

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2765**

AUDIT REPORT  
OF

CLARK MEMORIAL HOSPITAL  
A COMPONENT UNIT OF  
CLARK COUNTY, INDIANA

January 1, 2005 to December 31, 2005



**FILED**  
08/17/2006



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### HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Cameron Gilbert Martin Padgett	01-01-05 to 04-20-05 04-21-05 to 12-31-06
Chief Financial Officer	Martin Padgett Kirk Strack	01-01-05 to 06-21-05 06-22-05 to 12-31-06
Chairman of the Hospital Board	Dr. Gordon Gutmann	01-01-05 to 12-31-06
President of the Board of County Commissioners	Edward Meyer	01-01-05 to 12-31-06



**STATE OF INDIANA**  
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 Clark Memorial Hospital (Hospital), as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Southern Indiana Rehab Hospital and the Jewish Health Network Regional Service Center, (Affiliated Companies). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the investment in Affiliated Companies in the amount of \$5,156,476, as of December 31, 2005, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital as of December 31, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

The Management Discussion and Analysis, and Schedule of Funding Progress as listed in the table of contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

STATE BOARD OF ACCOUNTS

July 10, 2006

## 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, 2005. 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, 2005 while the Statement of Revenues, Expenses and Changes in Net Assets summarizes the changes in the assets and liabilities for the year then ended. The Statement of Cash Flows summarizes the change in cash and cash equivalents as a result of the financial activity during the year. The Notes to the Financial Statements disclose additional information addressed within the body of the financial statements.

### Financial Highlights

As a result of the less than budgeted financial performance in FY05, several key steps were implemented prior to the beginning of FY06. First, and most important, was the renegotiation of two large commercial payer contracts. The Anthem contract was redrafted to include carve-out payments for such services as cardiac implants. Additionally, the Humana contract was transitioned away from a per diem rate to an inclusive DRG rate, which closer approximates resource utilization. This contract was also updated to include carve-out payments similar to the Anthem provisions. Second, productivity standards were implemented and updated throughout 2005. Finally, overall expense control was incorporated into the monthly accountability process, leading to a decrease in departmental expenses.

### Summarized Financial Statement Information

The following information documents in summary form the financial information related to the activities of the hospital for the last year.

	<u>2005</u>	<u>2004</u>
Current Assets	\$ 34,692,801	\$ 44,682,976
Noncurrent assets	4,454,285	4,744,556
Capital assets	79,781,500	79,233,003
Other assets	<u>8,711,242</u>	<u>6,827,066</u>
Total assets	<u>127,639,828</u>	<u>135,487,601</u>
Current Liabilities	21,571,251	15,260,767
Long-term debt	<u>31,683,705</u>	<u>34,221,481</u>
Total Liabilities	<u>53,254,956</u>	<u>49,482,248</u>
Net Assets		
Invested in capital assets, net of related debt	45,510,995	42,529,722
Nonexpendable permanent endowments	73,083	72,881
Expendable for specific operating activities	3,317	5,765
Unrestricted	<u>28,797,477</u>	<u>43,396,985</u>
Total Net Assets	<u>74,384,872</u>	<u>86,005,353</u>
Revenue		
Net Patient service revenue	96,901,920	107,415,138
Other revenues	<u>2,058,415</u>	<u>2,240,720</u>
Total Revenues	<u>98,960,335</u>	<u>109,655,858</u>
Expenses		
Salaries and benefits	59,233,580	59,797,044
Medical supplies and drugs	21,847,516	21,710,113
Other	21,550,858	21,554,882
Depreciation and amortization	<u>8,257,618</u>	<u>8,047,183</u>
	<u>110,889,572</u>	<u>111,109,222</u>
Operating loss	(11,929,237)	(1,453,364)
Nonoperating revenues (expenses)	19,477	1,687,745
Capital Contributions, Grants, etc.	<u>289,279</u>	<u>854,972</u>
Increase (decrease) in net assets	(11,620,481)	1,089,353
Net assets beginning of year	<u>86,005,353</u>	<u>84,916,000</u>
Net assets end of year	<u>\$ 74,384,872</u>	<u>\$ 86,005,353</u>

## Capital Assets and Debt Administration

### Capital Assets

At the end of 2005 the Hospital had approximately \$79 million invested in capital assets. More detailed information about the Hospital's capital assets is presented in Note II.C. to the financial statements. The table below documents the type of assets that make up the Capital Assets held by the Hospital as of December 31, 2005.

	Capital Assets at Year-end Net of Depreciation (000's)	
	2005	2004
Land	\$ 7,060	\$ 7,215
Construction in progress	5,360	13,032
Land improvements	1,442	1,367
Building and improvements	78,979	65,587
Equipment	71,505	68,631
<b>Total</b>	<b>164,346</b>	<b>155,832</b>
Less Accumulation depreciation	84,565	76,599
<b>Capital Assets (Net)</b>	<b>\$ 79,781</b>	<b>\$ 79,233</b>

### Debt

At year-end the Hospital had approximately \$34.2 million in loans and bond issues outstanding, versus \$34.7 million at the end of the previous year. More detailed information about the Hospital's long-term liabilities is presented in Note II F to the financial statements. The table below documents the debt held and its use:

	Outstanding Debt At Year End (000's)	
	2005	2004
Revenue bonds	\$ 33,623	\$ 35,949
Loans	647	755
<b>Total Debt</b>	<b>\$ 34,270</b>	<b>\$ 36,704</b>

## Contacting the Hospital's Management

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Administrator at (812) 283-2178.

CLARK MEMORIAL HOSPITAL  
A COMPONENT UNIT OF CLARK COUNTY, STATE OF INDIANA  
STATEMENT OF NET ASSETS  
December 31, 2005

Assets

Current assets:	
Cash and cash equivalents	\$ 8,105,196
Patient accounts receivable, net of estimated uncollectibles of \$38,442,745	19,193,663
Other receivables	4,707,819
Supplies and other current assets	2,686,123
Noncurrent cash and investments:	
Internally designated	3,549,392
Held by trustee for debt service	28,493
Other long-term investments	800,000
Restricted by contributors and grantors	76,400
Capital assets:	
Land and construction in progress	12,421,127
Depreciable capital assets, net of accumulated depreciation	67,360,373
Other assets	<u>8,711,242</u>
Total assets	<u>\$ 127,639,828</u>

Liabilities and Net Assets

Current liabilities:	
Short-term liabilities	\$ 569,299
Current maturities of long-term debt	2,586,800
Accounts payable and accrued expenses	7,404,385
Estimated third-party payor settlements	1,004,376
Other current liabilities	10,006,391
Long-term debt, net of current maturities	<u>31,683,705</u>
Total liabilities	<u>53,254,956</u>
Net assets:	
Invested in capital assets, net of related debt	45,510,995
Restricted:	
Expendable for specific operating activities	3,317
Nonexpendable permanent endowments	73,083
Unrestricted	<u>28,797,477</u>
Total net assets	<u>74,384,872</u>
Total liabilities and net assets	<u>\$ 127,639,828</u>

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

CLARK MEMORIAL HOSPITAL  
A COMPONENT UNIT OF CLARK COUNTY, STATE OF INDIANA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
Year Ended December 31, 2005

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 96,901,920
Other	<u>2,058,415</u>
 Total operating revenues	 <u>98,960,335</u>
Operating expenses:	
Salaries and benefits	59,233,580
Medical supplies and drugs	21,847,516
Other supplies	21,550,858
Depreciation and amortization	<u>8,257,618</u>
 Total operating expenses	 <u>110,889,572</u>
Operating loss	<u>(11,929,237)</u>
Nonoperating revenues (expenses):	
Investment income	662,607
Interest expense	(1,653,943)
Loss on sale of equipment	(216,913)
Gain on investment in affiliated companies	<u>1,227,726</u>
 Total nonoperating revenues (expenses)	 <u>19,477</u>
Deficiency of revenues under expenses before capital grants and contributions	(11,909,760)
Capital grants and contributions	<u>289,279</u>
Decrease in net assets	(11,620,481)
Net assets beginning of the year	<u>86,005,353</u>
Net assets end of the year	<u>\$ 74,384,872</u>

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

CLARK MEMORIAL HOSPITAL  
A COMPONENT UNIT OF CLARK COUNTY, STATE OF INDIANA  
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS  
Year Ended December 31, 2005

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 98,833,250
Payments to suppliers and contractors	(42,745,146)
Payments to employees	(56,704,815)
Other receipts and payments, net	<u>1,821,313</u>
Net cash provided by operating activities	<u>1,204,602</u>
Cash flows from capital and related financing activities:	
Proceeds from line of credit	569,299
Proceeds from sale of capital assets	1,229,963
Capital grants and contributions	289,279
Principal paid on long-term debt	(2,481,800)
Interest paid on long-term debt	(1,971,297)
Purchase of capital assets	<u>(9,810,547)</u>
Net cash used by capital and related financing activities	<u>(12,175,103)</u>
Cash flows from investing activities:	
Interest and dividends on investments	662,607
Purchase of investments	(800,000)
Increase in investment with affiliated companies	<u>(732,516)</u>
Net cash used by investing activities	<u>(869,909)</u>
Net decrease in cash and cash equivalents	(11,840,410)
Cash and cash equivalents at beginning of year	<u>21,959,891</u>
Cash and cash equivalents at end of year	<u>\$ 10,119,481</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 8,105,196
Restricted cash and cash equivalents	<u>2,014,285</u>
Total cash and cash equivalents	<u>\$ 10,119,481</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (11,929,237)
Adjustments to reconcile operating loss to net cash flows provided in operating activities:	
Depreciation and amortization	8,257,618
Provision for bad debts	17,807,953
Increase in current assets:	
Patient accounts receivable	(15,876,623)
Supplies and other current assets	(739,548)
Other assets	(1,951,746)
Increase in current liabilities:	
Accounts payable and accrued expenses	2,668,730
Other current liabilities	2,353,895
Estimated third-party payor settlements	<u>613,560</u>
Net cash provided in operating activities	<u>\$ 1,204,602</u>

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

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

On October 20, 1982, the Board of County Commissioners of Clark County, upon written request of the Hospital Board of Trustees created the Clark Memorial Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

The accompanying financial statements present the activities of the Hospital (primary government) and its significant component units. The component unit discussed below is included in the Hospital's reporting entity because of the significance of its operational or financial relationship with the Hospital. A blended component unit, although a legally separate entity is in substance part of the government's operations and exists solely to provide services for the government; data from this unit is combined with data of the primary government.

Blended Component Unit

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

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

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

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

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

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

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the statement of revenues, expenses, and changes in net assets.

2. Use of Estimates

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

3. Capital Assets

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

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

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Hospital during the current year was \$2,096,387.

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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, or contributors external to the hospital.

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

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

D. Grants and Contributions

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

E. Endowments

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

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.

CLARK MEMORIAL HOSPITAL  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

H. Compensated Absences

1. Sick Leave

Hospital employees earn sick leave at the rate of one day per month. Unused sick leave may be accumulated to a maximum of 120 days. Employees may sell back sick leave at a ratio of one day per each three days accumulated.

2. Vacation Leave

Hospital employees earn vacation leave at rates up to 200 hours per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of 400 hours. Accumulated vacation leave is paid to employees through cash payments upon termination or change of status from a benefit status to a non benefit status.

Vacation leave is accrued when incurred and reported as a liability.

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-15 requires only that money in the hospital funds be deposited in the manner determined by the governing board. The Hospital does not have a formal policy regarding custodial credit risk for deposits. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20. As of December 31, 2005, the Hospital had the following investments:

Investment Type	Primary Government	Investment Maturities (in Years)		
	Market Value	Less Than 1	1-2	More Than 2
Mutual funds	\$ 9,422,600	\$ 9,422,600	\$ -	\$ -

Investment Policies

Indiana Code 16-22-3-20 authorizes the Hospital to invest in: (1) any interest bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana; (2) repurchase or resale agreements involving the purchase and guaranteed resale of any interest bearing obligations issued or fully insured or guaranteed by the United States or any United States government agency in which type of agreement

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

the amount of money must be fully collateralized by interest bearing obligations as determined by the current market value computed on the day the agreement is effective; (3) mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana; (4) securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency; or (5) pooled fund investments for participating hospitals offered, managed, and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

Investment Custodial Credit Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below.

Standard and Poor's Rating	Moody's Rating	Mutual Funds
AAA	Aaa	\$ 1,910,464
Unrated	Unrated	7,512,136
Total		\$ 9,422,600

Concentration of Credit Risk

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

Foreign Currency Risk

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

B. Accounts Receivable and Payable

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

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 38,555,575
Receivable from Medicare	9,565,378
Receivable from Medicaid	<u>9,515,455</u>
 Total patient accounts receivable	 57,636,408
 Less allowance for uncollectible amounts	 <u>38,442,745</u>
 Patient accounts receivable, net	 <u>\$ 19,193,663</u>

Accounts Payable and Accrued Expenses

Payable to suppliers	\$ 4,848,933
Other	<u>2,555,452</u>
 Total accounts payable and accrued expenses	 <u>\$ 7,404,385</u>

Other Current Liabilities

Payable to employees	\$ 9,564,592
Other	<u>441,799</u>
 Total other current liabilities	 <u>\$ 10,006,391</u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 7,215,564	\$ 398,517	\$ 553,623	\$ 7,060,458
Construction in progress	<u>13,031,698</u>	<u>33,186,754</u>	<u>40,857,783</u>	<u>5,360,669</u>
 Total capital assets, not being depreciated	 <u>20,247,262</u>	 <u>33,585,271</u>	 <u>41,411,406</u>	 <u>12,421,127</u>

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Land improvements	1,366,841	74,800	-	1,441,641
Buildings and improvements	65,586,737	14,158,901	766,205	78,979,433
Equipment	<u>68,630,985</u>	<u>3,393,206</u>	<u>519,684</u>	<u>71,504,507</u>
Totals	<u>135,584,563</u>	<u>17,626,907</u>	<u>1,285,889</u>	<u>151,925,581</u>
Less accumulated depreciation for:				
Land improvements	697,941	57,612	-	755,553
Buildings and improvements	25,301,320	3,384,086	30,134	28,655,272
Equipment	<u>50,599,561</u>	<u>4,815,922</u>	<u>261,100</u>	<u>55,154,383</u>
Totals	<u>76,598,822</u>	<u>8,257,620</u>	<u>291,234</u>	<u>84,565,208</u>
Total capital assets, being depreciated, net	<u>58,985,741</u>	<u>9,369,287</u>	<u>994,655</u>	<u>67,360,373</u>
Total primary government capital assets, net	<u>\$ 79,233,003</u>	<u>\$ 42,954,558</u>	<u>\$ 42,406,061</u>	<u>\$ 79,781,500</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2005</u>	<u>Committed</u>	<u>Required Future Funding</u>
Clarksville Medical Plaza	\$ 3,350,555	\$ 322,630	\$ 3,027,925	\$ -
3E & 4E Renovation	2,105,878	8,056	2,097,822	-
Various Small Projects	<u>5,405,207</u>	<u>5,029,983</u>	<u>375,224</u>	<u>-</u>
Totals	<u>\$ 10,861,640</u>	<u>\$ 5,360,669</u>	<u>\$ 5,500,971</u>	<u>\$ -</u>

E. Short-Term Liabilities

The Hospital uses a revolving line of credit and short-term loans/notes to finance a variety of Hospital expansion projects. During 2005, the Hospital obtained a line of credit for the construction of a medical facility located in Sellersburg, Indiana. Through an agreement, upon the construction's completion, the facility will be purchased by a group of physicians, at which time the line of credit will be paid from the proceeds.

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

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Issued/ Draws	Redeemed Repayments	Ending Balance
Line of credit, loans, notes	\$ -	\$ 569,299	\$ -	\$ 569,299

F. Long-Term Liabilities

1. Revenue Bonds

The Hospital issues bonds to be paid by income derived from the acquired or constructed assets.

Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
Hospital Association, \$9,550,000 1998 Revenue Bonds	4.45% to 4.65%	\$ 1,835,000
Indiana Health Facility Financing Authority (IHFFA), \$20,000,000 2001 Revenue Bonds	4.06%*	17,350,000
Indiana Health Facility Financing Authority (IHFFA), \$9,500,000 Series A 2004 Revenue Bonds	3.97%*	9,500,000
Indiana Health Facility Financing Authority (IHFFA), \$5,500,000 Series B 2004 Revenue Bonds	4.53%*	4,995,000
Total		\$ 33,680,000

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

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
2006	\$ 2,480,000	\$ 1,086,189
2007	1,950,000	982,024
2008	1,385,000	918,174
2009	1,450,000	866,532
2010	1,515,000	812,516
2011-2015	8,635,000	3,190,978
2016-2020	10,755,000	1,694,926
2021-2025	5,510,000	235,339
Totals	\$ 33,680,000	\$ 9,786,678

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Interest Rate Swap – Risk Management

The Hospital has utilized certain derivative financial instruments as a part of its risk management strategy to reduce interest rate risk. Derivatives are not used for trading or speculative activities. The Hospital recognizes all derivatives on the Statement of Net Assets at fair value. On the date the derivative instrument was entered into, the Hospital designated the derivative as a hedge of the variability of cashflows to be received or paid related to a recognized asset or liability ("Cash-flow Hedge"). The Hospital formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

The Hospital also formally assessed, both at the inception of the hedge, and on an ongoing basis, whether each derivative is highly effective in offsetting changes in cashflows of the hedged item. If it is determined that a derivative is not highly effective as a hedge or if a derivative ceases to be a highly effective hedge, the Hospital will discontinue hedge accounting prospectively.

In December 2001, and again in April 2004, the Hospital entered into interest rate swap agreements, with maturities through 2021 and 2024, to manage its exposure by effectively converting a substantial portion of its indebtedness from variable rate to fixed rate. The average annual notional amounts of interest rate swap contracts subject to fixed rates were \$33,680,000 for fiscal year 2005. These agreements involve the exchange of variable rate payments for fixed rate payments without the effect of leverage and without the exchange of the underlying face amount. Fixed interest rate payments for the 2001 issue, the 2004 issue (Issue A) and the 2004 issue (Issue B), were at a weighted average as shown in the following table. Interest rate differentials paid under these agreements were recognized as adjustments to interest expense, and amounted to \$781,695 for the year ended December 31, 2005.

	<u>Terms</u>	<u>2001 Issue</u>	<u>2004A Issue</u>	<u>2004B Issue</u>
Interest rate swaps:				
Fixed payment to counterparty	Fixed	4.06%	3.97%	4.53%
Less: Variable payment from counterparty	LIBOR%	<u>2.82%</u>	<u>3.40%</u>	<u>4.35%</u>
Net interest rate swap payments		1.24%	.57%	.18%
Variable rate bond payments		<u>2.10%</u>	<u>2.00%</u>	<u>2.45%</u>
Synthetic interest rate on bonds		<u>3.34%</u>	<u>2.57%</u>	<u>2.63%</u>

At December 31, 2005, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their terms, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Year Ended December 31	Variable-Rate Bonds		Swaps	Total
	Principal	Interest	Net Interest	Debt Service
2006	\$ 1,270,000	\$ 646,375	\$ 368,436	\$ 2,284,811
2007	1,325,000	619,930	347,563	2,292,493
2008	1,385,000	592,350	325,824	2,303,174
2009	1,450,000	563,455	303,077	2,316,532
2010	1,515,000	533,220	279,296	2,327,516
2011-2015	8,635,000	2,164,130	1,026,848	11,825,978
2016-2020	10,755,000	1,180,100	514,826	12,449,926
2021-2025	<u>5,510,000</u>	<u>175,630</u>	<u>59,709</u>	<u>5,745,339</u>
Totals	<u>\$ 31,845,000</u>	<u>\$ 6,475,190</u>	<u>\$ 3,225,579</u>	<u>\$ 41,545,769</u>

2. Loans Payable

The Hospital has entered into a loan. Annual debt service requirements to maturity for the loan, including interest of \$20,859, are as follows:

2006	\$ 126,199
2007	<u>542,360</u>
Total	<u>\$ 668,559</u>

The loan carries a variable annual interest rate. The variable annual rate used to calculate the interest was 3.24%, the variable rate at December 31, 2005. The variable rate is calculated at 1.25% per annum above the London Interbank Offered Rate, (LIBOR) rate.

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

Primary Government	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue:					
Hospital association	\$ 2,995,000	\$ -	\$ 1,160,000	\$ 1,835,000	\$ 1,210,000
Indiana Health Facility Financing Authority	33,060,000	-	1,215,000	31,845,000	1,270,000
Less deferred amount on refunding	<u>106,219</u>	<u>-</u>	<u>49,024</u>	<u>57,195</u>	<u>-</u>
Total bonds payable	35,948,781	-	2,325,976	33,622,805	2,480,000
Loans payable	<u>754,500</u>	<u>-</u>	<u>106,800</u>	<u>647,700</u>	<u>106,800</u>
Total long-term liabilities	<u>\$ 36,703,281</u>	<u>\$ -</u>	<u>\$ 2,432,776</u>	<u>\$ 34,270,505</u>	<u>\$ 2,586,800</u>

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

4. Net Revenue Available for Debt Service

The following disclosures concerning net revenue available for debt service applicable to the year ended December 31, 2005, are required by terms of the financing agreement between the Hospital and IHFFA:

Revenue from operations	\$ 98,960,335
Investment income	662,607
Less:	
Net loss on disposal of assets	216,913
Expenses (excluding depreciation, amortization and interest on funded debt)	<u>102,631,954</u>
 Total net revenue available for debt service	 <u>\$ (3,225,925)</u>
 Funded debt service for year	 <u>\$ 4,082,597</u>
 Historical debt service coverage ratio	 <u>(.7):1</u>

G. Endowments and Restricted Net Assets

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

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

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

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

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

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

H. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$2,693,645 for 2005.

I. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

Designated Funds – Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Board designation:	
Cash and cash equivalents	\$ 1,869,515
Investments	1,640,000
Accrued interest receivable	<u>39,877</u>
Total board designation	<u>3,549,392</u>
Total internally designated	<u>\$ 3,549,392</u>

III. Other Information

A. Risk Management

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; 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 \$250,000 per year or an aggregate for all individuals of \$961,093. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

B. Related Party Transactions

In 1992, the Hospital entered into an agreement with MedGroup Management, Inc., (MedGroup), an affiliate of Jewish Hospital HealthCare Services, Inc., whereby MedGroup would supervise, manage and operate the Hospital. According to the agreement, MedGroup will provide the Chief Executive Officer (who will be appointed by the Hospital's Board of Directors) and the Chief Financial Officer.

Compensation and fees paid by the Hospital to Medgroup for 2005 were \$843,400. Payments in the amount of \$2,049,501 were made to Jewish Hospital Health Care Services, Inc., and its related entities for healthcare and other related services during 2005.

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

The carrying amount reported in the statement of net assets for cash and cash equivalents approximates its fair value.

Investments

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

Accounts Payable and Accrued Expenses

The carrying amount reported in the statement of net assets for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the statement of net assets for estimated third-party payor settlements approximates its fair value.

D. Subsequent Events

Purchase of Capital Assets

On January 26, 2006, the Hospital Board approved the purchase of a Radiology Information System at a cost of \$443,000. Cost of this equipment is to be paid from operating cash funds on hand.

On February 23, 2006, the Hospital Board approved the purchase of Diagnostic Imaging Equipment for the Hunter Station Facility located in Sellersburg, Indiana, at a cost not to exceed \$3,700,000. The costs of this equipment is to be paid from operating cash funds on hand along with funds available through a line of credit with a local financial institution.

Sale of Land and Assets

On March 23, 2006, the Hospital Board approved the sale the assets of EmployCare, a medical service, located in Clarksville, Indiana, to Occupational Medicine Physicians in the amount of \$525,000. The hospital plans to finance this sale through a contractual agreement with the participating physicians.

On May 25, 2006, the Hospital Board approved the sale of two lots located on Blackiston View Drive in Clarksville, Indiana, to Stone Real Estate in the amount of \$400,000.

On May 25, 2006, the Hospital Board approved the sale of Suite 402 of the Clark Memorial Medical Plaza to Ohio Valley E & A Properties, LLC in the amount of \$422,010.

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

E. Investment in Affiliated Companies

Rehabilitation Hospital

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

Summarized financial information as of December 31, 2005, and for the year then ended from the audited financial statements of the Affiliated Company follows:

Current assets	\$ 7,546,108
Noncurrent assets	10,518,548
Current liabilities	2,017,568
Noncurrent liabilities	5,506,716
Stockholders equity	10,540,372
Revenue	16,324,717
Net income (loss)	1,731,435

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

Charges billed by Clark Memorial Hospital to SIRH for services and supplies were \$783,751 for 2005.

Cardiac Catheterization Facility

In 1996, the Hospital entered into an agreement with Jewish Hospital HealthCare Services, Inc. to establish and operate a facility to provide cardiac catheterization services. In accordance with this agreement, each hospital has a 50% equity interest in the cardiac catheterization facility. The investment was made in the year 1996 and the facility began operation in 1996. The investment is recorded on the equity method. The Hospital's investment in affiliated companies is included in the Other Assets category of the statement of net assets.

Summarized financial information as of December 31, 2005, and for the year then ended from the audited financial statements of the Affiliated Company follows:

Current assets	\$ 1,363,378
Noncurrent assets	3,988,525
Current liabilities	373,865
Noncurrent liabilities	-
Stockholders equity	4,988,066
Revenue	7,228,194
Net income (loss)	1,097,971

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

No equity distributions were received by Clark Memorial Hospital from the facility in 2005.

Regional Service Center

In 1996, the Hospital entered into an agreement with eight other hospitals to establish and operate a regional service center to provide purchasing and supply distribution services to the hospitals owned and managed by Jewish Hospital HealthCare Services, Inc. In accordance with this agreement, Clark Memorial Hospital invested \$1,293,500 for a 20% equity interest in the regional service center. The investment was made in the year 1999 and the regional service center began operation in the same year. In the year 2000, Clark Memorial Hospital sold 8.18% of its equity interest in the regional service center for \$519,423, reducing its interest to 11.92%. Upon the withdrawal of one member hospital at December 31, 2002, Clark Memorial Hospital's equity interest changed to 12.43%.

During 2004, the members of the Company amended the Operating Agreement dated January 1, 1999, to allow for annual ownership adjustments. This adjustment is based on the aggregate purchases from the Company of all members during the fiscal year most recently ended. Clark Memorial Hospital's equity interest at December 31, 2005, was 11.39%.

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, 2005, and for the year then ended from the audited financial statements of the Affiliated Company follows:

Current assets	\$ 20,471,752
Noncurrent assets	853,601
Current liabilities	7,852,580
Noncurrent liabilities	-
Stockholders equity	13,472,773
Revenue	100,723,398
Net income (loss)	3,330,428

The Regional Service Center leases warehouse and office space under a lease agreement that expires on August 1, 2011. Future minimum rental payments for the noncancelable portion of the lease total \$3,626,427.

Charges billed to Clark Memorial Hospital to the Regional Service Center for services and supplies were \$10,222,259 for 2005. No equity distributions were received from the Regional Service Center in 2005.

Comprehensive Outpatient Rehabilitation Facility (CORF)

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

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Summarized financial information as of December 31, 2005, and for the year then ended from the audited financial statements of the Affiliated Company follows:

Revenue	\$ 996,653
Net income (loss)	77,865

Amounts for balance sheet accounts are not presented because CORF's net assets are included in the Jewish Hospital HealthCare Services, Inc. combined balance sheet. No separate balance sheet is prepared for CORF.

During 2005, the Hospital did not receive an equity distribution. The Hospital received rental income for the CORF facility from Frazier Rehab Center of \$40,973 in 2005.

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

Health Care Staffing Agency

In 2002, the Hospital entered into an agreement with two related hospitals to establish and operate a health care staffing agency and cost share support services, Healthstaff Solutions, LLC. In accordance with this agreement, the hospital invested \$13,371 for an 11.14% equity interest in the health care staffing agency. The investment was made by the hospital and the health care staffing agency began operation in the year 2002. The investment is recorded on the cost method. The Hospital's investment in affiliated companies is included in the Other Assets category of the statement of net assets.

Summarized financial information as of December 31, 2005, and for the year then ended from the audited financial statements of the Affiliated Company follows:

Current assets	\$ 185,000
Noncurrent assets	35,000
Current liabilities	350,000
Noncurrent liabilities	-
Stockholders equity	(130,000)
Revenue	1,784,000
Net income (loss)	35,000

Southern Home Care/ Visiting Nurse Association

In 2002, the Hospital entered into an agreement with a related hospital to establish and operate a home health care agency. In accordance with this agreement, the hospital has a 60% equity interest in the home health care agency. The home health care agency began operation in 2002. The investment is recorded on the equity method. The Hospital's investment in affiliated companies is included in the Other Assets category of the statement of net assets.

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Summarized financial information as of December 31, 2005, and for the year then ended from the audited financial statements of the Affiliated Company follows:

Current assets	\$ 1,268,208
Noncurrent assets	-
Current liabilities	1,900,734
Noncurrent liabilities	-
Stockholders equity	(632,526)
Revenue	2,509,659
Net income (loss)	(707,156)

F. Estimated Third-Party Settlements

Regulations in effect require annual retroactive settlements for third-party settlements based upon cost reports filed by the Hospital. These retroactive settlements are estimated and recorded in the accompanying financial statements. Changes in these estimates are reflected in the year in which they occur. During 2005, net patient service revenues in the accompanying statements of operations were increased by \$145,398, to reflect changes in the estimated settlements for certain prior years.

G. Pension Plan

Clark Memorial Hospital Retirement Plan

Plan Description

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

Clark Memorial Hospital  
P.O. Box 69  
Jeffersonville, IN 47131-0069  
PH. (812) 283-2448

Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members are not required to contribute to the plan. The Hospital is required to contribute at an actuarially determined rate. The current rate is 0% of annual covered payroll. However, annual pension costs for 2005, determined in accordance with GASB 27, were \$1,867,305.

CLARK MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

Annual required contribution	\$ 1,877,403
Interest on net pension obligation	209,306
Adjustment to annual required contribution	<u>(219,404)</u>
Annual pension cost	1,867,305
Contributions made	<u>-</u>
Increase in net pension obligation	1,867,305
Net pension obligation, beginning of year	<u>2,616,322</u>
Net pension obligation, end of year	<u>\$ 4,483,627</u>

Contribution rates:

Hospital	0%
Plan members	0%
Actuarial valuation date	01-01-05
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of projected payroll, closed
Amortization period remaining	35 years
Asset valuation method	Market value of trust assets

Actuarial Assumptions

Investment rate of return	8%
Projected future salary increases	5%

Three Year Trend Information

	<u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension Cost</u> <u>(APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
Clark Memorial Hospital Retirement Plan	12-31-03	\$ 1,099,207	73%	\$ 1,191,464
	12-31-04	1,524,858	7%	2,616,322
	12-31-05	1,867,305	0%	4,483,627

CLARK MEMORIAL HOSPITAL  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS

Clark Memorial Hospital Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-03	\$ 34,358,073	\$ 28,237,630	\$ 6,120,443	122%	\$ 38,471,000	16%
01-01-04	33,759,522	31,299,716	2,459,806	108%	40,404,500	6%
01-01-05	33,488,639	33,823,028	(334,389)	99%	40,397,635	(1%)

CLARK MEMORIAL HOSPITAL  
AUDIT RESULT AND COMMENT

REVENUE BOND COVENANTS

On May 18, 1999, the Board of Directors of Clark Memorial Hospital issued bonds in the amount of \$9,550,000. Financial covenants contained with the bond documents require that four separate financial tests be met to comply with these requirements. The Hospital did not comply with the following financial test requirements:

1. The ratio of current assets to current liabilities shall not be less than 2:1. As of December 31, 2005, the Hospital's ratio was 1.6:1.
2. The ratio of total long-term liabilities to the sum of unrestricted fund balance shall not exceed .75:1. As of December 31, 2005, the Hospital's ratio was 1.1:1
3. The debt service coverage ratio (rounded to the nearest dollar) for the immediate proceeding four complete quarters shall not be less then 1.45:1. For the year ended December 31, 2005, the Hospital's ratio was (.7):1.

The hospital is responsible for complying with the decisions of the governing board as evidenced in the board minutes or other written memoranda. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 9)

CLARK MEMORIAL HOSPITAL  
EXIT CONFERENCE

The contents of this report were discussed on July 10, 2006, with Kirk Strack, Chief Financial Officer; and Todd Hoffmann, Controller. The official response has been made a part of this report and may be found on pages 32 and 33.

July 20, 2006

State Board of Accounts  
OFFICIAL RESPONSE  
302 West Washington Street, Room E418  
Indianapolis, IN 46204-2738

RE: Clark Memorial Hospital  
2005 Audit Response

Dear Madam or Sir:

Fiscal year ended December 31, 2005 was a difficult financial year for Clark Memorial Hospital. As a result of the less than budgeted operating results, senior leadership implemented several key turnaround strategies prior to beginning the 2006-operating year.

First, two vital commercial payer contracts were finalized after several months of negotiations resulting in payments that better reflected the cost of providing services to covered members.

Second, strict productivity standards were implemented for use by our leaders in determining proper and clinically appropriate staffing. These standards are reviewed each pay period for their adherence and deviation from them requires an action plan to bring them back into line. The results from these standards have been favorable to the hospital's operating margin, while maintaining superior levels of care.

Third, our benefits structure was changed to better reflect industry standards and overall team member usage. Paid time off (PTO) was implemented in early 2006 as a means to control excessive use of the prior sick, vacation, and holiday benefit structure. This system also has had a positive impact on our bottom line; however, the most important byproduct has been the continuity of care and consistency provided by having engaged team members.

Lastly, Clark Memorial began to hold ourselves accountable for one of our values – stewardship. Our leaders have recommitted themselves to learning the business of health care, while providing superior service and care. Overall discretionary expenses have decreased each month of 2006 and will permit the hospital to weather the difficult volume months.

In conclusion, Clark Memorial Hospital used the less than favorable operating results from 2005 as an opportunity to improve the facility overall in 2006. Our system of reimbursement, benefits and

#### Our Mission

The mission of Clark Memorial Hospital is to provide superior health services to the people and communities we serve.

1220 Missouri Avenue  
P.O. Box 69  
Jeffersonville, Indiana  
47131-0069

812 282-6631

www.clarkmemorial.org

accountability has been strengthened as a result of 2005 and we expect 2006 and beyond to reflect these significant strides.

Respectfully Submitted,



Kirk W. Strack, CHE

Vice President of Finance and Chief Financial Officer

Cc Karen Kelleher