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August 18, 2010

Board of Directors
Health and Hospital Corporation of Marion County
3838 North Rural Street
Indianapolis, IN 46205-2930

We have reviewed the audit report prepared by KPMG, LLP, Independent Public Accountants, for the period January 1, 2007 to December 31, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Health and Hospital Corporation of Marion County, Indiana, as of December 31, 2007 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report and the supplemental report on federal awards are filed with this letter in our office as a matter of public record.

We call your attention to the findings in the supplemental report on federal awards. Fourteen findings are reported on pages 11 through 24. Ten of these findings represent significant deficiencies in internal control over financial reporting. The remaining four findings represent issues of noncompliance with federal program requirements and significant deficiencies in internal control over compliance.

STATE BOARD OF ACCOUNTS



**HEALTH AND HOSPITAL
CORPORATION
OF MARION COUNTY
INDIANA**

**(a component unit of the Consolidated
City of Indianapolis - Marion County)**

**Comprehensive Annual Financial Report
For the Year Ended
December 31, 2007**

**Matthew R. Gutwein
President and
Chief Executive Officer**

**Daniel E. Sellers
Treasurer and
Chief Financial Officer**

**The Health and Hospital Corporation
of Marion County, Indiana
(a component unit of the Consolidated
City of Indianapolis - Marion County)**

**Comprehensive Annual Financial Report
For the Year Ended
December 31, 2007**

**Matthew R. Gutwein
President and
Chief Executive Officer**

**Daniel E. Sellers
Treasurer and
Chief Financial Officer**

Prepared by: The Treasurer's Office

**Comprehensive Annual Financial Report
of The Health and Hospital Corporation
of Marion County, Indiana
(a component unit of the Consolidated
City of Indianapolis - Marion County)
for the Year Ended December 31, 2007**

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INTRODUCTORY SECTION

There are no such things as incurables; there
are only things for which man has not found a
cure. – Bernard M. Baruch



HEALTH AND HOSPITAL CORPORATION
OF MARION COUNTY

3838 North Rural Street • Indianapolis • Indiana • 46205-2930

TEL 317 221 2000 FAX 317 221 2020

October 31, 2008

TO: The Board of Trustees
of The Health and Hospital Corporation of
Marion County, Indiana
The Mayor, City of Indianapolis
The City-County Council
The County Commissioners

The Comprehensive Annual Financial Report of the Health and Hospital Corporation of Marion County, Indiana (Corporation) (a component unit of the Consolidated City of Indianapolis - Marion County), for the fiscal year ended December 31, 2007, is submitted herewith. This report is presented in conformity with U.S generally accepted accounting principles (GAAP) and is audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. The Corporation has a responsibility to inform both the taxpayers of Marion County and its investors of its financial condition. We believe that this report fulfills that responsibility.

This report consists of management's representations concerning the finances of the Corporation. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Corporation has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Corporation's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Corporation's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Corporation's financial statements have been audited by KPMG LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Corporation for the fiscal year ended December 31, 2007, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering unqualified opinions that the Corporation's financial statements for the fiscal year ended December 31, 2007, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Corporation was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Corporation's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Corporation's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE CORPORATION

The Health and Hospital Corporation of Marion County, Indiana is a distinct municipal corporation created under Chapter 287 of the Acts of 1951 enacted by the General Assembly of the State of Indiana. Its duties include the administration of the Division of Public Health and the Division of Public Hospitals.

The Corporation provides a full range of preventive and curative health services for the residents of Marion County, including indigent care. The Corporation administers two statutory service divisions: the Division of Public Health doing business as the Marion County Health Department (MCHD), and the Division of Public Hospitals doing business as Wishard Health Services (Wishard).

Wishard is comprised of Wishard Memorial Hospital, a general acute care facility with 340-staffed beds, excluding newborn nursery; eight community health centers, Midtown Community Mental Health Center, Regenstrief Health Center, Wishard's Emergency Trauma Service, Wishard's Ambulance Service, and the Richard M. Fairbanks Burn Center. It also includes Lockefield Village, a long-term care facility, which provides a multi-level Alzheimer's unit, traditional long-term care, medically complex services, and an acute rehabilitation unit. Wishard is accounted for as an Enterprise Fund.

Wishard Memorial Hospital is the only public, general acute care hospital in Marion County. The Hospital is fully accredited by the Joint Commission for Accreditation of Hospitals of the American Hospital Association and the American Medical Association. It is located on the campus of the Indiana University Medical Center, the second largest medical school in the United States and the largest one on a single campus. The Hospital is a major teaching hospital and collaborates with prestigious research institutes such as the Krannert Institute of Cardiology and the Regenstrief Institute.

MCHD operates two service bureaus: Population Health and Environmental Health. It operates from various clinics and district health offices located throughout Marion County. Population Health provides preventive and diagnostic health programs, health education, immunization, and epidemiological programs. The Bureau of Environmental Health provides environmental health regulation, code enforcement, environmental monitoring, and vector control.

The Corporation also has a long-term care (LT Care) unit which, at the time of this issuance, operated 27 nursing homes throughout Indiana (excluding Lockefield Village). The LT Care unit was expanded in 2007 with the purchase of four additional nursing home operations and one in 2008. LT Care supports the Corporation's mission and goal to provide quality care and services to elderly and disabled people. LT Care is reported as an individual Enterprise Fund similar to Wishard. Lockefield Village is accounted for in the Wishard Enterprise Fund.

A seven member Board of Trustees governs the Corporation. The Mayor of Indianapolis appoints three, the Commissioners of Marion County two, and the City-County Council two, to serve staggered terms of four years each. The Board is bipartisan by statute. The Board levies its own taxes, adopts its own ordinances having the effect of local law governing health matters, and issues its own general obligation bonds subject to approval of the State of Indiana Department of Local Government Finance (DLGF). The DLGF is also the final authority over the Corporation's budget. Since the governing body is appointed and not elected, under Governmental Accounting Standards Board (GASB) Statement No. 14 the Corporation is considered a component unit of the Consolidated City of Indianapolis - Marion County. Management also considers all other units of government within Marion County to be separate from this Corporation, and they are not considered as component units within this report.

ECONOMIC CONDITION AND OUTLOOK

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Corporation operates.

LOCAL ECONOMY

Marion County is the most populous county in the State and is the home of the State Capital. It has a diversified economic base with a relatively low unemployment rate and per capita income levels consistently higher than state and national averages. Strategically located on the major east-west and north-south transportation routes across North America, Marion County is also the geographic, financial, and cultural center of Indiana.

The economy in Marion County has remained relatively strong over the past several years. Despite this fact, the number of people without health insurance has grown significantly, which has negatively affected the finances of MCHD and Wishard. More people than ever are relying on the Corporation for health services. At the end of 2007, there were approximately 56,300 people enrolled in the Wishard Advantage Program, and 70% of those individuals were in families with a working adult. The Wishard Advantage program provides care management for many of the uninsured seeking healthcare at Wishard.

The Health and Hospital Corporation's mandate is to provide health services to all persons within Marion County, regardless of their ability to pay for those services. The growing number of uninsured combined with declining property tax revenues and reduced funding for supplemental Medicaid programs makes it difficult for the Corporation to continue to fund its mission. The Corporation continues to pursue all available sources of revenue including commercial insurance, Medicare, Medicaid, and supplemental Medicaid funds (disproportionate share and upper payment funds) to offset and reduce its reliance on property taxes. HHC protects its assets by partnering in membership of a primary care physician practice group (IUMG PC) and a managed care organization (MDwise) which manages some of the Medicaid programs used by Wishard.

MAJOR INITIATIVES FOR THE YEAR

Marion County Health Department

During 2007, and in the context of increasing fiscal constraint, the Department continued to focus its energies on 1) maintaining the quality of necessary, existing services while 2) meeting new challenges and 3) achieving significant long-term impact on those health problems that will have the greatest overall impact on Indianapolis. The latter include antibiotic resistance, emergency preparedness, childhood lead poisoning, immunizations, asthma, smoking, obesity and sedentary life style, cardio-vascular disease, and diabetes. Most of these diseases and risks are inter-related, most involve individual's behavior, and all require long-term efforts and long-term commitment.

The Department intensified its efforts to build Indianapolis' capacity to detect and respond to bio-terrorism. Other challenges commanding the Department's attention included the delivery of school-based health services, optimizing the coordination of public health and neighborhood-based primary care, surface and ground water sampling, housing inspections, abandoned property cleanups, West Nile Virus testing, expanding outreach services to substance abusers, responding to the health needs of a rapidly increasing older adult population, reducing the transmission of HIV/AIDS and sexually transmitted diseases, and addressing the overwhelming and critical problem of dental disease in disadvantaged children.

Wishard Health Services

Wishard continued to experience increased demand for clinical services. The average daily census increased 6% during 2007, compared with 2006. In addition, Emergency Department visits increased almost 9%. With the operating room construction complete in 2007, volumes for 2007 exceeded 2006 by 12%. Physical capacity continues to be a significant challenge, especially in the critical care areas. Trauma diversion was significantly decreased due to increased operational effectiveness. In an effort to better operationally align our Community Health Centers (CHC) with our main campus facilities, the CHC staff were transitioned to Wishard employment.

Revenue cycle initiatives continued to produce favorable results. Charge capturing and cash collections continue to improve. With respect to cost efficiency and effectiveness, Wishard continues to operate in the top quartile according to the University Health System Consortium.

The Corporation continued to expand the Wishard Advantage program. The program provides a managed care approach to the County's underserved population. Many Advantage patients previously did not participate in primary or preventive care for themselves or their families, instead relying on the emergency room for primary care. Advantage helps the patients receive better care and at the same time reduce costs by providing care before a trip to the emergency room becomes necessary. The Advantage program had 56,300 members and had grown by 3,500 people in fiscal year 2007.

For The Future

The Corporation receives much of its funding from Medicare, Medicaid, and supplemental Medicaid programs. Reimbursement rates for both Medicare and Medicaid are increasing at rates less than inflation. Supplemental Medicaid programs have limited funds available and the number of hospitals eligible for these funds has increased over the past few years which leaves less money available for the Corporation. The Corporation's ability to increase taxes is limited by State law, and there continues to be a growing number of persons who need assistance from both the Marion County Health Department and Wishard Health Services.

As listed above, the Corporation has many difficult financial issues to manage. All levels of the organization continue to work together to find savings from current operations without diminishing the care it provides to the County. The grants department continues to expand and has applied for more new money this year. The Corporation is working to ensure that fees collected by the Marion County Health Department are calculated correctly to collect 100% of expenses. Wishard has improved its productivity into the 85th percentile of all hospitals nation-wide according to the University Healthcare Consortium.

The challenges to the Corporation are great in 2008 and into the future. The Corporation is working with our State and Federal partners to provide adequate funding for our mission to provide healthcare to the uninsured. During the 2007 legislative session the State expanded Medicaid with a coverage program called the Healthy Indiana Plan (HIP). The Corporation is excited to participate in the program as it will provide insurance for individuals who were previously uninsured. Included in HIP, was a federally mandated reduction in the State's supplemental funds of disproportionate share revenue. The Corporation will participate aggressively in HIP to help offset the reduction in supplemental Medicaid that we expect over the next few years.

Cash Management

Cash temporarily idle during the year was invested in Money Market Savings Accounts. Interest income from all cash funds except capital projects and enterprise funds totaled \$5,100,000 in 2007. Capital Projects Fund investments have been invested in U.S. Government obligations, certificates of deposit, and tax-exempt money market funds at yields not to exceed the related bond issue.

Total interest income produced for the Capital Projects Fund was \$2,000,000. Interest income of \$10,500,000 was earned from investments of all fund types during 2007. The Corporation's investment policy is to minimize credit and market risks. State statutes authorize the Corporation to invest in certificates of deposit, obligations of the U.S. Treasury, and U.S. agencies and repurchase agreements with a maximum maturity of two years. The statutes further require that repurchase agreements be fully collateralized by U.S. Government or U.S. agency obligations. Compliance with these statutes provides protection for cash and investments by the Indiana Public Deposit Insurance Fund. This fund provides protection for amounts not covered by federal depository insurance.

Risk Management

For over twenty years, the Corporation has utilized an incident reporting system to report accidents and incidents that might have resulted in legal matters. Management reviews the reports to identify and correct potential problems. In addition, the Corporation conducts various safety awareness and accident prevention programs for employees. Further, the Corporation is self insured for both health and vehicle insurance. Resources are being accumulated in the general fund to meet estimated losses.

During 2007, the Corporation maintained a number of commercial insurance policies to cover potential losses.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Health and Hospital Corporation of Marion County, Indiana for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2006. Health and Hospital Corporation of Marion County, Indiana has received a Certificate of Achievement for the last twenty-three consecutive years (fiscal years ended 1984-2006). In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine eligibility for another certificate.

The President and Chief Executive Officer and the Treasurer and Chief Financial Officer alone cannot prepare the report presented herein. This CAFR was made possible by the dedicated service of the combined staffs of Hospital Finance and Corporate Accounting. Each member of these departments has our sincere appreciation for the contributions made to this report.

Respectfully submitted,



Matthew R. Gutwein
President and
Chief Executive Officer



Daniel E. Sellers
Treasurer and
Chief Financial Officer

I don't see why any man who believes in
Medicine would shy at the faith cure.
-Finley Peter Dunne

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The Health and Hospital
Corporation of Marion County
Indiana

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Oliver S. Cox

President

Jeffrey R. Emmer

Executive Director

HEALTH AND HOSPITAL CORPORATION

Elected Officials

None of the Board of Trustees or Officers of the Corporation are Elected Officials. All are appointed to office.

Appointed Officials-Board of Trustees



James D. Miner, M.D.
Chairman
Physician



Lula M. Journey
Vice Chairman
Retired



David W. Crabb, M.D.
Physician



Gregory S. Fehribach
Attorney
Stark, Doninger & Smith



Angela J. Green
Deputy Director of Practice Support
State of Indiana



Marjorie H. O'Laughlin
Retired



Robert B. Pfeifer,
C.P.A.

HEALTH AND HOSPITAL CORPORATION

Officers

<u>Name</u>	<u>Title</u>
Matthew R. Gutwein	President and Chief Executive Officer
Daniel E. Sellers	Treasurer and Chief Financial Officer
Lisa E. Harris, M.D.	CEO and Medical Director, Wishard Health Services
Virginia A. Caine, M.D.	Director, Marion County Health Department

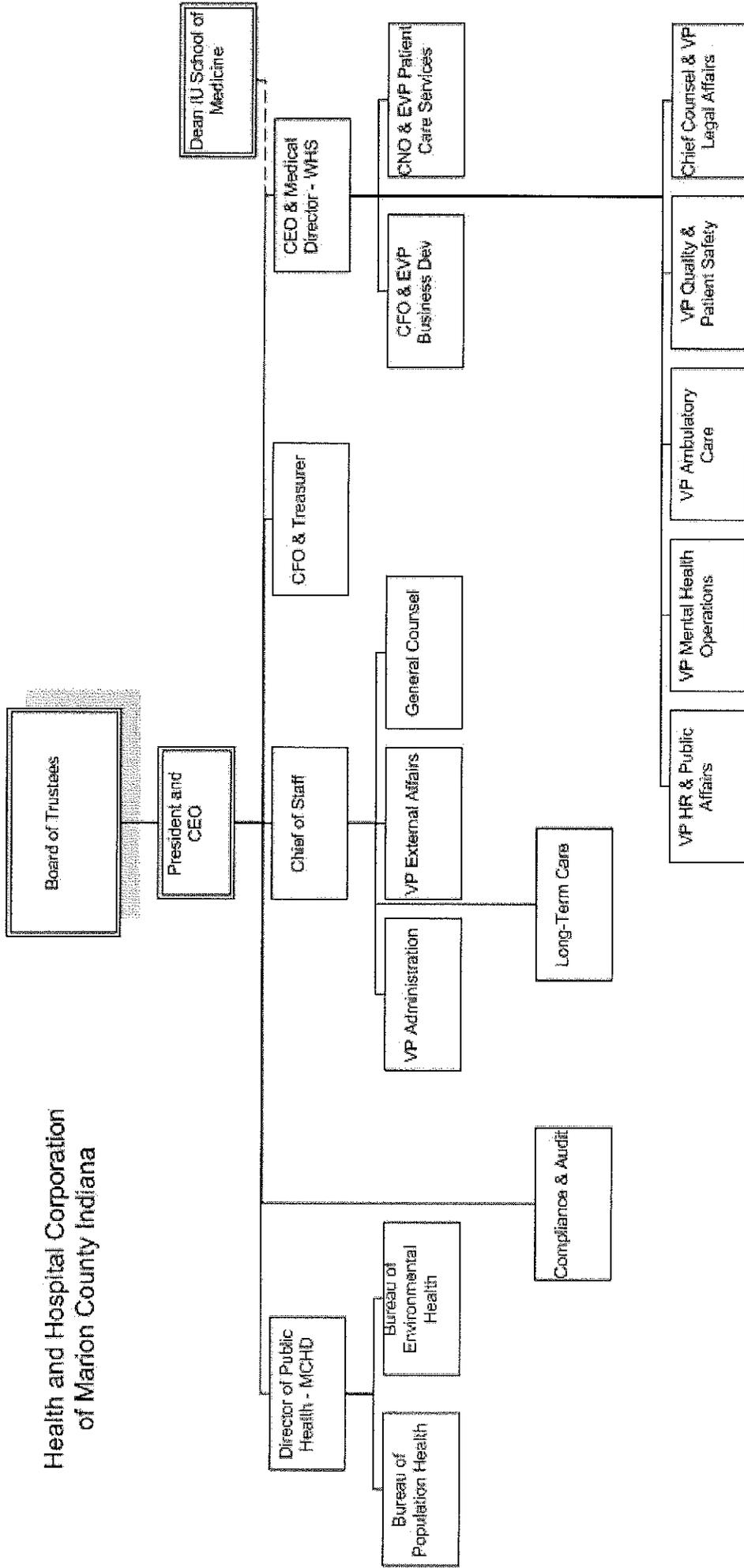
Independent Auditors

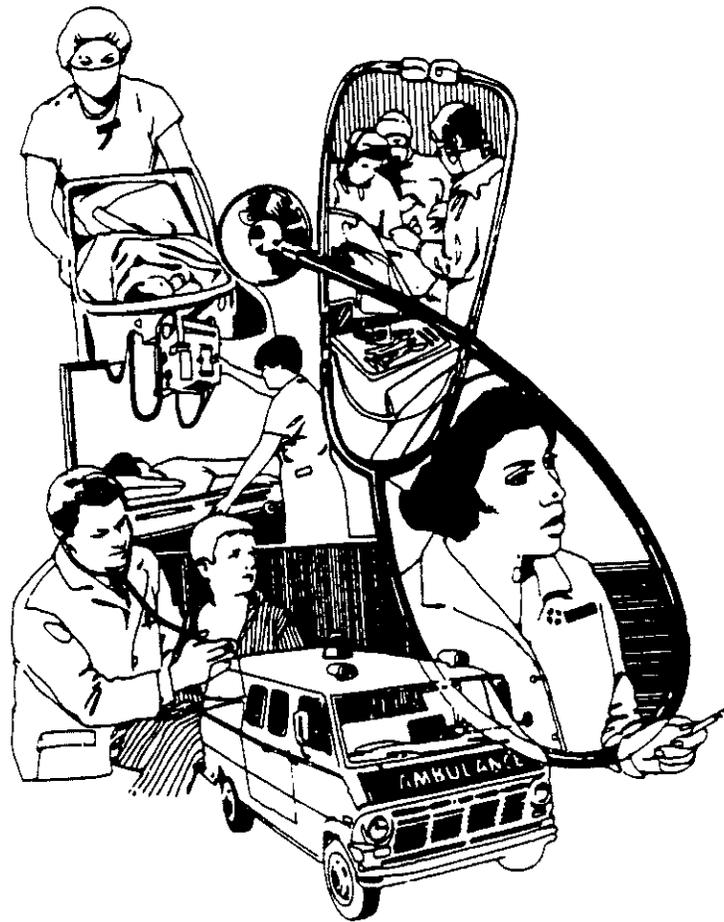
KPMG LLP	Indianapolis, Indiana
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Officers of the Health and Hospital Corporation during 2007 were (left to right): Daniel E. Sellers, Treasurer and Chief Financial Officer; Virginia A. Caine, M.D., Director, Marion County Health Department; Lisa E. Harris, M.D., CEO and Medical Director, Wishard Health Services; and Matthew R. Gutwein, President and Chief Executive Officer.

Health and Hospital Corporation of Marion County Indiana





FINANCIAL SECTION

Medicine, the only profession that labours
incessantly to destroy the reason for its
existence. – James Bryce



KPMG LLP
Suite 1500
111 Monument Circle
Indianapolis, IN 46204

Independent Auditors' Report

Board of Trustees
The Health and Hospital Corporation of
Marion County, Indiana:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Health and Hospital Corporation of Marion County, Indiana (a component unit of the Consolidated City of Indianapolis – Marion County) (Corporation) as of and for the year ended December 31, 2007, which collectively comprise the Corporation's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Health and Hospital Corporation of Marion County, Indiana (a component unit of the Consolidated City of Indianapolis – Marion County) as of December 31, 2007 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis (MD&A) on pages 11 through 21, the General Fund budgetary comparison information on pages 65 and 66 and the schedule of funding progress on page 59 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The information presented in the introductory section, the statistical section and the other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

Indianapolis, Indiana
October 31, 2008

Management's Discussion and Analysis

As management of the Health and Hospital Corporation of Marion County, Indiana, (the Corporation), we offer readers of this Corporation's Comprehensive Annual Financial Report this narrative overview and analysis of the financial activities of the Corporation for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our transmittal letter at the front of this report along with the financial statements, including the footnotes that follow the basic financial statements.

Financial Highlights

- The assets of the Corporation exceeded its liabilities at the close of the most recent fiscal year by \$433,098,694 (net assets). Of this amount, \$317,694,745 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Corporation's total net assets increased by \$15,274,611.
- As of the close of 2007, the Corporation's governmental funds reported combined ending fund balances of \$172,416,792 an increase of \$11,874,996 in comparison with the prior year. Approximately 95.4% of this total amount, \$164,474,860, is available for spending at the discretion of the Corporation's Board of Trustees (unreserved and undesignated fund balance).
- At the end of the current fiscal year, unreserved and undesignated fund balance for the General Fund was \$121,444,133 or 174% of total general fund expenditures.
- The Corporation's total debt excluding capital leases decreased by \$1.7 million or 3.8% during the current fiscal year. This reflects scheduled principal payments on outstanding notes and bonds. The capital lease obligation increased by \$25,600,390 or 15.4% in 2007.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Health and Hospital Corporation's basic financial statements. The Corporation's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The statement of activities presents information showing how the Corporation's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Corporation that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Health and Hospital Corporation include those focused on public health: health improvement, communicable disease prevention, water quality and hazardous materials management, vector disease control, housing and neighborhood health, consumer and employee risk reduction, and administration and finance activities, including debt management. The business-type activities reflect the operations of Wishard Health Services; including a general acute care hospital and eight community health centers and the Long-Term Care operations (LT Care).

The government-wide financial statements include only the Health and Hospital Corporation of Marion County, Indiana (known as the primary government) which includes Lions Insurance Company, a blended component unit established in 2006. Since the Corporation's Board is appointed, not elected, under Governmental Accounting Standards Board (GASB) Statement No. 14, the Corporation is considered a component unit of the Consolidated City of Indianapolis – Marion County (Uni-Gov), and the financial statements of the Corporation are included in the Comprehensive Annual Financial Report of Uni-Gov. Management also considers all other units of government within Marion County to be separate from this Corporation, and they are not considered as component units within this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Corporation maintains three governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Debt Service Fund, and Capital Projects Fund, all of which are considered to be major funds.

The Corporation adopts an annual appropriated budget for its General, Debt Service, and a portion of its Capital Projects Fund. Budgetary comparison statements have been provided for these three funds to demonstrate compliance with this budget.

Proprietary funds. The Corporation's proprietary fund consists of two enterprise funds. Enterprise funds report the same functions presented as business-type activities in the government-wide financial statements. The Corporation uses the enterprise funds to account for its Wishard Health Services Division and its LT Care operations.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Corporation's progress in funding its obligation to provide pension benefits to its employees and the budgetary comparison schedule for the General Fund. Also, budgetary schedules are provided for the Debt Service Fund and the Capital Projects Fund as other supplementary information.

Financial Analysis of the Corporation as a Whole

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Corporation, assets exceeded liabilities by \$433,098,694 at December 31, 2007.

A portion of the Corporation's net assets, 26.4%, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Corporation uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Corporation's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Corporation's net assets, 0.3%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$317,694,745, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of 2007, the Corporation is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets increased by \$15,274,611 during the current fiscal year. The majority of the increase reported in connection with the Corporation's governmental activities resulted from Medicaid special revenue payments.

**THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS-MARION COUNTY)
SCHEDULE OF NET ASSETS
DECEMBER 31, 2007**

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and other assets	\$ 247,350,147	233,434,730	201,555,330	199,316,927	448,905,477	432,751,657
Capital assets						
net of accumulated depreciation	13,472,861	13,308,053	325,202,690	302,707,926	338,675,551	316,015,979
Total Assets	<u>260,823,008</u>	<u>246,742,783</u>	<u>526,758,020</u>	<u>502,024,853</u>	<u>787,581,028</u>	<u>748,767,636</u>
Liabilities:						
Long-term liabilities outstanding	47,751,564	49,225,148	205,544,194	180,415,601	253,295,758	229,640,749
Other liabilities	10,677,156	25,902,791	90,509,420	75,400,013	101,186,576	101,302,804
Total Liabilities	<u>58,428,720</u>	<u>75,127,939</u>	<u>296,053,614</u>	<u>255,815,614</u>	<u>354,482,334</u>	<u>330,943,553</u>
Net Assets:						
Invested in capital assets						
net of related debt	7,784,239	7,134,802	106,358,255	136,595,394	114,142,494	143,730,196
Restricted	—	—	1,261,455	639,351	1,261,455	639,351
Unrestricted	194,610,049	164,480,042	123,084,696	108,974,494	317,694,745	273,454,536
Total Net Assets	<u>\$ 202,394,288</u>	<u>171,614,844</u>	<u>230,704,406</u>	<u>246,209,239</u>	<u>433,098,694</u>	<u>417,824,083</u>

Changes in Net Assets

The Corporation's total revenue was \$723,007,978 during the current fiscal year. Taxes represent 13.5% of the Corporation's revenue. Medicaid special revenue represents 14.2% of revenue, while 67.4% of revenue came from fees charged for services. The remaining 4.9% came from grants and contributions, interest earnings, and miscellaneous revenues.

The total cost of all programs and services was \$707,733,367. This resulted in an increase in net assets for the year of \$15,274,611.

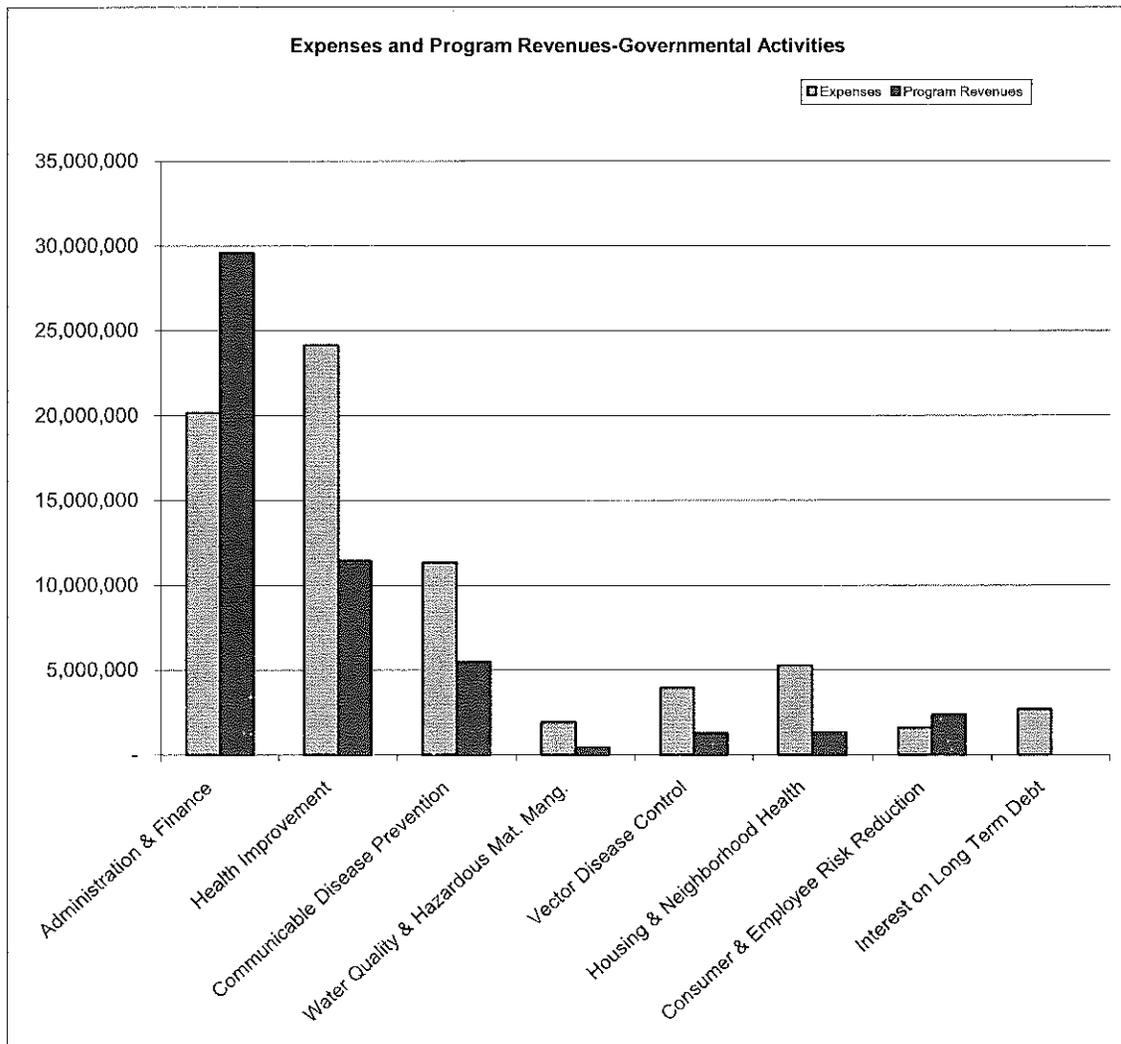
THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS – MARION COUNTY)
SCHEDULE OF CHANGES IN NET ASSETS
DECEMBER 31, 2007

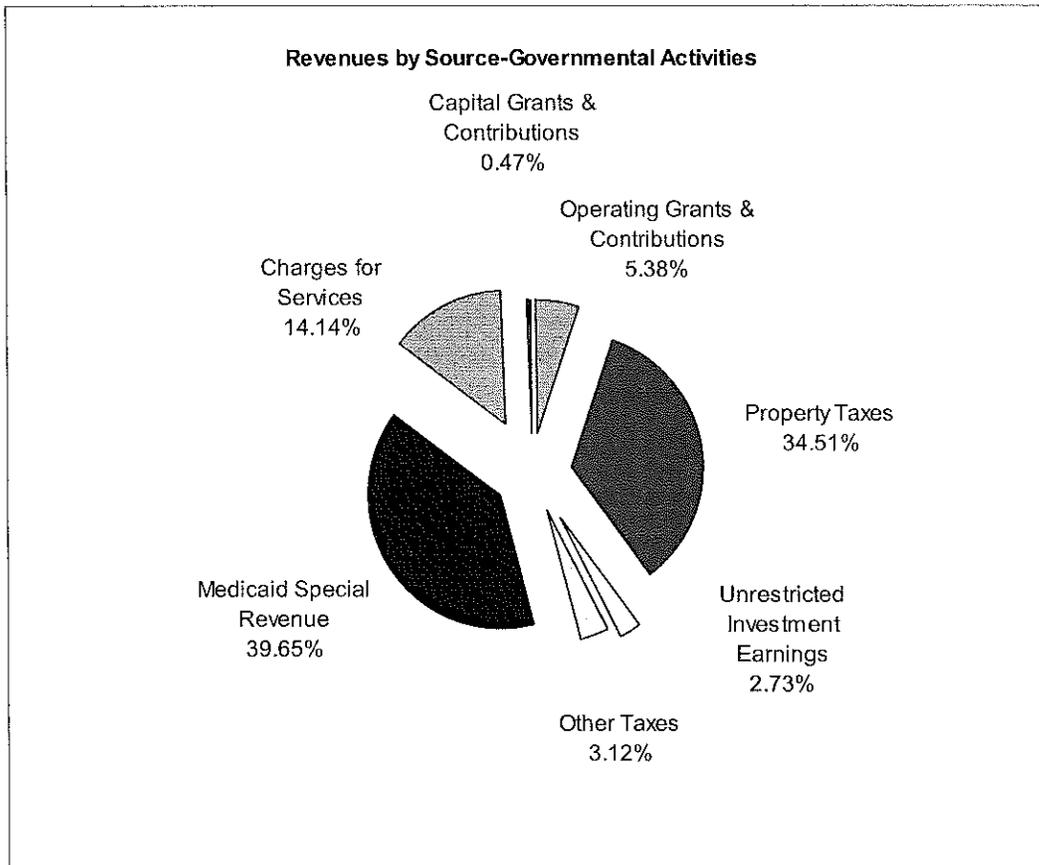
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 36,715,671	38,574,932	450,327,883	389,576,653	487,043,554	428,151,585
Operating grants and contributions	13,955,419	12,108,583	9,308,853	7,680,805	23,264,272	19,789,388
Capital grants and contributions	1,217,110	3,575,826	314,400	—	1,531,510	3,575,826
General revenues:						
Property taxes	89,583,638	89,435,326	—	—	89,583,638	89,435,326
Other taxes	8,099,762	8,530,678	—	—	8,099,762	8,530,678
Medicaid special revenue	102,956,478	101,186,941	—	—	102,956,478	101,186,941
Unrestricted investment earnings	7,077,243	6,521,273	3,451,521	4,014,078	10,528,764	10,535,351
Total revenues	259,605,321	259,933,559	463,402,657	401,271,536	723,007,978	661,205,095
Expenses:						
Administration and finance	20,163,477	17,551,946	—	—	20,163,477	17,551,946
Health improvement	24,159,226	24,145,228	—	—	24,159,226	24,145,228
Communicable disease prevention	11,352,654	9,215,253	—	—	11,352,654	9,215,253
Water quality and hazardous mat mgmt	1,935,157	1,825,826	—	—	1,935,157	1,825,826
Vector disease control	3,940,890	3,509,809	—	—	3,940,890	3,509,809
Housing and neighborhood health	5,269,185	5,035,571	—	—	5,269,185	5,035,571
Consumer and employee risk reduction	1,579,658	1,557,309	—	—	1,579,658	1,557,309
Interest on long-term debt	2,690,760	2,898,454	—	—	2,690,760	2,898,454
Wishard Health Services	—	—	424,232,288	398,576,838	424,232,288	398,576,838
LT Care	—	—	212,410,072	171,792,272	212,410,072	171,792,272
Total expenses	71,091,007	65,739,396	636,642,360	570,369,110	707,733,367	636,108,506
Increase (decrease) in net assets before transfers						
	188,514,314	194,194,163	(173,239,703)	(169,097,574)	15,274,611	25,096,589
Transfers	(157,734,870)	(158,619,375)	157,734,870	158,619,375	—	—
Increase (decrease) in net assets	30,779,444	35,574,788	(15,504,833)	(10,478,199)	15,274,611	25,096,589
Net assets beginning of year	171,614,844	136,040,056	246,209,239	256,687,438	417,824,083	392,727,494
Net assets end of year	\$ 202,394,288	171,614,844	230,704,406	246,209,239	433,098,694	417,824,083

Governmental activities. Governmental activities increased the Corporation's net assets by \$30,779,444 compared to the total \$15,274,614 increase in net assets of the Corporation. Property taxes increased by \$148,312. Medicaid special revenues increased \$1,769,537 due to more prior year settlements being received in 2007. Capital grants and contributions decreased by \$2.4 million due to decreased funding for emergency preparedness.

Capital contributions to Wishard Health Services were \$734,870 a decrease of \$3.2 million from prior year. The current year capital contributions to Wishard were for computers, software, and support for the continued implementation of the public health preparedness response system. Transfers to Wishard Health Services were \$157 million, an increase of \$2.3 million from last year. Transfers reflect an increase in support to Wishard.

The following charts provide comparisons of the Corporation's governmental program revenues and expenses by function, and revenues by source. As shown, health improvement is the largest function in expense. General revenues such as property tax are not shown by program, but are included in the revenues by source chart to show their significance. Taxes are used to support program activities for the entire Corporation.



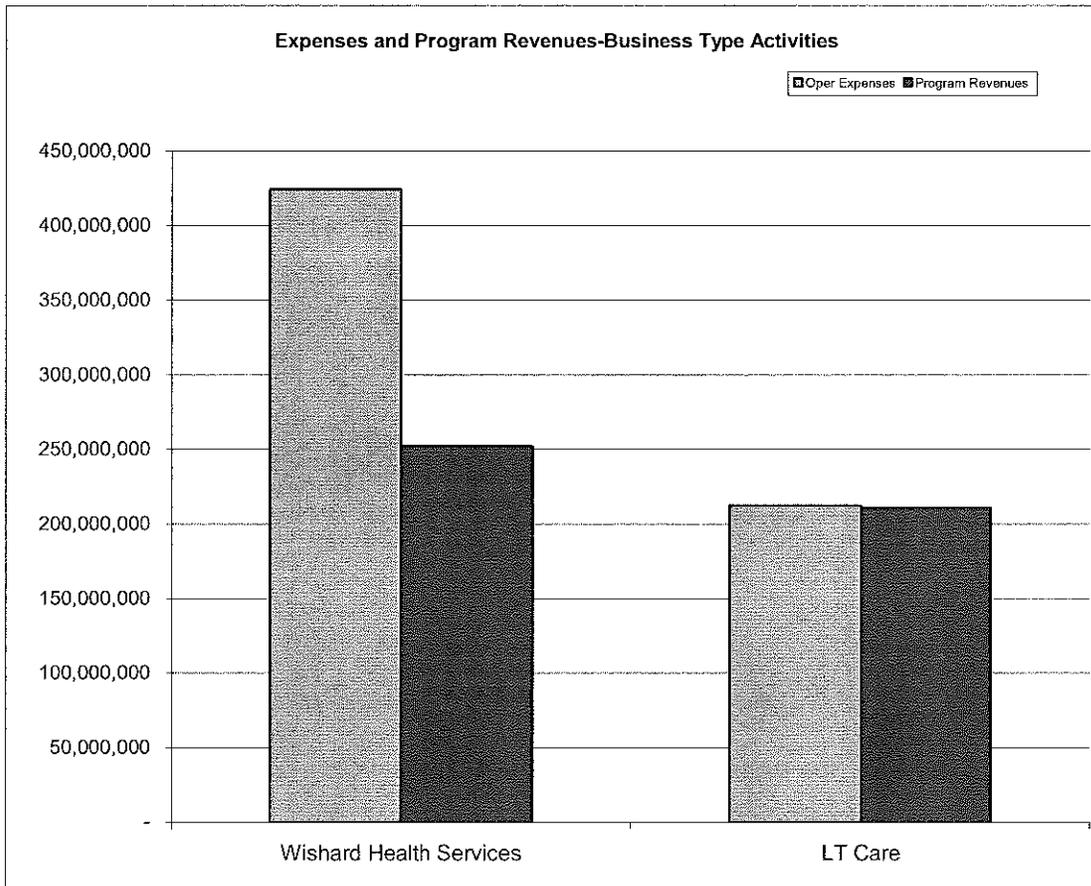


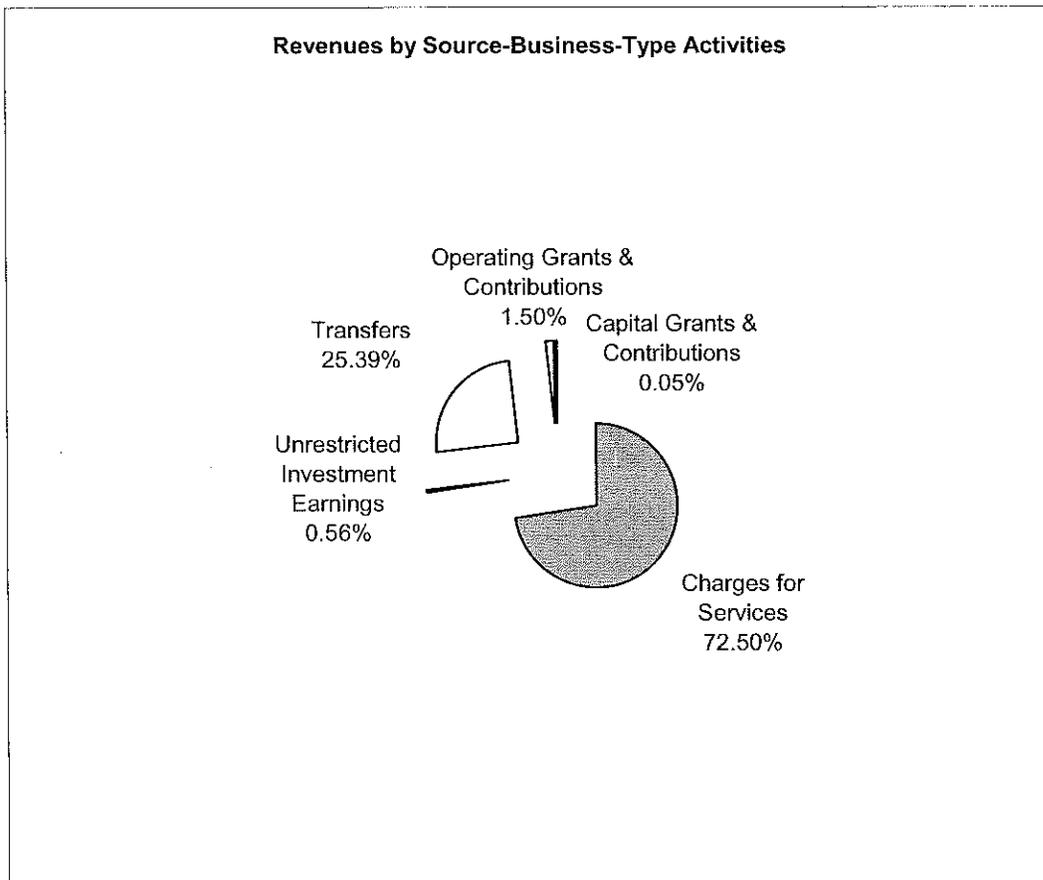
Business-type activities. Business-type activities decreased the Corporation's net assets by \$15,504,833 compared to a decrease of \$10,478,199 in 2006.

Wishard's net assets decreased by \$14 million in the current year. Net assets invested in capital assets decreased by \$24.8 million due to depreciation expense in excess of capital additions. Wishard's unrestricted net assets increased by \$10.2 million. Revenues increased by \$17.8 million due to a \$7.3 million increase in other revenue and \$10.5 million increase in net patient service revenues. Operating expenses increased \$25.7 million in response to increased patient volumes and cost inflation. Wishard incurred an operating loss of \$184.5 million, which was offset by \$157 million in transfers from Health and Hospital Corporation, \$9.3 million in mental health grants from various agencies, and \$3.1 million in investment income.

LT Care net assets were \$16,848,744, which was a decrease of \$1.5 million over 2006. Operating revenues increased \$43.0 million due to increased Medicaid reimbursements and operating expenses increased \$38.7 million. This was primarily due to the addition of six nursing homes in 2007. LT Care has a negative \$16.7 million invested in capital assets, net of related debt. All 28 facilities are recorded as capital leases under non-current assets.

The following charts provide a comparison of revenues and expenses, and revenues by source for the Corporation's business activities.





Financial Analysis of the Corporation's Funds

As noted earlier, the Corporation uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Corporation's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Corporation's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Corporation's governmental funds reported combined ending fund balances of \$172,416,792, an increase of \$11,874,996 in comparison with the prior year. Approximately 95.9% of this total amount, \$164,474,860, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to 1) liquidate contracts and purchase orders of the prior period (\$2.2 million) and 2) cover prepaid costs (\$4.8 million).

The General Fund is the chief operating fund of the Corporation. At the end of the current fiscal year, unreserved and undesignated fund balance of the General Fund was \$121,444,133, while total fund balance increased to \$129,798,702. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved and undesignated fund balance and total fund balance to total fund expenditures. Unreserved and undesignated fund

balance represents 174% of total general fund expenditures, while total fund balance represents 186% of that same amount.

The fund balance of the Corporation's General Fund increased by \$10,433,389 during the current fiscal year, in comparison to a \$3,887,379 increase in 2006. Medicaid special revenue increased \$32 million, primarily because of prior year settlements. Charges for service revenues increased while miscellaneous revenues decreased due to a reclassification of medical education payments from Indiana University in the amount of \$26.4 million. Administrative expenses have increased \$5.2 million related to increased contractual costs and a 2006 decrease in medical self insurance expense due to actuarial estimates that was not repeated in year 2007. Population health increases of \$837,903 include increased efforts in health promotion, maternal and child health, public health preparedness, and the laboratory. Transfers reflect an increase in support to Wishard of \$2.3 million. The decrease in grant expenditures of \$1,179,597 is a result of a number of a decrease in public health preparedness expenditures.

Debt Service funds. The Debt Service Fund has a negative fund balance of (\$412,634) compared to a balance of \$362,060 in the prior year. The net decrease in fund balance during the current year was (\$774,697). This decrease is due to 2007 property taxes being delayed and received in 2008.

Capital Projects funds. The Capital Projects Fund has a total fund balance of \$43,030,727. The net increase in fund balance during the current year was \$2,216,304 due to taxes and interest income. There were no new construction or renovation projects this year requiring use of these funds.

Proprietary funds. The Corporation's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of Wishard Health Services at the end of the year amounted to \$89,499,064. Total net assets decreased by \$14.0 million. Other factors concerning the finances of Wishard have already been addressed in the discussion of the Corporation's business-type activities.

Unrestricted net assets of LT Care at the end of the year were \$33,585,632. The decrease in net assets was \$1.5 million. Other information on LT Care operations can be found in the discussion of the Corporation's business-type activities.

General Fund Budgetary Highlights

The original budget of \$230,092,785 was increased by \$17,500,000 during 2007. This increase was the net of an increase of \$1.0 million to personal services, a \$1.0 million increase to supplies, an increase of \$17.5 million in additional contractual services that is included in other charges and services, and a decrease of \$2 million in capital outlays.

The final General Fund budget of \$247,592,785 included \$85,592,785 in expenditures and \$162,000,000 in transfers. Actual expenditures and transfers out were \$225,318,553. Of the total under spending, \$1.3 million was budgeted for personal services, \$950,000 for supplies, \$13.9 million for contractual services, \$2.0 million for capital outlays, and \$4.1 million for transfers to Wishard. This under spending reflects potential year-end initiatives that did not occur. General revenues and other resources were originally estimated at \$234,647,101, final budgets were \$238,570,884, and actual was \$248,166,589. Taxes collected were \$17.5 million under budget due to delays in collection of property tax revenues and Medicaid special revenue was \$10.3 million over budget due to timing of settlements. Miscellaneous revenue was over budget due to increased medical education payments from Indiana University.

Capital Asset and Debt Administration

Capital assets. The Corporation's capital assets for its governmental and business-type activities as of December 31, 2007, amount to \$338,675,551 (net of accumulated depreciation), compared to \$316,015,979 at the end of 2006. This investment in capital assets includes land, buildings, improvements, machinery and equipment, vehicles, and construction in progress.

Major capital asset events during 2007 included the following:

- Land purchase and renovations for an ambulance building
- Purchase of McKesson software and pharmacist workflow and document imaging program
- Hospital telephone replacement
- Replacement of foundation for an existing building

Additional information on the Corporation's capital assets can be found in note 6 of this report.

**THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS – MARION COUNTY)
SCHEDULE OF CAPITAL ASSETS – NET OF DEPRECIATION
DECEMBER 31, 2007**

	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Land	\$ 1,782,995	930,406	1,189,877	1,189,877	2,972,872	2,120,283
Land improvements	—	—	2,055,667	1,756,141	2,055,667	1,756,141
Buildings and improvements	8,224,679	8,459,150	274,812,337	261,103,215	283,037,016	269,562,365
Equipment	2,618,743	2,949,256	32,103,094	36,079,680	34,721,837	39,028,936
Vehicles	846,444	969,241	718,183	1,117,231	1,564,627	2,086,472
Construction in progress	—	—	14,323,532	1,461,782	14,323,532	1,461,782
Total assets	<u>\$ 13,472,861</u>	<u>13,308,053</u>	<u>325,202,690</u>	<u>302,707,926</u>	<u>338,675,551</u>	<u>316,015,979</u>

Long-term debt. At the end of 2007, the Corporation had total debt outstanding of \$43,581,484, excluding capital leases. Of this amount, \$43,363,362 comprises general obligation debt and the remainder represents notes secured solely by specified revenue sources.

Moody's Investors Service rates the Corporation's general obligation debt "Aaa".

State statutes limit the amount of general obligation debt a governmental entity may issue to 0.67% of its total assessed valuation. The current debt limitation for the Corporation is \$299,814,244. Outstanding debt at December 31, 2007 represents 15% of this limit.

Additional information on the Corporation's long-term debt can be found in note 9 of this report.

**THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(COMPONENT UNIT OF THE CONSOLIDATED CITY OF INDIANAPOLIS – MARION COUNTY)
SCHEDULE OF LONG-TERM DEBT OBLIGATIONS
DECEMBER 31, 2007**

	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
1988 renovation bonds	\$ 18,235,000	19,155,000	—	—	18,235,000	19,155,000
2005 general obligation bonds	26,140,000	26,865,000	—	—	26,140,000	26,865,000
Deferred premiums	901,326	954,345	—	—	901,326	954,345
Deferred amount on refunding	(1,912,964)	(2,082,738)	—	—	(1,912,964)	(2,082,738)
1998 promissory note	218,122	426,751	—	—	218,122	426,751
Capital leases	—	—	191,712,922	166,112,532	191,712,922	166,112,532
Total long-term debt	<u>\$ 43,581,484</u>	<u>45,318,358</u>	<u>191,712,922</u>	<u>166,112,532</u>	<u>235,294,406</u>	<u>211,430,890</u>

Economic Factors and Next Year's Budgets and Rates. The 2008 original budget for all annually budgeted funds was \$268,475,280. No revisions have been made through October 2008. The 2007 General Fund budget is \$264,156,345, a 6.7% increase from the 2007 final General Fund budget of \$247,592,785.

Requests for Information

This financial report is designed to provide a general overview of the Health and Hospital Corporation's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Treasurer, 3838 N. Rural, Indianapolis, Indiana, 46205.

Nature, time, and patience are the three great
Physicians. – H.G. Bohn

**BASIC
FINANCIAL STATEMENTS**

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(A Component Unit of the Consolidated City of Indianapolis – Marion County)

Statement of Net Assets

December 31, 2007

Assets	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 175,379,490	94,486,574	269,866,064
Investments	—	4,219,508	4,219,508
Receivables, net:			
Patient services	—	56,202,864	56,202,864
Grants	3,776,329	3,825,443	7,601,772
Interest	27,186	26,894	54,080
Medicaid special revenue	40,236,825	—	40,236,825
Taxes	19,052,940	—	19,052,940
Other	3,454,019	10,935,295	14,389,314
Inventories	—	4,620,358	4,620,358
Prepaid costs and other assets	4,842,950	9,973,260	14,816,210
Restricted cash and cash equivalents	—	1,261,455	1,261,455
Bond issuance costs	362,491	—	362,491
Net pension asset	217,917	765,030	982,947
Lease acquisition costs (net of accumulated amortization)	—	9,641,043	9,641,043
Other long term assets	—	5,597,606	5,597,606
Capital assets (net of accumulated depreciation):			
Land	1,782,995	1,189,877	2,972,872
Land improvements	—	2,055,667	2,055,667
Buildings and improvements	8,224,679	274,812,337	283,037,016
Equipment	2,618,743	32,103,094	34,721,837
Vehicles	846,444	718,183	1,564,627
Construction in progress	—	14,323,532	14,323,532
Total assets	<u>260,823,008</u>	<u>526,758,020</u>	<u>787,581,028</u>
Liabilities			
Accounts payable	4,047,089	29,790,539	33,837,628
Salaries and related benefits	2,945,521	45,487,064	48,432,585
Unearned revenue	944,237	3,304,413	4,248,650
Estimated Medicare/Medicaid settlements	—	4,551,274	4,551,274
Medical claims incurred but not reported	—	2,980,000	2,980,000
Risk share payable	—	4,396,130	4,396,130
Asserted and unasserted self-insurance claims	2,740,309	—	2,740,309
Long-term liabilities:			
Due within one year	5,613,522	14,102,763	19,716,285
Due in more than one year	42,138,042	191,441,431	233,579,473
Total liabilities	<u>58,428,720</u>	<u>296,053,614</u>	<u>354,482,334</u>
Net Assets			
Invested in capital assets, net of related debt	7,784,239	106,358,255	114,142,494
Restricted for:			
Health services	—	1,261,455	1,261,455
Unrestricted	194,610,049	123,084,696	317,694,745
Total net assets	<u>\$ 202,394,288</u>	<u>230,704,406</u>	<u>433,098,694</u>

See accompanying notes to basic financial statements.

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(A Component Unit of the Consolidated City of Indianapolis – Marion County)

Statement of Activities

For the year ended December 31, 2007

Functions/program	Program revenues			Net (expense) revenue and changes in net assets			
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities:							
Administration and finance	\$ 20,163,477	29,516,097	92,303	—	9,444,923	—	9,444,923
Health improvement	24,159,226	2,382,740	9,052,726	—	(12,723,760)	—	(12,723,760)
Communicable disease prevention	11,352,654	363,533	3,877,384	1,217,110	(5,894,627)	—	(5,894,627)
Water quality and hazardous materials management	1,935,157	367,016	68,981	—	(1,499,160)	—	(1,499,160)
Vector disease control	3,940,890	1,261,037	17,500	—	(2,662,353)	—	(2,662,353)
Housing and neighborhood health	5,269,185	469,407	846,525	—	(3,953,253)	—	(3,953,253)
Consumer and employee risk reduction	1,579,658	2,355,841	—	—	776,183	—	776,183
Interest on long-term debt	2,690,760	—	—	—	(2,690,760)	—	(2,690,760)
Total governmental activities	71,091,007	36,715,671	13,955,419	1,217,110	(19,202,807)	—	(19,202,807)
Business-type activities:							
Wishard Health Services	424,232,288	239,779,417	9,308,853	314,400	—	(174,829,618)	(174,829,618)
L.T. Care	212,410,072	210,548,466	—	—	—	(1,861,606)	(1,861,606)
Total business-type activities	636,642,360	450,327,883	9,308,853	314,400	—	(176,691,224)	(176,691,224)
Total	\$ 707,733,367	487,043,554	23,264,272	1,531,510	(19,202,807)	(176,691,224)	(195,894,031)
General revenues:							
Property taxes					89,583,638	—	89,583,638
Excise taxes					6,831,647	—	6,831,647
Financial institution taxes					1,268,115	—	1,268,115
Medicaid special revenue (unrestricted)					102,956,478	—	102,956,478
Unrestricted investment earnings					7,077,243	3,451,521	10,528,764
Transfers (capital contributions to Wishard and L.T. Care)					(734,870)	734,870	—
Transfers					(157,000,000)	157,000,000	—
Total general revenues and transfers					49,982,251	161,186,391	211,168,642
Change in net assets					30,779,444	(15,504,833)	15,274,611
Net assets – beginning of year					171,614,844	246,209,239	417,824,083
Net assets – end of year					\$ 202,394,288	230,704,406	\$ 433,098,694

See accompanying notes to basic financial statements.

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(A Component Unit of the Consolidated City of Indianapolis – Marion County)

Balance Sheet – Governmental Funds

December 31, 2007

Assets	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 132,373,586	2,363	43,003,541	175,379,490
Receivables (net of allowance for uncollectibles)				
Grants	3,776,329	—	—	3,776,329
Interest	—	—	27,186	27,186
Medicaid special revenue	40,236,825	—	—	40,236,825
Taxes	18,159,009	813,905	80,026	19,052,940
Other	3,454,019	—	—	3,454,019
Due from other funds	415,000	—	—	415,000
Prepaid costs and other assets	4,842,950	—	—	4,842,950
Total assets	\$ 203,257,718	816,268	43,110,753	247,184,739
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 4,047,089	—	—	4,047,089
Salaries and related benefits	2,945,521	—	—	2,945,521
Deferred revenue	65,158,035	813,905	80,026	66,051,966
Due to other funds	—	415,000	—	415,000
Asserted and unasserted self-insurance claims	1,308,371	—	—	1,308,371
Total liabilities	73,459,016	1,228,905	80,026	74,767,947
Fund balances:				
Reserved for:				
Prepaid costs and other assets	4,842,950	—	—	4,842,950
Encumbrances	2,203,248	—	—	2,203,248
Unreserved:				
Designated for self insurance	1,308,371	—	—	1,308,371
Designated for bond retirement	—	(412,637)	—	(412,637)
Undesignated	121,444,133	—	43,030,727	164,474,860
Total fund balances	129,798,702	(412,637)	43,030,727	172,416,792
Total liabilities and fund balances	\$ 203,257,718	816,268	43,110,753	

Amounts reported for governmental activities in the statement of net assets are different because:

Net capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds statement	13,472,861
Net pension assets are not financial resources and therefore are not recorded in the funds statement	217,917
Deferred revenues not meeting availability criteria in funds statement are not in the statement of net assets	65,107,729
Bond issuance costs reported in the governmental activities but not reported in the funds statement	362,491
Asserted and unasserted self-insurance claims not due in the current period and therefore not reported in the funds statement	(1,431,938)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds statement	(47,751,564)
Net assets of governmental activities	\$ 202,394,288

See accompanying notes to basic financial statements.

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(A Component Unit of the Consolidated City of Indianapolis – Marion County)

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

For the year ended December 31, 2007

Revenues	General	Debt Service	Capital Projects	Total Governmental Funds
Taxes	\$ 78,353,442	3,526,131	215,886	82,095,459
Licenses and permits	4,193,808	—	—	4,193,808
Intergovernmental	14,629,232	—	—	14,629,232
Charges for services	27,570,626	—	—	27,570,626
Medicaid special revenue	105,102,078	—	—	105,102,078
Interest	5,058,935	17,847	2,000,461	7,077,243
Miscellaneous	2,306,154	—	—	2,306,154
Total revenues	237,214,275	3,543,978	2,216,347	242,974,600
Expenditures				
Current:				
Administrative	19,845,203	—	43	19,845,246
Population health	19,613,915	—	—	19,613,915
Environmental health	11,365,478	—	—	11,365,478
Health center program	1,200,264	—	—	1,200,264
Data processing	2,824,376	—	—	2,824,376
Grant programs	14,705,936	—	—	14,705,936
Debt service:				
Principal	208,629	1,645,000	—	1,853,629
Interest and fiscal charges	17,085	2,673,675	—	2,690,760
Total expenditures	69,780,886	4,318,675	43	74,099,604
Excess (deficiency) of revenues over (under) expenditures	167,433,389	(774,697)	2,216,304	168,874,996
Other Financing Sources (Uses)				
Transfers out	(157,000,000)	—	—	(157,000,000)
Total other financing sources and (uses)	(157,000,000)	—	—	(157,000,000)
Net change in fund balances	10,433,389	(774,697)	2,216,304	11,874,996
Fund balances – beginning of year	119,365,313	362,060	40,814,423	160,541,796
Fund balances – end of year	\$ <u>129,798,702</u>	<u>(412,637)</u>	<u>43,030,727</u>	<u>172,416,792</u>

See accompanying notes to basic financial statements.

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(A Component Unit of the Consolidated City of Indianapolis – Marion County)

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental
Funds to the Statement of Activities – Governmental Activities

For the year ended December 31, 2007

Amounts reported for governmental activities in the statement of activities (page 23) are different because:

Net changes in fund balances – total governmental funds (page 25)	\$ 11,874,996
Depreciation expense reported in the statement of activities but not in the funds statement	(1,936,604)
Capital expenditures reported in the funds statement but reported as additions to capital assets in the statement of net assets	2,836,282
Transfer of capital assets to proprietary fund	(734,870)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds statement	16,630,721
Bond and note principal payments reported as expenditures in the funds statement but as reductions of long-term liabilities in the statement of net assets	1,853,629
Increase in compensated absences not in the funds statement	(263,290)
Amortization of bond issuance costs reported in the statement of activities but not in the funds statement as there is no cash outflow	(32,172)
Amortization of deferred bond premium and deferred loss on refunding reported in the statement of activities but not in the funds statement	(116,755)
Asserted and unasserted self-insurance claims not in the funds statement as they have not matured	725,540
Decrease in net pension asset not in the funds statement	<u>(58,033)</u>
Change in net assets of governmental activities (page 23)	<u>\$ 30,779,444</u>

See accompanying notes to basic financial statements.

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(A Component Unit of the Consolidated City of Indianapolis – Marion County)

Statement of Net Assets – Proprietary Funds

December 31, 2007

Assets	Wishard Health Services	LT Care	Total
Current assets:			
Cash and cash equivalents	\$ 73,071,956	21,414,618	94,486,574
Investments	4,219,508	—	4,219,508
Receivables (net of allowance for uncollectibles):			
Patient services	40,113,638	16,089,226	56,202,864
Grants	3,825,443	—	3,825,443
Interest	26,894	—	26,894
Other	10,935,295	—	10,935,295
Inventories	4,620,358	—	4,620,358
Prepaid costs and other assets	9,428,200	545,060	9,973,260
Total current assets	<u>146,241,292</u>	<u>38,048,904</u>	<u>184,290,196</u>
Noncurrent assets:			
Restricted cash and cash equivalents	1,261,455	—	1,261,455
Net pension asset	765,030	—	765,030
Lease acquisition costs (net of accumulated amortization)	—	9,641,043	9,641,043
Other long term assets	—	5,597,606	5,597,606
Capital assets (net of accumulated depreciation):			
Land	1,189,877	—	1,189,877
Land improvements	1,314,677	740,990	2,055,667
Buildings and improvements	107,829,991	166,982,346	274,812,337
Equipment	25,653,187	6,449,907	32,103,094
Vehicles	680,508	37,675	718,183
Construction in progress	13,558,420	765,112	14,323,532
Total capital assets (net of accumulated depreciation)	<u>150,226,660</u>	<u>174,976,030</u>	<u>325,202,690</u>
Total noncurrent assets	<u>152,253,145</u>	<u>190,214,679</u>	<u>342,467,824</u>
Total assets	<u>298,494,437</u>	<u>228,263,583</u>	<u>526,758,020</u>
Liabilities			
Current liabilities:			
Accounts payable	24,988,062	4,802,477	29,790,539
Accrued liabilities	17,167,859	10,344,137	27,511,996
Accrued compensated absences	17,975,068	—	17,975,068
Capital lease obligation - current	—	6,562,440	6,562,440
Estimated Medicare/Medicaid settlements	4,551,274	—	4,551,274
Deferred revenue	3,304,413	—	3,304,413
Medical claims incurred but not reported	2,980,000	—	2,980,000
Risk share payable	4,396,130	—	4,396,130
Asserted and unasserted self-insurance claims – current	2,985,020	4,555,303	7,540,323
Total current liabilities	<u>78,347,826</u>	<u>26,264,357</u>	<u>104,612,183</u>
Noncurrent liabilities:			
Asserted and unasserted self insurance claims	6,290,949	—	6,290,949
Capital leases payable	—	185,150,482	185,150,482
Total noncurrent liabilities	<u>6,290,949</u>	<u>185,150,482</u>	<u>191,441,431</u>
Total liabilities	<u>84,638,775</u>	<u>211,414,839</u>	<u>296,053,614</u>
Net Assets			
Invested in capital assets, net of related debt	123,095,143	(16,736,888)	106,358,255
Restricted for health services	1,261,455	—	1,261,455
Unrestricted	89,499,064	33,585,632	123,084,696
Total net assets	<u>\$ 213,855,662</u>	<u>16,848,744</u>	<u>230,704,406</u>

See accompanying notes to basic financial statements.

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(A Component Unit of the Consolidated City of Indianapolis – Marion County)

Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds

For the year ended December 31, 2007

	<u>Wishard Health Services</u>	<u>LT Care</u>	<u>Total</u>
Operating revenues:			
Net patient service revenue	\$ 216,372,823	209,365,563	425,738,386
Other revenue	23,406,594	1,182,903	24,589,497
Total operating revenue	<u>239,779,417</u>	<u>210,548,466</u>	<u>450,327,883</u>
Operating expenses:			
Salaries	169,768,481	—	169,768,481
Employee benefits	42,911,297	—	42,911,297
Contract labor	5,297,578	117,123,172	122,420,750
Medical and professional fees	49,724,615	3,212,773	52,937,388
Purchased services	48,026,804	14,404,635	62,431,439
Supplies	41,174,840	22,223,028	63,397,868
Pharmaceuticals	36,004,958	—	36,004,958
Repairs and maintenance	4,196,925	1,344,378	5,541,303
Utilities	4,896,099	4,705,044	9,601,143
Equipment rental	1,432,900	1,242,625	2,675,525
Depreciation and amortization	17,560,767	18,489,845	36,050,612
Other	3,237,024	10,631,056	13,868,080
Total operating expenses	<u>424,232,288</u>	<u>193,376,556</u>	<u>617,608,844</u>
Operating income (loss)	<u>(184,452,871)</u>	<u>17,171,910</u>	<u>(167,280,961)</u>
Nonoperating revenues (expenses) :			
Intergovernmental revenue	9,308,853	—	9,308,853
Investment income	3,113,636	337,885	3,451,521
Interest expense	—	(19,033,516)	(19,033,516)
Total nonoperating revenues (expenses)	<u>12,422,489</u>	<u>(18,695,631)</u>	<u>(6,273,142)</u>
Loss before capital contributions and transfers	<u>(172,030,382)</u>	<u>(1,523,721)</u>	<u>(173,554,103)</u>
Capital contributions	1,049,270	—	1,049,270
Transfers – General Fund	157,000,000	—	157,000,000
Changes in net assets	<u>(13,981,112)</u>	<u>(1,523,721)</u>	<u>(15,504,833)</u>
Total net assets at beginning of year	<u>227,836,774</u>	<u>18,372,465</u>	<u>246,209,239</u>
Total net assets at end of year	<u>\$ 213,855,662</u>	<u>16,848,744</u>	<u>230,704,406</u>

See accompanying notes to basic financial statements.

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(A Component Unit of the Consolidated City of Indianapolis – Marion County)

Statement of Cash Flows – Proprietary Funds

For the year ended December 31, 2007

	Wishard Health Services	LT Care	Total
Cash Flows from Operating Activities			
Receipts from patient services	\$ 211,315,420	204,630,827	415,946,247
Receipts from other operations	20,763,779	1,182,903	21,946,682
Payments to suppliers	(194,194,287)	—	(194,194,287)
Payments to employees	(206,591,593)	(169,970,661)	(376,562,254)
Net cash provided by (used in) operating activities	<u>(168,706,681)</u>	<u>35,843,069</u>	<u>(132,863,612)</u>
Cash Flows from Noncapital Financing Activities			
Cash receipts from intergovernmental revenue	9,498,187	—	9,498,187
Transfers from the General Fund	157,000,000	—	157,000,000
Net cash provided by noncapital financing activities	<u>166,498,187</u>	<u>—</u>	<u>166,498,187</u>
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets	(19,180,459)	(7,070,151)	(26,250,610)
Cash received for capital contributions from Wishard Foundation	314,400	—	314,400
Deposit paid	—	(1,212,628)	(1,212,628)
Lease acquisition cost payments	—	(1,288,000)	(1,288,000)
Payment of capital lease obligation	—	(5,466,604)	(5,466,604)
Interest expense payments	—	(19,033,516)	(19,033,516)
Net cash used in capital and related financing activities	<u>(18,866,059)</u>	<u>(34,070,899)</u>	<u>(52,936,958)</u>
Cash Flows from Investing Activities			
Proceeds from sales and maturities of investments	3,835,969	—	3,835,969
Purchases of investments	(1,421,226)	—	(1,421,226)
Interest and dividends received	3,248,955	337,885	3,586,840
Net cash provided by investing activities	<u>5,663,698</u>	<u>337,885</u>	<u>6,001,583</u>
Net increase (decrease) in cash and cash equivalents	(15,410,855)	2,110,055	(13,300,800)
Cash and cash equivalents and restricted cash and cash equivalents, January 1	89,744,266	19,304,563	109,048,829
Cash and cash equivalents and restricted cash and cash equivalents, December 31	<u>\$ 74,333,411</u>	<u>21,414,618</u>	<u>95,748,029</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Operating income (loss)	\$ (184,452,871)	17,171,910	(167,280,961)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	17,560,767	18,489,845	36,050,612
Changes in operating assets and liabilities:			
Patient services receivables	(4,181,653)	(4,734,736)	(8,916,389)
Other receivables	(2,642,815)	—	(2,642,815)
Inventories	350,550	—	350,550
Prepaid costs and other assets	(5,429,013)	47,543	(5,381,470)
Net pension asset	283,331	—	283,331
Accounts payable	4,863,454	1,576,082	6,439,536
Accrued liabilities and compensated absences	5,804,854	2,196,873	8,001,727
Estimated Medicare/Medicaid settlements	(875,750)	—	(875,750)
Asserted and unasserted self-insurance claims	(1,567,349)	1,095,552	(471,797)
Risk share payable	1,869,353	—	1,869,353
Medical claims incurred but not reported	(289,539)	—	(289,539)
Total adjustments	<u>15,746,190</u>	<u>18,671,159</u>	<u>34,417,349</u>
Net cash provided by (used in) operating activities	<u>\$ (168,706,681)</u>	<u>35,843,069</u>	<u>(132,863,612)</u>
Noncash investing, capital, and financing activities:			
Contributions of capital assets from governmental activities	\$ 734,870	—	—
Purchase of assets held under capital lease	—	30,808,990	30,808,990
Increase in capital lease obligation from purchase of assets under capital lease	—	30,808,990	30,808,990
Unrealized gain on investments, net	37,371	—	—

See accompanying notes to basic financial statements.

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(A Component Unit of the Consolidated City of Indianapolis – Marion County)

Notes to Basic Financial Statements

December 31, 2007

(1) Significant Accounting Policies

(a) Financial Reporting Entity

The Health and Hospital Corporation of Marion County, Indiana (Corporation) is a distinct municipal corporation created under Chapter 287 of the Acts of 1951 enacted by the General Assembly of the State of Indiana. The Corporation's duties include the administration of the Divisions of Public Health and Public Hospitals. The Division of Public Health does business as the Marion County Health Department (MCHD), and the Division of Public Hospitals does business as Wishard Health Services (Wishard).

The Corporation's financial reporting entity has been determined in accordance with governmental accounting standards defining the reporting entity and identifying entities to be included in its basic financial statements. During 2006, the LT Care Fund (Enterprise Fund) established a nonprofit entity, Lions Insurance Company, Inc. (Lions), which is legally separate from the LT Care Fund and whose purpose is to provide insurance covering the professional (malpractice) and general liability exposures of the nursing homes operated by the Corporation. Lions is considered a blended component unit and is therefore reported as if it is a part of the LT Care Fund because its primary purpose is to provide services solely to the LT Care Enterprise Fund.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* (GASB 14), the Corporation is considered a component unit of the Consolidated City of Indianapolis – Marion County (Uni-Gov). Accordingly, the financial statements of the Corporation are required to be included in the comprehensive annual financial report of Uni-Gov. The Corporation is governed by a seven-member board of trustees, appointed by the Mayor of Indianapolis (3), Commissioners of Marion County (2), and City-County Council (2). Of those members appointed by the City-County Council, one serves a two-year term, and one serves a four-year term. All other appointments serve a term of four years. The board of trustees is bipartisan by statute. The Corporation is responsible for all of its fiscal matters including budget (subject to the final authority of the State of Indiana Department of Local Government Finance (DLGF)), operating deficits, and debt. The Corporation's executive and legislative powers include the power to levy taxes and incur debt. The Corporation's ordinances have the effect of local law governing health matters.

The Corporation is a municipal corporation and a political subdivision of the State of Indiana under Indiana Code §16-22-8-6, §6-1.1-1-12, and §36-1-2-23. The Corporation is exempt from federal taxes. Income accruing to the Corporation is not gross income under Title 26 USC§115 of the Internal Revenue Service (IRS) Code. Further, gifts to the Corporation are considered charitable contributions under Title 26 USC§170(c) of the IRS Code.

The Corporation operates three service divisions: Wishard, MCHD, and the Long-Term Care operations. Wishard comprises Wishard Memorial Hospital, a general acute care facility with 340 staffed beds; Wishard's eight community health centers, Midtown Community Mental Health Center, Regenstrief Health Center, Wishard's Emergency Trauma Service, Wishard's Ambulance Service, and the Richard M. Fairbanks Burn Center. Lockefield Village, the long-term care facility, offers an Alzheimer's unit, traditional long-term care, medically complex services, and an acute rehabilitation unit. For purposes of financial reporting, Wishard is accounted as a separate enterprise fund.

The MCHD operates two service bureaus, which provide preventive and diagnostic health programs, health education, immunization and epidemiological programs, environmental health regulation, and code enforcement. It is accounted for as governmental funds.

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(A Component Unit of the Consolidated City of Indianapolis – Marion County)

Notes to Basic Financial Statements

December 31, 2007

The Corporation operates 26 nursing homes through capital leases. The homes are operated as part of the Long-Term Care (LT Care) operations. LT Care supports the Corporation's mission and goal to provide quality care and services to elderly and disabled people. The Corporation contracted with a management company named American Senior Communities, LLC (ASC) to operate the facilities (see note 20). Wishard also contracts with ASC to provide management services for Lockefield Village. Lockefield Village continues to be reported within Wishard. For purposes of financial reporting, LT Care is accounted for as a separate enterprise fund.

(b) Financial Statement Presentation, Measurement Focus, and Basis of Accounting

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Corporation. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Following the government-wide financial statements are separate financial statements for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Corporation has determined that all governmental funds are considered major funds. The total fund balances for all governmental funds are reconciled to total net assets for governmental activities as shown on the statement of net assets. The net change in fund balances for all governmental funds is reconciled to the total change in net assets as shown on the statement of activities in the government-wide statements. For purposes of financial reporting, the Corporation has two enterprise funds (business-type activities), Wishard and LT Care, which are both considered major funds.

The fund financial statements of the Corporation are organized on the basis of funds, each of which is considered a separate accounting entity with self-balancing accounts that comprise its assets, liabilities, fund balances/net assets, revenues, and expenditures or expenses. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by fund type in the basic financial statements. The following fund types are used by the Corporation:

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(A Component Unit of the Consolidated City of Indianapolis – Marion County)

Notes to Basic Financial Statements

December 31, 2007

Governmental Fund Types

Governmental funds are those through which most governmental functions are financed. The acquisition, uses, and balances of the Corporation's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The governmental funds use the current resources measurement focus.

The following are the Corporation's major governmental funds:

The General Fund is the Corporation's primary operating fund. It accounts for all financial resources of the Corporation, including grants, except those required to be accounted for in another fund.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Debt service requirements are generally funded from property tax revenues or other operating revenues.

The Capital Projects Fund is used to account for resources designated to construct or acquire major capital facilities. Such resources are derived principally from general obligation bonds and ad valorem taxes.

Proprietary Fund Type

Proprietary funds are used to account for activities that are similar to those found in the private sector. The proprietary funds use the economic resources measurement focus.

For purposes of financial reporting, the Corporation has two enterprise funds: (1) The Wishard Health Services Fund, which accounts for the activities of Wishard and (2) the LT Care Fund, which accounts for the activities of the 26 leased nursing homes that receive no funding from ad valorem taxes. An enterprise fund is used to account for operations that are financed and operated in a similar manner to a private business – where the intent of the governing body is that the costs (including depreciation) of operations are financed primarily through user charges. Certain administrative expenses of Wishard and LT Care are accounted for by the General Fund. Because the capital outlay for Wishard is funded through ad valorem taxes, long-term debt interest expense related to Wishard is accounted for by the Debt Service Fund and is not allocated to the Wishard Enterprise Fund. Only debt intended to be repaid by operations of Wishard are included in the Wishard Enterprise Fund. At December 31, 2007, no such debt existed. At December 31, 2007, the LT Care Fund had capital leases, which are to be repaid from revenues from operations and are therefore shown as long-term debt in the LT Care Fund.

In accordance with the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Corporation has elected, in addition to applying Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989, to apply all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements within the business-type activities of the government-wide and proprietary fund financial statements.

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(A Component Unit of the Consolidated City of Indianapolis – Marion County)

Notes to Basic Financial Statements

December 31, 2007

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year the levy and tax rates are certified. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. At year-end, entries are recorded for financial reporting purposes to reflect the modified accrual basis of accounting for the governmental fund type and the accrual basis of accounting for the proprietary fund type.

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers taxes to be available if they are collected and distributed within 60 days of the end of the current fiscal period. For all other revenue items, the Corporation considers revenue to be available if they are collected within 120 days of the end of the current fiscal period. Significant revenues susceptible to accrual include property and other taxes, grants, Medicaid special revenue, and interest. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

GASB Statement No. 33, *Accounting and Reporting for Nonexchange Transactions*, (GASB 33), groups nonexchange transactions into four classes, based upon their principal characteristics: derived tax revenues, imposed nonexchange revenues, government mandated nonexchange transactions, and voluntary nonexchange transactions.

In the governmental fund statements, the Corporation recognizes assets from derived tax revenue transactions in the period when the underlying exchange transaction on which the tax is imposed occurs or when the assets are received, whichever occurs first. Revenues are recognized, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred in the fund financial statement. Resources received in advance are reported as deferred revenues until the period of the exchange in both the government-wide and fund financial statements.

The Corporation recognizes assets from imposed nonexchange revenue transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. Revenues are recognized in the period when the resources are required to be used or the first period that use is permitted. The Corporation recognizes revenues from property taxes, net of estimated refunds and uncollectible amounts, in the period for which the tax levy and rates are certified. Imposed non-exchange revenues also include permits.

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
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Notes to Basic Financial Statements

December 31, 2007

Intergovernmental revenues, representing grants and assistance received from other governmental units, are generally recognized as revenues in the period when all eligibility requirements, as defined by GASB 33, have been met. Any resources received before eligibility requirements are met are reported as deferred revenues.

Charges for services in the governmental funds, which are exchange transactions and are therefore not subject to the provisions of GASB 33, are recognized as revenues when received in cash because they are generally not measurable until actually received.

Under the accrual basis of accounting by the proprietary fund type, revenues are recognized in the period earned and expenses are recognized in the period incurred. Patient services accounts receivable and revenue are recorded at standard billing rates, net of contractual adjustments, when patient services are performed. Wishard and LT Care provide services under the Medicare and Medicaid programs for which they may be reimbursed at amounts different from the standard billing rates. Amounts reimbursed or estimated to be reimbursed by these programs are generally determined in accordance with a prospective price-per-case payment system or under the provisions of cost-reimbursement formulas. In addition, Wishard and LT Care provide services in accordance with various contractual agreements entered into with state and local governmental agencies and other third-party health insurance companies.

The differences between standard billing rates and the amount reimbursed or estimated to be reimbursed by Medicare, Medicaid, and other contractual payors are included in the financial statements as contractual adjustments. Patient accounts receivable for services provided under contractual arrangements are also adjusted to reflect these differences.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All transactions deemed by management to be ongoing, major, or central to the provision of healthcare services for Wishard and LT Care are considered to be operating activities and are reported as operating revenue and operating expenses. Intergovernmental revenues, investment income, interest expense, and peripheral or incidental transactions are reported as nonoperating revenue and expenses. Other changes in net assets that are excluded from operating income (loss) principally consist of contributions of capital assets funded by governmental activities, grantors, and donors.

When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

(c) Cash, Cash Equivalents, and Investments

Cash equivalents held at December 31, 2007, consist of non-negotiable certificates of deposit, U.S. agencies, and repurchase agreements with a maturity of three months or less from date of purchase, excluding restricted assets whose use is limited by donors or grantors. Certificates of deposit, U.S. agencies, and repurchase agreements are stated at fair value. From time to time, certain fund types pool cash for investment in certificates of deposit. The income from pooled certificates of deposit is distributed to the participating funds based upon their proportionate shares.

State statutes authorize the Corporation to invest in certificates of deposit, obligations of the U.S. Treasury and U.S. agencies, and certain repurchase agreements. The statutes further require that repurchase agreements must be fully collateralized by U.S. government or U.S. government agency obligations.

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Compliance with these statutes provides protection for cash and investments by the Indiana Public Deposit Insurance Fund. This fund provides protection for amounts not covered by federal depository insurance.

Investments are stated at fair value. Fair values for investments are determined by closing market prices at year-end as reported by the investment custodian.

Included in the accompanying statement of cash flows are all cash and cash equivalents including restricted cash and cash equivalents of the proprietary funds.

(d) Receivables and Payables

In the fund financial statements, all outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

All receivable balances are shown net of an allowance for uncollectibles. See note 3 for further discussion on property taxes.

(e) Inventories

Purchases of materials and supplies in the governmental fund types are charged to expenditures as incurred. Amounts of inventories in such governmental funds are immaterial. For the enterprise fund type, pharmaceutical inventories of the Wishard Fund are determined by physical count of items on hand and are priced at weighted average cost or at fair value, whichever is less. Inventory in the LT Care Fund is immaterial.

(f) Prepaid Costs and Other Assets

Prepaid costs and other assets of the proprietary fund consist of an investment of 50% ownership in MDWise (a not-for-profit health maintenance organization), deposits with suppliers, and prepaid insurance. Prepaid costs and other assets for the governmental funds include prepaid insurance, a refundable advance to MDWise as a means to reduce administrative fees, and other assets.

(g) Restricted Assets

Donor-restricted assets are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of unrestricted assets on which donors or grantors place no restriction or that arise as a result of the operations of the Corporation for its stated purposes. Donor-restricted assets represent contributions to provide specific healthcare services.

(h) Capital Assets

Capital assets, which include buildings, improvements, equipment, and vehicles are reported in the applicable governmental or business-type activities column in the government-wide financial statements and within the proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

Purchased or constructed assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

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Depreciation, including depreciation recognized on assets acquired through government grants and other aid, is computed on the straight-line method over the estimated useful lives of the various classes of assets. Assets held under capital leases and leasehold improvements are amortized straight-line over the shorter of the lease term or the estimated useful life of the asset. The following range of lives is generally used:

	Years
Buildings and improvements	10 – 50
Equipment	5 – 20
Vehicles	4

(i) Capitalization of Interest

Net interest costs on funds borrowed to finance the construction of capital assets are capitalized and depreciated over the life of the related asset for business-type activities and proprietary fund types. Interest is not capitalized for governmental fund types within the basic financial statements.

(j) Other Long-Term Assets

Other long-term assets consist of deposits made related to the leasing of nursing homes. The deposits will be returned in full if the leased buildings are returned in an acceptable condition by the holder of the deposit at the end of the leases in 2013 and 2016.

(k) Deferred and Unearned Revenue

Deferred revenue is recorded in the governmental fund financial statements for receivables that are not considered either measurable or available at December 31, 2007 or when the related revenues have not been earned for enterprise fund activities. Note 1(b) provides further discussion on the Corporation's availability policy. Deferred revenue for governmental funds in the fund statements is recognized as revenue when it is earned and considered measurable and available. At December 31, 2007, deferred revenue represents cash received in advance on grants, amounts not earned on grants due to the availability period, unpaid property and other taxes, and amounts not earned on medical education fees and Medicaid special revenue due to availability period.

Unearned revenue is reported in the government-wide financial statements. The availability period does not apply; however, amounts may not be earned due to eligibility requirements or other reasons.

(l) Risk Share Payable

Risk share payable relates to undistributed profits that are due to other providers who participate in Wishard's network as part of the risk-based Medicaid program.

(m) Accrued Compensated Absences

Employees are paid for vacation and other absences by prescribed formulas based primarily on length of service and staff classification. In the government-wide statements, the cost of benefit and other absences is recognized when accrued by employees. Benefit leave is also accrued as a liability when earned in the statement of net assets of the proprietary funds. In addition, certain amounts have been recorded in the governmental fund financial statements, since such amounts came due (i.e. matured) during the fiscal year ended December 31, 2007.

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(n) Lease Acquisition Costs

The Corporation allocates the purchase price of properties acquired under capital leases to net tangible and identified intangible assets based on their respective fair values. The allocation to tangible assets (primarily equipment) is based upon management's determination of the value of the property. The remaining purchase price is allocated to lease acquisition costs. These costs are amortized over the life of the related lease.

(o) Interfund Transactions

In the fund financial statements, the Corporation has the following types of transactions among funds:

Transfers

Legally authorized transfers are reported when incurred as transfers in by the recipient fund and as transfers out by the disbursing fund.

Contribution of Capital Assets

The General and Capital Project Funds make contributions of capital assets to the Wishard Enterprise Fund. The enterprise fund reports these transactions as capital contributions; however, the General or Capital Project Funds do not report the event because there has been no flow of current financial resources for the governmental fund statements other than the expenditures incurred during the year on capital outlay. In the government-wide statement of activities, both sides of the capital asset transfer are reported as transfers.

Interfund Services Provided/Used

Charges or collections for services rendered by one fund for another are recognized as revenues (interfund services provided) of the recipient fund and expenditures or expenses (interfund services used) of the disbursing fund. These transactions are recorded as interfund services because they would be treated as revenues and expenditures or expenses if they involved organizations external to the Corporation.

Within the statement of activities, direct expenses are not eliminated from the various functional categories. Indirect expenses are eliminated from the various functional categories.

Certain internal payments are treated as a reduction of expense, such as reimbursements. Elimination of interfund activity has been made for governmental activities in the government-wide financial statements.

(p) Net Assets/Fund Balances

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as follows:

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category. Governmental activities debt related to business-type activities are not recorded in this category; rather, this debt is included in unrestricted net assets.

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- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of the Corporation not restricted for any project or other purpose.

In the governmental fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the board of trustees and management, and can be increased, reduced, or eliminated by similar actions. As of December 31, 2007, designations of fund balance are described below:

- *Prepaid costs and other assets* – to reflect the portion of assets, which do not represent available spendable resources.
- *Encumbrances* – to reflect the outstanding contractual obligations for which goods and services have not been received.

As of December 31, 2007, designations of fund balance are described below:

- *Self-Insurance* – to reflect the board of trustee’s tentative plans to set aside this portion of fund balance for health self-insurance plans. This designation is subject to change.
- *Bond Retirement* – to reflect the board of trustee’s tentative plans to set aside this portion of fund balance for bond retirement. This designation is subject to change.

(q) Indigent Care Services

Under Indiana Code (16-22-8-39), the services provided by Wishard are for the benefit of the residents of Marion County, Indiana and for every person falling sick or being injured or maimed within its limits, regardless of their ability to pay for such services. Certain services to patients are classified as indigent care based on established policies of Wishard. Because Wishard does not expect amounts determined to qualify as indigent care to result in cash collections, they are not reported as net patient service revenue.

Wishard maintains records to identify and monitor the level of indigent care it provides. These records include the amount of charges forgone for services and supplies furnished under its indigent care policy.

(r) Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as amounts are no longer subject to such audits and reviews.

(s) Conditional Asset Retirement Obligations

Under FASB Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*, entities must accrue for costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets. The obligation to perform the asset retirement activity is not conditional even though the timing or method may be conditional.

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The Corporation has identified asbestos abatement as a conditional asset retirement obligation. Asbestos abatement was estimated using a per square foot estimate, based on costs to remove asbestos from previous renovations. Management has estimated the fair value of this obligation to be immaterial in relation to the financial statements based on a potential asbestos removal date of 50 years. Currently, there are no plans or expectation of plans to undertake a major renovation that would require removal of the asbestos or demolition of the buildings. The buildings are expected to be maintained by repairs and maintenance activities that would not involve the removal of the asbestos. Also, the need for major renovations caused by technology changes, operational changes, or other factors has not been identified.

(t) *Amortization of Bond Issuance Costs, Premiums, and Amounts Deferred on Refunding*

In the government-wide financial statements, bond discounts and premiums are recorded as a reduction or addition to the debt obligation, and bond issuance costs are recorded as deferred charges. Bond discounts, premiums, and issuance costs are amortized using the effective interest method over the term of the related bonds. The deferred amount on refunding is amortized as a component of interest expense over the remaining life of the bonds using the effective interest method.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(u) *Estimates and Uncertainties*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenue, expenditures, expenses, and other changes in fund balances/net assets during the reporting period. Actual results could differ from those estimates.

(v) *New Accounting Pronouncements*

GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, Statement No. 51, *Accounting and Reporting for Intangible Assets*, Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Additionally, FASB has issued Statement No. 157, *Fair Value Measurements* and FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* which are applicable to the proprietary funds. The Corporation intends to implement these GASB and FASB Statements, if applicable, on their respective effective dates.

(2) Deposits and Investments

The Corporation's investment policies are governed by state statute and management policies. The Corporation's cash, cash equivalents, and non-negotiable certificates of deposit with a maturity date greater than 90 days from date of purchase are insured in full at December 31, 2007, by the combination of federal depository insurance and the Indiana Public Deposit Insurance Fund. The Corporation's cash equivalents held during 2007 consist entirely of non-negotiable certificates of deposit with a maturity date within 90 days of date of purchase.

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The Corporation is authorized to invest in the following:

1. United States Treasury Securities
2. United States Agency Securities as approved under Indiana Code 5-13-9-2
3. Repurchase Agreements; and
4. Collateralized Public Deposits (certificates of deposit)

As of December 31, 2007, the Corporation had the following cash deposits and investments:

United States Treasuries	\$	836,469
Federal National Mortgage Association		2,150,665
Federal Home Loan Bank		865,786
Federal Home Loan Mortgage Corporation		111,029
Federal Farm Credit Bank		210,812
Government National Mortgage Association		16,768
Repurchase Agreements		21,437,468
State External Investment Pool		12,649,034
Money Market Funds		16,469,135
Certificates of Deposit		520,951
Other Cash Deposits		220,078,910
	\$	<u>275,347,027</u>

(a) Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be adversely affected by a change in interest rates. The Corporation's investment policy provides that, to the extent possible, the Corporation shall attempt to match its investments with anticipated cash flow requirements. Funds having no projected dates for specific purposes shall be invested in a prudent manner to achieve maximum return available from approved government obligations.

As of December 31, 2007, the Corporation had the following investments and maturities:

	Fair value	Investment maturities (in years)			
		Less than 1	1-5	6-10	More than 10
United States Treasuries	\$ 836,469	—	—	—	836,469
Federal National Mortgage Association	2,150,665	—	712,467	872,687	565,511
Federal Home Loan Bank Federal Home Loan Mortgage Corporation	865,786	—	865,786	—	—
Federal Farm Credit Bank	111,029	35,969	—	8,804	66,256
Government National Mortgage Association	210,812	—	—	210,812	—
Repurchase Agreements	16,768	—	—	—	16,768
State External Investment Pool	21,437,468	21,437,468	—	—	—
Money Market Funds	12,649,034	12,649,034	—	—	—
Certificates of Deposit	16,469,135	16,469,135	—	—	—
	520,951	520,951	—	—	—
	<u>\$ 55,268,117</u>	<u>51,112,557</u>	<u>1,578,253</u>	<u>1,092,303</u>	<u>1,485,004</u>

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(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is measured using credit quality ratings of investments in debt securities as described by nationally recognized rating agencies such as Moody's Investor Services, Standard & Poor's Corporation, or Fitch's Ratings Service. State law and the Corporation's policy limits investments in money market mutual funds to the top rating issued by the nationally recognized statistical rating organizations.

The investments of the Corporation were rated as follows by Standard & Poor's Corporation as of December 31, 2007:

	<u>Fair value</u>	<u>AAA</u>	<u>A-1+</u>	<u>A-1</u>	<u>Not Rated</u>
United States Treasuries	\$ 836,469	836,469	—	—	—
Federal National					
Mortgage Association	2,150,665	2,150,665	—	—	—
Federal Home Loan Bank	865,786	865,786	—	—	—
Federal Home Loan					
Mortgage Corporation	111,029	111,029	—	—	—
Federal Farm Credit Bank	210,812	210,812	—	—	—
Government National					
Mortgage Association	16,768	16,768	—	—	—
Repurchase Agreements	21,437,468	6,542,391	14,895,077	—	—
State External Investment Pool	12,649,034	—	—	—	12,649,034
Money Market Funds	16,469,135	9,775,845	—	6,693,290	—
Certificates of Deposit	520,951	—	—	—	520,951
	<u>\$ 55,268,117</u>	<u>20,509,765</u>	<u>14,895,077</u>	<u>6,693,290</u>	<u>13,169,985</u>

(c) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a counterparty, the Corporation will not be able to recover the value of investments, collateral securities, or deposits that are in the possession of the counterparty. State law requires that repurchase agreements must be fully collateralized by obligations in either United States Treasuries or other interest-bearing securities guaranteed as to principal and interest by the United States or an agency or instrumentality of the United States.

At December 31, 2007, all Corporation investments and all collateral securities pledged against Corporation deposits are held by the counterparty's trust department or agent in the Corporation's name.

(d) Concentration of Credit Risk

Neither state law or the Corporation's investment policy places any limits on the amount the Corporation may invest in any one issuer or investment type.

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(e) Investment Income

Investment income comprises the following for the year ended December 31, 2007:

	Governmental fund types	Proprietary fund type
Interest income	\$ 7,077,243	3,414,150
Unrealized gain on investments, net	—	37,371
	\$ 7,077,243	3,451,521

(3) Property Taxes

Property taxes levied for all governmental entities located within Marion County are collected by the Treasurer of Marion County, Indiana (Treasurer). These taxes are then distributed by the Auditor of Marion County, Indiana (Auditor) to the Corporation and the other governmental entities at June 30 and December 31 of each year. The Corporation and the other governmental entities can request advances of their portion of the collected taxes from the Treasurer once the levy and tax rates are certified by the DLGF. The DLGF typically certifies the levy on or before February 15 of the year following the property tax assessment.

The Corporation's 2007 property taxes were levied based on assessed valuations determined by the Auditor as of March 1, 2006, which were adjusted for estimated appeals and tax credits and deductions. The lien date for the 2007 property taxes was March 1, 2006; however, the Corporation does not recognize a receivable on the lien date as the amount of property tax to be collected cannot be measured until the levy and tax rates are certified in the subsequent year. Taxable property is assessed at 100% of the market value. In 2007, taxes were due and payable to the Treasurer in two installments on May 10, 2007 and November 10, 2007. The 2006 assessment involved a new methodology that resulted in homeowner assessments increasing significantly while business assessments remained fairly constant. The spring tax bills were sent out and many homeowners were upset with the results. The Governor of Indiana required Marion County to reanalyze the assessments and the homeowners were instructed to pay taxes in the spring of 2007 in the amount of ½ of their 2006 annual bill. This reassessment was not completed until the spring of 2008, and homeowners paid ½ of their 2006 bill for the fall 2007 billing also. Final bills related to the reassessment were sent out in June of 2008 and the final distribution of taxes for 2007 occurred in August 2008. For the fund financial statements, all taxes collected by the Treasurer and not distributed at December 31, 2007 were held in the Marion County Treasurer's Tax Collections Agency Fund and are not considered available to the Corporation as these moneys were not settled and distributed to the Corporation until after year-end. Property taxes outstanding at December 31, 2007 were \$17,557,701 in the General Fund, \$787,842 in the Debt Service Fund, and \$75,978 in the Capital Projects Fund and are recorded as a receivable in the funds that will ultimately receive property taxes with a corresponding amount in deferred revenue in the fund statements. In the government-wide statements, this amount is reflected as revenue.

The Corporation allocates property tax revenues, as considered necessary, to fund public health programs and provide care for the indigent.

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(4) Receivables and Deferred Revenue

All net receivable amounts outstanding at December 31, 2007 are scheduled for collection during the subsequent fiscal year.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At December 31, 2007, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable	\$ 17,557,701	—
Other taxes receivable	601,308	—
Grant draw-downs prior to meeting all eligibility requirements	—	944,237
Grant reimbursements not received within 120 days	302,713	—
Other revenues not received within 120 days	5,515,161	—
Medicaid special revenue	40,236,915	—
Total General Fund	64,213,798	944,237
Delinquent property taxes receivable	787,842	—
Other taxes receivable	26,063	—
Total Debt Service Fund	813,905	—
Delinquent property taxes receivable	75,978	—
Other taxes receivable	4,048	—
Total Capital Projects Fund	80,026	—
Total	\$ 65,107,729	944,237

In addition, the Wishard Health Services Fund had \$3,304,413 of unearned revenue recorded at December 31, 2007 related to advances received on federal grants, which had not met eligibility requirements.

The other receivables in the proprietary funds comprise primarily rent receivables from various leases, amounts receivable from Medicaid for services provided under the risk-based Medicaid program, and other community services provided by Wishard that are funded through gifts by community-based organizations.

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(5) Patient Services Receivables

Net patient services receivables consist of the following as of December 31, 2007:

	<u>Wishard</u>	<u>LT Care</u>	<u>Total</u>
Gross patient services receivables	\$ 202,597,673	18,073,109	220,670,782
Allowance for estimated contractual adjustments	(66,531,721)	(277,365)	(66,809,086)
Allowance for uncollectible accounts	<u>(95,952,314)</u>	<u>(1,706,518)</u>	<u>(97,658,832)</u>
Net patient services receivables	<u>\$ 40,113,638</u>	<u>16,089,226</u>	<u>56,202,864</u>

(6) Capital Assets

Following is a summary of the changes in capital assets – governmental activities for the year ended December 31, 2007:

	<u>January 1, 2007</u>	<u>Additions</u>	<u>Transfers/ disposals</u>	<u>December 31, 2007</u>
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 930,406	852,589	—	1,782,995
Construction in progress	—	—	—	—
Total capital assets not being depreciated	<u>930,406</u>	<u>852,589</u>	<u>—</u>	<u>1,782,995</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	15,462,378	496,657	—	15,959,035
Equipment	14,134,995	1,274,088	(944,746)	14,464,337
Vehicles	<u>4,113,503</u>	<u>212,948</u>	<u>—</u>	<u>4,326,451</u>
Total capital assets being depreciated	<u>33,710,876</u>	<u>1,983,693</u>	<u>(944,746)</u>	<u>34,749,823</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	7,003,228	731,128	—	7,734,356
Equipment	11,185,739	869,731	(209,876)	11,845,594
Vehicles	<u>3,144,262</u>	<u>335,745</u>	<u>—</u>	<u>3,480,007</u>
Total accumulated depreciation	<u>21,333,229</u>	<u>1,936,604</u>	<u>(209,876)</u>	<u>23,059,957</u>
Total capital assets being depreciated, net	<u>12,377,647</u>	<u>47,089</u>	<u>(734,870)</u>	<u>11,689,866</u>
Governmental activities capital assets, net	<u>\$ 13,308,053</u>	<u>899,678</u>	<u>(734,870)</u>	<u>13,472,861</u>

Included in transfers/disposals for 2007 is \$734,870 of capital assets transferred to the Wishard enterprise fund.

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The following is a summary of changes in capital assets – business-type activities for the year ended December 31, 2007:

	<u>January 1, 2007</u>	<u>Additions</u>	<u>Transfers/ disposals</u>	<u>December 31, 2007</u>
<i>Business-type activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,189,877	—	—	1,189,877
Construction in progress	1,461,782	17,671,267	(4,809,517)	14,323,532
Total capital assets not being depreciated	<u>2,651,659</u>	<u>17,671,267</u>	<u>(4,809,517)</u>	<u>15,513,409</u>
<i>Capital assets being depreciated:</i>				
Land improvements	5,633,892	525,009	48,682	6,207,583
Buildings and improvements	420,133,166	33,368,160	3,768,605	457,269,931
Equipment	133,339,247	6,303,850	828,921	140,472,018
Vehicles	5,283,737	86,503	—	5,370,240
Total capital assets being depreciated	<u>564,390,042</u>	<u>40,283,522</u>	<u>4,646,208</u>	<u>609,319,772</u>
<i>Less accumulated depreciation for:</i>				
Land improvements	3,877,751	274,165	—	4,151,916
Buildings and improvements	159,029,951	23,427,643	—	182,457,594
Equipment	97,259,567	11,112,347	(2,990)	108,368,924
Vehicles	4,166,506	485,551	—	4,652,057
Total accumulated depreciation	<u>264,333,775</u>	<u>35,299,706</u>	<u>(2,990)</u>	<u>299,630,491</u>
Total capital assets being depreciated, net	<u>300,056,267</u>	<u>4,983,816</u>	<u>4,649,198</u>	<u>309,689,281</u>
Business-type activities capital assets, net	<u>\$ 302,707,926</u>	<u>22,655,083</u>	<u>(160,319)</u>	<u>325,202,690</u>

Construction in progress for business-type activities relates to costs for facility renovations at Wishard and various other projects.

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The following is a summary of changes in capital assets – Wishard enterprise fund for the year ended December 31, 2007:

	January 1, 2007	Additions	Transfers/ disposals	December 31, 2007
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,189,877	—	—	1,189,877
Construction in progress	1,443,329	16,178,140	(4,063,049)	13,558,420
Total capital assets not being depreciated	<u>2,633,206</u>	<u>16,178,140</u>	<u>(4,063,049)</u>	<u>14,748,297</u>
<i>Capital assets being depreciated:</i>				
Land improvements	5,204,054	101,593	48,682	5,354,329
Buildings and improvements	237,578,623	515,469	3,022,137	241,116,229
Equipment	120,558,246	3,208,162	828,921	124,595,329
Vehicles	5,159,752	72,284	—	5,232,036
Total capital assets being depreciated	<u>368,500,675</u>	<u>3,897,508</u>	<u>3,899,740</u>	<u>376,297,923</u>
<i>Less accumulated depreciation for:</i>				
Land improvements	3,826,457	213,195	—	4,039,652
Buildings and improvements	124,712,057	8,574,181	—	133,286,238
Equipment	90,628,710	8,316,422	(2,990)	98,942,142
Vehicles	4,094,559	456,969	—	4,551,528
Total accumulated depreciation	<u>223,261,783</u>	<u>17,560,767</u>	<u>(2,990)</u>	<u>240,819,560</u>
Total capital assets being depreciated, net	<u>145,238,892</u>	<u>(13,663,259)</u>	<u>3,902,730</u>	<u>135,478,363</u>
Business-type activities capital assets, net	<u>\$ 147,872,098</u>	<u>2,514,881</u>	<u>(160,319)</u>	<u>150,226,660</u>

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The following is a summary of changes in capital assets – LT Care enterprise fund for the year ended December 31, 2007:

	<u>January 1, 2007</u>	<u>Additions</u>	<u>Transfers/ disposals</u>	<u>December 31, 2007</u>
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ 18,453	1,493,127	(746,468)	765,112
Total capital assets not being depreciated	<u>18,453</u>	<u>1,493,127</u>	<u>(746,468)</u>	<u>765,112</u>
<i>Capital assets being depreciated:</i>				
Land improvements	429,838	423,416	—	853,254
Buildings and improvements	182,554,543	32,852,691	746,468	216,153,702
Equipment	12,781,001	3,095,688	—	15,876,689
Vehicles	123,985	14,219	—	138,204
Total capital assets being depreciated	<u>195,889,367</u>	<u>36,386,014</u>	<u>746,468</u>	<u>233,021,849</u>
<i>Less accumulated depreciation for:</i>				
Land improvements	51,294	60,970	—	112,264
Buildings and improvements	34,317,894	14,853,462	—	49,171,356
Equipment	6,630,857	2,795,925	—	9,426,782
Vehicles	71,947	28,582	—	100,529
Total accumulated depreciation	<u>41,071,992</u>	<u>17,738,939</u>	<u>—</u>	<u>58,810,931</u>
Total capital assets being depreciated, net	<u>154,817,375</u>	<u>18,647,075</u>	<u>746,468</u>	<u>174,210,918</u>
Business-type activities capital assets, net	<u>\$ 154,835,828</u>	<u>20,140,202</u>	<u>—</u>	<u>174,976,030</u>

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Within the statement of activities, depreciation expense is charged to functions of the Corporation as follows:

Governmental activities:

Administration and finance	\$ 988,217
Health improvement	469,788
Communicable disease prevention	125,988
Water quality and hazardous materials management	35,390
Vector disease control	286,627
Housing and neighborhood health	27,963
Consumer and employee risk reduction	2,631
Total depreciation expense, governmental activities	\$ 1,936,604

Business-type activities:

Wishard	\$ 17,560,767
LT Care	17,738,939
Total depreciation expense, business-type activities	\$ 35,299,706

In addition, the LT Care Fund recognized \$750,906 of amortization expense related to lease acquisition costs, which is included in depreciation and amortization expense.

(7) Estimated Medicare and Medicaid Settlements and Net Patient Service Revenue

Estimated Medicare and Medicaid settlements reflect differences between interim reimbursement and reimbursement as determined by cost reports filed or to be filed with federal and state governments after the end of each year. In addition, such settlement amounts reflect, if applicable, any differences determined to be owed to or by Wishard after an audit of such reports. Changes to any previous years' estimated settlements are reflected in the period such changes are identified. At December 31, 2007, Wishard's Medicare and Medicaid cost reports have been audited by the fiscal intermediaries through December 31, 2005. In 2007, Wishard recognized approximately \$652,409 of unfavorable settlements related to audits or finalization of audit appeals by the fiscal intermediaries of prior year cost reports.

Wishard and LT Care have agreements with third-party payors that provide for payments to Wishard and LT Care at amounts different from their established rates. Estimated contractual adjustments under third-party reimbursement programs represent the differences between Wishard and LT Care's billings at established rates and amounts reimbursed by third-party payors. Estimated contractual adjustments also include any differences between estimated third-party reimbursement settlements for prior year services under third-party payor agreements and subsequent final settlements. A summary of the payment arrangements with major third-party payors is as follows:

(a) Medicare

Under the Medicare program, Wishard receives reimbursement under a prospective payment system (PPS) for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group. When the estimated cost of treatment for certain patients is higher than the average, providers typically will receive additional "outlier" payments. Outpatient services provided to Medicare patients are reimbursed to Wishard based on service

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groups called ambulatory payment classifications. During 2007, inpatient psychiatric services began its second year of a 3-year transition from cost reimbursement to a PPS.

Under the Medicare program, LT Care primarily receives reimbursement for services provided at its skilled nursing facilities (SNF) under PPS on a per diem basis based on the resident's health at admission (RUG Rate). Medicare reimburses LT Care for 100 days of SNF care subject to certain eligibility requirements.

(b) Medicaid

Wishard is paid for inpatient acute care services rendered to Medicaid beneficiaries under the lower of charges or prospectively determined rates-per-discharge classified based on clinical, diagnostic, and other factors and on a per diem basis for psychiatric and burn unit services classified based on clinical, diagnostic, and other factors. Reimbursement for Medicaid outpatient services is based on prospective rates per visit. Wishard also participates in a Medicaid risk-based managed care program in which Wishard receives interim reimbursement rates with a settlement adjustment at year-end.

LT Care is reimbursed for services rendered to Medicaid beneficiaries on a per diem basis.

(c) Other Payors

Wishard and LT Care have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to Wishard and LT Care under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Following is a summary of total patient service revenue, contractual adjustments, and charity and indigent care for the year ended December 31, 2007:

	Wishard Health Services	LT Care	Total	Percentage
Patient service revenue:				
Inpatient	\$ 296,749,448	—	296,749,448	33%
Outpatient	361,517,774	—	361,517,774	41
Long-term care	21,552,688	211,590,313	233,143,001	26
Gross patient service revenue less:	679,819,910	211,590,313	891,410,223	100
Contractual adjustments	230,112,837	668,966	230,781,803	26
Charity and indigent care	133,299,954	—	133,299,954	15
Provision for uncollectible accounts	100,034,296	1,555,784	101,590,080	11
Net patient service revenue	<u>\$ 216,372,823</u>	<u>209,365,563</u>	<u>425,738,386</u>	<u>48%</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 23% and 27%, respectively, of net patient service revenue for the year ended 2007. These percentages exclude Medicaid special revenue received and recognized in the General Fund. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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Medicaid special revenue includes revenue from various sources including the State of Indiana Disproportionate Share Hospital Payment Program (established to assist hospitals that have a disproportionate amount of uncompensated care), the Upper Payment Limit Program, and other contractual revenues. The money received from the Medicaid special revenue programs can be utilized by the Corporation without restriction. The General Fund recognized \$105,102,078 in Medicaid special revenue during 2007 and at December 31, 2007, \$40,236,915 in related deferred revenue was recorded (see note 4). The Corporation recognizes the funding as revenue when it is earned and is both available and measurable in the fund statements and when it is earned in the government-wide statements. Similar moneys to be received in the future, if any, are not presently determinable and, accordingly, are not recognized in the accompanying financial statements. During 2007, the Corporation recognized \$3,751,890 and negative \$2,973,896 in Medicaid special revenue that related to settlements of prior years in the General Fund and governmental activities, respectively.

(8) Agreement with Indiana University Medical Group–Primary Care

Effective February 1, 1996, a participation agreement was executed between Indiana University (IU), the Corporation, and Indiana University Medical Group-Primary Care (IUMG). IUMG is responsible for physician recruiting, marketing, and administering a managed care program, Wishard Advantage Program, for the indigent population of Marion County not covered by any other program.

The Corporation reimburses IUMG for salaries of personnel at the Corporation's community health centers. Expenses for these salaries were \$12,257,222 for 2007.

In March 1997, the Corporation began paying fees to IUMG to provide and manage the provision of healthcare at the Community Health Centers, inpatient, senior care, newborn, and pediatric wards. Many of these services are provided to members of the Wishard Advantage Program (Advantage). Beginning in 2005, physician services were purchased for a flat fee while other services for Advantage members were provided under capitation payment arrangements on a per member per month basis, based on actual enrollment in the program, which was approximately 56,300 as of December 31, 2007.

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(9) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2007:

	January 1, 2007	Additions	Reductions	December 31, 2007	Due within one year
Governmental activities:					
Bonds payable:					
Renovation Bonds of 1988 (\$28,000,000 original amount), 6.00% to 7.40% due January 1, 2020	\$ 19,155,000	—	(920,000)	18,235,000	990,000
General Obligation Bonds of 2005 (\$28,960,000 original amount), 3.50% to 5.25%, due January 1, 2025	26,865,000	—	(725,000)	26,140,000	750,000
Deferred Amounts:					
Less: Loss on refunding	(2,082,738)	—	169,774	(1,912,964)	(169,774)
Plus: Deferred premiums	954,345	—	(53,019)	901,326	53,019
Total bonds payable	<u>44,891,607</u>	<u>—</u>	<u>(1,528,245)</u>	<u>43,363,362</u>	<u>1,623,245</u>
Notes payable:					
1998 Promissory Notes (\$1,800,000 original amount), 4.50%, due December 30, 2008	426,751	—	(208,629)	218,122	218,122
Accrued compensated absences	<u>3,906,790</u>	<u>3,930,261</u>	<u>(3,666,971)</u>	<u>4,170,080</u>	<u>3,772,155</u>
Governmental activities long- term liabilities	<u>\$ 49,225,148</u>	<u>3,930,261</u>	<u>(5,403,845)</u>	<u>47,751,564</u>	<u>5,613,522</u>
Business-type activities:					
Wishard Health Services:					
Asserted and unasserted self-insurance claims	\$ 10,843,318	3,846,424	(5,413,773)	9,275,969	2,985,020
LT Care:					
Capital leases	166,112,532	30,808,990	(5,208,600)	191,712,922	6,562,440
Asserted and unasserted self-insurance claims	<u>3,459,751</u>	<u>1,270,552</u>	<u>(175,000)</u>	<u>4,555,303</u>	<u>4,555,303</u>
Business-type activities long-term liabilities	<u>\$ 180,415,601</u>	<u>35,925,966</u>	<u>(10,797,373)</u>	<u>205,544,194</u>	<u>14,102,763</u>

The above bonds and notes related to governmental activities are to be repaid from ad valorem taxes levied to the extent necessary by the Corporation against all taxable property within Marion County. Accrued compensated absences are generally liquidated by the General Fund.

The governmental activities outstanding bonds payable at December 31, 2007 includes \$5,688,622 related to the purchase of capital assets.

The business-type capital leases will be repaid through LT Care nursing home operating revenue.

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The governmental activities debt service requirements, including interest, on bonds and notes outstanding at December 31, 2007 is as follows:

	Principal	Interest
Bonds:		
2008	\$ 1,740,000	2,578,936
2009	1,840,000	2,474,981
2010	1,955,000	2,359,636
2011	2,455,000	2,231,886
2012	2,595,000	2,086,676
2013 – 2017	15,655,000	7,769,414
2018 – 2022	13,655,000	2,823,249
2023 – 2024	4,480,000	257,625
	\$ 44,375,000	22,582,403
Notes:		
2008	\$ 218,122	7,512
	\$ 218,122	7,512

The Corporation has a legal debt limit of 0.67% of the assessed values of Marion County Property as certified by the DLGF. A computation of the Corporation's legal debt margin as of December 31, 2007, is as follows:

Net assessed value – 2007	\$ 44,748,394,581	
		0.67%
Debt limit		299,814,244
Debt applicable to debt limit:		
Bonded debt	44,375,000	
Notes payable from tax levy	218,122	
Legal debt margin	\$ 255,221,122	

The Corporation is in compliance with all significant applicable covenants as of December 31, 2007.

In 2005, the Corporation refunded its General Obligation Bonds of 2000 with the issuance of the General Obligation Refunding Bonds, Series 2005. The General Obligation Bonds of 2000 are considered to have been defeased and have been removed from the basic financial statements. At December 31, 2007, \$25,700,000 of these defeased bonds remains outstanding.

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(10) Leases

(a) Operating

The Corporation leases certain facilities and equipment under operating leases. Most of the facility leases include renewal options and some provide for escalation of rent based on changes in operating costs.

The following is a summary of the future minimum payments of all significant noncancelable operating leases with initial or remaining terms of one year or more at December 31, 2007 for the governmental activities:

2008	\$	527,949
2009		530,637
2010		438,262
2011		211,541
2012		154,700
2013 – 2016		<u>471,427</u>
Total future payments	\$	<u><u>2,334,516</u></u>

Lease expenditures of \$514,635 were reported in the governmental activities for the year ended December 31, 2007.

The following is a summary of the future minimum payments of all significant noncancelable operating leases with initial or remaining terms of one year or more at December 31, 2007 for the business-type activities:

2008	\$	1,224,946
2009		1,024,032
2010		1,024,032
2011		1,024,032
2012		170,028
2013 – 2017		<u>119,169</u>
Total future payments	\$	<u><u>4,586,239</u></u>

Lease expenditures of \$1,432,900 were reported in the business-type activities for the year ended December 31, 2007.

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(b) Capital

The governmental activities had no capital leases outstanding at December 31, 2007. For business-type activities including the LT Care Enterprise Fund, the Corporation is obligated under capital leases covering 28 nursing homes. At December 31, 2007, the gross amount of buildings and related accumulated amortization recorded under capital leases was as follows:

Buildings		\$ 206,308,121
Less accumulated amortization		<u>(46,020,790)</u>
		<u>\$ 160,287,331</u>

Amortization expense of assets held under capital leases of \$13,839,184 is included with depreciation and amortization expense for the year ended December 31, 2007.

Future minimum capital lease payments as of December 31, 2007 are:

2008		\$ 25,740,669
2009		26,328,537
2010		26,959,768
2011		27,601,023
2012		28,252,527
2013 – 2017		131,441,566
2018 – 2022		<u>98,482,271</u>
Total minimum lease payments		364,806,361
Less amount representing interest (at rates ranging from 5.22% to 11.74%)		<u>166,930,999</u>
Present value of net minimum capital lease payments		191,712,922
Less current installments of obligations under capital leases		<u>6,562,440</u>
Obligations under capital leases, excluding current installments		<u>\$ 185,150,482</u>

(11) Risk Management

(a) Insurance Coverage

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and patients; and natural disasters. The Corporation is self-insured for workers' compensation, general liability, and medical malpractice claims to defined limits. With respect to general liability, the Corporation is protected by the Indiana tort claims act, under IC 34-13-3-4, which limits the tort liability of governmental entities to \$500,000 (\$700,000 for causes of action occurring after January 1, 2008).

The Corporation's workers' compensation program retains the first \$350,000 liability on any one claim or incident and purchases an excess workers' compensation policy to extend limits from \$350,000 to \$1,000,000 as it applies to any one claim or incident.

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Wishard participates in the Indiana Medical Malpractice Act, which limits the maximum recovery for medical malpractice claims to \$1,250,000 per occurrence, \$250,000 of which would be paid by the Corporation, with the balance paid by the State of Indiana Patient Compensation Fund. Prior to January 1, 1985, the Corporation was self-insured for general liability and medical malpractice claims up to \$100,000.

The Corporation incorporated Lions on February 28, 2006, and commenced operations on March 1, 2006. Lions is organized and operated exclusively to provide insurance covering the professional (malpractice) and general liability exposures of the nursing homes operated by the Corporation. Lions is protected by the Indiana tort claims act, under IC 34-13-3-4, which limits the tort liability of governmental entities to \$500,000 per claim (\$700,000 for causes of action occurring after January 1, 2008) for general liability claims. In addition, Lions has protection for general liability coverage in excess of \$1,000,000 annually and in the aggregate. Lions participates in the Indiana Medical Malpractice Act, which limits the maximum recovery for medical malpractice claims to \$1,250,000 per occurrence, with the remaining balance of any claim being paid by the State of Indiana Patient Compensation Fund. Lions has professional liability coverage from the Indiana Patient Compensation Fund excess of \$250,000 per occurrence.

The Corporation has accrued for reported claims and claims incurred but not reported (IBNR) for workers' compensation, general liability, and medical malpractice. Loss estimates have included the nature of each claim or incident and relevant trend factors as determined by legal counsel and an independent consulting actuary.

The following is a summary of changes in asserted and unasserted workers' compensation, general liability, and medical malpractice claims recorded within the business-type activities and proprietary fund financial statements:

Balance at January 1, 2006	\$ 10,649,831
Change in incurred claims (including IBNRs), net	5,521,418
Claims payments	<u>(1,868,180)</u>
Balance at January 1, 2007	14,303,069
Change in incurred claims (including IBNRs), net	5,116,976
Claims payments	<u>(5,588,773)</u>
Balance at December 31, 2007	<u><u>\$ 13,831,272</u></u>

(b) Medical Claims Incurred But Not Reported

Wishard has entered into an agreement with a third party to provide risk-based health care services, including but not limited to inpatient, outpatient, and physician services, to qualified Medicaid participants. Wishard receives payment from the Medicaid program and disburses payments through an independent third-party administrator based on processed claims.

Medical claims incurred but not reported represents an estimate of the ultimate net cost to Wishard for amounts that are unpaid at December 31, 2007. The liability is based on claim factors determined by an actuary using projections and the historical loss experience of Wishard and gives effect to estimates of trends in claim severity and frequency. Although Wishard's management believes that the estimates of the liability for claims incurred but not reported is reasonable in the circumstances, it is possible that the actual incurred claims will not conform to the assumptions inherent in the estimation of future claims due to an

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absence of a significant amount of historical experience on which to base projections and the inherent variability with respect to the significant assumptions utilized. Accordingly, the ultimate settlement of claims may vary significantly from the liability for unpaid claims included in the Wishard Health Services Fund. A summary of changes in the medical claims incurred but not reported for the year ended December 31, 2007, recorded within the business-type activities and proprietary fund financial statements is as follows:

Balance at January 1, 2006	\$	2,700,000
Change in incurred claims (including IBNRs), net		19,848,569
Claims payments		<u>(19,279,030)</u>
Balance at January 1, 2007		3,269,539
Change in incurred claims (including IBNRs), net		16,647,696
Claims payments		<u>(16,937,235)</u>
Balance at December 31, 2007	\$	<u><u>2,980,000</u></u>

(c) Health Insurance Coverage

The Corporation began in 2001 to provide self-insurance to its employees for healthcare and prescription usage and began covering the claims out of the General Fund. Asserted and unasserted self-insurance claims in the governmental activities of the government-wide statements represents an estimate of the ultimate net cost to the Corporation for amounts that are unpaid at December 31, 2007. The liability is based on claim factors determined by an actuary using projections and the historical loss experience of the Corporation and gives effect to estimates of trends in claim severity and frequency. Although the Corporation's management believes that the estimates of the liability for claims incurred but not reported is reasonable in the circumstances, it is possible that the actual incurred claims will not conform to the assumptions inherent in the estimation of future claims due to an absence of a significant amount of historical experience on which to base projections and the inherent variability with respect to the significant assumption utilized. Accordingly, the ultimate settlement of claims may vary significantly from the liability for asserted and unasserted self-insurance claims included in governmental activities.

A summary of changes in the reported liability for the past two years is as follows:

Balance at January 1, 2006	\$	2,297,700
Change in incurred claims (including IBNRs), net		16,654,900
Claims payments		<u>(15,748,700)</u>
Balance at January 1, 2007		3,203,900
Change in incurred claims (including IBNRs), net		17,424,772
Claims payments		<u>(17,888,363)</u>
Balance at December 31, 2007	\$	<u><u>2,740,309</u></u>

The amount recorded as a liability in the General Fund at December 31, 2007 is \$1,308,371 and represents the claims which are matured and due as of year end. At December 31, 2007, \$1,308,371 of General Fund fund balance is designated for payment of future health insurance and prescriptions claims in the fund statements.

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(12) Retirement Plan

(a) Plan Description

The Corporation has adopted GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), an agent multiple-employer retirement system that acts as a common investment and administrative agent for units of state and local government in Indiana. PERF is governed by Indiana Code 5-10.2 and 5-10.3. As such, it is PERF's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401(a) and is tax exempt.

The plan is a benefit plan with components of both a defined benefit and defined contribution plan, which covers substantially all Corporation employees. PERF retirement benefits vest after 10 years of service. Effective July 1, 1995, Senate Bill 74 enabled PERF members to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. An employee may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the employee's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions is met, an employee may retire with 100% of the defined pension benefit at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years of PERF-covered employment. The average annual salary used for calculating the pension benefit is an average of the employee's highest five years of employment earned. Employees who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit ranging from 44.0% to 98.8% of the pension benefit described above.

Employees have two choices regarding their annuity savings account. They may elect to receive the contributions and accumulated earnings in a lump sum at retirement, or, they may choose to receive the annuity amount as a monthly supplement to their employer-provided pension described in the paragraph above.

PERF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERF, Harrison Building, Suite 800, 143 West Market Street, Indianapolis, Indiana 46204.

(b) Funding Policy

The Corporation's employees are required to contribute 3.0% of their annual salaries to an annuity savings account that may be withdrawn at any time should an employee terminate employment. The Corporation has elected to pay the required employee contribution. In addition, the Corporation is required by state statute to contribute at an actuarially determined rate, which was 5.50% of annual covered payroll. Therefore, the total employer contribution rate for 2007 was 8.50%. The contribution requirements of plan members are determined by PERF's Board of Directors as authorized by Indiana state statute. The Corporation-financed pension benefits are classified as defined benefits and the employee-financed pension benefits are classified as defined contributions.

(c) Annual Pension Cost

The PERF funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The rate for the Corporation's employee group as a whole has tended to remain level as a percentage of annual covered payroll. The required contributions were determined as part of the

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June 30, 2007 actuarial valuation using the entry age normal cost method. The asset valuation method is 75% of expected actuarial value plus 25% of market value. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 7.25% per year, compounded annually; (b) future salary increases based on experience from 1995 to 2000; (c) cost of living increase of 1.00% (compounded) that is applied to pension benefit each year following retirement with no increase assumed to be applied to the PERF annuity benefit; and (d) assumed annual post retirement benefit increases of 2.00%. PERF uses the level percentage of payroll method to amortize the unfunded liability over an open 30-year period. The standardized measure of the net pension asset is as follows:

Annual required contribution (ARC)	\$	9,180,836
Interest on net pension asset		96,013
Adjustment to ARC		<u>(109,414)</u>
Annual pension cost		9,167,435
Actual contribution made		<u>8,826,071</u>
Decrease in net pension asset		(341,364)
Net pension asset, beginning of year		<u>1,324,311</u>
Net pension asset, end of year	\$	<u><u>982,947</u></u>

The net pension asset of \$982,947 as of December 31, 2007 is reflected in the government-wide financial statements. Wishard's share of this asset is \$765,030, and \$217,917 is reflected as an asset of governmental activities.

(d) Historical Trend Information

Historical trend information about the Corporation's participation in PERF is presented below to help readers assess the plan's funding status on a going-concern basis and assess progress being made in accumulating assets to pay benefits when due. The amounts presented below are in the thousands of dollars.

<u>Valuation date</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension asset</u>
June 30, 2007	\$ 9,167	96%	\$ 983
June 30, 2006	8,805	86	1,324
June 30, 2005	7,519	93	2,519

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(e) Required Supplemental Information - Schedule of Funding Progress (Unaudited)(Dollars in Thousands)

<u>Valuation date</u>	<u>(1) Actuarial valuation assets</u>	<u>(2) Entry age actuarial liability (AAL)</u>	<u>(2-1) Excess of assets over (under) AAL (AEAAL)</u>	<u>(1/2) Funded ratio</u>	<u>(3) Anticipated covered payroll</u>	<u>[(2-1)/3] AEAAL as a percentage of covered payroll</u>
July 1, 2007	\$ 173,941	179,184	(5,243)	98%	\$ 163,142	3%
July 1, 2006	156,035	158,826	(2,791)	98%	148,167	2
July 1, 2005	137,480	155,007	(17,527)	89%	148,356	12

(13) Interfund Balances and Transfers

Individual due to / from other funds as of December 31, 2007 are as follows:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>
Debt Service Fund	General Fund	\$ 415,000

These interfund balances are due to timing differences or the elimination of negative cash balances within the various funds. The interfund balances are expected to be repaid during the fiscal year ending December 31, 2008.

Interfund transfers for the year ended December 31, 2007 on the fund statements consisted of the following:

	<u>Transfer from General Fund</u>	<u>Total</u>
Transfer to:		
Enterprise Fund – Wishard Health Services	\$ 157,000,000	157,000,000
	157,000,000	157,000,000
Enterprise Fund – Wishard Health Services – capital transfer	734,870	734,870
	<u>\$ 157,734,870</u>	<u>157,734,870</u>

Interfund transfers were used to 1) move revenues from the fund that ordinance or budget requires to collect them to the fund, which will ultimately expend them, 2) use unrestricted revenues collected in the General Fund to cover other deficit budget amounts, or 3) to transfer capital assets from the fund that paid for them to the fund that will ultimately use them. For the government-wide statements, capital contributions received by the Wishard Health Services Fund from other funds are reported as transfers; however, for the fund statements, this transfer is shown as a capital contribution in the Wishard Enterprise Fund as it represents the actual transfer of capital assets.

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(14) Hospital Management Agreement

An agreement between the Corporation and the University was signed in February 2007. During 2007, the Corporation primarily paid for physician services under a relative value unit basis. The Corporation continued to rely on the University to supply several leadership positions for Wishard but the operations of Wishard became the direct responsibility of the Corporation in 2005. Wishard incurred fees for professional, management, and resident physician services of approximately \$40,813,378 during the year (recorded in medical and professional fees on the statement of revenues, expenses, and changes in fund net assets – proprietary funds). The University also rents office space from Wishard, which resulted in revenue to Wishard of \$2,567,025 in 2007.

(15) Deferred Compensation Plan

Employees of the Corporation are eligible to participate in a deferred compensation plan (the Plan) adopted under the provisions of Internal Revenue Code (IRC) Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments). The deferred compensation plan is available to substantially all employees of the Corporation. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency. The plan assets are held in trust for the exclusive benefits of participants and their beneficiaries.

(16) Concentrations of Credit Risk

Wishard and LT Care grant credit without collateral to their patients, most of whom are generally insured under third-party agreements. The mix of receivables from patients and third-party payors at December 31, 2007 is as follows:

Commercial insurance	12%
Medicare	15
Medicaid	26
Self pay	36
Other	11
	<hr/>
	100%
	<hr/>

(17) Related Party

As described in note 1, the Corporation is a component unit of the Consolidated City of Indianapolis – Marion County. During the year, the Corporation had transactions with the City of Indianapolis (the City) and Marion County (the County) that were conducted in the normal course of business. Below is a summary of the significant transactions.

As described in note 3, the County collects and distributes taxes and other special assessment fees on behalf of the Corporation. For the year ended December 31, 2007, the Corporation had received \$82,095,459 in tax cash receipts and \$733,894 in special assessment fees cash receipts from the County and at December 31, 2007, the Corporation had a tax receivable of \$19,052,940 all of which was deferred in the fund financial statements. The Corporation paid the City \$1,000,000 for the Housing Trust Fund to support the creation of more affordable housing opportunities for the underserved of Marion County. Also, the Corporation paid the County \$537,625 in 2007 in autopsy and death reports and \$75,319 in continuing

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education fees that the Corporation had collected on behalf of the County based on the issuance of death certificates. Wishard received \$3,665,082 from the County to provide healthcare services to certain prisoners in the Marion County jail system during 2007. The Corporation paid the City \$1,183,000 for police and fire services. The City paid the Corporation \$365,000 for unsafe building enforcement in 2007. In addition, the Corporation acts as either a subreceptent or a pass-through agent for various state and federal grant programs with the City and County during 2007.

(18) Wishard Foundation

The Wishard Foundation, Inc. (Foundation) receives and maintains funds for charitable purposes on behalf of the Corporation and other tax-exempt health-related organizations. The Corporation does not control the Foundation. Total assets held by the Foundation and total assets held by the Foundation restricted by donors specifically for the use of Wishard totaled \$28,565,962 and \$20,270,113, respectively, at December 31, 2007. The Foundation is not included as a component unit of the Corporation as management has determined that it does not meet the criteria of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

(19) Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments*, requires disclosure of the fair value of financial assets and liabilities in the enterprise funds for which it is practicable to estimate. Fair value is defined in the statement as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Corporation believes the carrying amounts of its financial instruments approximate their fair values at December 31, 2007.

(20) LT Care Management Agreement

The Corporation has entered into a management agreement with American Senior Communities, LLC (ASC) to operate the 26 nursing homes, which are accounted for in the LT Care Fund. The term of the management agreement extends until March 31, 2022 with the Corporation having the right to extend the term for an additional period of ten years if written notice is given to ASC at least 60 days prior to the expiration of the initial term. During 2007, the Corporation incurred approximately \$12,116,320 in management fees to ASC for LT Care operations.

ASC has contracted with EagleCare, Inc. (EagleCare) to provide the personnel required to operate each of the respective facilities. EagleCare and ASC are related parties in that the persons who own 100% of EagleCare also own 95% of ASC. ASC also provides management services to EagleCare in connection with its operations.

The Corporation leases 14 of the nursing homes from EagleCare. During 2007, the Corporation paid approximately \$16,600,000 to EagleCare in associated lease costs from LT Care operating revenue (see note 21).

At December 31, 2007, the LT Care Fund had a receivable due from EagleCare for approximately \$718,000 and a payable to ASC of approximately \$2,902,000 for outstanding services rendered to be paid from operations.

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December 31, 2007

(21) Nursing Home Leases

In January 2003, the Corporation entered into a transaction with EagleCare, which involves the leasing of buildings and purchasing of the equipment for the purpose of operating 12 nursing homes for \$9,669,000. The leases end in 2022 and require minimum annual lease payments of approximately \$11,766,000 (Base Rate), paid in equal monthly installments. In 2005, the Corporation and EagleCare amended the lease terms so that annually, the lease payments will increase by the greater of the Consumer Price Index or 2.25%. The Corporation is required to make capital improvements of at least \$1,725,000 annually to these 12 nursing homes, with the amount of the commitment increasing annually by the same percentage as the annual rent increase. If the Corporation would not make the minimum capital improvements, the shortfall would accumulate. The Corporation expects to fund the capital improvements through cash flow generated from the operations of these nursing homes. The Corporation has a put option on these nursing homes by which the Corporation would pay EagleCare \$4,000,000 if the put option is exercised by December 31, 2012 and \$7,000,000 if exercised after this date.

In October 2003, the Corporation entered into another transaction with EagleCare, which involved the purchase of assets of one nursing home for \$2,000,000. In addition, the Corporation entered into a lease for the real estate of the nursing home. The lease ends in 2022 and requires minimum annual lease payment of \$1,620,000, paid in equal monthly installments. In 2005, the Corporation and EagleCare amended the lease terms so that annually, the lease payment will increase by the greater of the Consumer Price Index or 2.25%. Additional rent not to exceed \$25,000 per month is payable by the Corporation if certain cash flow targets are met. If the targets are met for six consecutive months, the monthly rate moves from \$135,000 to \$150,000. In June 2005, cash flow targets were achieved and the monthly rent was increased from \$135,000 to \$150,000. The Corporation is required to make capital improvements of at least \$222,650 annually to this nursing home. This commitment would increase in the same percentage as the annual rent increase. If the Corporation would not make the minimum capital improvements, the shortfall would accumulate. The Corporation expects to fund the capital improvements through cash flow generated from the operation of this nursing home. The Corporation has a put option on this nursing home by which the Corporation would pay EagleCare \$500,000 if the put option is exercised by December 31, 2012 and \$750,000 if exercised after this date.

In December 2003, the Corporation entered into capital lease agreements for five additional nursing homes with an unrelated third party. The lease agreements terminate in 2013. The Corporation was required to make a \$2,400,000 deposit, which is refundable at the end of the leases, contingent upon the acceptable condition of the facilities at lease-end. The Corporation was required to make one-time capital improvements of \$2,000,000. Rent payments are based on the number of beds in service in the five nursing homes. Rent payments made in 2007 were approximately \$2,500,000.

The Corporation closed the Mid-Town Nursing and Rehabilitation facility (Mid-Town) located in Indianapolis in May 2004. The operations of the home were purchased on December 1, 2003. The home was in disrepair and was typically less than 50% occupied. The Corporation owns the operations of another home located on North Capitol Street less than one mile from the Mid-Town facility. The North Capitol facility was also in disrepair when the operations were purchased on December 1, 2003, and was also approximately 50% occupied. LT Care invested \$1,800,000 of working capital to improve the North Capitol facility. After the improvements were completed, the patients of Mid-Town were transferred to North Capitol and the process of closing the Mid-Town facility commenced and was completed in 2004. The employees of the Mid-Town facility were offered other positions in LT Care operations. During 2005 Mid-Town was converted into a Midtown Mental Health facility, which became operational in 2007.

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
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In April 2005, the Corporation entered into a transaction with an independent third-party, which involved the purchase of assets of one nursing home for \$2,593,750. In addition, the Corporation entered into a lease for the real estate of the nursing home. The lease ends in March 2022 and requires minimum annual lease payment of \$1,356,000, paid in equal monthly installments. Annually, the lease payments will increase by the greater of the Consumer Price Index or 2.25%. The Corporation is required to make capital improvements of at least \$230,000 annually to this nursing home, with the amount of the commitment increasing annually by the same percentage as the annual rent increase. If the Corporation would not make the minimum capital improvements, the shortfall would accumulate. The Corporation expects to fund the capital improvements through cash flow generated from the operation of the nursing home. The Corporation has a put option on this nursing home by which the Corporation would pay EagleCare 55% of the average monthly revenue as defined in the asset purchase agreement, if the put option is exercised by March 2022.

In October 2006, the Corporation entered into transactions with independent third-parties, which involved the purchase of assets of four nursing homes for \$2,810,000, of which 1,532,000 was paid in 2006 and the remainder to be paid from 2007 – 2009. In addition, the Corporation entered into leases for the real estate of the nursing homes. The leases end in September 2016 with the annual total lease payments of approximately \$2,800,000, paid in equal monthly installments. Under the lease terms, the lease payment will increase by 2% each year after the third year of the lease.

During 2007, the Corporation entered into two transactions with independent third parties, which involved the purchase of assets of four nursing homes for a total of approximately \$1,100. In addition, the Corporation entered into real estate leases for the nursing homes. The lease terms range from 10 years with annual total lease payments of approximately \$3,100,000 paid in equal monthly installments. Also, the leases required additional deposits of approximately \$3,100,000.

(22) Contingent Liabilities

In addition to pending medical malpractice claims, the Corporation has various other litigation pending against it. It is the opinion of management that loss, if any, from pending litigation will not have a material adverse effect on its financial position, results of operations, or liquidity.

The Corporation participates in a number of federal financial assistance programs. These programs are subject to financial and compliance audits by federal agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although, the Corporation expects such amounts, if any, to be immaterial.

(23) Loan Guarantee

In January 2004, the Corporation guaranteed a bond issuance (\$4,000,000 Indiana Development Finance Authority Educational Facilities Revenue Bonds Series 2007) to support the renovation of a building for the Charter for Accelerated Learning, Inc. (Charter). The Corporation also guaranteed a line of credit for Charter in the amount of \$200,000. Charter is the incorporated name of the Charles A. Tindley Accelerated High School, which is a charter school authorized by the City of Indianapolis. Charter is required to repay the bond issuance in monthly interest payments of LIBOR plus 1.75% beginning December 2006 through December 2018. At December 31, 2007, the outstanding amount on the bond issuance was \$3,765,253, and there was no outstanding amount on the line of credit. The Corporation knows of no event of default that would require it to satisfy these guarantees, and therefore, no amount has been recorded in the Corporation's financial statements.

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
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During 2007, Charter refinanced this loan with the Corporation remaining as the guarantor. In 2008, Charter refinanced the loan again and the loan was paid down by \$171,000. The rate was changed to LIBOR plus 1.75% with a term of 30 years. Charter remains current on its loan payment. The enrollment of the school is now at 430 students, which creates enough income to cover operating and capital costs into the foreseeable future. The reduced debt payment and enrollment allow the Corporation to have confidence that Charter will be able to fully pay its debt obligation. Also, a representative from the Corporation continues to be a member on the Charter board of directors to provide additional protections of the Corporation's guarantee.

(24) Negative Fund Balance

The Debt Service Fund has a negative fund balance of \$412,637 at December 31, 2007. This has been eliminated as of August 2008 by the collection of property tax revenues, which were not recognized due to the availability period (see discussion in Note 3).

(25) Postemployment Benefit Obligation

In 2007, the Corporation was required to implement GASB Statement No. 45, (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Employees who retire from the Corporation may elect to continue medical insurance coverage if they meet certain guidelines. Retirees must be at least 55 years old with twenty years of service and must elect this coverage within 90 days of retirement. These retirees may remain on the Corporation's insurance until they are Medicare eligible while they pay the full premium cost. Management believes the postemployment benefit obligation at December 31, 2007 is not material, and is therefore has not made a provision for the obligation in the financial statements.

(26) Subsequent Event

In July 2008, the Corporation entered into a transaction with an independent third party, which involved the purchase of assets of a single nursing home for \$540,000. In addition, the Corporation entered into a lease for the real estate of the nursing home. The lease ends in June 2018. The purchase price of \$540,000 is to be paid in installments of \$440,000 on the closing and \$100,000 on the one year anniversary of the close. The lease may be extended for two 5-year terms.

**REQUIRED
SUPPLEMENTARY INFORMATION
(OTHER THAN MD&A)**

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(A Component Unit of the Consolidated City of Indianapolis – Marion County)

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
General Fund

For the year ended December 31, 2007

	Budgeted amounts		Actual amounts	Variance with final budget—positive (negative)
	Original	Final		
Revenues				
Taxes	\$ 95,647,101	95,875,298	78,353,442	(17,521,856)
Licenses and permits	3,816,600	3,816,600	4,193,808	377,208
Intergovernmental	1,028,781	1,028,781	1,107,697	78,916
Charges for services	1,064,015	1,064,015	1,216,371	152,356
Medicaid special revenue	104,400,000	104,400,000	114,716,410	10,316,410
Interest	2,000,000	4,000,000	5,058,935	1,058,935
Grants	16,200,000	16,200,000	14,873,140	(1,326,860)
Miscellaneous	10,490,604	12,186,190	28,646,786	16,460,596
Total revenues	<u>234,647,101</u>	<u>238,570,884</u>	<u>248,166,589</u>	<u>9,595,705</u>
Expenditures				
Personal services	42,200,000	43,200,000	41,890,622	1,309,378
Supplies	3,909,343	4,909,343	3,959,470	949,873
Other charges and services	15,992,762	33,492,762	19,557,538	13,935,224
Capital outlays	5,990,680	3,990,680	1,970,105	2,020,575
Total expenditures	<u>68,092,785</u>	<u>85,592,785</u>	<u>67,377,735</u>	<u>18,215,050</u>
Other Financing Uses				
Transfers out	<u>(162,000,000)</u>	<u>(162,000,000)</u>	<u>(157,940,818)</u>	<u>4,059,182</u>
Total other financing uses	<u>(162,000,000)</u>	<u>(162,000,000)</u>	<u>(157,940,818)</u>	<u>4,059,182</u>
Net change in fund balances	4,554,316	(9,021,901)	22,848,036	31,869,937
Fund balances – beginning of year	<u>103,228,076</u>	<u>103,228,076</u>	<u>103,228,076</u>	<u>—</u>
Fund balances – end of year	<u>\$ 107,782,392</u>	<u>94,206,175</u>	<u>126,076,112</u>	<u>31,869,937</u>

See accompanying notes to the required supplementary information.

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(A Component Unit of the Consolidated City of Indianapolis – Marion County)

Notes to the Required Supplementary Information

December 31, 2007

(24) Budgets and Budgetary Accounting

The Corporation is required by state statute to prepare a budget each calendar year. The budget is prepared for the General, Debt Service, Capital Projects, and Enterprise Funds, but is not required for certain activities of the Capital Projects Funds since they are controlled by bond indentures. The Corporation's annual budget is subjected to review by Corporation's Board of Trustees and City-County Council, and approved by the DLGF. Any additional appropriations that increase the total expenditures require approval by the Corporation's Board of Trustees and the DLGF. Any decreases to total appropriated expenditures require the approval by the Corporation's Board of Trustees but not the DLGF. Budgetary control is exercised at the object of expenditure. Management may amend department and cost center budgets without seeking Board approval, as long as the total appropriation by Division, by object of expenditure, remains unchanged.

The General, Capital Projects, and Enterprise Funds budgets are adopted on a basis consistent with GAAP for revenue. Encumbrances are treated as expenditures for the year in which the commitment to purchase is incurred for budgetary purposes. The Debt Service Fund is budgeted on a basis consistent with GAAP.

(25) Encumbrance Accounting

Purchase orders, contracts, and other anticipated obligations to expend monies are recorded as encumbrances in governmental fund types in order to reserve that portion of the applicable appropriation. Encumbrances and their underlining appropriations do not lapse with the expiration of the budget period. Accordingly, outstanding encumbrances at year-end are reported as reservations of fund balances on the fund financial statements.

(26) Reconciliation of Budgetary Basis Actual to GAAP Basis Actual

The schedule of revenues, expenditures, and changes in fund balances – budget and actual presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because the budgetary and GAAP presentations of actual data differ for the General Fund expenditures, a reconciliation of the two presentations is presented below for the General Fund.

Net change in fund balance – GAAP basis	\$ 10,433,389
Add (deduct):	
Change in encumbrances	(40,796)
Change in prepaid expenditures	141,036
Change in accounts receivable	337,841
Change in accounts payable	872,077
Change in self-insurance claims	1,490,157
Medicaid special revenue partial payment	<u>9,614,332</u>
Net change in fund balance – Budgetary basis	\$ <u><u>22,848,036</u></u>

The pen is mightier than the sword? The case
for prescriptions rather than surgery. – Marvin Kitman

**OTHER SUPPLEMENTARY
INFORMATION**

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(A Component Unit of the Consolidated City of Indianapolis – Marion County)

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Debt Service

For the year ended December 31, 2007

	Budgeted amounts		Actual amounts	Variance with final budget—positive (negative)
	Original	Final		
Revenues				
Taxes	\$ 4,312,542	4,312,542	3,526,131	(786,411)
Interest	1,000	1,000	17,847	16,847
Total revenues	<u>4,313,542</u>	<u>4,313,542</u>	<u>3,543,978</u>	<u>(769,564)</u>
Expenditures				
Principal retirement	1,645,000	1,645,000	1,645,000	—
Interest and fiscal charges	2,715,675	2,715,675	2,673,675	42,000
Total expenditures	<u>4,360,675</u>	<u>4,360,675</u>	<u>4,318,675</u>	<u>42,000</u>
Excess of revenues over expenditures	<u>(47,133)</u>	<u>(47,133)</u>	<u>(774,697)</u>	<u>(727,564)</u>
Other Financing Sources				
Transfers in	—	—	—	—
Total other financing sources	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net change in fund balances	(47,133)	(47,133)	(774,697)	(727,564)
Fund balances – beginning of year	362,060	362,060	362,060	—
Fund balances – end of year	<u>\$ 314,927</u>	<u>314,927</u>	<u>(412,637)</u>	<u>(727,564)</u>

See accompanying independent auditors' report.

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(A Component Unit of the Consolidated City of Indianapolis – Marion County)

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Capital Projects

For the year ended December 31, 2007

	Budgeted amounts		Actual amounts	Variance with final budget—positive (negative)
	Original	Final		
Revenues				
Taxes	\$ 291,430	291,430	215,886	(75,544)
Interest	900,000	900,000	2,010,769	1,110,769
Total revenues	<u>1,191,430</u>	<u>1,191,430</u>	<u>2,226,655</u>	<u>1,035,225</u>
Expenditures				
Capital outlays	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total expenditures	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Excess of revenues over expenditures	<u>1,191,430</u>	<u>1,191,430</u>	<u>2,226,655</u>	<u>1,035,225</u>
Net change in fund balances	1,191,430	1,191,430	2,226,655	1,035,225
Fund balances – beginning of year	37,910,214	37,910,214	37,910,214	—
Fund balances – end of year	<u>\$ 39,101,644</u>	<u>39,101,644</u>	<u>40,136,869</u>	<u>1,035,225</u>

See accompanying independent auditors' report.

The art of medicine consists of amusing the patient
while nature cures the disease.

– Voltaire



**STATISTICAL
SECTION**

The art of medicine consists of amusing the patient
while nature cures the disease.

– Voltaire

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(A Component Unit of the Consolidated City of Indianapolis – Marion County)

Statistical Section
Table of Contents

The statistical section of this report presents detailed information in order to understand what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Tables I–IV contain trend information to help the reader understand how the Corporation's financial performance and well-being have changed over time.

Tables V–VIII contain information to help the reader assess the property tax which is the Corporation's most significant source of revenue.

Tables IX–XII present information to help the reader assess the affordability of the Corporation's current levels of outstanding debt and the Corporation's ability to issue additional debt in the future.

Tables XIII and Table XIV offer demographic and economic indicators to help the reader understand the environment within which the Corporation's financial activities take place.

Table XV contains service and infrastructure data to help the reader understand how the information in the Corporation's financial report relates to the services the Corporation provides and the activities it performs.

TABLE I

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(a component unit of the Consolidated City of Indianapolis—Marion County)

**Net Assets by Component
Last Six Fiscal Years**
(*accrual basis of accounting*)

	2007	2006	2005	2004	2003	2002
Primary Government:						
Governmental activities						
Invested in capital assets, net of related debt	\$ 7,784,239	7,134,802	7,971,335	5,855,427	13,101,552	11,766,693
Restricted	—	—	—	—	—	130,395
Unrestricted	194,610,049	164,480,042	128,068,721	53,513,426	8,463,765	39,851,124
Total governmental activities net assets	202,394,288	171,614,844	136,040,056	59,368,853	21,565,317	51,748,212
Business-type activities						
Invested in capital assets, net of related debt	106,358,255	136,595,394	147,262,474	157,761,870	166,804,507	158,392,048
Restricted	1,261,455	639,351	596,789	570,811	564,837	548,433
Unrestricted	123,084,696	108,974,494	108,828,175	97,261,260	87,026,987	68,176,159
Total business-type activities net assets	230,704,406	246,209,239	256,687,438	255,593,941	254,396,331	227,116,640
Primary government						
Invested in capital assets, net of related debt	114,142,494	143,730,196	155,233,809	163,617,297	179,906,059	170,158,741
Restricted	1,261,455	639,351	596,789	570,811	564,837	678,828
Unrestricted	317,694,745	273,454,536	236,896,896	150,774,686	95,490,752	108,027,283
Total primary government net assets	\$ 433,098,694	417,824,083	392,727,494	314,962,794	275,961,648	278,864,852

Note: The Corporation implemented GASB 34 as of fiscal year 2002.

Source: Basic financial statements

Table II

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(a component unit of the Consolidated City of Indianapolis—Marion County)

Schedule of Changes in Net Assets
Last Six Fiscal Years
(accrual basis of accounting)

	2007	2006	2005	2004	2003	2002
Expenses:						
Governmental activities:						
Administration and finance	\$ 20,163,477	17,551,946	14,166,259	9,612,142	17,009,724	17,173,960
Health improvement	24,159,226	24,145,228	24,399,358	25,275,328	26,408,831	23,876,063
Communicable disease prevention	11,352,654	9,215,253	10,379,233	9,425,318	9,360,310	8,914,142
Water quality and hazardous materials management	1,935,157	1,825,826	1,734,696	1,703,637	1,699,221	1,610,101
Vector disease control	3,940,890	3,509,809	2,977,009	2,965,406	2,930,571	2,796,196
Housing and neighborhood health	5,269,185	5,035,571	4,184,358	4,117,488	4,116,053	3,759,377
Consumer and employee risk reduction	1,579,658	1,557,309	1,546,218	1,581,187	1,507,781	1,395,880
Interest on long-term debt	2,690,760	2,898,454	2,532,873	3,260,807	3,354,422	3,442,160
Total governmental activities expenses	\$ 71,091,007	65,739,396	61,920,004	57,941,313	66,386,913	62,967,879
Business-type activities:						
Wishard Health Services	\$ 424,232,288	400,293,483	384,487,424	368,212,850	362,588,065	336,219,601
L.T. Care	212,410,072	171,792,272	157,656,712	139,064,331	97,053,021	-
Total business-type activities expenses	636,642,360	572,085,755	542,144,136	507,277,181	459,641,086	336,219,601
Total (primary) government expenses	\$ 707,733,367	637,825,151	604,064,140	565,218,494	526,027,999	399,187,480
Program Revenues						
Governmental Activities:						
Charges for services:						
Administration and finance	\$ 29,516,097	32,198,505	12,042,413	323,299	304,285	154,995
Health improvement	2,382,740	2,036,999	2,094,473	1,979,376	1,108,469	1,225,594
Communicable disease prevention	363,533	358,954	395,412	323,576	318,275	338,184
Water quality and hazardous materials management	367,016	360,957	354,111	358,022	332,338	335,490
Vector disease control	1,261,037	898,812	125,523	102,741	66,994	26,138
Housing and neighborhood health	469,407	633,456	85,501	92,722	94,141	54,227
Consumer and employee risk reduction	2,355,841	2,087,249	1,898,597	1,757,581	1,552,017	1,471,489
Operating grants and contributions	13,955,419	12,108,583	16,573,583	17,488,087	17,317,170	15,270,533
Capital grants and contributions	1,217,110	3,575,826	1,702,901	-	5,439,547	1,174,819
Total governmental activities program revenues	\$ 51,888,200	54,259,341	35,272,514	22,425,404	26,533,236	20,051,469

Table II (continued)

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(a component unit of the Consolidated City of Indianapolis—Marion County)

Schedule of Changes in Net Assets
Last Six Fiscal Years
(accrual basis of accounting)

	2007	2006	2005	2004	2003	2002
Business-type Activities:						
Charges for services:						
Wishard Health Services	\$ 239,779,417	222,001,734	224,633,684	199,864,995	189,692,554	166,401,275
LT Care	210,548,466	167,574,919	167,009,420	134,559,380	95,858,819	—
Operating grants and contributions	9,308,853	7,680,805	8,414,943	10,038,960	11,735,585	12,126,208
Capital grants and contributions	314,400	—	—	—	—	—
Total business-type activities program revenues	459,951,136	397,257,458	400,058,047	344,463,335	297,286,958	178,527,483
Total primary government program revenues	\$ 511,839,336	451,516,799	435,330,561	366,888,739	323,820,194	198,578,952
Net Program (Expense)/Revenue						
Governmental activities	(19,202,807)	(11,480,055)	(26,647,490)	(35,515,909)	(39,853,677)	(42,916,410)
Business-type activities	(176,691,224)	(173,111,652)	(142,086,089)	(162,813,846)	(162,354,128)	(157,692,118)
Total primary government net expense	\$ (195,894,031)	(184,591,707)	(168,733,579)	(198,329,755)	(202,207,805)	(200,608,528)
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes						
Property taxes	\$ 89,583,638	89,435,326	87,980,567	88,498,342	92,454,172	76,292,234
Financial institutions taxes	1,268,115	1,260,083	1,268,250	1,269,040	1,242,962	1,198,208
Excise taxes	6,831,647	7,270,595	7,507,089	7,889,045	7,905,793	7,472,835
Disproportionate share Medicaid	102,956,478	101,186,941	145,381,951	137,474,685	95,965,768	76,364,494
Unrestricted investment earnings	7,077,243	6,521,273	3,614,043	978,823	774,638	2,386,068
Transfers (capital contributions to Wishard and LT Care)	(734,870)	(4,905,484)	(455,288)	(6,790,490)	(5,250,867)	(14,140,401)
Transfers	(157,000,000)	(153,713,891)	(139,977,919)	(156,000,000)	(183,421,684)	(167,492,945)
Total governmental activities	\$ 49,982,251	47,054,843	103,318,693	73,319,445	9,670,782	(17,919,507)

Table II (continued)

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(a component unit of the Consolidated City of Indianapolis—Marion County)

Schedule of Changes in Net Assets
Last Six Fiscal Years
(accrual basis of accounting)

	2007	2006	2005	2004	2003	2002
Business-type activities:						
Unrestricted investment earnings	\$ 3,451,521	4,014,078	2,746,379	1,220,966	961,268	1,625,149
Transfers (capital contributions to Wishard)	734,870	3,905,484	455,288	6,790,490	5,250,867	14,140,401
Transfers	157,000,000	154,713,891	139,977,919	156,000,000	183,421,684	167,492,945
Total business-type activities	161,186,391	162,633,453	143,179,586	164,011,456	189,633,819	185,258,495
Total primary government	211,168,642	209,688,296	246,498,279	237,330,901	199,304,601	163,338,988
Change in Net Assets:						
Governmental activities	30,779,444	35,374,788	76,671,203	37,803,536	(30,182,895)	(60,835,917)
Business-type activities	(15,504,833)	(10,478,199)	1,093,497	1,197,610	27,279,691	25,566,377
Total primary government	\$ 15,274,611	25,096,589	77,764,700	39,001,146	(2,903,204)	(35,269,540)

Note: The Corporation implemented GASB 34 as of fiscal year 2002.

Source: Basic financial statements

TABLE III

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(a component unit of the Consolidated City of Indianapolis—Marion County)

Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
General Fund										
Reserved	\$ 7,046,198	8,407,286	3,640,918	5,214,233	4,864,915	26,655,124	2,193,529	2,742,214	1,389,532	1,739,107
Unreserved	122,752,504	110,958,027	111,837,016	37,286,974	7,642,777	21,588,774	98,498,704	50,188,938	9,447,900	8,479,610
Total general fund	\$ 129,798,702	119,365,313	115,477,934	42,501,207	12,507,692	48,243,898	100,692,233	52,931,152	10,837,432	10,218,717
All Other Governmental Funds										
Reserved	—	—	—	—	—	4,330,048	—	1,845,889	2,185,378	7,783,003
Unreserved, reported in:										
Debt service fund	\$ (412,637)	362,060	(16,186)	198,382	297,281	—	278,870	254,849	99,483	1,585
Capital projects fund	43,030,727	40,814,423	38,643,862	37,281,256	36,659,175	28,708,879	45,139,213	50,738,515	25,688,071	21,282,673
Total all other governmental funds	\$ 42,618,090	41,176,483	38,627,676	37,479,638	36,956,456	33,038,927	45,418,083	52,839,263	27,972,932	29,067,261

Source: Basic financial statements

TABLE IV

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(a component unit of the Consolidated City of Indianapolis—Marion County)

Changes in Fund Balances Governmental Funds
Last Ten Fiscal Years

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Revenues										
Taxes	\$ 82,095,459	97,965,873	97,196,828	98,214,855	101,652,352	84,645,829	82,298,728	79,115,490	26,830,305	26,396,833
Licenses and permits	4,195,808	3,864,882	3,662,722	3,565,750	2,855,728	2,709,269	2,614,855	2,620,928	2,602,928	2,570,835
Intergovernmental	14,629,232	16,007,012	16,598,192	17,030,332	16,444,232	15,495,683	11,962,365	8,983,120	7,219,193	6,678,330
Charges for services	27,570,626	1,079,203	1,162,710	809,638	862,954	750,014	813,934	773,232	670,980	655,125
Disproportionate Share Medicaid	165,102,078	72,864,271	142,926,951	122,974,685	95,965,768	76,564,494	138,139,400	96,007,365	3,134,450	—
Interest	7,077,243	6,521,271	3,614,043	978,823	774,638	2,386,068	5,373,505	4,788,579	1,101,971	3,066,949
Miscellaneous	2,306,154	31,765,188	13,449,938	1,330,121	6,441,723	1,258,766	663,115	197,487	168,782	176,557
Total revenues	242,974,600	230,067,700	278,611,384	244,904,204	224,995,395	183,610,123	241,866,100	192,485,732	41,728,619	39,544,629
Expenditures										
Administrative	19,845,246	14,692,846	12,393,374	6,565,075	19,100,875	17,965,973	14,019,851	7,517,297	6,835,226	5,373,565
Population health	19,613,915	18,776,012	17,376,100	16,514,742	17,089,105	17,702,836	14,752,899	14,315,419	12,533,400	11,940,748
Environmental health	11,365,478	11,015,086	9,847,532	9,788,839	9,610,608	8,883,675	7,830,434	7,462,325	6,614,381	6,178,377
Health center program	1,200,264	1,092,266	1,152,398	1,230,519	1,458,533	1,146,006	283,075	—	775,949	729,309
Data processing	2,834,376	2,917,196	3,384,596	3,030,331	2,977,700	2,536,786	1,838,940	1,364,927	1,485,525	1,301,201
Grants programs	14,705,956	15,885,333	14,963,677	15,664,860	15,890,222	14,727,717	10,724,923	8,310,867	6,489,561	5,801,976
Restricted fund	—	—	—	—	—	—	—	—	3,635	750
Capital outlays	—	—	—	—	2,351,314	12,597,638	30,260,664	7,286,086	10,934,721	14,136,238
Debt service:										
Principal	1,853,629	1,749,548	2,380,863	1,652,555	1,559,609	1,477,010	1,230,000	560,000	525,000	483,000
Interest and fiscal charges	2,690,760	2,789,136	—	3,301,307	3,554,422	3,442,160	3,457,376	3,306,610	1,796,635	1,830,670
Bond issuance costs	—	—	429,167	—	—	—	—	—	—	—
Total expenditures	74,099,604	68,917,623	64,482,579	57,746,228	73,392,388	80,479,801	84,438,162	56,113,531	48,004,233	47,777,834
Excess (deficiency) of revenues over (under) expenditures	168,874,996	161,150,077	214,128,805	187,157,976	151,603,007	103,130,322	157,427,938	142,372,201	(6,275,614)	(8,233,205)
Other Financing Sources (Uses)										
Proceeds from note payable	—	—	—	—	—	—	—	—	—	1,800,000
Proceeds of bonds	—	—	—	—	—	—	—	30,000,000	—	—
Refunding on bonds issued	—	—	28,960,000	—	—	—	—	—	—	—
Premium on bonds issued	—	—	1,013,992	—	—	—	—	—	—	—
Payment to refunded bond issuer agent	—	—	(29,544,825)	—	—	—	—	—	—	—
Transfers in	—	—	8,294	—	—	—	—	—	—	—
Transfers out	(157,000,000)	(154,713,891)	(140,441,501)	(156,641,279)	17,242	225,888	18,000,000	160,339	7,000,000	65,000
Total other financing sources (uses), net	(157,000,000)	(154,713,891)	(140,004,040)	(156,641,279)	(183,421,684)	(167,492,945)	(117,191,904)	(105,572,699)	(41,200,000)	(65,000)
Net change in fund balances	\$ 11,874,996	6,436,186	74,124,765	30,516,697	(31,818,677)	(64,362,623)	40,236,034	66,960,041	(475,614)	(6,433,205)
Debt service as a percentage of non-capital expenditures	6.4%	6.8%	8.8%	8.7%	6.9%	7.2%	8.7%	9.0%	6.3%	6.9%
Debt service expenditures	\$ 4,544,389	4,538,684	5,384,902	4,953,862	4,914,031	4,919,170	4,687,376	3,866,610	2,321,635	2,315,670
Non-capital expenditures	71,263,322	66,401,350	60,886,389	56,838,268	71,041,074	67,882,163	54,177,498	42,827,445	37,069,512	33,641,596

Note: The Corporation implemented GASB 34 as of fiscal year 2002.

Source: Basic financial statements - Fund Statements

TABLE V

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(a component unit of the Consolidated City of Indianapolis—Marion County)

**Assessed Value and Estimated Actual Value of Taxable Property -
Last Ten Fiscal Years**

YEAR	REAL PROPERTY		PERSONAL PROPERTY		TOTAL	
	Assessed Value (1) (2)	True Tax Value	Assessed Value (1) (2)	True Tax Value	Assessed Value (1) (2)	True Tax Value
2007	\$ 39,182,916,707	39,182,916,707	5,565,477,874	5,565,477,874	44,748,394,581	44,748,394,581
2006	33,030,628,020	33,030,628,020	7,195,875,948	7,195,875,948	40,226,503,968	40,226,503,968
2005	32,400,972,000	32,400,972,000	7,229,661,000	7,229,661,000	39,630,633,000	39,630,633,000
2004	34,606,376,000	34,606,376,000	5,323,754,000	5,323,754,000	39,930,130,000	39,930,130,000
2003	32,982,779,000	32,982,779,000	8,845,067,000	8,845,067,000	41,827,846,000	41,827,846,000
2002	20,820,046,000	20,820,046,000	8,162,071,000	8,162,071,000	28,982,117,000	28,982,117,000
2001	6,839,830,510	20,519,488,530	2,653,315,080	7,959,945,240	9,493,145,590	28,479,433,770
2000	6,636,935,980	19,910,807,940	2,574,548,390	7,723,645,170	9,211,484,370	27,634,453,110
1999	6,553,357,000	19,660,071,001	2,550,800,310	7,652,400,930	9,104,157,310	27,312,471,931
1998	6,362,743,493	19,088,230,479	2,368,836,585	7,106,509,755	8,731,580,078	26,194,740,234

(1) Taxable property is assessed at 33-1/3% of the true tax value for the years 1997 through 2001. It is assessed at 100% beginning in 2002.

(2) Represents the assessment (Marion County Auditor's "certified abstract") on March 1 of the prior year for taxes due and payable in the year indicated.

Source: Marion County Auditor

Table VI

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(a component unit of the Consolidated City of Indianapolis—Marion County).

Property Tax Rates - Direct and Overlapping Governments (1) (2)
Direct and Overlapping

Last Ten Fiscal Years

Year	Operations	Debt	Cumulative		City	County	Other			Total (1)	
			Building	Total			Municipal Corporations	School	State		Other
2007	0.1928	0.0088	0.0006	0.2022	1.4987	0.5708	0.1298	1.8713	0.0024	0.0656	4.3408
2006	0.2138	0.0098	0.0006	0.2242	0.8881	0.4131	0.1409	1.7172	0.0024	0.0644	3.4503
2005	0.2137	0.0106	0.0006	0.2249	0.9532	0.4163	0.1401	1.6744	0.0024	0.0637	3.4750
2004	0.2139	0.0108	0.0006	0.2253	0.9485	0.4129	0.1189	1.7827	0.0024	0.0607	3.5514
2003	0.2134	0.0113	0.0006	0.2253	0.9603	0.4443	0.1302	1.5503	0.0033	0.1403	3.4540
2002	0.2492	0.0133	0.0008	0.2633	1.2254	0.5354	0.1676	1.9594	0.0033	0.0799	4.2343
2001	0.7441	0.0458	0.0020	0.7919	3.7670	1.4043	0.4578	5.9811	0.0100	0.2599	12.6720
2000	0.7669	0.0230	0.0020	0.7919	3.7825	1.4038	0.4572	5.9552	0.0100	0.2756	12.6762
1999	0.7653	0.0246	0.0020	0.7919	3.7948	1.4042	0.4567	5.8477	0.0100	0.3281	12.6334
1998	0.7667	0.0232	0.0020	0.7919	3.7968	1.4021	0.4070	5.3888	0.0100	0.3952	12.1918

(1) Rate of District 101 (Indianapolis - Center Township) which is the only rate that includes all major services

(2) Data presented is per the Marion County Auditor's Office.

Source: Marion County Auditor

Table VII

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(a component unit of the Consolidated City of Indianapolis—Marion County)

Principal Property Tax Payers
Current Year and Nine Years Ago

Taxpayer	2007			1998 (3)		
	Net Taxable Assessed Valuation (1) (2)	Rank	Percentage of Total City Taxable Assessed Valuation	Net Taxable Assessed Valuation	Rank	Percentage of Total City Taxable Assessed Valuation
Eli Lilly & Company	\$ 1,256,497,000	1	3.12%	\$ 239,717,100	1	2.75%
St. Vincent Hospital & Health Care Center, Inc.	332,955,000	2	0.83%			
Southwestern Bell	305,847,000	3	0.76%			
Methodist Hospital System	304,320,000	4	0.76%			
Community Hospitals Foundation Inc.	269,592,000	5	0.67%			
Simon Property Group	246,269,000	6	0.61%			
Sexton Properties	185,967,000	7	0.46%			
Citizens Gas & Coke Utility	185,818,000	8	0.46%	61,339,400	5	0.70%
Sisters of St. Francis Health System	184,577,000	9	0.46%			
General Motors Corporation	157,229,000	10	0.39%	39,093,680	7	0.45%
Indianapolis Power & Light				130,153,600	2	1.49%
Allison Engine Co.				70,631,770	3	0.81%
Ford Motor Company				68,509,130	4	0.78%
Indianapolis Water Company				47,300,530	6	0.54%
Bank One Corporation				36,082,380	8	0.41%
Navistar International				34,401,724	9	0.39%
Boehringer Mannheim Corporation				30,926,590	10	0.35%
	<u>\$ 5,001,855,000</u>		12.43%	<u>\$ 902,406,928</u>		10.33%

(1) Represents the March 1, 2006 valuations for taxes due and payable in 2007 as represented by the taxpayer.

(2) Net Assessed Valuation was determined using public records from the Marion County Treasurer's Office. Taxable property is assessed at 33-1/3% of the true tax value for 1998.

(3) Data from the 1998 Health and Hospital Corporation's Comprehensive Annual Report.

Table VIII

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(a component unit of the Consolidated City of Indianapolis—Marion County)

Property Tax Levies and Collections (1)
Last Ten Fiscal Years

Fiscal Year Ended December 31	Taxes Levied for the Fiscal Year (1)	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years (1) (2)	Total Collections to Date	
		Amount (1)	Percentage of Levy		Amount (1)	Percentage of Levy
2007	\$ 90,456,328	\$ 73,710,696	81.49 %	\$ 18,421,520	\$ 92,132,216	101.85 %
2006	90,469,407	88,238,324	97.53	634,310	88,872,634	98.24
2005	88,832,049	86,484,708	97.36	643,154	87,127,862	98.08
2004	88,991,203	87,283,952	98.08	862,109	88,146,061	99.05
2003	87,982,909	90,537,679	102.90	967,798	91,505,477	104.00
2002	74,494,711	74,115,192	99.49	719,842	74,835,034	100.46
2001	72,738,903	72,494,311	99.66	649,745	73,144,056	100.56
2000	71,922,295	70,961,378	98.66	—	70,961,378	98.66
1999	70,340,389	69,394,898	98.66	—	69,394,898	98.66
1998	69,154,383	68,051,929	98.41	—	68,051,929	98.41

(1) For the Health and Hospital Corporation only.

(2) Amounts for 2000 and prior are not available.

Source: Marion County Auditor

Table IX

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(a component unit of the Consolidated City of Indianapolis—Marion County)

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities				Business-type Activities				Per Capita
	General Obligation Bonds of 2005 (1)	General Obligation Bonds of 2000 (1)	Renovation Bonds	Notes Payable	Long-Term Care Capital Leases (2)	Total Primary Government	Percentage of Personal Income (3)		
2007	\$ 26,140,000	\$ -	\$ 18,235,000	\$ 218,122	\$ 191,712,922	\$ 236,306,044	357.64 %	\$ 273.03	
2006	26,865,000	—	19,155,000	426,751	166,112,532	212,559,283	650.98	245.59	
2005	27,565,000	—	20,005,000	626,299	151,253,286	199,449,585	637.83	231.44	
2004	—	27,280,000	20,800,000	817,162	117,886,520	166,783,682	557.94	193.78	
2003	—	28,010,000	21,540,000	999,717	125,548,785	176,098,502	616.30	203.99	
2002	—	28,705,000	22,230,000	1,174,326	—	52,109,326	186.14	60.35	
2001	—	29,370,000	22,875,000	1,341,536	—	53,586,336	197.16	62.53	
2000	—	30,000,000	23,475,000	1,501,076	—	54,976,076	208.22	63.89	
1999	—	—	24,035,000	1,653,863	—	25,688,863	105.20	31.68	
1998	—	—	24,560,000	1,800,000	—	26,360,000	111.30	32.41	

Source: Notes to Basic Financial Statements

- (1) The General Obligation (GO) Bonds of 2000 were refunded in late 2005 and replaced with the GO Bonds of 2005.
- (2) The Long-Term Care Division within the business-type activities did not exist within the Corporation prior to 2003.
- (3) See Table XIII for personal income and population data.

Table X

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(a component unit of the Consolidated City of Indianapolis—Marion County)

**Ratio of Net General Obligation Debt Outstanding
Last Ten Fiscal Years**

Fiscal Year	General Obligation Bonds		Notes Payable	Total Net Bonded Debt		Percentage of Actual Taxable Value of Property		Per Capita
						%	\$	
2007	\$ 44,375,000	\$	218,122	\$	44,593,122	0.11		50.86
2006	46,020,000		426,751		46,446,751	0.14		53.66
2005	47,570,000		626,299		48,196,299	0.15		55.93
2004	48,080,000		817,162		48,897,162	0.14		56.81
2003	49,550,000		999,717		50,549,717	0.15		58.56
2002	50,935,000		1,174,326		52,109,326	0.25		60.35
2001	52,245,000		1,341,336		53,586,336	0.26		62.53
2000	53,475,000		1,501,076		54,976,076	0.28		63.89
1999	24,035,000		1,653,863		25,688,863	0.13		31.68
1998	24,560,000		1,800,000		26,360,000	0.14		32.41

Table XI

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(a component unit of the Consolidated City of Indianapolis—Marion County)

Schedule of Direct and Overlapping Debt and Bonded Debt Limit (1)
December 31, 2007

	Assessed Value (7)	Bonding Limit		Bonds Outstanding
		%	Dollar Amount	
Direct Debt:				
Health and Hospital Corporation of Marion County	\$ 46,574,174,000	0.67%	\$ 312,046,966	\$ 44,375,000
Overlapping:				
Marion County	46,574,174,000	0.67%	\$ 312,046,966	\$ 40,510,000
City of Indianapolis:				
Civil City	42,780,714,000	0.67%	\$ 286,630,784	\$ 98,000,000
Consolidated County	46,574,174,000	(3)	—	—
Park District	46,574,174,000	(7)	—	28,786,000
Redevelopment District	43,422,051,000	(7)	—	31,562,000
Flood Control District	46,574,174,000	0.67%	312,046,966	15,873,000
Metropolitan Thoroughfare District	46,574,174,000	1.33%	619,436,514	55,326,000
Sanitary District	42,780,714,000	4%	1,711,228,560	69,209,000
Police Special Service District	13,572,947,000	(2)	—	—
Fire Special Service District	12,702,941,000	(2)	—	—
Solid Waste Collect Spec. Service District	43,483,757,000	(2)	—	—
Solid Waste Disposal District	43,483,757,000	2%	869,675,140	—
Pub Safety Comm and Comp Facilities District	46,574,174,000	0.67%	312,046,966	6,295,000
Total City Debt			\$ 4,111,064,930	\$ 305,051,000
Other Municipal Corporations				
Airport Authority	46,574,174,000	0.67%	\$ 312,046,966	\$ —
Capital Improvement Board	46,574,174,000	0.67%	312,046,966	—
Indpls-Marion Co. Building Authority	46,574,174,000	(4)	—	27,925,000
Indianapolis-Marion County Library	45,313,931,000	0.67%	303,603,338	126,141,000
Indianapolis Public Transportation Corp.	43,996,225,000	0.67%	294,774,708	13,120,000
Total Municipal Corporations			\$ 1,222,471,977	\$ 167,186,000
School Districts:				
Beech Grove	534,905,000	(8)	\$ 43,098,000	\$ 41,022,000
Decatur	1,140,690,000	(8)	158,460,000	106,758,000
Franklin	2,267,149,000	(8)	207,433,000	287,335,000
Indianapolis Public Schools	12,161,364,000	(8)	512,807,000	30,330,000
Lawrence	6,107,097,000	(8)	245,233,000	25,260,000
Perry	4,113,197,000	(8)	215,653,000	125,375,000
Pike	5,840,216,000	(8)	196,954,000	70,230,000
Speedway	725,337,000	(8)	14,506,740	—

(continued)

Table XI (continued)

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA

(a component unit of the Consolidated City of Indianapolis—Marion County)

Schedule of Direct and Overlapping Debt and Bonded Debt Limit (1)

December 31, 2007

(In Thousands)

	Assessed Value (6)	%	Bonding Limit		Bonds Outstanding
			Dollar Amount		
School Districts (continued):					
Warren	\$ 3,252,961	(8)	\$ 211,434		\$ —
Washington	7,031,060	(8)	148,352		35,905
Wayne	5,840,216	(8)	314,510		304,337
Total School Districts	\$ 44,181,031		\$ 2,171,778		\$ 901,039
Other Cities and Towns:					
Beech Grove	\$ 574,174	0.67%	\$ 3,847		\$ 1,608
Lawrence	1,790,906	0.67%	11,999		6,775
Southport	61,706	0.67%	413		—
Speedway	725,337	0.67%	4,860		—
Total Towns and Other Cities	\$ 3,152,123		\$ 21,119		\$ 8,383
Townships					
Center	\$ 6,180,209	0.67%	\$ 41,407		\$ —
Decatur	1,142,605	0.67%	7,655		1,252
Franklin	2,438,133	0.67%	16,335		5,609
Lawrence	6,657,673	0.67%	44,606		—
Perry	4,511,708	0.67%	30,228		2,957
Pike	5,573,077	0.67%	37,340		1,649
Warren	4,356,779	0.67%	29,190		50
Washington	9,799,676	0.67%	65,658		—
Wayne	6,994,777	0.67%	46,865		—
Total Townships	\$ 47,654,637		\$ 319,286		\$ 11,517
Excluded Library Districts					
Beech Grove	\$ 534,905	0.67%	\$ 3,584		2,983
Speedway	725,337	0.67%	4,860		—
Total Excluded Cities Library Districts	\$ 1,260,242		\$ 8,444		\$ 2,983
Ben Davis Conservancy District	\$ 366,501	(5)			\$ —
Total Overlapping Debt					\$ 1,170,801
Total Direct and Overlapping Debt					\$ 1,624,966

Table XI (continued)

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA

(a component unit of the Consolidated City of Indianapolis—Marion County)

Schedule of Direct and Overlapping Debt and Bonded Debt Limit (1)

December 31, 2007

(In Thousands)

- (1) Excludes Revenue Bonds not payable from ad valorem taxes.
- (2) No bonding authority.
- (3) No bonding authority from ad valorem taxes.
- (4) There is no debt limit for the Building Authority. Its debt service requirements are funded by rentals paid by the City of Indianapolis and Marion County from ad valorem taxes mandated by the Authority's enabling legislation.
- (5) Ben Davis Conservancy District has no bonding limit. Bonds are payable from either collection of special benefit taxes or revenues produced from the project per Indiana Code 13-3-3-81.
- (6) Represents the March 1, 2006 (Marion County Auditor's "certified abstract") assessment for taxes due and payable in 2007.
- (7) There is no statutory constitutional debt limitation to the Park and Redevelopment Districts.
- (8) A statutory 2% limit on school district debt does not apply to any debt that is incurred by a school district building corporation for the purpose of constructing facilities to be leased to the school district at rentals sufficient to fund the corporation's annual debt service requirements. The bonding limit shown is the sum of the statutory limit plus the outstanding building corporation debt.

Source: City of Indianapolis, Office of Finance and Management

Table XII

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(a component unit of the Consolidated City of Indianapolis—Marion County)

Legal Debt Margin Calculation
Last Ten Fiscal Years

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Debt limit	\$ 299,814,244	269,517,577	265,525,241	267,531,873	278,852,313	193,214,113	189,862,912	184,229,687	182,083,146	174,631,602
Total net debt applicable to limit	44,593,122	46,446,751	48,196,299	48,897,162	50,549,717	52,109,326	53,586,336	54,976,076	25,688,863	26,360,000
Legal debt margin	\$ 255,221,122	223,070,826	217,328,942	218,634,711	228,302,596	141,104,787	136,276,576	129,253,611	156,394,283	148,271,602
Total net debt applicable to the limit as a percentage of debt limit	14.87%	17.23%	18.15%	18.28%	18.13%	26.97%	28.22%	29.84%	14.11%	15.09%

Legal Debt Margin Calculation for Fiscal Year Ended December 30, 2007

Net assessed value - 2007	\$ 44,748,394,581
Debt limit (.67% of assessed values)	299,814,244
Debt applicable to limit:	
Bonded Debt	44,375,000
Notes payable from tax levy	218,122
Total net debt applicable to limit	44,593,122
Legal Debt Margin	\$ 255,221,122

Table XIII

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(a component unit of the Consolidated City of Indianapolis—Marion County)

Demographic and Economic Statistics
Last Ten Calendar Years

Year	(1) Population	(2) (5) Personal Income	(2) Per Capita Personal Income	(3) (5) Public School Enrollment	(4) Unemployment Rate
2007	876,804	\$ —	\$ 38,980	—	4.5%
2006	865,504	32,652,000	37,403	133,697	4.4%
2005	861,760	31,270,050	36,286	133,694	4.8%
2004	860,674	29,892,584	34,732	132,505	4.7%
2003	863,251	28,573,705	33,142	131,543	4.8%
2002	863,429	27,994,389	32,479	129,682	4.6%
2001	856,938	27,178,761	31,491	127,569	3.3%
2000	860,454	26,403,440	30,684	126,199	2.4%
1999	810,946	24,420,134	28,480	125,189	2.2%
1998	813,405	23,684,798	27,731	125,504	2.3%

- (1) Source: Census Bureau—Population Estimates base reflects changes to the Census 2000 population.
 (2) Source: U.S. Bureau of Economics Census Bureau midyear population estimates. Per capita personal income was computed using Census Bureau midyear population estimates.
 (3) Source: Indiana Department of Education Statistics.
 (4) Source: Data provided by the U.S. Bureau of Labor Statistics.
 (5) Data not available for 2007.

Table XIV

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(a component unit of the Consolidated City of Indianapolis—Marion County)

Principal Employers
Current Year and Nine Years Ago

Taxpayer	2007			1998 (2)		
	(1) Employees	(1) Rank	(1) Percentage of Total Health & Hospital Employment	Employees	Rank	(3) Percentage of Total Health & Hospital Employment
Eli Lilly & Company	12,500	1	33.15%	8,956	2	NA
Clarian Health Partners Inc.	7,503	2	55.23%			NA
Community Health Network	7,500	3	55.25%			NA
IUPUI	7,066	4	58.65%			NA
Federal Express Corp. (FedEx)	6,311	5	65.66%			NA
St. Vincent Hospitals & Health Service	6,000	6	69.07%			NA
WellPoint Inc.	4,200	7	98.67%			NA
Allison Transmission/Div of GMC	4,000	8	103.60%	3,622	5	NA
Rolls-Royce	4,000	9	103.60%			NA
AT&T	3,500	10	118.40%			NA
Methodist Hospitals of Indiana				11,025	1	NA
Anthem, Inc				6,642	3	NA
Marsh				3,638	4	NA
BankOne Corporation (Chase)				3,158	6	NA
Ford Motor Company				2,967	7	NA
General Motors Corporation				2,827	8	NA
Navistar International				2,228	9	NA
Meijers, Inc.				2,376	10	NA
	<u>62,580</u>			<u>47,439</u>		

(1) Source: The Indianapolis Economic Development in conjunction with The Indy Partnership. Data was taken from the information warehouse containing a listing of the largest employers in the City of Indianapolis/Marion County located at www.indypartnership.com.

(2) Data from the 1998 Health and Hospital Corporation's Comprehensive Annual Report.

(3) Total Health & Hospital employment is not available for 1998.

Table XV

THE HEALTH AND HOSPITAL CORPORATION OF MARION COUNTY, INDIANA
(a component unit of the Consolidated City of Indianapolis—Marion County)

**Full-time Equivalent City Government Employees by Function/Program
Last Ten Calendar Years**

Function/Program	Full-time Equivalent Employees as December 31									
	2007	2006	2005	2004	2003	2002	2001 (1)	2000 (1)	1999 (1)	1998 (1)
Primary Government Employees:										
Administration	115	112	112	113	109	97	—	—	—	—
Health improvement	311	313	309	304	314	315	—	—	—	—
Communicable disease prevention	119	119	124	123	123	122	—	—	—	—
Water quality and hazardous materials	28	29	29	29	30	79	—	—	—	—
Housing and neighborhood health	84	84	82	82	83	79	—	—	—	—
Consumer and employee risk reduction	26	27	27	27	27	27	—	—	—	—
Vector disease control	57	52	52	53	52	54	—	—	—	—
Business-type Employees:										
Wishard Health Services	3,404	3,243	3,232	3,269	3,388	3,126	—	—	—	—
Long-Term Care (2)	—	—	—	—	—	—	—	—	—	—
Total Employees	4,144	3,979	3,966	4,001	4,127	3,899	—	—	—	—

Source: SAP Payroll System used by Health & Hospital Corporation

(1) The Corporation converted to the SAP accounting system January 1, 2002. FTE information prior to 2002 is not available.

(2) The Long-Term Care personnel are not employees of the Corporation.



**HEALTH &
HOSPITAL
CORPORATION**

**HEALTH AND HOSPITAL
CORPORATION
OF MARION COUNTY,
INDIANA**

Additional copies of this report may be obtained from:
Treasurer's Office
Daniel E. Sellers
3838 North Rural Street
Indianapolis, Indiana 46205-2930



**HEALTH AND HOSPITAL CORPORATION
OF MARION COUNTY, INDIANA
(A COMPONENT UNIT OF THE CONSOLIDATED
CITY OF INDIANAPOLIS–MARION COUNTY)**

Report on Federal Awards in Accordance with the
U.S. Office Of Management and Budget Circular A-133

Year ended December 31, 2007

(With Independent Auditors' Reports Thereon)

**HEALTH AND HOSPITAL CORPORATION
OF MARION COUNTY, INDIANA
(A COMPONENT UNIT OF THE CONSOLIDATED
CITY OF INDIANAPOLIS–MARION COUNTY)**

**Report on Federal Awards in Accordance with the
U.S. Office of Management and Budget Circular A-133**

Year ended December 31, 2007

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**HEALTH AND HOSPITAL CORPORATION
OF MARION COUNTY, INDIANA
(A COMPONENT UNIT OF THE CONSOLIDATED
CITY OF INDIANAPOLIS-MARION COUNTY)**

Schedule of Expenditures of Federal Awards
Year ended December 31, 2007

Federal Grantor	Pass-Through Grantor	Pass-Through Grantor Number (U)	Program Title	Federal CFDA #	Amount Passed-Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture	Indiana Department of Health	3610-572100-142500 198-6 and 198-11 and 3610-572100-144300 198-1)	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ -	19,926,901
Total U.S. Department of Agriculture						19,926,901
U.S. Department of Housing and Urban Development	City of Indianapolis, Indiana	POI 730073	Supportive Housing Program - Brookside	14.235	-	42,465
	City of Indianapolis, Indiana	POI# 6300878 and POI# 7300852	Supportive Housing Program - Homeless Resource Project	14.235	-	345,481
	City of Indianapolis, Indiana	POI# 6301074 and POI# 7301074	Supportive Housing Program - Safe Haven (First Home)	14.235	-	273,005
			Total 14,235			660,951
	City of Indianapolis, Indiana	CIT# 6300847 and POI# 7300773	Shelter Plus Care	14.238	-	236,413
	N/A		Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	583,849	721,802
	N/A		Lead Hazard Reduction Demonstration Grant Program	14.905	-	9,685
Total U.S. Department of Housing and Urban Development					583,849	1,628,855
U.S. Department of Justice	Indiana Criminal Justice Institute	VA088 and 05 VA166	Crime Victim Assistance - Project Safe Families	16.575	-	178,310
	Marion County Prosecutor's Office	06VA-098 and 07VA-086	Crime Victim Assistance - Center of Hope	16.575	-	148,355
Total U.S. Department of Justice						326,665
U.S. Department of Labor	Indianapolis Private Industry Council	HG-14754-05-60	WIA Pilots, Demonstrations and Research Projects - President's High Growth Grant	17.261	-	30,462
Total U.S. Department of Labor						30,462
U.S. Department of Environmental Protection Agency	Indiana Department of Environmental Management	A. 305-7-2	TSCA Title IV State Lead Grants Certification of Lead - Based Paint Professionals	66.707	-	35,000
	N/A		Environmental Education Grants - Asthma Control	66.951	-	(1,080)
Total Environmental Protection Agency						33,920
U.S. Department of Energy	Indiana Office of Energy and Defense Development/ Office of Lieutenant Governor	7-AFV-002	State Energy Program-Alternative Fuel Vehicle Program	81.041	-	17,500
Total U.S. Department of Energy						17,500
U.S. Department of Education	Indiana Family and Social Services Administration, Division of Disability, Aging, and Rehabilitative Services	49-07-YG-1580-1 and 49-08-YG-1580-1	Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	-	248,969
Total U.S. Department of Education						248,969
U.S. Department of Health and Human Services	N/A		Bilingual/Bicultural Service Demonstration Grants	93.105	-	433
	Indiana Department of Health	3610-572100-140300 TB198-40	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	-	96,603
	Clarian Health Partners	HRSA 2H6AHA00062	Aids Education and Training Centers	93.145	-	45,328
	Indiana Family and Social Services Administration - Division of Mental Health	49-05-YG-1580-1	Projects for Assistance in Transition from Homelessness (PATH)	93.150	-	133,760
	Indiana Department of Health	3610-572100-130300CLP198-1 and 3610-572100-130300CLP199-1	Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	-	188,867
	Indiana Family Health Council, Inc.	PPHPA050511-32-03	Family Planning-Services	93.217	-	1,462,092
	N/A		Consolidated Health Centers-Community Health Centers	93.254	1,016,658	1,016,658

**HEALTH AND HOSPITAL CORPORATION
OF MARION COUNTY, INDIANA
(A COMPONENT UNIT OF THE CONSOLIDATED
CITY OF INDIANAPOLIS-MARION COUNTY)**

Schedule of Expenditures of Federal Awards

Year ended December 31, 2007

Federal Grantor	Pass-Through Grantor	Pass-Through Grantor Number (I)	Program Title	Federal CFDA #	Amount Passed-Through to Subrecipients	Total Federal Expenditures
N/A			Substance Abuse and Mental Health Services-Projects of Regional and National Significance - Treatment Plus	93.243	202,508	424,827
U.S. Department of Health and Human Services	Indiana Department of Health University of Cincinnati	3610-572100-142300 TP 98-3	Immunization Grants	93.268	-	401,167
	Indiana Department of Health	1.U10-DA13732-41/15.U10-DA01372-44	Drug Abuse and Addiction Research Programs	93.279	-	11,841
	Indiana Department of Health	3610-572100-149900 ELCID 198-2 and 3610-572100-149900 ELCID 198-48	Centers for Disease Control and Prevention- Investigations and Technical Assistance	93.283	-	71,322
	Indiana Department of Health	3610-572100-103500 AA198-13	Centers for Disease Control and Prevention- Centers for Disease Control and Prevention- Investigations and Technical Assistance-Addressing Asthma	93.283	-	12,319
	Indiana Department of Health	3610-572100-103200 BPRS 198-12	Centers for Disease Control and Prevention- Centers for Disease Control and Prevention- Investigations and Technical Assistance-BIO Supplement	93.283	-	6,007
	Indiana Department of Health	3610-572100-103200A BPRS 198-38	Centers for Disease Control and Prevention- Centers for Disease Control and Prevention- Investigations and Technical Assistance-PH Coordinator	93.283	-	44,045
	Indiana Department of Health	3610-572100-103200-BPRS 198-49	Centers for Disease Control and Prevention- Centers for Disease Control and Prevention- Investigations and Technical Assistance-BIO Terrorism	93.283	-	302,445
			Total 93.283			436,136
	Indiana Family and Social Service Administration	48-05-92-1580	Temporary Assistance for Needy Families - Building Strong Families	93.558	-	(10,604)
	HealthNet and Indiana University	HEA-01208/108597/2293N3	Temporary Assistance for Needy Families - Building Strong Families	93.558	-	177,145
	Indiana Family and Social Service Administration	48-05-60-1580	Temporary Assistance for Needy Families - Healthy Families	93.558	-	2,706,521
			Total 93.558			2,873,062
	Indiana Department of Health	3610-537000-141300 HPR 198-6 and 3610-537000-141300 HPR 198-48	Refugee and Entrant Assistance - Discretionary Grants	93.576	-	39,312
	Indiana University	U01 CA91343-01	State Court Improvement Program-NC Indianapolis Pathology Informatics Network	93.586	-	18,402
	Indiana Family and Social Services Administration	49-07-TP-1580	Social Services Block Grant-Family Planning Services	93.667	-	236,493
	Indiana University	U01 A1025859-18S3	Microbiology and Infectious Disease Research	93.856	-	24,479
	N/A		Specialty Selected Health Projects-Congressionally Mandated Telehealth Grants	93.888	-	244,211
	N/A		National Bioterrorism Hospital Preparedness Program-Healthcare Facilities Emergency Care Partnership Program	93.889	5,194	35,687
	Indiana State Department of Health	HFPEP070015-01-041	National Bioterrorism Hospital Preparedness Program-Healthcare Facilities Emergency Care Partnership (MESH)	93.889	-	22,568
	Indiana State Department of Health	3610-572100-103100 BHP 197-41	National Bioterrorism Hospital Preparedness Program	93.889	-	233,578
			Total 93.889		5,194	311,833
	N/A		HIV Emergency Relief Project Grants	93.914	962,058	1,624,681
	Indiana State Department of Health	3610-572100-142700 HCG 197-17	HIV Care Formula Grants-Ryan White Care Act-Title II Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.917	-	2,488
	N/A		Healthy Start Initiative-Eliminating disparities in Perinatal Health	93.918	302,985	669,394
	Indiana Department of Health	5H49MC00138-07-40	HIV Prevention Activities - Health Department Based Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.926	133,677	939,028
	Indiana Department of Health	3610-572100-144100 AIDS 198-8	Block Grants for Prevention and Treatment of Substance Abuse-Prenatal	93.940	-	81,371
	Indiana Department of Health	3610-572100-144400 ASP 198-7	Block Grants for Prevention and Treatment of Substance Abuse- IV Drug Users: HIV Prevention	93.944	-	38,876
	Indiana Department of Health	3610-572100-145500-PSUP 198-16	Block Grants for Prevention and Treatment of Substance Abuse	93.959	-	52,494
	Indiana Family and Social Services Administration - Division of Mental Health	49-07-SA-1580	Block Grants for Prevention and Treatment of Substance Abuse	93.959	-	260,606
	InteCare, Inc.	49-07-HO-1580 and 49-08-HO-1580	Block Grants for Prevention and Treatment of Substance Abuse	93.959	-	1,010,457
			Total 93.959		-	1,323,557

**HEALTH AND HOSPITAL CORPORATION
OF MARION COUNTY, INDIANA
(A COMPONENT UNIT OF THE CONSOLIDATED
CITY OF INDIANAPOLIS-MARION COUNTY)**

Schedule of Expenditures of Federal Awards
Year ended December 31, 2007

Federal Grantor	Pass-Through Grantor	Pass-Through Grantor Number (1)	Program Title	Federal CFDA #	Amount Passed-Through to Subrecipients	Total Federal Expenditures
	Indiana Department of Health	3610-572900-141610 STD 198-21	Preventive Health Services--Sexually Transmitted Diseases Control Grants - STD Casefinding	93,977	10,294	262,003
	Indiana Department of Health	3610-572900-141610-STD 198-21	Preventive Health Services--Sexually Transmitted Diseases Control Grants - Syphilis	93,977	150,500	352,895
	Indiana Department of Health	H25(CCHS04340	Preventive Health Services--Sexually Transmitted Diseases Control Grants--Comprehensive STD Prevention	93,977	-	15,163
			Total 93,977		160,794	630,061
	Indiana Department of Health	3620-572100-141600 MCH 199-2	Maternal and Child Health Services Block Grant to the States (FYR)	93,994	-	53,441
	Indiana Department of Health	3620-572100-141600-MCH 198-9	Maternal and Child Health Services Block Grant to the States - MCH Conception	93,994	-	(305)
	Indiana University	280192	Maternal and Child Health Services Block Grant to the States--Comprehensive Maternal and Primary Care Alliance Grant	93,994	-	252,804
	Indiana Department of Health	3620-572100-141600 MCH 197-18	Maternal and Child Health Services Block Grant to the States--Family Planning Title V	93,994	-	42,590
			Total 93,994		-	348,530
Total U.S. Department of Health and Human Services					2,785,874	13,623,090
National Institute of Health	Indiana University	U19AI031494-16	Allergy, Immunology and Transplantation Research--Microest Sexually Transmitted Infections Topical Microbicide	93,855	-	41,743
	Indiana University	R01HD044387	Child Health and Human Development Extramural Research--Adolescent STD	93,865	-	7,524
			Total 93,865		-	49,167
Total National Institute of Health					-	342,157
U.S. Department of Homeland Security	City of Indianapolis, Indiana Hamilton County, Indiana	C44P-S-240 NA	Urban Areas Security Initiative--Part 2 and 3 Urban Areas Security Initiative--Medtrones	97,008 97,008	- -	9,371
	City of Indianapolis, Indiana	PO 16602686	Metropolitan Medical Response System	97,071	-	351,528
Total U.S. Department of Homeland Security					-	409,432
Total Federal Expenditures of Federal Awards					3,369,723	36,646,886

(1) Pass-through grantor number represents the identifying number that the pass-through grantor has assigned to each individual award.
N/A No grantor number was available or award is a direct award, and therefore, pass-through grantor is not applicable.
See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

**HEALTH AND HOSPITAL CORPORATION
OF MARION COUNTY, INDIANA
(A COMPONENT UNIT OF THE CONSOLIDATED
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Notes to Schedule of Expenditures of Federal Awards

For the year ended December 31, 2007

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards presents the activity of federal awards programs of Health and Hospital Corporation of Marion County, Indiana (Corporation), a component unit of the Consolidated City of Indianapolis–Marion County, received directly or indirectly from the federal government. The Corporation's reporting entity is defined in note 1 to the Corporation's financial statements.

(2) Basis of Accounting

The accompanying schedule of expenditures of federal awards (accompanying schedule) has been prepared on the accrual basis of accounting and includes administrative costs in addition to the amount of direct assistance expended.

Amounts reported in the accompanying schedule agree or reconcile with the amounts reported in the related federal financial reports, except for the Special Supplemental Nutrition Program for Women, Infants, and Children. No federal financial assistance revenues are reported in the Corporation's financial statements for the Special Supplemental Nutrition Program for Women, Infants, and Children due to the vouchers being redeemed directly by the Indiana State Department of Health. The vouchers are considered noncash assistance to the Corporation. A total of \$17,116,304 of such assistance is included in the accompanying schedule.

(3) Method of Determining Program or Award Amounts

The majority of the program or award amounts are granted on a grant year basis, which differs from the calendar year presentation of this schedule. Program or award amounts have been determined by prorating amounts contained in the related agreements based upon the effective dates and by reviewing related invoices.

(4) Relationship to Federal Financial Reports

Amounts reported in the accompanying schedule of expenditures of federal awards for the Corporation-administered programs agree or reconcile with the amounts reported in the related federal financial reports.



KPMG LLP
Suite 1500
111 Monument Circle
Indianapolis, IN 46204

**Independent Auditors' Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

The Board of Trustees
Health and Hospital Corporation
of Marion County, Indiana:

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Health and Hospital Corporation of Marion County, Indiana (a component unit of the Consolidated City of Indianapolis – Marion County) (Corporation) as of and for the year ended December 31, 2007, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-1 through 2007-10 to be significant deficiencies in internal control over financial reporting.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 through 2007-5 in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the Corporation in a separate letter dated October 31, 2008.

The Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Corporation's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the board of trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Indianapolis, Indiana
October 31, 2008



KPMG LLP
Suite 1500
111 Monument Circle
Indianapolis, IN 46204

**Independent Auditors' Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control over Compliance in Accordance
With OMB Circular A-133**

The Board of Trustees
Health and Hospital Corporation
of Marion County, Indiana:

Compliance

We have audited the compliance of Health and Hospital Corporation of Marion County, Indiana, a component unit of the Consolidated City of Indianapolis – Marion County (Corporation) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Corporation's compliance with those requirements.

As described in items 2007-11 and 2007-12 in the accompanying schedule of findings and questioned costs, the Corporation did not comply with requirements regarding allowable costs/cost principles and eligibility that are applicable to its Block Grants for Prevention and Treatment of Substance Abuse Program. Compliance with such requirements is necessary, in our opinion, for the Corporation to comply with requirements applicable to that program. In our opinion, because of the effects of the noncompliance described in this paragraph, the Corporation did not comply in all material respects, with the requirements referred to above that are applicable to the Block Grants for Prevention and Treatment of Substance Abuse program for the year ended December 31, 2007.

As described in item 2007-11 in the accompanying schedule of findings and questioned costs, the Corporation did not comply with requirements regarding allowable costs/cost principles that are applicable to its Family Planning Services program and Temporary Assistance for Needy Families Program. Compliance with such requirements is necessary, in our opinion, for the Corporation to comply with requirements applicable to those programs. In our opinion, because of the effects of the noncompliance described in this paragraph, the Corporation did not comply in all material respects, with the requirements referred to above that are



applicable to the Family Planning Services program and Temporary Assistance for Needy Families program for the year ended December 31, 2007.

As described in item 2007-11 in the accompanying schedule of findings and questioned costs, the Corporation did not comply with requirements regarding allowable costs/cost principles that are applicable to its HIV Emergency Relief Project Grants program. Compliance with such requirements is necessary, in our opinion, for the Corporation to comply with requirements applicable to that program. In our opinion, except for the noncompliance described in this paragraph, the Corporation complied in all material respects, with the requirements referred to above that are applicable to the HIV Emergency Relief Project Grants program for the year ended December 31, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2007-13.

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that are applicable to the Special Supplemental Nutrition Program for Women, Infants, and Children program for the year ended December 31, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2007-14.

Internal Control over Compliance

The management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-11 through 2007-14 to be significant deficiencies.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2007-11 and 2007-12 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Corporation as of and for the year ended December 31, 2007, and have issued our report thereon dated October 31, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Corporation's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the board of trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Indianapolis, Indiana
September 11, 2009 except as to
paragraph eleven, which is as of October 31, 2008.

**HEALTH AND HOSPITAL CORPORATION
OF MARION COUNTY, INDIANA**
(A Component Unit of the Consolidated
City of Indianapolis–Marion County)

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

(1) Summary of Auditors Results

- | | | |
|-----|---|-----------------------------|
| (a) | The type of report issued on the basic financial statements: | Unqualified opinions |
| (b) | Significant deficiencies in internal control were disclosed by the audit of the basic financial statements: | Yes |
| | Material weaknesses: | Yes |
| (c) | Noncompliance, which is material to the basic financial statements: | No |
| (d) | Significant deficiencies in internal control over major programs: | Yes |
| | Material weaknesses: | Yes |
| (e) | The type of report issued on compliance for major programs: | |
| | <ul style="list-style-type: none"> • Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA No. 10.557) | Unqualified |
| | <ul style="list-style-type: none"> • Family Planning Services (CFDA No. 93.217) | Adverse |
| | <ul style="list-style-type: none"> • Temporary Assistance for Needy Families (CFDA No. 93.558) | Adverse |
| | <ul style="list-style-type: none"> • HIV Emergency Relief Project Grants (CFDA No. 93.914) | Qualified |
| | <ul style="list-style-type: none"> • Block Grants for Prevention and Treatment of Substance Abuse (CFDA No. 93.959) | Adverse |
| (f) | Any audit findings, which are required to be reported under Section 510(a) of OMB Circular A-133: | Yes |
| (g) | Major programs: | |
| | <ul style="list-style-type: none"> • Special Supplemental Nutrition Program for Women, Infants, and Children, U.S. Department of Agriculture passed through Indiana Department of Health (CFDA No. 10.557) | |
| | <ul style="list-style-type: none"> • Family Planning Services, U.S. Department of Health and Human Services passed through Indiana Family Health Council, Inc. (CFDA No. 93.217) | |
| | <ul style="list-style-type: none"> • Temporary Assistance for Needy Families, U.S. Department of Health and Human Services passed through | |

**HEALTH AND HOSPITAL CORPORATION
OF MARION COUNTY, INDIANA**
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Schedule of Findings and Questioned Costs
Year ended December 31, 2007

- HIV Emergency Relief Project Grants, U.S. Department of Health and Human Services (CFDA No. 93.914)
- Block Grants for Prevention and Treatment of Substance Abuse, U.S. Department of Health and Human Services passed through Indiana State Department of Health, Indiana Family and Social Services Administration, and InteCare, Inc. (CFDA No. 93.959)

(h) Dollar threshold used to distinguish between Type A and Type B programs: **\$1,099,406**

(i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:

2007-1 – Financial Reporting – Material Weakness

Comment and Recommendation

The Corporation issues a Consolidated Annual Financial Report (CAFR) each year. The preparation of the CAFR is a collaborative effort between the accounting staffs of Wishard Hospital and the Corporations. Both of these accounting departments experienced significant turnover in the current year and as a result encountered difficulties and delays in compiling the CAFR. Additionally, the Corporation's year-end financial reporting processes were not formally documented, and thus, no written procedures were available to ensure that year-end entries and processes were accurately completed. Significant audit adjustments were ultimately required to accurately and materially state the financial statements. Many of these audit adjustments resulted from inexperienced personnel recording items that were not adequately reviewed by management. Additionally, some of the entries were reclassifications necessary for proper financial statement presentation; however, the reclassifications were not properly identified by management.

**HEALTH AND HOSPITAL CORPORATION
OF MARION COUNTY, INDIANA**
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Schedule of Findings and Questioned Costs
Year ended December 31, 2007

We recommend the Corporation prepare a year-end closing procedures manual that clearly outlines the Corporation's entire year-end financial reporting process. This document should define the method for obtaining data to properly prepare the related entry and the documentation of any methodology or assumptions used in preparing the entries. A formalized and properly documented process will allow the year-end financial reporting process to be followed consistently each year even with key employee turnover. It should also provide a checklist of items to ensure that no accounting entries are excluded in error. Additionally, a process should be implemented as part of the year-end financial reporting process to ensure that adequate management review of the financial statements is occurring.

Management Response

Management concurs that a year-end closing procedure manual is needed. Many items were documented during the 2007 CAFR preparation process and management is working to document and has created additional structure related to the year-end close process. This ongoing process will be further reviewed and refined during the preparation of the 2008 CAFR. We anticipate that a more formalized document will be available related to the annual close process during 2009.

2007-2 – Recording of Medicaid Special Revenue – Material Weakness

Comment and Recommendation

The Corporation receives significant funding from the State of Indiana Disproportionate Share Hospital Payment Program and the Upper Payment Limit Program that are accounted for as Medicaid special revenue in the Corporation's financial statements. These funding sources typically provide an estimated amount of funding in each year and then subsequently "settle" each year as information is submitted from all such entities earning this funding. At times, the Corporation has to pay back funding to the State of Indiana (the State) and at other times may receive additional funding from the State. These transactions may occur several years after the original funding was received. The Corporation recognizes these amounts as revenue when they are earned and are both available and measurable in the fund statements and when they are earned in the government-wide financial statements. Similar moneys to be received in the future, and relating to current or prior years, are not typically determinable until received and thus are only recorded when they are determinable.

In the current year, significant audit adjustments were required to accurately state these revenues in the financial statements. The Corporation did not have an adequate management review process to ensure that such revenues were recorded properly.

We recommend the Corporation establish procedures to ensure that Medicaid special revenue is properly recorded. Given the typically large dollar amount of such transactions, all receipts and payments should be reviewed by management for propriety in recording the amounts. The Corporation's policies and procedures should also be formally documented to allow consistent and accurate recording of these transactions.

**HEALTH AND HOSPITAL CORPORATION
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Schedule of Findings and Questioned Costs
Year ended December 31, 2007

Management Response

The Medicaid special revenues under debate do not follow any monthly pattern of receipt; therefore, they are recognized as they are received, and at that time a determination is made as to which year the amounts relate. In order to monitor the receipt of these revenues, a workpaper is maintained of year-to-date receipts and is provided during the audit process. This is updated as the revenues materialize. We disagree that we do not have adequate procedures in place to identify these revenues. For future audits, we will, however, utilize this workpaper to assure that revenues relating to prior years, which are received in a reasonable time period after year-end, are accrued for in the financial statements.

2007-3 – Identification of Federal Grant Expenditures – Material Weakness

Comment and Recommendation

The Corporation does not have an adequate process in place at Wishard Health Services (the Hospital) to properly identify federal grant award expenditures for inclusion in the schedule of expenditures of federal awards for the Office of Management and Budget Circular A-133 audit (Single Audit).

We recommend the Corporation review the grant accounting procedures at the Hospital. An accounting structure should be established that allows for grant activities to be recorded in such a manner to ensure that federal grant awards and related expenditures are properly identified, administered, and monitored. This process should include procedures to ensure that the schedule of expenditures of federal awards can be prepared on a timely and accurate basis.

Management Response

Corporation staff has already initiated steps in working with the accounting staff at the Hospital to help identify and properly record transactions associated with federal grants. A standard workpaper for use in recording grant transactions has been provided to Hospital staff in an effort to accumulate the necessary data and to be used on an ongoing basis. The Hospital and the Grants Management Department within the Corporation are coordinating steps in the contract process to assure that all staff are aware when federal funds are received. This will work in conjunction with the workpaper to assure that all federal funds, and all grants, are accounted for properly.

2007-4 – Recording of Accounts Payable – Material Weakness

Comment and Recommendation

Accounts payable for financial reporting purposes are recorded primarily based on a review of subsequent year cash disbursements and determining whether such disbursements relate to the current year. During our testwork on subsequent year cash disbursements to determine the accuracy of the recorded accounts payable amounts, we identified items that were not properly accrued. The Corporation did not have a formal process in place to accurately review for such items.

**HEALTH AND HOSPITAL CORPORATION
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Schedule of Findings and Questioned Costs

Year ended December 31, 2007

Additionally, we identified several errors in the classification of amounts between accounts payable and accrued liability accounts. The Corporation did not have an adequate management review process in place to ensure that accounts payable and accrued liability accounts were properly reconciled.

We recommend the Corporation ensure that all amounts that should be accrued as accounts payable are appropriately accrued. Formalized procedures should be documented on the Corporation's accounts payable process, and a management-level review of the accruals should be performed to ensure that procedures are being appropriately followed. All accounts payable and accrued liability accounts should be properly reconciled each month.

Management Response

Management does have a process in place for the first two months of the new year that accrues expense back to the audit year via the accounts payable process. After the two months, the process becomes manual so that entries that affect the audit year are minimal and audit workpapers can be prepared without several adjustments. Management is in the process of implementing a new process whereby a manual listing will be kept of all items paid in 2009 (past the point of February 28) that relate back to 2008. This listing will then be used to make a one-time entry back to the statements to accrue related expenses.

2007-5 – Recording of Prepaid Assets – Material Weakness

Comment and Recommendation

During our audit procedures, we identified two material prepaid assets that were incorrectly recorded by the Corporation. One of the adjustments resulted from management not properly maintaining adequate documentation to support the prepaid amount and resulting amount of amortization that was required to be recorded.

We recommend the Corporation ensure that appropriate documentation and reconciliation of all prepaid accounts are properly maintained. Additionally, the reconciliations and accounting entries made should be reviewed and approved by individuals with appropriate knowledge of the transactions.

Management Response

Documentation was gathered during the 2007 audit due to staff turnover in the prior year. All of the prepaid information is being documented in paper audit files and on the network computer drive so that any future staff will be able to easily find it and record prepaid expenses correctly. A process is now in place whereby the Assistant Treasurer reviews payment packages to determine if prepayments exist. If they do, they are documented on a spreadsheet in order to make the proper accounting entry.

**HEALTH AND HOSPITAL CORPORATION
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Schedule of Findings and Questioned Costs
Year ended December 31, 2007

2007-6 – Wishard Health Services Accounts Receivable Allowance

Comment and Recommendation

The Hospital utilizes a spreadsheet that estimates the total amount of cash expected to be collected on the accounts receivable. This spreadsheet has cash collections lag data for the previous three years and in the past has accurately estimated the cash that will be collected. The Hospital did not adjust its accounts receivable allowance to match the estimated collections on this spreadsheet which resulted in a recorded accounts receivable balance that was lower than the subsequent year related cash collections. An audit adjustment was required to properly value the accounts receivable balance.

We recommend management revise the accounts receivable allowance to be consistent with historical analysis maintained by management that has proven to be accurate. In the event that a significant amount of time lapses from the year-end date to the date of the issuance of the financial statements, the Hospital should have procedures in place to validate actual cash collections compared to their estimate to ensure the financial statements as of December 31 are accurate in all material respects.

Management Response

The spreadsheet is one source of information used to evaluate anticipated cash flow. Inherent in the spreadsheet is the assumption that the underlying processes and the related volume of activity are constant. The contractual allowance continues to be established based on the known outstanding accounts receivable. The forecasted cash is simply a tool to evaluate the reasonableness of the detail calculation. Management never intended the forecasted cash to be the basis of establishing the contractual allowance and in fact believes this would be inappropriate, since factors such as patient volume and mix are not captured in the model, but impact future cash flows.

2007-7 – Reconciliation of Interfund Transfers

Comment and Recommendation

During our audit, we noted deficiencies in internal controls in place to ensure proper reconciliation of transfers between the governmental and proprietary funds of the Corporation. We identified several audit adjustments that were necessary to properly balance the transfers between funds primarily involving capital transfers and other transfers that do not occur on a routine basis.

We recommend the Corporation review its process and procedures for reconciling transfers between funds. Additional procedures should be implemented to ensure that all transfers, including capital transfers, are reconciled on a timely basis, and this process should be performed more frequently than for year-end financial reporting. Any adjustments identified through the reconciliation process should be recorded in the financial records in a timely fashion.

**HEALTH AND HOSPITAL CORPORATION
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(A Component Unit of the Consolidated
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Schedule of Findings and Questioned Costs

Year ended December 31, 2007

Management Response

New general ledger accounts were set up in 2008 which are being specifically used to account for capital transfers between the governmental and proprietary funds. These accounts will help facilitate the reconciliation between the two divisions by segregating these transfers by account. Monthly documentation is being supplied between the divisions regarding operating transfers. Additionally, a quarterly report is also supplied between the divisions for the capital transfers. Quarterly meetings will be held to review the transfers and reconcile any discrepancies between the divisions.

2007-8 – Recording of Accounts Receivable

Comment and Recommendation

The Corporation records accounts receivable amounts at year-end primarily by reviewing the subsequent year cash receipts and determining the propriety of their inclusion or exclusion in the year-end accounts receivable balance. During our testing of these amounts, we determined that there were amounts that were not properly recorded in the correct fiscal year, and thus were excluded from accounts receivable.

We recommend the Corporation implement a management oversight review of the accounts receivable process that will provide an additional internal control over the recording of these amounts.

Management Response

Management has initiated a process whereby when cash is received in the subsequent year by the bookkeeper, a note is being made of the year to which it pertains. This listing is reviewed monthly and any receivables will then be recorded in the audit year.

2007-9 – IT SAP Program Change

Comment and Recommendation

The program change control objective within the Information Technology (IT) general control environment is ineffective because business owners were not approving requests before implementation into production, and evidence of testing by IT business analysts was missing in many cases. Furthermore, inappropriate access to the transaction code STMS (used to migrate changes into production) existed that allows segregation of duties between development and migration to be bypassed. Consequently, we cannot determine all changes made to SAP are authorized and receive appropriate approval and testing.

We recommend the Corporation reinforce the change request policy through communicating the requirements to all parties involved. Additionally, any employees with access to STMS and who have the ability to migrate changes to the production environment should not have development responsibilities and need to be segregated from developers. These users should also be informed of

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the requirements necessary for changes to be migrated to the production environment and should not migrate any changes that do not comply.

Management Response

This process has been reviewed and will now require a documented business owner approval before moving configuration changes from development to production. This was occurring in the past but the communication was going through the IT Business Analyst and not to the individual moving the change/transport. In the future, that communication will be from the Business Owner directly to the individual moving the change/transport. In addition, access to STMS has been limited to a very small group of IT Business Analysts. That access allows them to research and possibly correct any configuration changes that may adversely affect another module within SAP. All changes/transports are stored and reviewed weekly. The individual responsible for moving transports or the designated backup are the only two individuals who move transports from development to production.

2007-10 – IT SMS Access to Programs and Data

Comment and Recommendation

The access to programs and data control objective within the IT general control environment for SMS failed due to a lack of enforcement of any password complexity parameters and ineffective controls around end-user administration. Specifically, no periodic access reviews of end-user access were performed, no business authorization existed for new user additions, and roles configured within the system could not be determined to be appropriate based on job function.

We recommend the Corporation design effective controls for end-user administration. Any new users added to the SMS application need to have evidence of approval from an authorized business manager. Additionally, a quarterly review should be executed to determine roles and permissions are configured appropriately and granted to the appropriate end-users based on their job function. Furthermore, password complexity parameters such as minimum length, expiration interval, and lockout attempts should be enforced.

Management Response

During 2008, the SMS application has been replaced by a new application. As part of the new system, role-based configuration is more heavily emphasized than under the SMS configuration. Management is also in the process of implementing more complex network access passwords that we expect to be extended to individual applications during 2009.

Management is not planning on implementing periodic access reviews. We believe that the current compensating control to assure appropriate access by end users is achieved through automated notifications to IT security of a change in status of an end user as it relates to termination of transfer between departments. In addition, during 2009, we will expand this automatic notification process to include job changes within a department.

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(3) **Findings and Questioned Costs relating to Federal Awards:**

2007-1 to

2007-10 See Section (2) – Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*.

2007-11 Allowable Costs/Cost Principles

Federal Program, Federal Agency, Pass-through Entity, Federal Grant(s) Number

CFDA No. 93.217, *Family Planning Services*, U.S. Department of Health and Human Services passed through Indiana Family Health Council; Grant Number FPHPA050511-32-03.

CFDA No. 93.558, *Temporary Assistance for Needy Families*, U.S. Department of Health and Human Services passed through Indiana Family and Social Services Administration, Healthnet, Inc., and Indiana University; Grant Numbers 48-05-92-1580, HEA-01208/108597/2293N3, and 48-05-60-1580.

CFDA No. 93.914, *HIV Emergency Relief Project Grants*, U.S. Department of Health and Human Services; Grant number H89HA07939-01-00

CFDA No. 93.959, *Block Grants for Prevention and Treatment of Substance Abuse*, U.S. Department of Health and Human Services passed through the Indiana Department of Health, Indiana Family and Social Services Administration, and InteCare, Inc.; Grant Numbers 3610-572100-145500-PSUP198-16, 49-07-SA-1580, 49-07-HO-1580, and 49-08-HO-1580.

Criteria

Per OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment B, Paragraph 8(h)(3) and (4), where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certification that the employees worked solely on that program for the period covered by the certification. These certifications are to be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation, which (1) reflects an after-the-fact distribution of the actual activity of each employee; (2) accounts for the total activity for which each employee is compensated; (3) is prepared at least monthly and must coincide with one or more pay periods; and (4) must be signed by the employee.

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Condition Found

During our testwork over *Family Planning Services*, *Temporary Assistance for Needy Families*, *HIV Emergency Relief Project Grants* and *Block Grants for Prevention and Treatment of Substance Abuse* we selected a sample of expenditures that included payroll and payroll related expenditures. For employees working solely on the grant programs, semiannual certification statements indicating that 100% of the employees' time was spent on that grant were not completed for the first half of the year. For employees working on multiple activities, we could not obtain sufficient documentation to support the time charged to the respective grant. Additionally, no time certifications could be obtained for employees that were either transferred or terminated during 2007 as the Corporation's procedures implemented in late 2007 failed to capture these individuals. See detail of individual grants in the table below.

Federal program	Sample size	Amount of payroll associated with exceptions	Most likely questioned costs
Family Planning Services	Exceptions in 18 of 29 payroll expenditures selected for testing	\$23,441	\$588,966
Temporary Assistance for Needy Families	Exceptions in 47 of 67 payroll expenditures selected for testing	\$50,640	\$1,620,287
HIV Emergency Relief Project Grants	Exceptions in 5 of 6 payroll expenditures selected for testing	\$10,865	\$131,440
Block Grants for Prevention and Treatment of Substance Abuse	Exceptions in 16 of 40 payroll expenditures selected for testing	\$38,673	\$130,303

Questioned Costs

The amount of questioned costs for *Family Planning Services* is \$588,966 and was computed by taking one half of total payroll related expenditures for the year plus payroll related expenditures

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for any individuals that were splitting their time between multiple grants or did not have time certifications because they transferred or terminated during the year.

The amount of questioned costs for *Temporary Assistance for Needy Families* is \$1,620,287 and was computed by taking one half of total payroll related expenditures for the year plus payroll related expenditures for any individuals that were splitting their time between multiple grants or did not have time certifications because they transferred or terminated during the year. Additionally, the questioned costs include an extrapolated amount for payroll costs related to individuals whose semiannual time certifications could not be found.

The amount of questioned costs for *HIV Emergency Relief Project Grants* is \$131,440 and was computed by taking the entire amount of payroll expenditures for the year less the payroll for the one individual that did have a semiannual time certification.

The amount of questioned costs for *Block Grants for Prevention and Treatment of Substance Abuse* is \$130,303 and was computed by taking one half of the payroll related expenditures requested for reimbursement in 2007.

Possible Asserted Cause and Effect

Management indicated that when employees' time is charged 100% to a respective grant, management was not aware until late in the year of the requirement for the employees to complete time certifications. These time certifications could only be completed for the second half of the year. Additionally, for employees that work on multiple activities, there was not a system in place to ensure that time is objectively allocated to the grant.

Recommendation

We recommend that management strengthen the organization's processes and controls to help ensure that payroll charges are supported by after-the-fact personnel activity reports or semiannual certification statements are executed for all employees charging time to federal grants stating that 100% of their time is spent on a particular grant. Additionally, a procedure should be implemented to capture the semiannual time certification for employees who terminate or transfer.

Views of Responsible Officials

We concur. In December 2007, the Corporation implemented procedures to document and charge hours worked for employees who work less than 100% on one grant. The Corporation has also implemented procedures to obtain time attestations twice per year.

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2007-12 *Eligibility*

Federal Program, Federal Agency, Pass-through Entity, Federal Grant(s) Number

CFDA No. 93.959, *Block Grants for Prevention and Treatment of Substance Abuse*, U.S. Department of Health and Human Services passed through the Indiana Department of Health, Indiana Family and Social Services Administration, and InteCare, Inc.; Grant Numbers 3610-572100-145500-PSUP198-16, 49-07-SA-1580, 49-07-HO-1580, and 49-08-HO-1580.

Criteria

Under the grant agreement, the Corporation is responsible for determining the eligibility of individuals enrolled under this grant.

Condition Found

During our eligibility testwork over this grant, we tested a sample of 70 enrollee files to determine whether internal controls were operating effectively to ensure that the individuals were eligible to be serviced under the program and whether the Corporation was in compliance with the program's eligibility requirements. For 41 of the 70 enrollee files tested, sufficient documentation was not available to determine that the individual was eligible for services.

Questioned Costs

Total known questioned costs associated with this finding are \$69,750 for Methadone participants and was computed by multiplying the 31 exceptions in our sample of 40 by the per unit reimbursement rate that the Corporation receives of \$2,250. The Corporation receives a per unit reimbursement rate for each enrollee rather than being reimbursed based on expenses incurred. The most likely questioned costs are \$313,278 and were computed by multiplying the error rate in our sample by the amount of funding recognized in 2007.

During our eligibility testwork over this grant for non-Methadone enrollees, we tested a sample of 30 enrollee files. There were 10 exceptions in our sample of 30. Questioned costs associated with this finding for non-Methadone participants could not be calculated. The Corporation receives reimbursement quarterly and the amount of reimbursement is not based on the number of enrollees.

Possible Asserted Cause and Effect

The information required to document the eligibility of the enrollees is not being properly maintained in the enrollees' files by Corporation personnel.

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Recommendation

We recommend that management strengthen the organization's processes and controls to help ensure that all information needed to support the eligibility of the enrollees served by this program is properly and completely maintained in their respective files.

Views of Responsible Officials

We concur. In mid 2008 copies of residence and income documentation were placed in the enrollment chart as support. Every January and July moving forward, audit procedures have been/will be performed on the charts to verify proper support is maintained.

2007-13 Subrecipient Monitoring

Federal Program, Federal Agency, Pass-through Entity, Federal Grant(s) Number

CFDA No. 93.914, *HIV Emergency Relief*, U.S. Department of Health and Human Services; Grant number H89HA07939-01-00

Criteria

According to OMB Circular A-133 §___.400(d) and the 2007 Compliance Supplement, a pass through entity is responsible for award identification; at the time of the award, identifying to the subrecipient the federal award information (e.g., CFDA title and number, award name, name of federal agency), and applicable compliance requirements.

Condition Found

The Corporation executes subaward agreements with its subrecipients to communicate required grant information. We noted one grantee out of seven total subrecipients for which no grant agreement with the subrecipient was executed.

Questioned Costs

There are no questioned costs associated with this finding.

Possible Asserted Cause and Effect

The effect of this finding is that subrecipients may not be properly informed of the compliance requirements applicable to this grant.

Recommendation

We recommend that management strengthen the organization's processes and controls to help ensure that subaward agreements are executed with all subrecipients.

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Views of Responsible Officials

We concur. The Corporation has reviewed and executed contracts with all subrecipients.

2007-14 Allowable Costs/Cost Principles

Federal Program, Federal Agency, Pass-through Entity, Federal Grant(s) Number

CFDA No. 10.557, *Special Supplemental Nutrition Program for Women, Infants, and Children*, U.S. Department of Agriculture passed through the Indiana Department of Health; Grant Numbers 3610-572100-142500 198-6 and 198-11, and 3610-572100-144300 198-11

Criteria

Per OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment B, Paragraph 8(h)(3) and (4), where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certification that the employees worked solely on that program for the period covered by the certification. These certifications are to be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation, which (1) reflects an after-the-fact distribution of the actual activity of each employee; (2) accounts for the total activity for which each employee is compensated; (3) is prepared at least monthly and must coincide with one or more pay periods; and (4) must be signed by the employee.

Condition Found

During our testwork over the *Special Supplemental Nutrition Program for Women, Infants, and Children* grant, we selected a sample of expenditures that included payroll and payroll related expenditures. Within our sample of 28 payroll expenditures, we noted that time certifications were not available in 1 instance totaling \$1,670.

Questioned Costs

The most likely questioned costs were computed by obtaining a detail listing from management of all individuals that transferred or terminated during the year for which time-certifications were not available. Total questioned costs based on the detail listing as discussed are \$207,793.

Possible Asserted Cause and Effect

Management indicated that there were no policies or procedures in place to obtain time certifications from employees that transferred or terminated during the year

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Recommendation

We recommend that management strengthen the organization's processes and controls to help ensure that when an employee transfers or terminates their payroll charges are supported by after-the-fact personnel activity reports or semiannual certification stating that 100% of their time is spent on a particular grant.

Views of Responsible Officials

We concur. In December 2007, the Corporation implemented procedures to document and charge hours worked for employees who work less than 100% on one grant. The Corporation has also implemented procedures to obtain time attestations twice per year.