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

AUDIT REPORT
OF

HARRISON COUNTY HOSPITAL
A COMPONENT UNIT OF
HARRISON COUNTY, INDIANA

October 1, 2005 to December 31, 2006

FILED
05/29/2007

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HOSPITAL OFFICIALS

Office	Official	Term
Chief Executive Officer	Steven L. Taylor	10-01-05 to 12-31-07
Chief Financial Officer	Jeffrey L. Davis	10-01-05 to 12-31-07
Chairman of the Hospital Board	Parvin A. Baumgart	10-01-05 to 01-28-06
	Fred Owen	01-29-06 to 03-14-06
	Paul Martin	03-15-06 to 12-31-07
President of the Board of County Commissioners	J. R. Eckart	10-01-05 to 12-31-06
	James Goldman	01-01-07 to 12-31-07

STATE OF INDIANA

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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF HARRISON COUNTY HOSPITAL, HARRISON COUNTY, INDIANA

We have audited the accompanying basic financial statements of Harrison County Hospital (Hospital), and its aggregate discretely presented component unit as of and for the three month period ended December 31, 2005 and the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital and its aggregate discretely presented component unit as of December 31, 2005 and 2006, and the respective changes in financial position and cash flows, thereof for the periods then ended in conformity with accounting principles generally accepted in the United States.

The Management Discussion and Analysis, as listed in the Table of Contents, is not a required part of the basic financial statements but is 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

May 17, 2007

HARRISON COUNTY HOSPITAL

Management Discussion and Analysis (MD&A)

This section of Harrison County Hospital's (HCH) annual financial statements presents background information and management discussion and analysis of the HCH financial performance for the year ended December 31, 2006. HCH reports results on a fiscal year of January 1 to December 31, and any reference to a year in this MD&A indicates the HCH fiscal years. This MD&A does not include a discussion and analysis of the activities and results of the Harrison County Hospital Foundation.

This MD&A should be read together with the financial statements and accompanying Notes to the Financial Statements included in this report.

Fiscal Year Change

HCH changed fiscal years for financial reporting purposes as of January 1, 2006. HCH previously reported on a fiscal year of October 1 to September 30, and now reports on a fiscal year of January 1 to December 31. The last fiscal year ended September 30 was 2005, with a short fiscal year reported for October 1, 2005 to December 31, 2005.

The decision to change the fiscal year was based on the desire of the hospital to align with the financial reporting of the governmental unit of Harrison County, and with the financial reporting of other industry entities. HCH also believes that the calendar year is more representative of the hospital's natural annual business cycle than the fiscal year ending September 30.

Financial Highlights

- HCH net assets increased by $7,510,999 in 2006, resulting from operating gains of $5,730,485, contributed capital of $1,304,333, and non-operating revenue of $476,181.

- Total net patient revenue, net of provision for bad debt, increased by 10.8%, while operating expenses increased by 8.2%. Net operating income for the year was $5,730,485, an increase of 26.7% from 2005.

- Long term debt, including current maturities, is $30,589.783. This amount includes $30,000,000 in revenue bonds payable for the new hospital construction, and various loans for equipment which will be paid in full by October 2007.

- The Board of Trustees gave approval in September of 2005 for HCH to make application for the critical access hospital (CAH) designation. HCH was approved as a CAH facility as of December 15, 2005. The CAH program under Medicare was developed to assist smaller hospitals that service rural areas and areas of critical need, as it provides alternative reimbursement methods for patient

services. Under the CAH program, Medicare will reimburse HCH at 101% of the allowable costs of providing services to Medicare patients. This additional reimbursement resulted in a sizeable increase in Medicare net revenues for 2006 compared to 2005.

- Construction began in late 2005 and continued in 2006 on the $47 million replacement hospital facility. The funding is being provided by: $30 million in variable rate revenue bonds, backed by a five year letter of credit commitment from J.P. Morgan Chase Bank, and issued through the Indiana Health and Educational Facility Finance Authority; a contribution from Harrison County of $12 million, which will come from the sharing of gaming tax revenue; and a grant from the Harrison County Community Foundation of $5 million. The revenue bonds were sold in November of 2005. Following the sale of the revenue bonds, HCH entered into an interest rate SWAP covering $25 million of the $30 million bond issue. The SWAP effectively fixes the interest rate at 3.81% for the life of those bonds. The grants were made in scheduled payments to HCH in September 2005, FY 2006 and FY 2007. The facility is expected to be completed in November of 2007. Following is a general breakdown of the construction costs:

* Land	$700,000
* Site Work and Building Construction	29,500,000
* Equipment	9,000,000
* Architectural Design Fees	1,800,000
* Engineers, Consultants, Planners	750,000
* Bond Issuance Expenses	550,000
* Construction Period Interest	1,500,000
* Project Contingency	3,200,000
Total	$47,000,000

HCH has been researching the feasibility of, and planning for a new facility for a number of years. The primary reasons for building the replacement hospital are:

1. To replace an ageing and outdated facility, dating to 1950.
2. Increased patient volumes have created the need for more space.
3. To enhance functional areas for patient services, patient access, equipment, building and safety codes.
4. The cost to build a new replacement facility is favorable in comparison to renovating the old structure.
5. Relocating to a new site will provide greater visibility, better access to major roads, and room for future expansion.
6. To allow HCH to remain competitive in the development of medical staff and new services.

As of December 31, 2006, HCH has spent $21,703,000 in construction costs for the new facility. The project is on budget and the facility is expected to be completed in November 2007, and to be placed into service during January 2008.

- In July 2006 HCH entered into an agreement with several physicians and healthcare providers to establish Harrison MOB, LLC. This entity was formed to invest in and operate a new medical office building to be located on the campus of the new HCH facility. HCH invested $580,000 and owns approximately 55% of the shares of the LLC. As of December 31, 2006 total assets of the LLC were $1,061,031, and the limited activity of the LLC is included in the Financial Statements. The LLC plans to obtain financing for and begin construction on the medical office building in 2007, with construction to be completed in the first half of 2008. More financial information on the LLC is included in the Notes to the Financial Statements.

- In the second half of 2006 HCH implemented a Picture Archiving Communication System (PACS) for diagnostic imaging procedures, at a total cost of $746,000. The PACS stores patient diagnostic images electronically, which facilitates the retrieval and review process of images for radiologists and other physicians. The system benefits include immediate access to stored images on-site, the ability for secure electronic communication of images, reduced loss of images and reports, improved productivity, and reduced costs of film, chemicals and processors. The PACS is also an integral part of HCH and healthcare industry initiatives to build electronic medical records for patients.

- HCH continues to implement an upgraded and expanded hospital information system. The project included financial and clinical information systems within an enterprise-wide integrated information system. This is a significant investment in technology which improves quality of information for financial and clinical management, which in turn will facilitate improved quality of care. The systems will also allow for operational efficiencies as patient volumes increase, and regulatory requirements continue to expand in number and complexity.

The Financial Statements

The HCH financial statements consist of - a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These statements provide short-term and long-term financial information.

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets provide information on the HCH resources and its activities. These two statements report the net assets of HCH and its changes. Increases or decreases of the HCH net assets are one indicator of whether its financial health is improving or eroding. However, other non-financial factors such as changes in economic conditions, population growth, patient demographic changes, and new or changed government legislation should also be considered.

The Statement of Net Assets includes all of the HCH assets and liabilities, and the net assets, which can be thought of as the net worth of HCH. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the financial results of the HCH operations and presents revenue earned and expenses incurred. The other primary

financial statement is the Statement of Cash Flows. This statement provides information about HCH sources and uses of cash during the year, and the cash flows from operating activities, capital and related financing activities, and investing activities.

A summary of the HCH Balance Sheets as of December 31, 2006 and 2005 is presented below, in 000's:

	2006	2005	$ Change	% Change
Assets:				
Cash and Investments	$15,741	$10,035	$5,706	56.9%
Capital Assets	32,181	14,377	17,804	123.8%
Other Assets	9,241	7,628	1,613	21.1%
Restricted Assets - Cash	22,892	32,060	(9,168)	N/A
Restricted Assets - Receivable	5,587	10,999	(5,412)	N/A
Total Assets	$85,642	$75,099	$10,543	14.0%
Liabilities:				
Long Term Debt Outstanding	$30,000	$30,581	($581)	-1.9%
Current and Other Liabilities	6,330	2,718	3,612	132.9%
Total Liabilities	36,330	33,299	3,031	9.1%
Net Assets:				
Invested in Capital Assets - Net of Related Debt	11,138	10,533	605	5.7%
Unrestricted	20,179	14,577	5,602	38.4%
Restricted	17,995	16,690	1,305	N/A
Total Net Assets	49,312	41,800	7,512	18.0%
Total Liabilities and Net Assets	$85,642	$75,099	$10,543	14.0%

The increase in cash and investments is due primarily to the combination of a very strong revenue year and resulting operating gains, and a continuing focus on controlling expenditures. Collections and reimbursements for patient services provided the primary source of cash. In addition, there was $1,050,000 in cash received for the initial purchase of shares in the Harrison MOB LLC.

Capital Assets have increased due to the construction in progress of the new $47 million hospital facility.

Current and Other Liabilities reflects a significant increase at December 31, 2006 due to several large invoices for hospital construction that were payable at that time.

A summary of the HCH Statement of Operations and Changes in Net Assets as of December 31, 2006 and 2005 is presented below, in 000's:

	2006	2005	$ Change	% Change
Revenue:				
Net Patient Service Revenue, net of provision for Bad Debt: 2006 ($4,398); 2005 ($4,433)	$34,820	$31,427	$3,393	10.8%
Other	1,409	1,270	139	10.9%
Total Operating Revenue	36,229	32,697	3,532	10.8%
Expenses:				
Salaries and Benefits	17,352	15,711	1,641	10.4%
Medical Supplies and Drugs	3,364	3,230	134	4.1%
Depreciation	1,952	1,692	260	15.4%
Other	7,830	7,541	289	3.8%
Total Operating Expenses	30,498	28,174	2,324	8.2%
Operating Income	5,731	4,523	1,208	26.7%
Non-Operating Revenue	640	257	383	149.0%
Non-Operating Expense	(164)	(128)	(36)	28.1%
Excess of Revenue over Expenses	6,207	4,652	1,555	33.4%
Capital Grants and Contributions	1,304	16,690	(15,386)	N/A
Total Net Assets - Beginning of Year	41,800	20,458	21,342	104.3%
Total Net Assets - End of Year	$49,311	$41,800	$7,511	18.0%

Sources of Revenue

During 2006 and 2005 HCH derived substantially all of its revenue from patient service and other related programs. Revenue is received from Medicare and Medicaid programs, self pay patients, insurance carriers, preferred provider organizations, and managed care companies. Other revenue includes payments from Harrison County for the operation of the county ambulance service, totaling $936,868 in 2006 and $793,399 in 2005.

The table on the following page presents the percentages of gross revenue for patient services, by payor, for the years ended December 31, 2006 and 2005, respectively.

Payor	2006	2005
Medicare	43.5%	43.1%
Medicaid	11.3%	11.0%
Anthem	15.3%	14.7%
Commercial Insurance	7.3%	7.6%
Managed Care	15.0%	15.9%
Self Pay	5.0%	4.9%
Other	2.6%	2.8%
Total	100.0%	100.0%

Operating and Financial Performance

The operating performance of HCH was again improved in 2006 compared to the prior year. This section will discuss the highlights of 2006 operations and changes in activity.

Revenue

Net patient revenue increased $3.4 million in 2006 primarily as a result of an overall rate increase on services, increases in outpatient volumes, and a focus on reimbursement management. Further discussion of revenue activity follows.

- Overall activity of HCH as measured by patient discharges adjusted for outpatient volume increased by 3.5 % in 2006. Contributing to this rise was an increase in emergency room visits, and the increased demand for diagnostic testing as the industry continues to rely more on these procedures for detection and diagnosis of disease and injuries.

- Inpatient activity decreased in terms of patient days by 12.6%. This decrease reflects a return to the historical norm, following a harsh cold and flu season in 2005 which resulted in many elderly patients requiring acute care. Historical inpatient activity remains flat, which reflects the continued shift in the industry from inpatient services to outpatient services, as technology improves to allow less invasive procedures and shorten the time of recovery.

- The portion of deductions from gross revenue recognized by HCH for uninsured care and charity care in 2006 was $5.9 million, or 7.7% of gross revenue, compared to $5.4 million, or 7.2% of gross revenue in 2005. Uninsured care is included in provision for bad debt expense and represents uncollected charges for services not covered by insurance, and for patients that do not have health insurance. Charity care is recognized as a deduction from gross revenue, and represents charges written off that were incurred in providing uncompensated care to indigent patients. HCH has a policy and a commitment to provide emergency care to all patients without regard for their ability to pay for services. Over the past several years there has been a trend of increasing uninsured care. This can be attributed to the overall local economy and the health insurance industry climate, which has left more of the population without health insurance. In addition, those with health insurance often face significant increases in patient deductibles and co-insurance as companies try to offset large health insurance premium increases by shifting toward consumer driven health plans.

- During 2006 net Medicare settlements of $442,737 were received for the year 2005, and $220,112 was received for the year 2002, relating to the Medicare cost reports for those years. These payments were made due to the fact that cost report settlements and contractual allowances can differ from estimated reimbursement, based on the results of subsequent reviews and audits.

- Settlements of $1,120,776 were received in 2006 under the Indiana Medicaid program, relating to the State of Indiana's fiscal years of 2004 and 2005. These payments were made as part of the Disproportionate Share Hospital program adjustments. These adjustments were made from funds that are available to partially cover the hospital's cost of care to Medicaid and uninsured patients. These amounts are determined by the State through subsequent reviews and audits.

Expenses

Total operating expenses increased by 8.2% in 2006. Factors that had an impact on expenses are discussed below.

- Salaries and benefits costs for 2006 increased by $1,641,000, a 10.4% increase from 2005. This increase was in line with budgeted projections and reflected an increase in employed physicians; increases in labor for rising volumes of

outpatient services; and the current high inflation indexes associated with healthcare labor and benefits costs. Paid employee hours per adjusted patient discharge decreased by 5.6% in 2006 compared to 2005. This favorable decrease was realized by improving labor efficiencies and controlling staffing levels, while outpatient volumes were increasing.

- Other expenses rose by $683,000, an increase of 5.5% from 2005. Expenses for depreciation were a large part of this change, increasing by $260,000, or 15%, over 2005. This increase is due to the investment in new equipment in order to stay current with advancing technologies. In addition, insurance costs increased by $93,000, or 21% over 2005, reflecting large inflationary rate increases as well as increases for additional employed physicians. The volume driven costs of drugs and non-medical supplies composed the balance of the other expenses increase.

Long Term Debt

At fiscal year end 2006, HCH had total notes payable of $30.6 million, a slight decrease from $31.4 million at year end 2005. $30 million of the balance represents revenue bonds that HCH issued for the construction of the new hospital facility. Interest payments are currently being made on these bonds, with principal payments scheduled to begin in November 2008. HCH has accelerated principal payments on the remaining $600,000 in loans for equipment so that all non-construction debt can be retired by October in 2007. More detailed information on HCH's long term debt is presented in the Notes to the Financial Statements.

CAPITAL ASSETS

During 2006 HCH invested $19.2 million in various capital assets included in the table below, in 000's:

	2006	2005	$ Change	% Change
Land and Land Improvements	$1,772	$1,856	($84)	-4.5%
Buildings	15,048	15,025	23	0.2%
Equipment	13,483	12,589	894	7.1%
Total Capital Assets	30,303	29,470	833	2.8%
Less Accumulated Depreciation	(20,307)	(18,444)	(1,863)	10.1%
Construction in Progress	22,185	3,350	18,835	562.2%
Capital Assets - Net	$32,181	$14,376	$17,805	123.9%

HCH continues to invest in capital equipment in order to meet the needs of the service area population. These capital improvements result in increased service capacity, greater efficiencies, and upgraded technology. Additionally, HCH continues to replace equipment as it becomes obsolete, as well as upgrade the capabilities of the hospital information systems. The large increase in Construction in Progress in 2006 is due to construction capital costs associated with the replacement hospital building project.

The table below shows HCH's 2007 capital budget with projected spending of $28.2 million for capital projects. Equipment to be placed in service in 2007 will be purchased from operating cash and cash reserves. Capital expenditures for the hospital building project will be reflected in Construction in Progress in 2007, and will be financed from the proceeds of revenue bonds, along with pledged grants and contributions.

Capital Budget	**2007**
Expansion of Services	$175
Replacement Equipment	1,125
Information Systems	1,600
New Hospital	25,300
Total Capital Budget	$28,200

More information on HCH's capital assets is presented in the Notes to the Financial Statements.

Economic and Industry Factors for 2007 Budget

The HCH Board of Trustees and management considered many factors when setting the 2007 budget. Of primary importance in setting the budget was the status of the economy and industry trends, which takes into account market forces and regulatory factors such as the following items:

- Population growth, demographic shifts, and the expanding need for services
- Continuously increasing expectations for quality improvement
- Advances in medical equipment technology and the need to replace obsolete equipment
- Privacy legislation – Health Insurance Portability and Accountability Act (HIPAA)
- Increasing emphasis on the integrity of public financial information
- Growing number of uninsured and underinsured patients
- Increasing costs of labor, medical supplies and drugs, and insurance
- Access to additional capital, and management of cash and debt levels
- Cash and resource requirements needed for the replacement hospital building project

The focus of management is to implement a multi-year plan that will consider expanded services, continuous quality improvement, cost control, capital requirements, and financing in support of net asset improvement.

Contacting HCH's Financial Manager

This report is designed to provide our citizens, customers, and creditors with a general overview of HCH's finances and to demonstrate accountability. If you have questions about this report or need additional information, contact the Chief Financial Officer, Jeffrey L. Davis at 812-738-4251.

HARRISON COUNTY HOSPITAL
STATEMENT OF NET ASSETS
December 31, 2005

Assets	Primary Government
Current assets:	
Cash and cash equivalents	$ 5,866,989
Patient accounts receivable, net of estimated uncollectibles of $7,913,554	4,881,584
Other receivables - restricted	5,553,334
Supplies and other current assets	2,149,626
Noncurrent cash and investments:	
Internally designated	4,167,756
Held by trustee for construction	29,569,697
Restricted by contributors and grantors	2,490,151
Capital assets:	
Land and construction in progress	4,330,024
Depreciable capital assets, net of accumulated depreciation	10,046,862
Other assets:	
Investment in affiliated company	167,311
Other long-term receivables - restricted	5,445,666
Other	430,303
Total assets	$ 75,099,303
Liabilities and Net Assets	
Current liabilities:	
Current maturities of long-term debt	$ 825,527
Accounts payable and accrued expenses	1,577,304
Estimated third-party payor settlements	50,000
Other current liabilities	265,591
Long-term debt, net of current maturities	30,580,617
Total liabilities	33,299,039
Net assets:	
Invested in capital assets, net of related debt	10,533,116
Restricted:	
Expendable for capital acquisitions	16,690,117
Unrestricted	14,577,031
Total net assets	41,800,264
Total liabilities and net assets	$ 75,099,303

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

HARRISON COUNTY HOSPITAL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Period Ended December 31, 2005

	Primary Government
Operating revenues:	
Net patient service revenue (net of provision for bad debt of $1,132,531)	$ 7,490,650
Other	480,330
Total operating revenues	7,970,980
Operating expenses:	
Salaries and benefits	3,985,459
Professional fees and purchased services	1,324,334
Medical supplies and drugs	769,175
Insurance	112,988
Other supplies	288,369
Depreciation and amortization	433,253
Other	191,219
Total operating expenses	7,104,797
Operating income	866,183
Nonoperating revenues (expenses):	
Investment income	69,600
Investment expense	(12,964)
Gain on sale of equipment	30
Total nonoperating revenues	56,666
Excess of revenues over expenses before capital grants and contributions	922,849
Capital grants and contributions	24,450
Increase in net assets	947,299
Net assets beginning of the year	40,852,965
Net assets end of the year	$ 41,800,264

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

HARRISON COUNTY HOSPITAL
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Period Ended December 31, 2005

Cash flows from operating activities:	
Receipts from and on behalf of patients	$ 7,526,676
Payments to suppliers and contractors	(3,035,954)
Payments to employees	(4,274,514)
Other receipts and payments, net	245,497
Net cash provided by operating activities	461,705
Cash flows from capital and related financing activities:	
Capital grants and contributions	24,450
Proceeds from sale of assets	30
Proceeds from bonds	29,805,000
Principal paid on long-term debt	(1,721,942)
Interest paid on long-term debt	(12,964)
Purchase of capital assets	(1,312,281)
Net cash provided by capital and related financing activities	26,782,293
Cash flows from investing activities:	
Interest and dividends on investments	69,600
Net increase in cash and cash equivalents	27,313,598
Cash and cash equivalents at beginning of year	14,780,995
Cash and cash equivalents at end of year	$ 42,094,593
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	$ 5,866,989
Internally designated cash and cash equivalents	4,167,756
Restricted cash and cash equivalents	32,059,848
Total cash and cash equivalents	$ 42,094,593
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 866,183
Adjustments to reconcile operating income to net cash flows provided in operating activities:	
Depreciation and amortization	433,253
Provision for bad debts	1,132,531
(Increase) decrease in current assets:	
Patient accounts receivable	(1,096,505)
Supplies and other current assets	(236,373)
Estimated third-party payor settlements	142,003
Other assets	(235,303)
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	(261,427)
Other current liabilities	(332,657)
Estimated third-party payor settlements	50,000
Net cash provided by operating activities	$ 461,705

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

HARRISON COUNTY HOSPITAL
STATEMENT OF NET ASSETS
December 31, 2006

Assets	Primary Government	Discrete Component Unit	Total Reporting Entity
Current assets:			
Cash and cash equivalents	$ 5,514,243	$ 886,031	$ 6,400,274
Investments	4,000,000	-	4,000,000
Patient accounts receivable, net of estimated uncollectibles of $7,234,633	4,824,066	-	4,824,066
Other receivables - restricted	5,586,666	-	5,586,666
Estimated third-party settlements	704,748	-	704,748
Supplies and other current assets	2,281,722	175,000	2,456,722
Noncurrent cash and investments:			
Internally designated	5,367,923	-	5,367,923
Held by trustee for construction	22,866,265	-	22,866,265
Restricted by contributors and grantors	25,651	-	25,651
Capital assets:			
Land and construction in progress	23,080,191	-	23,080,191
Depreciable capital assets, net of accumulated depreciation	9,100,776	-	9,100,776
Other assets:			
Investment in affiliated companies	747,311	-	747,311
Other	481,038	-	481,038
Total assets	$ 84,580,600	$ 1,061,031	$ 85,641,631
Liabilities and Net Assets			
Current liabilities:			
Current maturities of long-term debt	$ 589,783	$ -	$ 589,783
Accounts payable and accrued expenses	5,406,916	-	5,406,916
Other current liabilities	333,669	-	333,669
Long-term debt, net of current maturities	30,000,000	-	30,000,000
Total liabilities	36,330,368	-	36,330,368
Net assets:			
Invested in capital assets, net of related debt	11,138,201	-	11,138,201
Restricted:			
Expendable for capital acquisitions	16,944,450	1,050,000	17,994,450
Unrestricted	20,167,581	11,031	20,178,612
Total net assets	48,250,232	1,061,031	49,311,263
Total liabilities and net assets	$ 84,580,600	$ 1,061,031	$ 85,641,631

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

HARRISON COUNTY HOSPITAL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2006

	Primary Government	Discrete Component Unit	Total Reporting Entity
Operating revenues:			
Net patient service revenue (net of provision for bad debt of $4,397,530)	$ 34,819,429	$ -	$ 34,819,429
Other	1,409,313	-	1,409,313
Total operating revenues	36,228,742	-	36,228,742
Operating expenses:			
Salaries and benefits	17,352,499	-	17,352,499
Professional fees and purchased services	5,422,720	-	5,422,720
Medical supplies and drugs	3,363,515	-	3,363,515
Insurance	537,033	-	537,033
Other supplies	1,177,349	-	1,177,349
Depreciation and amortization	1,952,061	-	1,952,061
Other	693,080	-	693,080
Total operating expenses	30,498,257	-	30,498,257
Operating income	5,730,485	-	5,730,485
Nonoperating revenues (expenses):			
Investment income	574,064	11,031	585,095
Investment expense	(36,611)	-	(36,611)
Noncapital grants and contributions	54,616	-	54,616
Loss on sale of equipment	(126,919)	-	(126,919)
Total nonoperating revenues	465,150	11,031	476,181
Excess of revenues over expenses before capital grants and contributions	6,195,635	11,031	6,206,666
Capital grants and contributions	254,333	1,050,000	1,304,333
Increase in net assets	6,449,968	1,061,031	7,510,999
Net assets beginning of the year	41,800,264	-	41,800,264
Net assets end of the year	$ 48,250,232	$ 1,061,031	$ 49,311,263

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

HARRISON COUNTY HOSPITAL
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Period Ended December 31, 2006

Cash flows from operating activities:	
Receipts from and on behalf of patients	$ 34,876,947
Payments to suppliers and contractors	(6,814,549)
Payments to employees	(17,271,836)
Other receipts and payments, net	(109,008)
Net cash provided by operating activities	10,681,554
Cash flows from noncapital financing activities:	
Noncapital grants and contributions	54,616
Cash flows from capital and related financing activities:	
Capital grants and contributions	5,666,667
Principal paid on long-term debt	(816,361)
Interest paid on long-term debt	(36,611)
Purchase of capital assets	(19,864,440)
Net cash used by capital and related financing activities	(15,050,745)
Cash flows from investing activities:	
Interest and dividends on investments	546,816
Purchase of investments	(28,866,265)
Investment in affiliated company	(580,000)
Net cash used by investing activities	(28,899,449)
Net decrease in cash and cash equivalents	(33,214,024)
Cash and cash equivalents at beginning of year	42,094,593
Cash and cash equivalents at end of year	$ 8,880,569
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	$ 5,514,243
Internally designated cash and cash equivalents	3,340,675
Restricted cash and cash equivalents	25,651
Total cash and cash equivalents	$ 8,880,569
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 5,730,485
Adjustments to reconcile operating income to net cash flows provided in operating activities:	
Depreciation and amortization	1,952,061
Provision for bad debts	4,397,530
(Increase) decrease in current assets:	
Patient accounts receivable	(4,340,012)
Supplies and other current assets	(132,096)
Estimated third-party payor settlements	(917,741)
Other assets	(69,356)
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	3,829,612
Other current liabilities	68,078
Estimated third-party payor settlements	162,993
Net cash provided by operating activities	$ 10,681,554

Noncash investing, capital, and financing activities:

In 2006, the Hospital received pledges totaling $5,666,667 with a present value adjustment of $254,333.

In 2006, the Hospital transferred land totaling $84,602 to Harrison County to construct an access road to the new replacement hospital.

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

Harrison County 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 Harrison 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 Harrison County.

The Hospital changed their accounting period from a September 30 fiscal year end to a December 31 fiscal year end. The change was made to:

1. Simplify financial reporting with Harrison County, of which Harrison County Hospital is a component unit.

2. Eliminate dual statistical reporting to the Indiana Department of Health and the Indiana Hospital and Health Association whom are both on a calendar year.

3. Simplify financial reporting with the Hospital's investments in affiliated companies.

4. More closely match the Hospital's natural business cycle.

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

Discretely Presented Component Unit

The Harrison MOB, LLC, was created on July 26, 2006, and is a significant component unit of the Hospital. The Harrison MOB, LLC, is fiscally dependent on the primary government.

The financial statements of the individual component unit may be obtained from Harrison County Hospital's administrative office as follows:

Harrison County Hospital
245 Atwood Street
Corydon, Indiana, 47112

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.

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

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

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

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

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

Other investments are generally reported at fair value.

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

2. Use of Estimates

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

3. Capital Assets

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	$ 1,000	Not applicable	Not applicable
Land improvements	1,000	Straight-line	AHA guide
Buildings and fixed equipment	1,000	Straight-line	AHA guide
Equipment	1,000	Straight-line	AHA guide

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 2006 year was $168,841.

4. Net Assets

Net assets of the Hospital are classified in three components.

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

Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital.

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

Net assets of the discrete component unit are classified in two components.

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 discrete component unit.

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

From time to time, the Hospital receives grants from Harrison County and the State of Indiana as well as contributions from individuals and private organizations. 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.

From time to time, the Harrison MOB, LLC, receives contributions from Harrison County Hospital, individuals and private organizations. 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. 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.

F. 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.

G. Compensated Absences

The Hospital's policy on paid days off (which includes vacation, sick leave, personal leave and holidays) allows full-time employees and regular part-time employees to accrue paid days off, to a maximum of 60 days.

Paid days off are 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 16-22-3-16 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.

Custodial credit risk is the risk that, in the event of a bank failure, Harrison MOB, LLC's deposits may not be returned to it. Harrison MOB, LLC, 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

As of December 31, 2006, the Hospital had the following investments:

Investment Type	Primary Government Market Value	Investment Maturities (in Years) Less Than 1	1-2	More Than 2
U.S. Treasuries and Securities	$ 1,535,243	$ 1,535,243	$ -	$ -
U.S. Agencies	21,331,022	-	-	21,331,022
Totals	$ 22,866,265	$ 1,535,243	$ -	$ 21,331,022

Statutory Authorization for Investments

Indiana Code 16-22-3-20 authorizes the Hospital to invest in: (1) any interest-bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana; (2) repurchase or resale agreements involving the purchase and guaranteed resale of any interest bearing obligations issued or fully insured or guaranteed by the United States or any United States government agency in which type of agreement the amount of money must be fully collateralized by interest bearing obligations as determined by the current market value computed on the day the agreement is effective; (3) mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana; (4) securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency; 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 investment policy for custodial credit risk for investments. At December 31, 2006, the Hospital held investments in U.S. Agencies in the amount of $21,331,022. Of these investments $21,331,022 were held by the Counterparty.

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	Government Sponsored Enterprise
Unrated	Unrated	$ 21,331,022

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. More than 5% of the Hospital's investments are in the Federal Home Loan Bank System. This investment represents 93% of the total investments for the Hospital.

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 period end consisted of these amounts:

Patient Accounts Receivable	12-31-05	12-31-06
Receivable from patients and their insurance carriers	$ 8,621,571	$ 7,560,192
Receivable from Medicare	2,707,839	3,465,433
Receivable from Medicaid	1,465,728	1,033,074
Total patient accounts receivable	12,795,138	12,058,699
Less allowance for uncollectible amounts	7,913,554	7,234,633
Patient accounts receivable, net	$ 4,881,584	$ 4,824,066

Accounts Payable and Accrued Expenses	12-31-05	12-31-06
Payable to employees	$ 593,422	$ 606,007
Payable to suppliers	977,570	4,795,734
Other	6,312	5,175
Total accounts payable and accrued expenses	$ 1,577,304	$ 5,406,916

C. Capital Assets

1. Capital asset activity for the period ended December 31, 2005, was as follows:

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 979,788	$ -	$ -	$ 979,788
Construction in progress	2,300,976	1,049,260	-	3,350,236
Total capital assets, not being depreciated	3,280,764	1,049,260	-	4,330,024
Capital assets, being depreciated:				
Land improvements	876,629	-	-	876,629
Buildings and fixed equipment	15,024,850	-	315	15,024,535
Equipment	12,326,211	263,336	-	12,589,547
Totals	28,227,690	263,336	315	28,490,711
Less accumulated depreciation for:				
Land improvements	689,122	15,559	-	704,681
Buildings and fixed equipment	9,301,380	128,524	-	9,429,904
Equipment	8,020,094	289,228	58	8,309,264
Totals	18,010,596	433,311	58	18,443,849
Total capital assets, being depreciated, net	10,217,094	(169,975)	257	10,046,862
Total primary government capital assets, net	$ 13,497,858	$ 879,285	$ 257	$14,376,886

2. Capital asset activity for the year ended December 31, 2006, was as follows:

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 979,788	$ -	$ 84,602	$ 895,186
Construction in progress	3,350,236	19,249,769	415,000	22,185,005
Total capital assets, not being depreciated	4,330,024	19,249,769	499,602	23,080,191
Capital assets, being depreciated:				
Land improvements	876,629	-	-	876,629
Buildings and fixed equipment	15,024,535	23,505	-	15,048,040
Equipment	12,589,547	1,062,370	168,901	13,483,016
Totals	28,490,711	1,085,875	168,901	29,407,685
Less accumulated depreciation for:				
Land improvements	704,681	59,874	-	764,555
Buildings and fixed equipment	9,429,904	491,094	-	9,920,998
Equipment	8,309,264	1,384,192	72,100	9,621,356
Totals	18,443,849	1,935,160	72,100	20,306,909
Total capital assets, being depreciated, net	10,046,862	(849,285)	96,801	9,100,776
Total primary government capital assets, net	$ 14,376,886	$ 18,400,484	$ 596,403	$ 32,180,967

D. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2005	Committed	Required Future Funding
Meditech system	$ 1,616,843	$ 94,222	$ 1,522,621	$ -
New replacement hospital	39,000,000	3,124,492	35,875,508	-
New medical office building	9,688	9,688	-	-
Equipment	9,000,000	1,239	8,998,761	-
Other remodeling	120,595	120,595	-	-
Totals	$ 49,747,126	$ 3,350,236	$ 46,396,890	$ -

Project	Total Project Authorized	Expended to December 31, 2006	Committed	Required Future Funding
Meditech system	$ 1,616,843	$ 126,753	$ 1,490,090	$ -
New replacement hospital	39,000,000	20,592,675	18,407,325	-
New medical office building	253,995	253,995	-	-
Equipment	9,020,149	1,130,253	7,889,896	-
Other remodeling	81,329	81,329	-	-
Totals	$ 49,972,316	$ 22,185,005	$ 27,787,311	$ -

E. Leases

Operating Leases

The Hospital has entered into various operating leases having initial or remaining noncancelable terms exceeding one year for MRI equipment and office space. Rental expenditures for these leases for the period ended December 31, 2005, were $55,036 and $20,087, respectively. Rental expenditures for these leases for the year ended December 31, 2006, were $220,145 and $55,239, respectively. The following is a schedule by years of future minimum rental payments as of periods ended December 31, 2005, and December 31, 2006:

	12-31-05	12-31-06
2006	$ 280,407	$ -
2007	280,407	285,428
2008	280,407	280,407
2009	257,039	275,385
Totals	$ 1,098,260	$ 841,220

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 period ended December 31, 2005, and year ended December 31, 2006, are as follows:

Purpose	Interest Rates	Amount
2005 Hospital constuction revenue bonds	Variable	$ 30,000,000

Disclosure information for the 2005 Revenue Bond Issue which includes interest rate swap agreements follows:

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in November 2005, the Hospital entered into an interest rate swap in connection with its $30,000,000 Series 2005 auction rate bond. The intention of the swap was to effectively change the Hospital's variable interest rate on the bond to a synthetic fixed rate of 3.55%.

Under the swap agreement, the Hospital pays the counterparty, U.S. Bancorp Piper Jaffray Financial Products, Inc., a fixed payment of 3.81% and receives a variable payment computed as 70% of the London Interbank Offered Rate (LIBOR). The swap has equal notional amount totaling $25,000,000 and the associated auction rate bonds have a $25,000,000 principal amount. The swap was entered into at the same time the bonds were issued in November 2005. Beginning in 2008, the notional value of the swap begins to decline by $575,000 and in increasing amounts in future years as the principal amount of the associated debt declines. The auction rate on the bonds closely approximates the Bond Market Association Municipal Swap Index (BMA). The bonds and related swap agreement matures on October 1, 2032. As of December 31, 2006, rates were as follows:

	Terms	Interest Rates (%)
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.81%
Variable payment from counterparty	70% of LIBOR	3.60%
Net interest rate swap payments		0.21%
Variable auction-rate bond payments		3.34%
Synthetic interest rate of bonds		3.55%

As of December 31, 2006, the swap had a negative fair value of $521,948. The negative fair value of the swap may be countered by reductions in total interest payments required by the auction rate bond, creating lower synthetic rates. Because the auction rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase.

As of December 31, 2006, the Hospital was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Hospital would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty is currently rated A+ by Standard and Poor's, Aa3 by Moody's Investors Service and AA- by Fitch Ratings. The swap agreement does not contain collateral provisions for either party.

The swap exposes the Hospital to basis risk should the relationship between LIBOR and auction rates converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized.

The derivative contracts use the International Swaps and Derivatives Association Master Agreement, which include standard termination events, such as failure to pay and bankruptcy. The Schedules to the Master Agreements include additional termination events. The swap may be terminated by the Hospital if the counterparty's credit rating falls below BBB- by Standard and Poor's, Aa3 by Moody's Investors Service or if either rating is withdrawn or suspended. The counterparty may terminate the swap agreement if the Hospital's rating by Standard and Poor's falls below BBB- or the rating is withdrawn or suspended. Either party may terminate the swap if the other fails to perform under the terms of the contract. If the swap is terminated, the auction rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Hospital would be liable to the counterparty for a payment equal to the swap's fair value.

As of December 31, 2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their terms were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year Ending	Variable-Rate Bonds		Interest Rate	Total
December 31	Principal	Interest	Swap, Net	Debt Service
2007	$ -	$ 1,002,000	$ 63,000	$ 1,065,000
2008	575,000	1,002,000	63,000	1,640,000
2009	595,000	982,795	61,792	1,639,587
2010	675,000	962,922	60,543	1,698,465
2011	865,000	940,377	59,125	1,864,502
2012-2016	4,810,000	4,247,311	267,046	9,324,357
2017-2021	5,735,000	3,384,422	212,793	9,332,215
2022-2026	6,820,000	2,356,704	148,176	9,324,880
2027-2031	8,125,000	1,133,596	71,274	9,329,870
2032	1,800,000	60,120	3,780	1,863,900
Totals	$ 30,000,000	$ 16,072,247	$ 1,010,529	$ 47,082,776

2. Notes Payable

The Hospital has entered into various notes. Annual debt service requirements to maturity for the notes for the period ended December 31, 2006, including interest of $12,061, are as follows:

2007	$ 601,844

3. Changes in Long-Term Liabilities

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

Primary Government	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue:					
Indiana Health and Educational Facility Financing Authority	$ -	$ 30,000,000	$ -	$ 30,000,000	$ -
Notes payable	3,128,086	-	1,721,942	1,406,144	825,527
Total long-term liabilities	$ 3,128,086	$ 30,000,000	$ 1,721,942	$ 31,406,144	$ 825,527

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

Primary Government	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue:					
Indiana Health and Educational Facility Financing Authority	$ 30,000,000	$ -	$ -	$ 30,000,000	$ -
Notes payable	1,406,144	-	816,361	589,783	589,783
Total long-term liabilities	$ 31,406,144	$ -	$ 816,361	$ 30,589,783	$ 589,783

4. Net Revenue Available for Debt Service

The following disclosures concerning net revenue available for debt service applicable to the periods ended December 31, 2005, and December 31, 2006, are required by terms of the financing agreement between the Hospital and IHEFFA:

	2005	2006
Revenue from operations	$ 7,970,980	$ 36,228,742
Investment income	69,600	574,064
Less:		
Net loss (gain) on disposal of assets	(30)	126,919
Expenses (excluding depreciation, amortization and interest on funded debt)	6,671,544	28,546,196
Total net revenue available for debt service	$ 1,369,066	$ 8,129,691
Funded debt service for year	$ 1,433,726	$ 1,990,606
Historical debt service coverage ratio	3.16:1	4.08:1

G. Restricted Net Assets

Hospital restricted, expendable net assets are available for the following purposes:

	2005	2006
Expendable for capital acquisitions:		
Building and equipment	$ 16,690,117	$ 16,944,450

Harrison MOB, LLC, restricted, expendable net assets are available for the following purposes:

	2006
Expendable for capital acquisitions:	
Building and equipment	$ 1,050,000

H. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were $255,354 and $1,553,311 for periods ended 2005 and 2006, respectively.

I. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

Funded Depreciation – Amounts transferred from the Operating Fund by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by Indiana Code 16-22-3-13.

	2005	2006
Internally designated:		
Funded depreciation:		
Cash and cash equivalents	$ 4,167,756	$ 3,340,675
Investments	-	2,000,000
Accrued interest receivable	-	27,248
Total internally designated	$ 4,167,756	$ 5,367,923

III. Other Information

A. Risk Management

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

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

Medical Benefits to Employees and Dependents

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees and dependents. The risk financing fund is accounted for in the General Fund where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of $40,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of payouts and other economic and social factors.

However, claim liabilities cannot be reasonably estimated.

B. Contingent Liabilities

Litigation

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

C. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital and its discrete component unit 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. Investment in Affiliated Company (Companies)

Harrison-Floyd Health Services, LLC

In 2004, the Hospital entered into an agreement with Floyd Memorial Hospital and Health Services to establish and operate a limited liability company, Harrison-Floyd Health Services, LLC. In accordance with this agreement, each hospital invested $150,000 for 50% equity interest in the LLC. The investment was made in the fiscal years 2004 and 2005. The LLC began operation in 2004. The investment is recorded on the equity method. The Hospital's investment in the affiliated company is included in the other assets category of the statement of net assets.

Summarized financial information as of December 31, 2005, and for the three month period then ended and as of December 31, 2006, and for the year then ended, from the unaudited financial statements of the affiliated company follows:

	2005	2006
Current assets	$ 54,292	$ 42,362
Noncurrent assets	216,703	181,436
Current liabilities	16,033	14,583
Net assets	254,962	209,215
Revenue	35,838	104,961
Expenses	38,869	150,708
Net loss	3,031	45,747

Harrison MOB, LLC

On July 26, 2006, the Hospital entered into an agreement with several physicians and physician groups to establish and operate a medical office building to be located on the Hospital's campus in Corydon, Indiana, known as Harrison MOB, LLC. In accordance with this agreement, 68 Class A units and 37 Class B units were sold for $10,000 each, for an aggregate proceeds of $1,050,000. Each unit represents an equity interest of approximately .952% in the company. The Hospital purchased 58 units for an investment of $580,000 representing approximately 55.2% equity interest in the company. To date the medical office building is not operational. The Hospital committed to lease available finished square footage in the building up to a 90% occupancy level for the first five years and up to 85% occupancy level for the next five years. The investment is recorded on the equity method. The Hospital's investment in the affiliated company is included in the Other Assets category of the Statement of Net Assets.

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

Current assets	$ 1,061,031
Net assets	1,061,031
Revenue	11,031
Net gain	11,031

E. Pension Plan

Hospital Pension Plan

Plan Description

The Hospital has a defined contribution pension plan administered by MetLife 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:

MetLife
c/o FasCare LLC
P.O. Box 173768
Denver, Colorado, 80217-3768
Ph. (800) 543-2520

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members' contributions are voluntary and are established by written authorization for payroll deduction into an annuity savings account. The Hospital is required to contribute at an actuarially determined rate. The current rate is 5% of annual covered payroll. Employer and employee contributions to the plan for the year ending December 31, 2006, were $484,118 and $547,632, respectively.

HARRISON COUNTY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on May 17, 2007, with Paul Martin, Chairman of the Hospital Board; Steven L. Taylor, Chief Executive Officer; Jeffrey L. Davis, Chief Financial Officer; and Keith Lieber, Controller. Our audit disclosed no material items that warrant comment at this time.