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March 19, 2014

Board of Directors
Clark Memorial Hospital
1220 Missouri Avenue
Jeffersonville, IN 47130

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2012 to December 31, 2012. 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 Clark Memorial Hospital, as of December 31, 2012 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 is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

Clark Memorial Hospital
A Component Unit of Clark County, Indiana
Auditor's Report and Financial Statements
December 31, 2012



Clark Memorial Hospital
A Component Unit of Clark County, Indiana
December 31, 2012

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees
Clark Memorial Hospital
Jeffersonville, Indiana

We have audited the accompanying financial statements of Clark Memorial Hospital (Hospital), a component unit of Clark County, Indiana, which comprise the balance sheet as of December 31, 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2012, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, in 2012, the Hospital changed its method of accounting for GASB No. 65. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining schedule of balance sheet information, combining schedule of statement of revenues, expenses and changes in net position information and combining schedule of cash flows information, as listed in the table of contents is presented for purposes of additional analysis and is 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Louisville, Kentucky
June 19, 2013

Clark Memorial Hospital
A Component Unit of Clark County, Indiana
Management's Discussion and Analysis
Year Ended December 31, 2012

Introduction

This management's discussion and analysis of the financial performance of Clark Memorial Hospital (Hospital) provides an overview of the Hospital's financial activities for the year ended December 31, 2012. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments, excluding amounts held by trustee for debt service, increased by \$4,405,037 or 83.3 percent in 2012 as compared to 2011.
- The Hospital's net position decreased in the past year by \$3,348,134 from operating and nonoperating results, or 6.6 percent as compared to 2011.
- The Hospital reported an operating loss in 2012 of \$(982,229), or 0.6 percent of total operating revenues versus an operating loss of \$(28,200,831), or 22.0 percent of total operating revenues in 2011.
- Net nonoperating expenses increased by \$129,013 in 2012 as compared to 2011.

Using This Annual Report

The Hospital's financial statements consist of three statements — a balance sheet, statement of revenues, expenses and changes in net position and statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital reports as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

The balance sheet and the statement of revenues, expenses and changes in net position report information about the Hospital's resources and activities for purposes of illustrating the effects of the past year's activity on the financial health of the institution. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. As the Hospital uses the accrual basis of accounting, current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Hospital's total net position — the difference between assets and liabilities — is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position is an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

Clark Memorial Hospital
A Component Unit of Clark County, Indiana
Management's Discussion and Analysis
Year Ended December 31, 2012

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. The statement of cash flows illustrates the uses and sources of cash for the year.

The Hospital's Net Position

The Hospital's net position is the difference between assets and liabilities reported in the balance sheet. The Hospital's net position decreased by \$4,084,205, or 8.0 percent in 2012 versus 2011, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	<u>2012</u>	<u>2011</u>
Assets		
Patient accounts receivable, net	\$ 16,478,562	\$ 18,511,795
Other current assets	19,761,882	12,784,623
Capital assets, net	90,253,507	95,915,231
Other noncurrent assets	<u>10,985,476</u>	<u>10,617,033</u>
Total assets	137,479,427	137,828,682
Deferred Outflows of Resources	<u>368,197</u>	<u>389,962</u>
Total assets and deferred outflows of resources	<u><u>\$ 137,847,624</u></u>	<u><u>\$ 138,218,644</u></u>
Liabilities		
Long-term debt	\$ 51,715,866	\$ 54,047,241
Other current and noncurrent liabilities	<u>39,222,161</u>	<u>33,177,601</u>
Total liabilities	<u>90,938,027</u>	<u>87,224,842</u>
Net Position		
Net investment in capital assets	35,255,001	38,528,213
Restricted	9,016,077	8,199,002
Unrestricted	<u>2,638,519</u>	<u>4,266,587</u>
Total net position	<u>46,909,597</u>	<u>50,993,802</u>
Total liabilities and net position	<u><u>\$ 137,847,624</u></u>	<u><u>\$ 138,218,644</u></u>

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Other receivables included in other current assets increased by \$3,704,522 from 2011 to 2012 as a result of a receivable from the state of Indiana Intergovernmental Transfer, Medicaid Disproportionate Share and the state of Indiana Hospital Assessment Fee (HAF) program. Patient accounts receivable decreased by \$2,033,233, or 11.0 percent from 2011 to 2012. The decrease in accounts receivable was primarily due to improved collections from 2011 to 2012.

Operating Results and Changes in the Hospital's Net Position

In 2012, the Hospital's net position decreased by \$3,348,134 from operating and nonoperating results, or 6.6 percent as shown in Table 2. This decrease is made up of several components as shown in Table 2 and represents an improvement of \$27,089,589 when compared with the decrease in net position of \$30,437,723 in 2011.

Table 2: Operating Results and Changes in Net Position

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Net patient service revenue	\$ 165,525,471	\$ 124,999,569
Other operating revenues	7,225,413	3,057,623
Total operating revenues	<u>172,750,884</u>	<u>128,057,192</u>
Operating Expenses		
Salaries and wages and employee benefits	87,238,106	86,761,584
Purchased services and professional fees	23,073,451	23,116,502
Depreciation and amortization	11,242,778	10,760,613
Hospital assessment fees	18,070,929	-
Other operating expenses	34,107,849	35,619,324
Total operating expenses	<u>173,733,113</u>	<u>156,258,023</u>
Operating Loss	<u>(982,229)</u>	<u>(28,200,831)</u>
Nonoperating Revenues (Expenses)		
Investment income	190,593	262,260
Interest expense	(2,807,165)	(2,682,312)
Other nonoperating revenues and expenses, net	250,667	183,160
Total nonoperating revenues (expenses)	<u>(2,365,905)</u>	<u>(2,236,892)</u>
Change in Net Position	<u>\$ (3,348,134)</u>	<u>\$ (30,437,723)</u>

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Operating Loss

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

The operating loss for 2012 was \$982,229 as compared to an operating loss of \$28,200,831 for 2011. The primary components of change in operating results are:

- An increase in net patient service revenue of \$40,525,902, or 32.4 percent in 2012 due to a reduction in the provision for uncollectible accounts by \$11,269,439. The decrease in the provision for uncollectible accounts was due to a change in the reserve percentage for self-pay accounts in 2011. Additionally, the state of Indiana implemented a methodology change in Medicaid reimbursement in June 2012 retroactive to state fiscal year beginning July 2011 resulting in increased net revenue.
- An increase in other operating revenues of \$4,167,790, or 136.3 percent in 2012 due to the Hospital completing its first-year requirements for electronic health records incentive program under both Medicare and Medicaid that resulted in approximately \$3,354,000 in additional revenues in 2012.
- An increase in salaries and benefits of \$476,522, or 0.5 percent in 2012 as compared to 2011. The increase resulted from increased Hospital volume and salary increases.
- The Hospital incurred the assessment fee associated with the state of Indiana Medicaid reimbursement changes for \$18,070,929 that was not incurred in 2011.
- A decrease in depreciation and amortization of \$482,165, or 4.5 percent in 2012.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income and interest expense. Nonoperating revenue and expense remained relatively constant in 2012 when compared to 2011.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with the improvement in the operating loss from 2011 to 2012 with one exception. Cash provided by operating activities did not improve as much as the change in operating loss due to a significant portion of the 2011 operating loss was the result of write-offs of patient accounts receivable before 2011.

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Management's Discussion and Analysis
Year Ended December 31, 2012

Capital Asset and Debt Administration

Capital Assets

At the end of 2012, the Hospital had \$90,253,507 invested in capital assets, net of accumulated depreciation compared to \$95,915,231 in 2011; this decrease of \$5,661,724 from 2011 is mostly the result of the Hospital expensing \$11,242,778 in depreciation expense versus current year asset additions of \$5,592,667.

Debt

At December 31, 2012, the Hospital had \$54,998,506 in revenue bonds, notes payable and capital lease obligations outstanding. The Hospital did not issue any new revenue bonds, notes payables or capital lease obligations in 2012. The Hospital initiated short-term notes payable to local banks of \$1,814,244 in 2012.

Other Operating and Future Economic Factors

Indiana Hospital Assessment Fee Program

During 2012, the state of Indiana enacted the HAF program to replace the upper payment limit program. The HAF program includes a state specific provider assessment fee to increase Medicaid payments to hospitals. The program was implemented retroactively to the beginning of the 2012 Indiana state fiscal year (July 1, 2011). Therefore, the Hospital recorded an 18-month impact of the new HAF program during 2012. The Hospital recorded approximately \$21,756,000 within net patient service revenues and expensed assessment fees totaling approximately \$18,071,000. The Indiana Legislature is currently considering legislation which would continue the current program for the next four to five years. Despite this consideration, there is no assurance this program will continue in the future.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the chief financial officer by telephoning 812.283.2448.

Clark Memorial Hospital
A Component Unit of Clark County, Indiana

Balance Sheet
December 31, 2012

Assets and Deferred Outflows of Resources

	2012
Current Assets	
Cash and cash equivalents	\$ 7,367,560
Short-term investments	2,326,835
Restricted investments – current	2,114,518
Patient accounts receivable, net of allowance of \$33,583,000	16,478,562
Other receivables	5,140,010
Supplies	1,283,805
Prepaid expenses and other current assets	1,529,154
Total current assets	36,240,444
Noncurrent Cash and Investments	
Held by trustee for debt service and capital improvements	8,945,196
Restricted by donors for specific operating activities	70,881
	9,016,077
Less amount required to meet current obligations	2,114,518
	6,901,559
Total noncurrent cash and investments	90,253,507
Capital Assets, Net	
Total capital assets, net	90,253,507
Other Assets	
Other	4,083,917
Total other assets	4,083,917
Total assets	137,479,427
Deferred Outflows of Resources	
Total deferred outflows of resources	368,197
Total assets and deferred outflows of resources	\$ 137,847,624

Liabilities and Net Position

	<u>2012</u>
Current Liabilities	
Current maturities of long-term debt	\$ 3,282,640
Note payable to bank	1,500,000
Payable to suppliers and contractors	6,816,990
Payable to employees (including payroll taxes and benefits)	7,900,701
Estimated amounts due to third-party payers	2,125,746
Accrued expenses	<u>5,077,356</u>
Total current liabilities	26,703,433
Long-Term Debt	51,715,866
Accrued Pension	12,044,921
Other Long-Term Liabilities	<u>473,807</u>
Total liabilities	<u>90,938,027</u>
Net Position	
Net investment in capital assets	35,255,001
Restricted for	
Debt service	8,945,196
Specific operating activities	70,881
Unrestricted	<u>2,638,519</u>
Total net position	<u>46,909,597</u>
Total liabilities and net position	<u><u>\$ 137,847,624</u></u>

Clark Memorial Hospital
A Component Unit of Clark County, Indiana
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2012

	2012
Operating Revenues	
Net patient service revenue, net of provision for uncollectible accounts; 2012 – \$32,017,962	\$ 165,525,471
Other	7,225,413
	<u>172,750,884</u>
Operating Expenses	
Salaries and benefits	87,238,106
Purchased services	20,751,643
Professional fees	2,321,808
Supplies	26,476,400
Hospital assessment fees	18,070,929
Other expenses	7,631,449
Depreciation and amortization	11,242,778
	<u>173,733,113</u>
	<u>(982,229)</u>
Operating Loss	
Nonoperating Revenues (Expenses)	
Investment income	190,593
Interest expense	(2,807,165)
Gain on investment in equity investees	262,109
Other	(11,442)
	<u>(2,365,905)</u>
	<u>(3,348,134)</u>
Deficiency of Revenues Over Expenses and Decrease in Net Position	
	<u>50,993,802</u>
Net Position, Beginning of Year, as Previously Reported	
	<u>(736,071)</u>
Cumulative Effect of Change of Adoption of Accounting Principle	
	<u>50,257,731</u>
Net Position, Beginning of Year, as Restated	
	<u>\$ 46,909,597</u>

Clark Memorial Hospital
A Component Unit of Clark County, Indiana
Statement of Cash Flows
Year Ended December 31, 2012

	2012
Operating Activities	
Receipts from and on behalf of patients	\$ 165,071,411
Payments to suppliers and contractors	(75,324,644)
Payments to employees	(83,178,691)
Other receipts, net	6,847,196
Net cash provided by operating activities	13,415,272
Capital and Related Financing Activities	
Proceeds from issuance of note payable to bank	1,814,244
Principal paid on note payable to bank	(766,024)
Principal paid on long-term debt	(3,136,732)
Interest paid on note payable to bank and long-term debt	(2,811,900)
Purchase of capital assets	(5,592,667)
Net cash used in capital and related financing activities	(10,493,079)
Investing Activities	
Proceeds from disposition of investments	8,042,942
Purchase of investments	(5,328,759)
Interest and dividends on investments	96,393
Proceeds from sale of assets	15,708
Other	(11,442)
Net cash provided by investing activities	2,814,842
Increase in Cash and Cash Equivalents	5,737,035
Cash and Cash Equivalents, Beginning of Year	1,630,525
Cash and Cash Equivalents, End of Year	\$ 7,367,560
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating loss	\$ (982,229)
Depreciation and amortization	11,242,778
Provision for uncollectible accounts	32,017,962
Gain on disposition of assets	(4,095)
Changes in operating assets and liabilities	
Patient accounts receivable	(29,984,729)
Estimated amounts due to third-party payers	589,007
Accounts payable and accrued expenses	3,169,951
Prepaid assets, supplies and other assets	(2,633,373)
Net cash provided by operating activities	\$ 13,415,272

Clark Memorial Hospital
A Component Unit of Clark County, Indiana
Notes to Financial Statements
December 31, 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Clark Memorial Hospital (Hospital) is an acute care hospital located in Jeffersonville, Indiana. The Hospital is a component unit of Clark County (County) and the Board of County Commissioners appoints members to the board of trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Clark County area.

The financial statements include as blended component units Clark Physician Group, LLC (CPG) and Clark County Hospital Foundation, Inc. (Foundation). CPG is a wholly owned subsidiary of the Hospital and earns revenues as a multi-specialty physician group providing primary care and other clinical services. The Foundation is organized for the benefit of the Hospital and earns revenues primarily from contributions.

Clark County Hospital Association (CCHA) is a related organization, which is controlled by the Board of County Commissioners of the County. CCHA issued bonds in 2009 and has title to substantially all real estate and fixed equipment which is operated by the Hospital. See additional disclosures in Note 10.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

During the year ended December 31, 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in Paragraph 7 of that statement for business-type activities to apply post-

Clark Memorial Hospital
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November 30, 1989, FASB statements and interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Hospital's net position or changes in net position and minimal changes to financial reporting disclosures.

During the year ended December 31, 2012, the Hospital adopted GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*.

The objective of GASB No. 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures.

The objective of GASB No. 65 is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). GASB No. 65 has been applied retrospectively by restating the Hospital's prior year's net position and changes in net position related to: (1) bond issuance costs that had previously been capitalized and amortized, but are no longer recognized as assets of \$736,071 and (2) to reflect deferred bond losses on refundings as a deferred outflow of resources of \$368,197. Due to the adoption of GASB No. 65, the 2012 beginning net position was decreased by \$736,071.

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 disclosure 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.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents, exclusive of noncurrent cash and investments. At December 31, 2012, cash equivalents consisted primarily of money market accounts.

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Notes to Financial Statements
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Risk Management

The Hospital is exposed to various risks of loss from torts, theft of, damage to and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the two preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments generally include money market accounts, mutual funds and certificates of deposit. The investments in equity investees are reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

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Notes to Financial Statements
December 31, 2012

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	2 – 25 years
Buildings and leasehold improvements	5 – 40 years
Equipment	2 – 20 years

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. There was no interest capitalized for the year ended December 31, 2012.

Other Assets

Investments in Joint Ventures. The investments in joint ventures are accounted for by the equity method of accounting and are further described in Note 5.

Deferred Amounts on Refunding

Deferred amounts on refunding, which are included in deferred outflows of resources on the balance sheet, represent losses incurred in connection with the refunding of various long-term debt. Such losses are being amortized over the shorter of the term of the respective original debt or the term of the new debt using the straight-line method.

Other Long-Term Liabilities

Other long-term liabilities consist of deferred compensation agreements with key employees, supplemental executive retirement plan and workers' compensation liability. The agreements are to be funded with proceeds from operations.

Compensated Absences

Hospital policies permit most employees to accumulate vacation benefits that may be realized as paid time off. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off. Compensated absence

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liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the Hospital is classified in three components. The net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted net position represents noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position represents remaining assets less remaining liabilities that do not meet the definition of the net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

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Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue at the point it has met all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2012, the Hospital completed the first-year requirements under both the Medicare and Medicaid programs and has recorded revenue of approximately \$3,354,000, which is included in other operating revenues in the statement of revenues, expenses and changes in net position.

Reclassification

A reclassification to beginning of the year cash and cash equivalents included in the statement of cash flows was made to conform to the 2012 presentation. The beginning of the year cash and cash equivalents included cash and cash equivalents within noncurrent cash and investments that is presented within the investing activities section of the 2012 statement of cash flows.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge and visit. These rates vary according to a patient classification system that is based on clinical,

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diagnostic and other factors. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per discharge for inpatient services and outpatient fee for services.

During 2012, the state of Indiana enacted the Hospital Assessment Fee (HAF) program to replace the upper payment limit program. The HAF program includes a state specific provider assessment fee to increase Medicaid payments to hospitals. The program was implemented retroactively to the start of the 2012 Indiana state fiscal year (July 1, 2011). Therefore, the Hospital recorded an 18-month impact of the new HAF program during 2012. In 2012, the Hospital recorded approximately \$21,756,000 within net patient service revenues and expensed assessment fees totaling \$18,070,929. The Hospital also had a receivable of approximately \$4,018,000 recorded at December 31, 2012, included in other receivables on the balance sheet related to the program. The Indiana Legislature has approved legislation which would continue the current program for the next four to five years. In 2013, the Hospital received notice that the HAF program will be suspended June 30, 2013, pending CMS approval of recently enacted changes to the program. Despite this consideration, there is no assurance this program will continue in the future.

Approximately 66 percent of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended December 31, 2012. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations 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.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposit may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

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Deposits with financial institutions in the state of Indiana at year-end were entirely insured by the Federal Deposit Insurance Corporation (FDIC) or by the Indiana Public Deposit Insurance Fund (IPDIF). This includes any deposit accounts issued or offered by a qualifying financial institution. Accordingly, all deposits in excess of FDIC levels are covered by the IPDIF and considered collateralized.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury, U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At December 31, the Hospital had the following investments and maturities:

Type	2012				
	Fair Value	Maturities in Years			
		Less Than One	One to Five	Six to 10	More Than 10
Money market mutual funds	\$ 9,029,686	\$ 9,029,686	\$ -	\$ -	\$ -
Mutual funds	1,663,201	1,663,201	-	-	-
Certificates of deposit	650,025	650,025	-	-	-
	<u>\$ 11,342,912</u>	<u>\$ 11,342,912</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk – Interest rate risk is the risk of fair value losses arising from rising interest rates. The Hospital does not have a formal policy to limit its interest rate risk. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Hospital’s policy to limit its investments in corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). At December 31, 2012, the Hospital held no investment in corporate bonds.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At December 31, 2012, the Hospital held no investments in repurchase agreements.

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Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer. At December 31, 2012, the Hospital held no investments in corporate bonds.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheet at December 31 as follows:

	2012
Carrying value	
Deposits	\$ 7,367,560
Investments	11,342,912
	\$ 18,710,472

Included in the following balance sheet captions:

	2012
Cash and cash equivalents	\$ 7,367,560
Short-term investments	2,326,835
Restricted investments – current	2,114,518
Noncurrent cash and investments	6,901,559
	\$ 18,710,472

Investment Income

Investment income for the year ended December 31 consisted of:

	2012
Interest and dividend income	\$ 281,825
Net decrease in fair value of investments	(91,232)
	\$ 190,593

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Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	2012
Medicare	\$ 5,397,613
Medicaid	2,477,386
Other third-party payers	5,601,386
Patients	36,584,892
	50,061,277
Less allowance for uncollectible accounts	33,582,712
	\$ 16,478,565

Note 5: Investments in Uncombined Entities

The investments in uncombined entities are accounted for on the equity method. The equity earnings of the uncombined entities are accounted for on the equity method and are included in nonoperating revenues. The investment in these uncombined entities is included in other assets in the balance sheet at December 31, 2012.

Investments in uncombined entities consist of the following:

The equity interest in Southern Indiana Rehabilitation Hospital (SIRH) (an acute rehabilitation hospital) represents a 33 percent interest at December 31, 2012. The Hospital has recorded an asset of \$1,669,457 at December 31, 2012, related to its equity interest in SIRH. Financial position and results of operations of SIRH for 2012 are summarized below:

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	2012
Current assets	\$ 6,729,119
Property and other long-term assets, net	5,291,201
Total assets	12,020,320
Current liabilities	2,105,827
Long-term liabilities	4,906,124
Total liabilities	7,011,951
Total net position	\$ 5,008,369
Revenues	\$ 18,460,037
Excess of revenues over expenses	\$ 790,191

The equity interest in Heart Center at Clark Memorial, LLP (Heart Center) (a cardiac catheterization facility) represents a 50 percent interest at December 31, 2012. The Hospital has recorded an asset of \$2,014,464 at December 31, 2012, related to its equity interest in the Heart Center. Financial position and results of operations of the Heart Center for 2012 are summarized below:

	2012
Current assets	\$ 1,664,697
Due from the Hospital	1,162,679
Property and other long-term assets, net	1,179,699
Total assets	4,007,075
Total net position	\$ 4,007,075
Revenues	\$ 9,168,935
Excess of expenses over revenues	\$ (21,844)

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The equity interest in Comprehensive Outpatient Rehabilitation Facility (CORF) (an outpatient rehabilitation facility) represents a 50 percent interest at December 31, 2012. The Hospital has recorded an asset of \$110,683 at December 31, 2012, related to its equity interest in the CORF.

Guarantees

The Hospital guarantees certain third-party debt of unconsolidated affiliated organizations. At December 31, 2012, the Hospital has guaranteed 33 percent of the \$1,950,000 outstanding debt of SIRH. The debt guarantee expires on April 15, 2016.

Related-Party Transactions

The Hospital provides SIRH with certain ancillary services that totaled approximately \$728,000 in 2012. The Hospital has a receivable from SIRH of approximately \$137,000 included in other receivables in the balance sheet at December 31, 2012.

The Hospital provides billing and collecting services for the Heart Center for which the Hospital charges the Heart Center through an indirect expense allocation. The Hospital has a payable to the Heart Center of approximately \$1,162,000 for amounts collected at December 31, 2012, but not remitted to the Heart Center included in payable to suppliers and contractors in the balance sheet at December 31, 2012.

Note 6: Capital Assets

Capital assets activity for the year ended December 31 was:

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 6,365,624	\$ -	\$ -	\$ -	\$ 6,365,624
Land improvements	1,545,186	-	-	-	1,545,186
Buildings and leasehold improvements	96,001,075	250,852	-	-	96,251,927
Equipment	118,440,474	5,341,815	(303,119)	3,855,337	127,334,507
Construction in progress	7,989,979	-	-	(3,855,337)	4,134,642
	<u>230,342,338</u>	<u>5,592,667</u>	<u>(303,119)</u>	<u>-</u>	<u>235,631,886</u>

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	2012				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Less accumulated depreciation					
Land improvements	\$ 1,144,430	\$ 61,471	\$ -	\$ -	\$ 1,205,901
Buildings and leasehold improvements	50,115,695	3,792,772	-	-	53,908,467
Equipment	83,166,982	7,388,535	(291,506)	-	90,264,011
	134,427,107	11,242,778	(291,506)	-	145,378,379
Total accumulated depreciation					
Capital assets, net	\$ 95,915,231	\$ (5,650,111)	\$ (11,613)	\$ -	\$ 90,253,507

Note 7: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. However, the *Indiana Malpractice Act* (Act) limits professional liability for claims prior to July 1, 1999, to a maximum recovery of \$750,000 per occurrence (\$3,000,000 annual aggregate), \$100,000 of which would be paid through malpractice insurance coverage, and the balance would be paid by the State of Indiana Patient Compensation Fund (Fund). For claims on or after July 1, 1999, the maximum recovery is \$1,250,000 per occurrence (\$7,500,000 annual aggregate), \$250,000 of which would be paid through insurance coverage and the remainder by the Fund.

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Note 8: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$250,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is possible the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during the year ended December 31 is summarized as follows:

	2012
Balance, beginning of year	\$ 589,000
Current year claims incurred and changes in estimates for claims incurred in prior years	(6,861,054)
Claims and expenses paid	6,660,558
Balance, end of year	\$ 388,504

Note 9: Note Payable to Bank

The Hospital has a \$5,000,000 revolving line of credit expiring July 1, 2013. At December 31, 2012, there was \$1,500,000 borrowed against the line of credit. The line of credit is collateralized by the accounts receivable and gross revenues of the Hospital and pro-rata share on substantially all the Hospital's general business assets. Interest varies with the bank's prime rate, which was 3.25 percent at December 31, 2012.

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Note 10: Long-Term Obligations

The following is a summary of long-term debt transactions for the Hospital for the year ended December 31:

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations – buildings	\$ 49,075,000	\$ -	\$ 1,815,000	\$ 47,260,000	\$ 1,880,000
Revenue Bonds					
Series 2010A	3,713,826	-	328,088	3,385,738	346,169
Series 2010B	1,776,348	-	255,683	1,520,665	269,155
Note payable – bank	1,230,222	-	196,714	1,033,508	178,279
Capital lease obligation – equipment	2,339,842	-	541,247	1,798,595	609,037
Total long-term debt obligations	<u>\$ 58,135,238</u>	<u>\$ -</u>	<u>\$ 3,136,732</u>	<u>\$ 54,998,506</u>	<u>\$ 3,282,640</u>

The following is a summary of other long-term obligations for the Hospital for the year ended December 31:

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Accrued pension liabilities	\$ 8,996,629	\$ 3,048,292	\$ -	\$ 12,044,921	\$ -
Other long-term liabilities	371,700	102,107	-	473,807	-
Total other long-term obligations	<u>\$ 9,368,329</u>	<u>\$ 3,150,399</u>	<u>\$ -</u>	<u>\$ 12,518,728</u>	<u>\$ -</u>

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Capital Lease Obligation – Buildings

CCHA owns the building and substantially all fixed assets which are operated by the Hospital. Using these assets as collateral, CCHA issued bonds in 2009 for capital improvements. CCHA entered into a capital lease arrangement with the County and the Hospital. The terms of the lease mirror the terms of the 2009 bonds. Titles of the leased assets revert to the County and Hospital at the end of the lease. The terms of the lease require the Hospital to pay various principal amounts annually, including interest rates ranging from 3.00 to 5.50 percent through August 1, 2029. The 2009 bonds are collateralized by substantially all assets held by CCHA.

Revenue Bonds Series 2010A

In December 2010, the Hospital issued \$4,000,000 of City of Jeffersonville, Indiana Recovery Zone Facility Bonds Series 2010A (2010A Bonds), which bear interest at 5.19 percent. Monthly principal and interest payments of \$42,811 are payable through January 2021. The bonds are secured by the gross revenues of the Hospital, assets restricted under the bond purchase and loan agreement and by real property of the Hospital.

In connection with the 2010A Bonds, the Hospital is required to meet certain covenants related to financial performance.

Revenue Bonds Series 2010B

In December 2010, the Hospital issued \$2,000,000 of City of Jeffersonville, Indiana Recovery Zone Facility Bonds Series 2010B (2010B Bonds), which bear interest at 4.99 percent. Monthly principal and interest payments of \$28,325 are payable through January 2018. The bonds are secured by the gross revenues of the Hospital, assets restricted under the bond purchase and loan agreement and by real property of the Hospital.

In connection with the 2010B Bonds, the Hospital is required to meet certain covenants related to financial performance.

Note Payable – Bank

In September 2007, the Hospital entered into a note payable in the amount of \$1,800,000. The note payable bears interest at 5.50 percent and is payable in monthly installments of principal and interest of \$18,520. The note payable is secured by certain real property of the Hospital.

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Capital Lease Obligation – Equipment

The Hospital is obligated under a capital lease agreement for certain medical equipment that is accounted for as capital leases. The lease agreement bears interest at 3.65 percent and is payable in monthly installments of \$51,471 through December 2015. Assets under capital leases at December 31, 2012, totaled \$2,818,958 net of accumulated depreciation of \$378,841. The future minimum lease payments at December 31, 2012, were \$1,904,440 of which \$105,845 represents interest expense. The present value of the future minimum lease payments was \$1,798,595 at December 31, 2012.

The debt service requirements for long-term obligations as of December 31, 2012, were as follows:

Year Ending December 31	Total to be Paid	Principal	Interest
2013	\$ 5,939,437	\$ 3,282,640	\$ 2,656,797
2014	5,879,204	3,356,304	2,522,900
2015	5,883,029	3,497,144	2,385,885
2016	5,265,973	3,027,973	2,238,000
2017	5,269,448	3,182,079	2,087,369
2018–2022	22,666,621	14,362,366	8,304,255
2023–2027	20,993,363	16,425,000	4,568,363
2028–2029	8,393,338	7,865,000	528,338
	<u>\$ 80,290,413</u>	<u>\$ 54,998,506</u>	<u>\$ 25,291,907</u>

Note 11: Defined Benefit Pension Plan

Plan Description

The Hospital's defined benefit pension plan is a single-employer defined benefit pension plan administered by the plan's board of trustees who are appointed by the County Commissioners of Clark County, Indiana. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions is set forth in Indiana

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Code 16-22-3-11. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing Clark Memorial Hospital, Human Resource Department, P.O. Box 69, Jeffersonville, IN 47131-0069 or by calling 812.283.2216.

Funding Policy

The authority to establish and amend obligations of plan members is established by the written agreement between the Hospital's board of trustees and the plan administrator. Plan members are required to contribute zero percent of their annual covered salary. The Hospital is required to contribute at an actuarially determined rate. The Hospital's annual required contribution for 2012 was \$3,286,556 and contributions made to the plan for 2012 were \$0.

Annual Pension Cost and Net Pension Obligation

The Hospital's annual pension cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Hospital's annual pension cost for the year, the amount actually contributed to the plan and changes in the Hospital's net pension obligation:

	2012
Annual required contribution	\$ 3,286,556
Interest on net pension obligation	706,909
Adjustment to annual required contribution	(784,912)
Annual pension cost	3,208,553
Contributions made	-
Increase in net pension obligation	3,208,553
Net pension obligation at beginning of the year	8,836,368
Net pension obligation at end of the year	\$ 12,044,921

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Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was 79.5 percent funded. The actuarial accrued liability for benefits was \$48,306,092 and the actuarial value of assets was \$38,398,588 resulting in an unfunded actuarial accrued liability (UAAL) of \$9,907,504. The covered payroll (annual payroll of active employees covered by the plan) was \$59,076,290 and the ratio of the UAAL to the covered payroll was 16.8 percent.

As of December 31, 2012, the fair value of the pension trust fund assets had decreased to \$36,649,221.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

The annual required contribution for 2012 was determined as part of an actuarial valuation on January 1, 2012, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8.0 percent investment rate of return (net of administrative expenses) and (b) projected salary increases per year. The actuarial value of assets was determined using market value. The UAAL is being amortized on a level dollar basis over a 10-year period.

Three Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2010	\$ 2,794,646	116%	\$ 6,066,828
December 31, 2011	\$ 2,794,646	0%	\$ 8,836,368
December 31, 2012	\$ 3,208,553	0%	\$ 12,044,921

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Note 12: Deferred Outflows of Resources

The Hospital has recorded deferred outflows of resources of \$368,197 of deferred bond losses related to various defeased bond issuances at December 31, 2012.

Note 13: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 7.

Incurred, But Not Reported, Employee Health Insurance Claims

Estimates of incurred, but not reported, health insurance claims are described in Note 8.

Note 14: Risk, Uncertainties and Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

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Current Economic Conditions

The current economic situation continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the continued high unemployment rate, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values (including defined benefit pension plan investments) and allowances for accounts receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Note 15: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

In April 2012, the state of Indiana submitted a waiver to the Centers for Medicare and Medicaid Services requesting permission to expand coverage to expansion-eligible residents through its Healthy Indiana Plan. The impact of that decision on the overall reimbursement to the Hospital cannot be quantified at this point.

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The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

Supplementary Information

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Schedule of Funding Progress
December 31, 2012

Required Supplementary Information

Schedule of funding progress for defined employee pension plan consisted of the following:

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets a	Actuarial Accrued Liability (AAL) – Entry Age b	Unfunded AAL (UAAL) b-a	Funded Ratio a/b	Covered Payroll c	UAAL as a Percentage of Covered Payroll (b-a)/c
January 1, 2010	\$ 37,255	\$ 45,773	\$ 8,518	81%	\$ 53,588	16%
January 1, 2011	\$ 39,358	\$ 48,666	\$ 9,308	81%	\$ 53,334	17%
January 1, 2012	\$ 38,399	\$ 48,306	\$ 9,907	79%	\$ 59,076	17%

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Combining Schedule of Balance Sheet Information
December 31, 2012

Assets and Deferred Outflows of Resources

	Clark Memorial Hospital	Clark Physician Group	Clark County Hospital Foundation	Eliminations	Total
Current Assets					
Cash and cash equivalents	\$ 6,687,162	\$ 41,283	\$ 639,115	\$ -	\$ 7,367,560
Short-term investments	1,364,355	-	962,480	-	2,326,835
Restricted investments – current	2,114,518	-	-	-	2,114,518
Patient accounts receivable, net of allowance	15,270,973	1,207,589	-	-	16,478,562
Other receivables	4,678,208	41,097	449,904	(29,199)	5,140,010
Supplies	1,073,418	210,387	-	-	1,283,805
Prepaid expenses and other current assets	1,272,604	256,550	-	-	1,529,154
Due from affiliate	33,349,408	-	-	(33,349,408)	-
Total current assets	<u>65,810,646</u>	<u>1,756,906</u>	<u>2,051,499</u>	<u>(33,378,607)</u>	<u>36,240,444</u>
Noncurrent Cash and Investments					
Held by trustee for debt service and capital improvements	8,945,196	-	-	-	8,945,196
Restricted by donors for specific operating activities	-	-	70,881	-	70,881
	<u>8,945,196</u>	<u>-</u>	<u>70,881</u>	<u>-</u>	<u>9,016,077</u>
Less amount required to meet current obligations	2,114,518	-	-	-	2,114,518
	<u>6,830,678</u>	<u>-</u>	<u>70,881</u>	<u>-</u>	<u>6,901,559</u>
Capital Assets, Net	<u>82,873,332</u>	<u>7,380,175</u>	<u>-</u>	<u>-</u>	<u>90,253,507</u>
Other Assets					
Other	(21,767,285)	-	-	25,851,202	4,083,917
Total assets	<u>133,747,371</u>	<u>9,137,081</u>	<u>2,122,380</u>	<u>(7,527,405)</u>	<u>137,479,427</u>
Deferred Outflows of Resources					
	368,197	-	-	-	368,197
Total assets and deferred outflows of resources	<u>\$ 134,115,568</u>	<u>\$ 9,137,081</u>	<u>\$ 2,122,380</u>	<u>\$ (7,527,405)</u>	<u>\$ 137,847,624</u>

Clark Memorial Hospital
A Component Unit of Clark County, Indiana
Combining Schedule of Balance Sheet Information (Continued)
December 31, 2012

Liabilities and Net Position

	Clark Memorial Hospital	Clark Physician Group	Clark County Hospital Foundation	Eliminations	Total
Current Liabilities					
Current maturities of long-term debt	\$ 3,282,640	\$ -	\$ -	\$ -	\$ 3,282,640
Note payable to bank	1,500,000	-	-	-	1,500,000
Payable to suppliers and contractors	6,686,974	130,016	-	-	6,816,990
Payable to employees (including payroll taxes and benefits)	5,878,318	2,022,383	-	-	7,900,701
Estimated amounts due to third-party payers	2,125,746	-	-	-	2,125,746
Accrued expenses	5,077,356	-	-	-	5,077,356
Due to affiliate	-	33,349,408	29,199	(33,378,607)	-
Total current liabilities	24,551,034	35,501,807	29,199	(33,378,607)	26,703,433
Long-Term Debt	51,715,866	-	-	-	51,715,866
Accrued Pension	12,044,921	-	-	-	12,044,921
Other Long-Term Liabilities	473,807	-	-	-	473,807
Total liabilities	88,785,628	35,501,807	29,199	(33,378,607)	90,938,027
Net Position					
Net investment in capital assets	27,874,826	7,380,175	-	-	35,255,001
Restricted for					
Debt service	8,945,196	-	-	-	8,945,196
Specific operating activities	-	-	70,881	-	70,881
Unrestricted	8,509,918	(33,744,901)	2,022,300	25,851,202	2,638,519
Total net position	45,329,940	(26,364,726)	2,093,181	25,851,202	46,909,597
Total liabilities and net position	\$ 134,115,568	\$ 9,137,081	\$ 2,122,380	\$ (7,527,405)	\$ 137,847,624

Clark Memorial Hospital
A Component Unit of Clark County, Indiana
Combining Schedule of Revenues, Expenses and Changes in Net Position Information
Year Ended December 31, 2012

	Clark Memorial Hospital	Clark Physician Group	Clark County Hospital Foundation	Eliminations	Total
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts	\$ 151,594,101	\$ 13,931,370	\$ -	\$ -	\$ 165,525,471
Other	5,726,919	399,792	1,098,702	-	7,225,413
Total operating revenues	<u>157,321,020</u>	<u>14,331,162</u>	<u>1,098,702</u>	<u>-</u>	<u>172,750,884</u>
Operating Expenses					
Salaries and benefits	70,255,497	16,982,609	-	-	87,238,106
Purchased services	19,063,710	1,578,610	109,323	-	20,751,643
Professional fees	2,217,412	104,396	-	-	2,321,808
Supplies	25,073,450	1,388,310	14,640	-	26,476,400
Hospital assessment fees	18,070,929	-	-	-	18,070,929
Other expenses	5,597,308	1,716,618	317,523	-	7,631,449
Depreciation and amortization	10,545,312	697,466	-	-	11,242,778
Total operating expenses	<u>150,823,618</u>	<u>22,468,009</u>	<u>441,486</u>	<u>-</u>	<u>173,733,113</u>
Operating Income (Loss)	<u>6,497,402</u>	<u>(8,136,847)</u>	<u>657,216</u>	<u>-</u>	<u>(982,229)</u>
Nonoperating Revenues (Expenses)					
Investment income	148,941	4,351	37,301	-	190,593
Interest expense	(2,752,502)	(54,663)	-	-	(2,807,165)
Gain (loss) on investment in equity investees	(7,411,526)	-	-	7,673,635	262,109
Other	(22,691)	-	11,249	-	(11,442)
Total nonoperating revenues (expenses)	<u>(10,037,778)</u>	<u>(50,312)</u>	<u>48,550</u>	<u>7,673,635</u>	<u>(2,365,905)</u>
Excess (Deficiency) of Revenues Over Expenses and Increase (Decrease) in Net Position	<u>(3,540,376)</u>	<u>(8,187,159)</u>	<u>705,766</u>	<u>7,673,635</u>	<u>(3,348,134)</u>

Clark Memorial Hospital
A Component Unit of Clark County, Indiana

Combining Schedule of Revenues, Expenses and Changes in Net Position Information (Continued)
Year Ended December 31, 2012

	Clark Memorial Hospital	Clark Physician Group	Clark County Hospital Foundation	Eliminations	Total
Net Position, Beginning of Year, as Previously Reported	\$ 49,606,387	\$ (18,177,567)	\$ 1,387,415	\$ 18,177,567	\$ 50,993,802
Cumulative Effect of Change of Adoption of Accounting Principle	(736,071)	-	-	-	(736,071)
Net Position, Beginning of Year, as Restated	48,870,316	(18,177,567)	1,387,415	18,177,567	50,257,731
Net Position, End of Year	\$ 45,329,940	\$ (26,364,726)	\$ 2,093,181	\$ 25,851,202	\$ 46,909,597

Clark Memorial Hospital
A Component Unit of Clark County, Indiana
Combining Schedule of Cash Flows Information
Year Ended December 31, 2012

	Clark Memorial Hospital	Clark Physician Group	Clark County Hospital Foundation	Eliminations	Total
Operating Activities					
Receipts from and on behalf of patients	\$ 149,960,261	\$ 15,111,150	\$ -	\$ -	\$ 165,071,411
Payments to suppliers and contractors	(70,192,892)	(4,690,266)	(441,486)	-	(75,324,644)
Payments to employees	(66,696,550)	(16,482,141)	-	-	(83,178,691)
Other receipts, net	5,722,824	475,574	648,798	-	6,847,196
Change in due (from) to affiliates	(5,608,881)	5,615,503	(6,622)	-	-
Net cash provided by operating activities	<u>13,184,762</u>	<u>29,820</u>	<u>200,690</u>	<u>-</u>	<u>13,415,272</u>
Capital and Related Financing Activities					
Proceeds from issuance of note payable to bank	1,814,244	-	-	-	1,814,244
Principal paid on note payable to bank	(766,024)	-	-	-	(766,024)
Principal paid on long-term debt	(3,136,732)	-	-	-	(3,136,732)
Interest paid on note payable to bank and long-term debt	(2,757,237)	(54,663)	-	-	(2,811,900)
Purchase of capital assets	(5,592,667)	-	-	-	(5,592,667)
Net cash used in capital and related financing activities	<u>(10,438,416)</u>	<u>(54,663)</u>	<u>-</u>	<u>-</u>	<u>(10,493,079)</u>
Investing Activities					
Proceeds from disposition of investments	7,842,942	-	200,000	-	8,042,942
Purchase of investments	(5,317,510)	-	(11,249)	-	(5,328,759)
Interest and dividends on investments	89,017	4,351	3,025	-	96,393
Proceeds from sale of assets	15,708	-	-	-	15,708
Other	(22,691)	-	11,249	-	(11,442)
Net cash provided by investing activities	<u>2,607,466</u>	<u>4,351</u>	<u>203,025</u>	<u>-</u>	<u>2,814,842</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>5,353,812</u>	<u>(20,492)</u>	<u>403,715</u>	<u>-</u>	<u>5,737,035</u>
Cash and Cash Equivalents, Beginning of Year	<u>1,333,350</u>	<u>61,775</u>	<u>235,400</u>	<u>-</u>	<u>1,630,525</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,687,162</u>	<u>\$ 41,283</u>	<u>\$ 639,115</u>	<u>\$ -</u>	<u>\$ 7,367,560</u>

Clark Memorial Hospital
A Component Unit of Clark County, Indiana
Combining Schedule of Cash Flows Information (Continued)
Year Ended December 31, 2012

	Clark Memorial Hospital	Clark Physician Group	Clark County Hospital Foundation	Eliminations	Total
Reconciliation of Operating Income (Loss) to Net Cash					
Provided by Operating Activities					
Operating income (loss)	\$ 6,497,402	\$ (8,136,847)	\$ 657,216	\$ -	\$ (982,229)
Depreciation and amortization	10,545,312	697,466	-	-	11,242,778
Provision for uncollectible accounts	30,753,332	1,264,630	-	-	32,017,962
Gain on disposition of assets	(4,095)	-	-	-	(4,095)
Changes in operating assets and liabilities					-
Patient accounts receivable	(29,899,879)	(84,850)	-	-	(29,984,729)
Estimated amounts due to third-party payers	589,007	-	-	-	589,007
Accounts payable and accrued expenses	2,710,556	459,395	-	-	3,169,951
Prepaid assets, supplies and other assets	(2,397,992)	214,523	(449,904)	-	(2,633,373)
Due from/to affiliates	(5,608,881)	5,615,503	(6,622)	-	-
Net cash provided by operating activities	<u>\$ 13,184,762</u>	<u>\$ 29,820</u>	<u>\$ 200,690</u>	<u>\$ -</u>	<u>\$ 13,415,272</u>