,575,000	1,325,000
Less deferred amount on refunding	<u>57,195</u>	<u>-</u>	<u>49,025</u>	<u>8,170</u>	<u>-</u>
Total bonds payable	33,622,805	-	2,430,975	31,191,830	1,950,000
Capital leases	-	4,292,316	265,530	4,026,786	717,698
Loans payable	<u>647,700</u>	<u>-</u>	<u>106,800</u>	<u>540,900</u>	<u>540,900</u>
Total long-term liabilities	<u>\$ 34,270,505</u>	<u>\$ 4,292,316</u>	<u>\$ 2,803,305</u>	<u>\$ 35,759,516</u>	<u>\$ 3,208,598</u>

4. Net Revenue Available for Debt Service

The following disclosures concerning net revenue available for debt service applicable to the year ended December 31, 2006, are required by terms of the financing agreement between the Hospital and IHFFA:

Revenue from operations	\$ 117,266,815
Investment income	1,006,384
Less:	
Expenses (excluding depreciation, amortization and interest on funded debt)	<u>105,552,626</u>
Total net revenue available for debt service	<u>\$ 12,720,573</u>
Funded debt service for year	<u>\$ 3,536,579</u>
Historical debt service coverage ratio	<u>3.6:1</u>

5. Revenue Bond Covenants

The Hospital issued bonds in the amount of \$9,550,000 on May 18, 1999. 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, 2006, the Hospital's ratio was 1.4:1, as calculated below:

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Current assets	\$ 42,363,382
Current liabilities	<u>31,072,278</u>
Ratio current assets to current liabilities	<u>1.4</u>

H. Endowments and Restricted Net Assets

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

	2006
Expendable for specific operating activities:	
Nursing scholarships	\$ 233
Board approved activities	<u>3,084</u>
Total expendable, restricted net assets	<u>\$ 3,317</u>

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:

	2006
Nursing scholarships	\$ 19,921
Board approved activities	<u>53,162</u>
Total restricted nonexpendable net assets	<u>\$ 73,083</u>

I. Charity Care

Charges excluded from revenue under the Hospital's charity care policy totaled \$3,721,000 for 2006.

J. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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	\$ 421,450
Investments	<u>640,000</u>
Total board designation	<u>1,061,450</u>
Total internally designated	<u>\$ 1,061,450</u>

III. Other Information

A. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; 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 2006 were \$799,200. Payments in the amount of \$1,678,611 were made to Jewish Hospital and St. Mary's Healthcare, Inc., and its related entities for healthcare and other related services during 2006.

C. Subsequent Events

In 2007, the Hospital entered into a contract to construct a medical office building in Henryville with project cost not to exceed \$1.8 million.

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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 Hospital (SIRH). In accordance with this agreement, each hospital invested \$5,500,000 for 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, 2006, and for the year then ended from the audited financial statements of the Affiliated Company follows:

Current assets	\$	5,805,681
Noncurrent assets		9,781,513
Current liabilities		1,943,468
Noncurrent liabilities		5,689,577
Stockholders equity		7,954,149
Revenue		14,841,932
Net loss		(366,919)

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 has provided a corporate guaranty on 25% of the credit facility.

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Charges billed by Clark Memorial Hospital to SIRH for services and supplies were \$778,652 for 2006.

Equity distributions were received by Clark Memorial Hospital from the facility in 2006 in the amount of \$600,000.

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 operation 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.

Summarized financial information as of December 31, 2006, and for the year then ended from the audited financial statements of the Affiliated Company follows:

Current assets	\$	5,196,537
Noncurrent assets		2,988,123
Current liabilities		3,336,053
Stockholders equity		4,848,607
Revenue		9,114,712
Net income		1,224,032

Equity distributions were received by Clark Memorial Hospital from the facility in 2006 in the amount of \$1,468,000.

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 operation 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, 2006, was 14%.

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, 2006, and for the year then ended from the audited financial statements of the Affiliated Company follows:

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Current assets	\$ 21,419,053
Noncurrent assets	664,469
Current liabilities	9,388,314
Stockholders equity	12,695,208
Revenue	114,406,921
Net income	3,409,567

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 \$3,005,757.

Charges billed by Clark Memorial Hospital to the regional service center for services and supplies were \$11,835,514 for 2006. Equity distributions were received from the regional service center in the amount of \$405,300 in 2006.

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, 2006, and for the year then ended from the unaudited financial statements of the Affiliated Company follows:

Revenue	\$ 437,255
Net income	92,085

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 of \$15,973 in 2006.

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 2006 in the amount of \$722,617.

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.

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Summarized financial information as of December 31, 2006, and for the year then ended from the unaudited financial statements of the Affiliated Company follows:

Current assets	\$	199,000
Noncurrent assets		11,000
Current liabilities		245,000
Stockholders equity		(35,000)
Revenue		1,910,000
Net income		95,000

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 health care 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 Assets category of the Statement of Net Assets.

Summarized financial information as of December 31, 2006, and for the year then ended from the unaudited financial statements of the Affiliated Company follows:

Current assets	\$	920,012
Current liabilities		378,352
Stockholders equity		541,660
Revenue		2,222,000
Net income		(647,000)

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 2006, net patient service revenues in the accompanying statements of operations were increased by \$439,601 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
Phone: (812) 283-2448

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 2006, determined in accordance with GASB 27, were \$2,097,944.

Actuarial Information for the Above Plan

Annual required contribution	\$ 2,115,250
Interest on net pension obligation	358,690
Adjustment to annual required contribution	<u>(375,996)</u>
Annual pension cost	2,097,944
Contributions made	<u>-</u>
Increase in net pension obligation	2,097,944
Net pension obligation, beginning of year	<u>4,483,627</u>
Net pension obligation, end of year	<u>\$ 6,581,571</u>

Contribution rates:	
Hospital	0%
Plan members	0%
Actuarial valuation date	01-01-06
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	12-31-04	\$ 1,524,858	7%	\$ 2,616,322
Retirement Plan	12-31-05	1,867,305	0%	4,483,627
	12-31-06	2,097,944	0%	6,581,571

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)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-04	\$ 33,759,522	\$ 31,299,716	\$ 2,459,806	108%	\$ 40,404,500	6%
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%)

CLARK MEMORIAL HOSPITAL
AUDIT RESULTS AND COMMENTS

REVENUE BOND COVENANTS

On May 18, 1999, the Board of Directors of Clark Memorial Hospital issued bonds in the amount of \$9,550,000. 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, 2006, the Hospital's ratio was 1.4:1.

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)

EMPLOYEE THEFT

On July 25, 2006, Hospital officials became aware of irregularities regarding the use of Hospital credit cards and claims for petty cash reimbursements submitted by Michelle M. Rucker-Benton, Manager/Quality Data. The Hospital conducted an internal investigation of the irregularities and submitted the results of their investigation to the City of Jeffersonville Police Department. The police report, dated July 26, 2006, shows employee theft occurred for the following items and amounts from the period September 18, 2005 through July 11, 2006:

Personal Credit Card Charges	\$ 37,084
Excess Petty Cash Reimbursement	<u>900</u>
Total	<u>\$ 37,984</u>

Criminal action was filed against the employee on September 29, 2006, with a jury trial scheduled for July 24, 2007. The Hospital filed a claim with their insurance provider who reimbursed the Hospital in the amount of \$36,318. The Hospital officials stated they plan to request the amount not reimbursed of \$1,666 to be repaid as part of a restitution agreement.

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 1)

We will review the status of the unpaid amount on a subsequent audit to determine if any further action will be necessary to collect any amounts owed.

CLARK MEMORIAL HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on July 3, 2007, with Martin Padgett, Executive Director; Kirk Strack, Chief Financial Officer; and Todd Hoffman, Controller. The officials concurred with our audit findings.