

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

AUDIT REPORT
OF

CLARK MEMORIAL HOSPITAL
A COMPONENT UNIT OF
CLARK COUNTY, INDIANA

January 1, 2011 to December 31, 2011



FILED
10/30/2012

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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
President and Chief Executive Officer	Martin Padgett	01-01-11 to 12-31-12
Chief Financial Officer and Treasurer	Kirk Strack	01-01-11 to 12-31-12
Chairman of the Hospital Board	Donald H. Slone	01-01-11 to 12-31-12
President of the Board of County Commissioners	M. Edward Meyer Les Young	01-01-11 to 12-31-11 01-01-12 to 12-31-12



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AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the Clark Memorial Hospital (Hospital) as of and for the year ended December 31, 2011, which collectively comprise the Hospital's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Southern Indiana Rehab Hospital, an Affiliated Company. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the investment in the Affiliated Company in the amount of \$1,566,219, as of December 31, 2011, is based on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Hospital's internal control over financial reporting. As a result, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital as of December 31, 2011, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis and Schedule of Funding Progress, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's financial statements. The combining schedules, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

STATE BOARD OF ACCOUNTS

September 18, 2012

Management Discussion and Analysis

Our discussion and analysis of Clark Memorial Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the Hospital's financial statements and accompanying notes to the financial statements.

Using This Annual Report

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

- In the "*management discussion and analysis*" section of this report the management of the hospital discuss various components of the annual report and provide an analysis of the current financial statement information.
- The "*basic financial statement*" section of this report includes a series of financial statements, which provide information about the activities of the Hospital as a whole. The Statement of Net Assets reveals the assets and liabilities of the Hospital on December 31, 2011 while the Statement of Revenues, Expenses and Changes in Net Assets summarizes the changes in the assets and liabilities for the year then ended. The Statement of Cash Flows summarizes the change in cash and cash equivalents as a result of the financial activity during the year. The Notes to the Financial Statements disclose additional information addressed within the body of the financial statements.

Financial Highlights

- Cash and investments, excluding held by trustee for debt service, decreased by \$8.8 million or 49% as compared to 2010.
- The Hospital's net assets decreased in the past year by \$30.4 million or 37% compared to 2010.
- The Hospital reported an operating loss in 2011 of \$28.3 million or 22.1% of total operating revenues versus \$1.0 million operating gain or 0.7% of total operating revenues for 2010.
- Net nonoperating expenses increased by \$1.9 million as compared to 2010.
- Days cash on hand decreased to 34 in 2011 from 60 in 2010.
- Debt service coverage ratio deteriorated to a negative 2.47 in 2011 from 2.55 in 2010.

Summarized Financial Statement Information

The following information documents in summary form the financial information related to the activities of the hospital for the last year. All figures are rounded to the nearest 1,000.

	<u>2011</u>	<u>2010</u>
Current assets	\$ 28,106	50,137
Noncurrent assets	8,682	12,021
Capital assets	95,916	98,405
Other assets	<u>4,526</u>	<u>4,811</u>
Total assets	<u>\$ 137,230</u>	<u>165,374</u>
Current liabilities	\$ 32,089	26,603
Long-term debt	53,657	56,845
Other long-term liabilities	<u>490</u>	<u>491</u>
Total Liabilities	<u>86,236</u>	<u>83,939</u>
Net Assets		
Invested in capital assets, net of related debt	39,069	27,280
Nonexpendable permanent endowments	43	44
Expendable for specific operating activities	3,938	22
Debt service reserve	4,201	-
Unrestricted	<u>3,743</u>	<u>54,089</u>
Total Net Assets	<u>50,994</u>	<u>81,435</u>
Total Liabilities and Net Assets	<u>\$ 137,230</u>	<u>165,374</u>

Net Patient service revenue	\$	125,000	\$	143,178
Other revenues		<u>3,058</u>		<u>3,019</u>
Total Revenues		<u>128,058</u>		<u>146,197</u>
Expenses				
Salaries and benefits		86,761		79,566
Medical supplies, drugs, services and fees		51,238		48,619
Other		7,658		6,932
Depreciation and amortization		<u>10,735</u>		<u>10,095</u>
Total Expenses		<u>156,392</u>		<u>145,212</u>
Operating income		(28,334)		985
Nonoperating revenues (expenses)		(2,107)		(169)
Capital Contributions, Grants, etc.		<u>-</u>		<u>-</u>
Increase (decrease) in net assets		(30,441)		816
Net assets beginning of year		<u>81,435</u>		<u>80,619</u>
Net assets end of year	\$	<u>50,994</u>	\$	<u>81,435</u>

Operating Income (loss)

The first component of the overall change in the Hospital's net assets is its operating income or loss identified as the difference between net patient service and other operating revenue and the expenses incurred to perform these services.

The operating loss for 2011 was \$28.3 million as compared to an operating income of \$1.0 million for 2010. The primary components of the change in operating results are:

- A decrease in net patient service revenue of \$18.2 million or 12.7% in 2011 due to an increase in reserves for both the allowance for bad debts and contractual allowances totaling approximately \$25.1 million offset by increased inpatient discharges of 6%, and addition of physician practices. During 2011, management determined that changes to reserves for bad debts and contractual allowances were necessary due to challenges associated with the implementation of a new revenue cycle system in 2010.
- An increase in personnel and benefits of \$7.2 million or 9% in 2011 as compared to 2010. The increase resulted from increased Hospital volume, and the acquisition of physician practices. Full-time equivalent employees increased by 4.3% to 1,377 in 2011 from 1,321 in 2010 primarily as a result of increased Hospital volumes and the addition of physician practices.

- An increase in medical supplies, drugs, services and fees of \$2.6 million or 5.4% in 2011 as compared to 2010. The increase in 2011 was the result of increased Hospital volume, and the acquisition of physician practices.
- An increase in depreciation and amortization of \$0.6 million or 6.3% in 2011 as compared to 2010.

Capital Assets and Debt Administration

Capital Assets

At the end of 2011, the Hospital had approximately \$39 million invested in capital assets, net of related debt. More detailed information about the Hospital's capital assets is presented in Note II.C. to the financial statements. The table below documents the type of assets that make up the Capital Assets held by the Hospital as of December 31, 2011.

	Net of Depreciation (000's)	
	2011	2010
Land	\$ 6,366	\$ 6,433
Construction in progress	8,187	30,515
Land improvements	1,545	1,545
Building and improvements	96,001	95,211
Equipment	118,244	88,399
Total	230,343	222,103
Less Accumulation depreciation	134,427	123,698
Capital Assets (Net)	\$ 95,916	\$ 98,405

Debt

At year-end, the Hospital had approximately \$57 million in loans and bond issues outstanding, versus \$62 million at the end of the previous year. More detailed information about the Hospital's long-term liabilities is presented in Note II E, F and G to the financial statements. The table below documents the debt held and its use:

	Outstanding Debt At Year End (000's)	
	2011	2010
Revenue bonds	\$ 53,276	\$ 55,549
Capital leases	2,340	3,527
Loans	1,230	2,936
Other short term debt	451	-
	<u>57,297</u>	<u>62,012</u>
Total Debt	\$ <u>57,297</u>	\$ <u>62,012</u>

Contacting the Hospital's Management

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Administrator at (812) -283-2147.

CLARK MEMORIAL HOSPITAL
STATEMENT OF NET ASSETS
Year Ended December 31, 2011
(In Thousands)

Assets

Current assets:	
Cash and cash equivalents	\$ 1,730
Short-term investments	3,056
Cash with fiscal agent	17
Patient accounts receivable, net of estimated uncollectibles of \$74,235 (Hospital-\$72,415, CPG-\$1,820)	18,511
Other receivables	1,690
Inventories	1,268
Prepaid expenses	1,834
Noncurrent cash and investments:	
Held by trustee for debt service	4,201
Other long-term investments	500
Restricted by contributors and grantors	3,981
Capital assets:	
Land	6,366
Construction in progress	8,187
Depreciable capital assets, net of accumulated depreciation	81,363
Deferred financing costs	736
Other assets	<u>3,790</u>
Total assets	<u>\$ 137,230</u>

Liabilities and Net Assets

Current liabilities:	
Current maturities of long-term debt	\$ 2,648
Current maturities of capital leases	541
Other short term debt	451
Accounts payable	7,444
Accrued expenses	19,468
Estimated third-party payor settlements	1,537
Long-term debt, net of current maturities, net of unamortized loss on refunding	53,657
Other long term liabilities	<u>490</u>
Total liabilities	<u>86,236</u>
Net assets:	
Invested in capital assets, net of related debt	39,069
Restricted:	
Expendable for debt service	4,201
Expendable for specific operating activities	3,938
Nonexpendable permanent endowments	43
Unrestricted	<u>3,743</u>
Total net assets	<u>50,994</u>
Total liabilities and net assets	<u>\$ 137,230</u>

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

CLARK MEMORIAL HOSPITAL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2011
(In Thousands)

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 125,000
Other	<u>3,058</u>
Total operating revenues	<u>128,058</u>
Operating expenses:	
Personnel	71,035
Benefits	15,726
Supplies	28,121
Purchased services	20,464
Professional fees	2,653
Other expenses	7,658
Depreciation and amortization	<u>10,735</u>
Total operating expenses	<u>156,392</u>
Operating loss	<u>(28,334)</u>
Nonoperating revenues (expenses):	
Investment income	251
Interest expense	(2,568)
Gain on investment in affiliated companies	<u>210</u>
Total nonoperating revenues (expenses)	<u>(2,107)</u>
Excess of revenues over expenses	(30,441)
Net assets beginning of the year	<u>81,435</u>
Net assets end of the year	<u>\$ 50,994</u>

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

CLARK MEMORIAL HOSPITAL
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2011
(In Thousands)

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 145,017
Payments to suppliers and contractors	(62,954)
Payments to employees	(83,962)
Other receipts and payments, net	<u>8,356</u>
Net cash provided by operating activities	<u>6,457</u>
Cash flows from noncapital financing activities:	
Proceeds from short-term debt	4,000
Principal paid on short-term debt	(3,700)
Interest paid on short term debt	<u>(71)</u>
Net cash provided by noncapital financing activities	<u>229</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(7,816)
Proceeds from sale of capital assets	67
Principal paid on long-term debt	(5,184)
Interest paid on long-term debt	<u>(2,992)</u>
Net cash used by capital and related financing activities	<u>(15,925)</u>
Cash flows from investing activities:	
Interest and dividends on investments	259
Decrease in Investment in Affiliated Company	210
Purchase of investments	<u>(1,452)</u>
Net cash provided by investing activities	<u>(983)</u>
Net decrease in cash and cash equivalents	<u>(10,222)</u>
Cash and cash equivalents at beginning of year	<u>20,151</u>
Cash and cash equivalents at end of year	<u>\$ 9,929</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 1,747
Restricted cash and cash equivalents	<u>8,182</u>
Total cash and cash equivalents	<u>\$ 9,929</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (28,334)
Adjustments to reconcile operating loss to net cash flows used in operating activities:	
Depreciation and amortization	10,735
Provision for bad debts	43,647
Amortization of deferred financing cost	67
Patient accounts receivable	(26,959)
Supplies and other current assets	(7,169)
Other assets	301
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	7,378
Other current liabilities	6,598
Other long term liabilities	(1)
Estimated third-party payor settlements	<u>194</u>
Net cash provided in operating activities	<u>\$ 6,457</u>
Noncash capital and financing activities:	

The Hospital entered into a financing agreement for their premiums for medical protection insurance, with Flat Iron Capital in the amount of \$607,120. The agreement requires monthly payments of \$51,524.46 which includes interest at an annual rate of 4% for 12 months, beginning June 1, 2011.

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

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

The accompanying financial statements present the activities of the Hospital (primary government) and its significant component units. The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. Blended component units, although legally separate entities are in substance part of the government's operations and exist solely to provide services for the government; data from these units is combined with data of the primary government.

Blended Component Units

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

The financial statements of the individual component unit may be obtained from its office location as follows:

Karen Floyd
Finance Department
Clark Memorial Hospital
1220 Missouri Avenue
Jeffersonville, Indiana 47130

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

The financial statements of the individual component unit may be obtained from its office location as follows:

Sharon Green
Finance Department
Clark Physicians Group
1806 E. 10th Street
Jeffersonville, Indiana 47130

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Hospital has elected to apply subsequent private-sector guidance.

C. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

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

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

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

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

Open-end mutual funds are reported at fair value.

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

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

Other investments are generally reported at fair value.

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

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Use of Estimates

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

3. Capital Assets

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

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

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Hospital during the current year was \$3,063,058. Of the amount, \$495,146 was included as part of the cost of capital assets under construction in connection with a new medical charting/billing system (software and installation).

4. Net Assets

Net assets of the Hospital are classified in four components.

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, contributors, or enabling legislation external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note II H.

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

The financial statement reports \$8,181,727 of restricted net assets, of which \$3,921,057 is restricted by enabling legislation.

D. Grants and Contributions

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

E. Endowments

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

F. Restricted Resources

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

G. Operating Revenues and Expenses

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

H. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue represents the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

I. Charity Care

The Hospital has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Because the agency does not expect payment, estimated charges for charity are not included in revenue.

J. Supplies

Inventories of drugs and other supplies are stated at the lower of cost (first-in, first-first-out) or market.

K. Compensated Absences

1. Extended Illness Bank (EIB) Leave

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

2. Paid Time-Off

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

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

L. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Short-Term Investments

The carrying amount reported in the Statement of Net Assets is the investment's fair value on the day it becomes a short-term investment.

Investments

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

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Accounts Payable and Accrued Expenses

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

Estimated Third-Party Payor Settlements

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

Long Term Debt

Fair values of the Hospital's revenue notes are based on current traded value. The fair value of the Hospital's remaining long-term debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-16 allows a Hospital Governing Board to deposit public funds in a financial institution. The Hospital does not have a deposit policy for custodial credit risk. At December 31, 2011, the Hospital had deposit balances in the amount of \$14,279,020 which were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20. As of December 31, 2011, the Hospital and the Hospital Foundation had the following investments:

<u>Investment Type</u>	<u>Market Value</u>
Mutual Funds	<u>\$ 1,779,984</u>

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Statutory Authorization for Investments

Indiana Code 16-22-3-20 authorizes the Hospital to invest in:

Any interest-bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana

Repurchase or resale agreements involving the purchase and guaranteed resale of any interest bearing obligations issued or fully insured or guaranteed by the United States or any United States government agency in which type of agreement the amount of money must be fully collateralized by interest bearing obligations as determined by the current market value computed on the day the agreement is effective

Mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana

Securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency

Pooled fund investments for participating hospitals offered, managed, and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Hospital has investments in both a money market fund and bond fund and neither fund has been issued a credit quality rating. The Hospital does not have a formal investment policy for credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital manages interest rate risk by authorizing investments with stated final maturities of less than one year. The Hospital does not have a formal investment policy for interest rate risk for investments.

Investment Type	Investment Maturities (in Years)			
	Less Than 1	1-5	6-10	More Than 10
Mutual bond funds	\$ 608,642	\$ -	\$ -	\$ -

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Accounts Receivable and Payable

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

Patient Accounts Receivable	Rounded Nearest (\$1,000)
Receivable from patients and their insurance carriers	\$ 67,331
Receivable from Medicare	15,033
Receivable from Medicaid	10,382
Total patient accounts receivable	92,746
Less allowance for uncollectible amounts	74,235
Patient accounts receivable, net	\$ 18,511
Accounts payable and accrued expenses	
Payable to employees (including payroll taxes)	\$ 16,393
Payable to suppliers	6,701
Other	3,818
Total accounts payable and accrued expenses	\$ 26,912

C. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

Primary Government	Beginning Balance	Rounded Nearest (\$1,000)		Ending Balance
		Increases	Decreases	
Capital assets, not being depreciated:				
Land	\$ 6,433	\$ 55	\$ 122	\$ 6,366
Construction in progress	30,515	21,244	43,572	8,187
Total capital assets, not being depreciated	36,948	21,299	43,694	14,553
Capital assets, being depreciated:				
Land improvements	1,545	-	-	1,545
Building and improvements	95,212	806	17	96,001
Equipment	88,399	48,418	18,573	118,244
Totals	185,156	49,224	18,590	215,790

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Primary Government	Beginning Balance	Rounded Nearest (\$1,000)		Ending Balance
		Increases	Decreases	
Less accumulated depreciation for:				
Land improvements	1,079	65	-	1,144
Building and improvements	48,470	4,190	-	52,660
Equipment	<u>74,148</u>	<u>6,480</u>	<u>5</u>	<u>80,623</u>
Totals	<u>123,697</u>	<u>10,735</u>	<u>5</u>	<u>134,427</u>
Total capital assets, being depreciated, net	<u>61,459</u>	<u>38,489</u>	<u>18,585</u>	<u>81,363</u>
Total primary government capital assets, net	<u>\$ 98,407</u>	<u>\$ 59,788</u>	<u>\$ 62,279</u>	<u>\$ 95,916</u>

D. Construction Commitments

Construction work in progress is composed of the following:

Project	Expended to December 31,	
	2011	Committed
Eclipsis 5.5 Upgrade	\$ 824,433	\$ 567
Decision Support	819,012	988
Allscript Phase 2	853,489	46,511
Lawson Server Move	1,227,711	72,289
MRI Replacement	1,985,581	14,419
Various Projects	<u>2,476,381</u>	<u>7,821</u>
Totals	<u>\$ 8,186,607</u>	<u>\$ 142,595</u>

E. Leases

Capital Leases

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

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2012	\$	617,656
2013		617,656
2014		617,656
2015		617,657
2016		<u>51,471</u>
Total minimum lease payments		2,522,096
Less amount representing interest		<u>182,247</u>
Present value of net minimum lease payments		<u>\$ 2,339,849</u>

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

Machinery and equipment	\$	2,818,958
Accumulated depreciation		<u>206,514</u>
Total	\$	<u>2,612,444</u>

F. Short-Term Liabilities

The Hospital uses a revolving line of credit and short-term loans/notes to finance Hospital operations. In 2011, the Hospital established a line of credit with Republic Bank to have monies available for operating purposes. In 2011, the Hospital entered into an agreement to finance premiums on medical protection insurance.

Short-term debt activity for the year ended December 31, 2011, was as follows:

	Rounded Nearest (\$1,000)			
	Beginning Balance	Issued/ Draws	Redeemed/ Repayments	Ending Balance
Line of credit	\$ -	\$ 4,000	\$ 3,700	\$ 300
Loan	<u>-</u>	<u>505</u>	<u>354</u>	<u>151</u>
Totals	<u>\$ -</u>	<u>\$ 4,505</u>	<u>\$ 4,054</u>	<u>\$ 451</u>

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

G. Long-Term Liabilities

1. Revenue Bonds

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

Purpose	Interest Rates	Balance at December 31	Less: Deferral on Refunding	Amount
Special Program Revenue Bonds, Series 2009D	5%	\$ 48,175	\$ 390	\$ 47,785
Recovery Zone Economic Bonds Republic 2010	4.99%	1,776	-	1,776
Recovery Zone Economic Bonds Community 2010	5.19%	3,715	-	3,715
Totals		\$ 53,666	\$ 390	\$ 53,276

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Rounded Nearest (\$1,000)	
	Principal	Interest
2012	\$ 2,429	\$ 2,609
2013	2,530	2,512
2014	2,629	2,413
2015	2,747	2,298
2016	2,877	2,169
2017-2021	14,739	8,702
2022-2026	16,010	4,986
2027-2029	9,705	786
Totals	\$ 53,666	\$ 26,475

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Loans Payable

The Hospital has entered into various loans. Annual debt service requirements to maturity for the loans, including interest of \$215,855, are as follows:

		Rounded Nearest (\$1,000)
2012	\$	260
2013		223
2014		222
2015		222
2016		222
Thereafter		297
Total	\$	1,446

3. Advance Refunding

In prior years, the Hospital defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Hospital's financial statements. The following outstanding bonds, at December 31, 2011, were considered defeased:

		Rounded Nearest (\$1,000) Amount
Hospital	\$	23,320

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

Primary Government	Beginning Balance	Rounded Nearest (\$1,000)		Ending Balance	Due Within One Year
		Additions	Reductions		
Bonds payable:					
Special Program Revenue					
Bonds, Series 2009D	\$ 49,960	\$ -	\$ 1,785	\$ 48,175	\$ 1,845
Recovery Zone Economic					
Bonds - Republic 2010	2,000	-	224	1,776	256
Recovery Zone Economic					
Bonds - Community 2010	4,000	-	285	3,715	329
Less deferred amount on refunding	(412)	-	(22)	(390)	-
Total bonds payable	55,548	-	2,272	53,276	2,430
Capital leases	3,527	-	1,187	2,340	541
Loans payable	2,936	-	1,706	1,230	217
Total long-term liabilities	\$ 62,011	\$ -	\$ 5,165	\$ 56,846	\$ 3,188

H. Endowments and Restricted Net Assets

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

	Rounded Nearest (\$1,000) 2011
Expendable for specific operating activities:	
Equipment purchases	\$ 3,921
Board approved activities	13
Nursing scholarships	4
Total expendable for specific operating activities	\$ 3,938
Expendable for debt service	\$ 4,201

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

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

	Rounded Nearest (\$1,000) 2011
Board approved activities	\$ 32
Nursing scholarships	11
Total restricted nonexpendable net assets	\$ 43

I. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

1. Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

2. Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 40 percent and 8 percent, respectively, of the Hospital's net patient revenue for the year ended 2011, and 40 percent and 7 percent, respectively, of the Hospital's net patient revenue for the year ended 2010. 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.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, HMO's, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

J. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$4,891,484 for 2011.

III. Other Information

A. Risk Management

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

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

Job Related Illnesses or Injuries to Employees

The Hospital's Operating Fund services the risk of loss on work related illnesses and injuries to employees. An excess policy through commercial insurance covers individual claims in excess of \$300,000 per year or an aggregate for all individuals of \$3,000,000. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. However, claim liabilities cannot be reasonably estimated.

Medical and Dental Benefits to Employees, Retirees, and Dependents

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees. The risk financing fund is accounted for in the Operating Fund. An excess policy through commercial insurance covers individual claims in excess of \$250,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs).

Changes in the balance of claim liabilities during the past two years are as follows:

	Rounded Nearest (\$1,000)	
	2010	2011
	_____	_____
Unpaid claims, beginning of fiscal year	\$ 561	\$ 589
Incurred claims and changes in estimates	5,224	6,018
Claim payments	(5,196)	(6,251)
	_____	_____
Unpaid claims, end of fiscal year	<u>\$ 589</u>	<u>\$ 356</u>

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Subsequent Events

Hospital Assessment Fee (HAF) Program

Prior to Indiana State Fiscal Year (SFY) 2012 (July 1, 2011 to June 30, 2012), hospitals received a lump sum payment through an intergovernmental transfer program (IGT), where county hospitals put up money based on uninsured, underinsured, and the Medicaid shortfall and were reimbursed up to Medicare rates. This was an extremely complex calculation year after year that netted Clark Memorial Hospital approximately \$5-6 million per year. The amount was reported as additional net patient revenue. This program was in existence for approximately 15 years; however, the Federal Government began to scrutinize how States were allocating and using the funds. It was decided, with the assistance of the Indiana Hospital Association, to develop and propose a mechanism where dollars followed the patients in lieu of the calculation referenced above.

Enacted by the 2011 Session of the Indiana General Assembly, *Public Law 229-2011, SECTION 281* provided the framework for the development and implementation of a hospital assessment fee program similar to those in other states. In May 2012, the Centers for Medicare and Medicaid Services (CMS) approved the state plan amendment necessary to implement these changes with an effective date of July 1, 2011. These changes are effective retroactive to July 1, 2011, and will continue through June 30, 2013. Under this program, the Office of Medicaid Policy and Planning (OMPP) will collect an assessment fee from eligible hospitals. The fee will be used in part to increase reimbursement to eligible hospitals for services provided in both fee-for-service and managed care programs, and as the state share of disproportionate share hospital (DSH) payments. For the SFY ending June 30, 2012, Clark Memorial Hospital was assessed \$11.7 million and received increased reimbursement of \$14.5 million. Due to the approval of the program after Clark Memorial Hospital's fiscal 2011 year end, no amounts have been reflected in the 2011 financial statements.

Medicare Settlement

Approximately 7 years ago, Clark Memorial Hospital joined a class action lawsuit against CMS related to a calculation of the base DRG rate used to reimburse all hospitals. CMS made an error in the rural floor budget neutrality adjustment by not reversing the reduction after a 1 year period creating a compounding effect for Clark Memorial Hospital back to cost reporting year 2005. In April 2012, Clark Memorial Hospital received notice of a final settlement associated with the class action lawsuit. In June 2012, Clark Memorial Hospital received a settlement of \$2.1 million. Due to notification subsequent to Clark Memorial Hospital's fiscal year end, no amounts have been reflected in the 2011 financial statements.

C. Contingent Liabilities

Litigation

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

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Termination Benefits

During the current year, the Hospital paid to one employee the amount of \$4,728 in severance pay. The hours paid to the employee were 200 hours over 5 weeks.

E. Fair Value Measurements

The Hospital has characterized its investments in securities, based on the priority of the inputs used to value the investments, into a three level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

Investments recorded in the Statement of Net Assets are categorized based on the inputs to valuation techniques as follows:

Level 1 – These are investments where values are based on unadjusted quoted prices for identical assets in an active market which the Hospital has the ability to access. Investments include mutual funds.

Level 2 – These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. These investments are comprised of U.S. government securities that trade infrequently and certificates of deposit.

Level 3 – These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments could be certain private equity investments.

Based upon the levels as defined, the investments as of December 31, 2011, are classified as follows:

Hospital Investment Type	December 31, 2011	Rounded Nearest (\$1,000) Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets For Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 1,776	\$ -	\$ 1,776	\$ -
Mutual funds	1,780	1,780	-	-
Totals	<u>\$ 3,556</u>	<u>\$ 1,780</u>	<u>\$ 1,776</u>	<u>\$ -</u>

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Investment in Affiliated Companies

Rehabilitation Hospital

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

Summarized financial information as of December 31, 2011, and for the year then ended from the audited financial statements of the Affiliated Company follows:

Current assets	\$	6,274
Noncurrent assets		5,931
Current liabilities		2,001
Noncurrent liabilities		5,505
Stockholder's equity		4,699
Revenue		17,357
Net loss		(1,442)

Figures are rounded to the nearest \$1,000.

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

Charges billed by Clark Memorial Hospital to SIRH for services and supplies were \$788,209 for 2011.

No equity distributions were received by Clark Memorial Hospital from the facility in 2011.

Cardiac Catheterization Facility

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

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Summarized financial information as of December 31, 2011, and for the year then ended from the audited financial statements of the Affiliated Company follows:

Current assets	\$	3,423
Noncurrent assets		1,220
Current liabilities		592
Stockholder's equity		4,051
Revenue		9,294
Net income		1,108

Figures are rounded to the nearest \$1,000.

Equity distributions were received by Clark Memorial Hospital from the facility in the amount of \$250,000 during 2011.

Comprehensive Outpatient Rehabilitation Facility (CORF)

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

Summarized financial information as of December 31, 2011, and for the year then ended from the unaudited financial statements of the Affiliated Company follows:

Revenue	\$	947
Net income		137

Figures are rounded to the nearest \$1,000.

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

The Hospital received rental income for the CORF facility from Frazier Rehab Center in the amount of \$15,973 in 2011.

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

Equity distributions were received by Clark Memorial Hospital from the facility in the amount of \$190,786 during 2011.

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

G. Revenues Pledged

The Hospital has pledged future patient revenues, net of specified operating expenses, to repay \$52 million and \$6 million in revenue bonds issued in 2009 and 2010, respectively. Proceeds from the 2009 bond issue were used to pay off existing debt in the amount of \$27.2 million with the remaining amount used to finance a new patient accounting software. Proceeds from the 2010 bond issue were used to finance various hospital projects and the purchase of an MRI machine. The 2009 and 2010 bonds are payable solely from net patient service revenues and are payable through 2029 and 2021, respectively. Annual principal and interest payments on the 2009 and 2010 bond issues are expected to require less than 3.8 percent and .7 percent of net patient service revenues, respectively. The total principal and interest remaining to be paid on the 2009 and 2010 bond issues are \$73,406,612 and \$6,734,088, respectively. Principal and interest paid for the current year for the 2009 and 2010 bond issues were \$4,187,350 and \$782,491, respectively. Total net patient service revenues for 2011 were \$111,146,000.

H. Pension Plan

Clark Memorial Hospital Retirement Plan

Plan Description

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

Clark Memorial Hospital
Human Resource Department
P.O. Box 69
Jeffersonville, IN 47131-0069
Ph. (812) 283-2216

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members are not required to contribute to the plan. The Hospital is required to contribute at an actuarially determined rate. The current rate is 0 percent of annual covered payroll.

Annual Pension Cost

For 2011, the Hospital's annual pension cost of \$2,929,801 for the Pension Plan was not equal to the Hospital's actual contributions.

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

Annual required contribution	\$	2,983,356
Interest on net pension obligation		485,346
Adjustment to annual required contribution		<u>(538,901)</u>
Annual pension cost		2,929,801
Contributions made		<u>-</u>
Increase in net pension obligation		2,929,801
Net pension obligation, beginning of year		<u>6,066,828</u>
Net pension obligation, end of year	\$	<u><u>8,996,629</u></u>

Contribution rates:

Hospital		0%
Plan members		0%
Actuarial valuation date		01-01-11
Actuarial cost method		Projected unit credit
Amortization method		Level percentage of projected payroll, closed
Amortization period (from date)		35 years
Asset valuation method		Market value of trust accounts

Actuarial Assumptions	Percentage
Investment rate of return	8.0%
Projected future salary increases	4.0%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Clark Memorial Hospital Retirement Plan	12-31-2009	\$ 2,778,631	97%	\$ 6,501,182
	12-31-2010	2,794,646	116%	6,066,828
	12-31-2011	2,929,801	0%	8,996,629

CLARK MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funded Status and Funding Progress for the Above Plan

The funded status of the plan as of December 31, 2011, is as follows:

Retirement Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
Clark Memorial Hospital Retirement Plan	01-01-09	\$ 36,496,663	\$ 44,707,737	\$ (8,211,074)	82%	\$ 46,324,903	-18%
	01-01-10	37,254,997	45,773,281	(8,518,284)	81%	53,588,031	-16%
	01-01-11	39,357,585	48,666,149	(9,308,564)	81%	54,946,727	-17%

The Schedule of Funding Progress, presented as RSI for the above plans following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CLARK MEMORIAL HOSPITAL
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Clark Memorial Hospital Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-09	\$ 36,496,663	\$ 44,707,737	\$ (8,211,074)	82%	\$ 46,324,903	(18%)
01-01-10	37,254,997	45,773,281	(8,518,284)	81%	53,588,031	(16%)
01-01-11	39,357,585	48,666,149	(9,308,564)	81%	54,946,727	(17%)

CLARK MEMORIAL HOSPITAL
 COMBINING STATEMENT OF NET ASSETS - HOSPITAL AND BLENDED COMPONENT UNITS
 Year Ended December 31, 2011
 (In Thousands)

	Hospital	Clark Physician Group (CPG)	Foundation	Eliminations	Total Primary Government
<u>Assets</u>					
Current assets:					
Cash and cash equivalents	\$ 1,333	\$ 62	\$ 335	\$ -	\$ 1,730
Short-term investments	2,528	-	528	-	3,056
Cash with fiscal agent	17	-	-	-	17
Patient accounts receivable, net of estimated uncollectibles of \$74,235 (Hospital-\$72,415, CPG-\$1,820)	16,124	2,387	-	-	18,511
Other receivables	29,343	117	-	(27,770)	1,690
Inventories	1,059	209	-	-	1,268
Prepaid expenses	1,438	396	-	-	1,834
Noncurrent cash and investments:					
Held by trustee for debt service	4,201	-	-	-	4,201
Other long-term investments	-	-	500	-	500
Restricted by contributors and grantors	3,921	-	60	-	3,981
Capital assets:					
Land	6,366	-	-	-	6,366
Construction in progress	8,187	-	-	-	8,187
Depreciable capital assets, net of accumulated depreciation	73,285	8,078	-	-	81,363
Deferred financing costs	736	-	-	-	736
Other assets	3,790	-	-	-	3,790
Total assets	\$ 152,328	\$ 11,249	\$ 1,423	\$ (27,770)	\$ 137,230
<u>Liabilities and Net Assets</u>					
Current liabilities:					
Current maturities of long-term debt	\$ 2,648	\$ -	\$ -	\$ -	\$ 2,648
Current maturities of capital leases	541	-	-	-	541
Other short term debt	451	-	-	-	451
Due to Clark Memorial Hospital	-	27,734	36	(27,770)	-
Accounts payable	7,273	171	-	-	7,444
Accrued expenses	17,946	1,522	-	-	19,468
Estimated third-party payor settlements	1,537	-	-	-	1,537
Long-term debt, net of current maturities, net of unamortized loss on refunding	53,657	-	-	-	53,657
Other long term liabilities	490	-	-	-	490
Total liabilities	84,543	29,427	36	(27,770)	86,236
Net assets:					
Invested in capital assets, net of related debt	30,991	8,078	-	-	39,069
Restricted:					
Expendable for debt service	4,201	-	-	-	4,201
Expendable for specific operating activities	3,921	-	17	-	3,938
Nonexpendable permanent endowments	-	-	43	-	43
Unrestricted	28,672	(26,256)	1,327	-	3,743
Total net assets	67,785	(18,178)	1,387	-	50,994
Total liabilities and net assets	\$ 152,328	\$ 11,249	\$ 1,423	\$ (27,770)	\$ 137,230

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

CLARK MEMORIAL HOSPITAL
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - HOSPITAL AND BLENDED COMPONENT UNITS
 Year Ended December 31, 2011
 (In Thousands)

	Hospital	Clark Physician Group (CPG)	Foundation	Total Primary Government
Operating revenues:				
Net patient service revenue (net of provision for bad debt)	\$ 111,146	\$ 13,854	\$ -	\$ 125,000
Other	2,493	102	463	3,058
Total operating revenues	113,639	13,956	463	128,058
Operating expenses:				
Personnel	57,140	13,895	-	71,035
Benefits	13,977	1,749	-	15,726
Supplies	26,982	1,129	10	28,121
Purchased services	18,491	1,840	133	20,464
Professional fees	2,518	135	-	2,653
Other expenses	5,851	1,600	207	7,658
Depreciation and amortization	10,064	671	-	10,735
Total operating expenses	135,023	21,019	350	156,392
Operating income (loss)	(21,384)	(7,063)	113	(28,334)
Nonoperating revenues (expenses):				
Investment income	248	8	(5)	251
Interest expense	(2,568)	-	-	(2,568)
Gain on investment in affiliated companies	210	-	-	210
Total nonoperating revenues (expenses)	(2,110)	8	(5)	(2,107)
Excess of revenues over expenses	(23,494)	(7,055)	108	(30,441)
Net assets beginning of the year	91,279	(11,123)	1,279	81,435
Net assets end of the year	\$ 67,785	\$ (18,178)	\$ 1,387	\$ 50,994

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

CLARK MEMORIAL HOSPITAL
 COMBINING STATEMENT OF CASH FLOWS - HOSPITAL AND BLENDED COMPONENT UNITS
 Year Ended December 31, 2011
 (In Thousands)

	Hospital	Clark Physician Group (CPG)	Foundation	Total Primary Government
Cash flows from operating activities:				
Receipts from and on behalf of patients	\$ 129,225	\$ 15,792	\$ -	\$ 145,017
Payments to suppliers and contractors	(57,583)	(4,964)	(407)	(62,954)
Payments to employees	(68,318)	(15,644)	-	(83,962)
Other receipts and payments, net	3,350	4,543	463	8,356
Net cash provided (used) by operating activities	6,674	(273)	56	6,457
Cash flows from noncapital financing activities:				
Proceeds from short term debt	4,000	-	-	4,000
Principal paid on short term debt	(3,700)	-	-	(3,700)
Interest paid on short term debt	(71)	-	-	(71)
Net cash provided by noncapital financing activities	229	-	-	229
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(7,771)	(45)	-	(7,816)
Proceeds from sale of capital assets	67	-	-	67
Principal paid on long-term debt	(5,184)	-	-	(5,184)
Interest paid on long-term debt	(2,992)	-	-	(2,992)
Net cash used by capital and related financing activities	(15,880)	(45)	-	(15,925)
Cash flows from investing activities:				
Interest and dividends on investments	247	8	4	259
Increase in investment in affiliated company	210	-	-	210
Purchase of investments	(1,502)	-	50	(1,452)
Net cash provided by investing activities	(1,045)	8	54	(983)
Net decrease in cash and cash equivalents	(10,022)	(310)	110	(10,222)
Cash and cash equivalents at beginning of year	19,494	372	285	20,151
Cash and cash equivalents at end of year	\$ 9,472	\$ 62	\$ 395	\$ 9,929
Reconciliation of cash and cash equivalents to the Statement of Net Assets:				
Cash and cash equivalents in current assets	\$ 1,350	\$ 62	\$ 335	\$ 1,747
Restricted cash and cash equivalents	8,122	-	60	8,182
Total Cash and Cash Equivalents	\$ 9,472	\$ 62	\$ 395	\$ 9,929
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (21,384)	\$ (7,063)	\$ 113	\$ (28,334)
Adjustments to reconcile operating income (loss) to net cash flows used in operating activities:				
Depreciation and amortization	10,064	671	-	10,735
Provision for bad debts	43,143	504	-	43,647
Amortization of deferred financing cost	67	-	-	67
Patient accounts receivable	(25,525)	(1,434)	-	(26,959)
Supplies and other current assets	(6,910)	(259)	-	(7,169)
Other assets	231	70	-	301
Increase (decrease) in current liabilities:				
Accounts payable and accrued expenses	6,795	583	-	7,378
Other current liabilities	-	6,655	(57)	6,598
Other long term liabilities	(1)	-	-	(1)
Estimated third-party payor settlements	194	-	-	194
Net cash provided in operating activities	\$ 6,674	\$ (273)	\$ 56	\$ 6,457

CLARK MEMORIAL HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on September 18, 2012, with Martin Padgett, President and Chief Executive Officer; Kirk Strack, Chief Financial Officer and Treasurer; Chris Jay, Controller; and Donald H. Slone, Chairman of the Hospital Board. Our audit disclosed no material items that warrant comment at this time.