

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

AUDIT REPORT
OF

DEARBORN COUNTY HOSPITAL
A COMPONENT UNIT OF
DEARBORN COUNTY, INDIANA

January 1, 2008 to December 31, 2008



FILED
06/04/2009

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Hospital Officials	2
Independent Auditor's Report	3
Management's Discussion and Analysis.....	4-8
Basic Financial Statements:	
Statement of Net Assets.....	9
Statement of Revenues, Expenses, and Changes in Net Assets	10
Statement of Cash Flows	11
Notes to Financial Statements	12-25
Required Supplementary Information	
Schedule of Funding Progress	26
Audit Result and Comment:	
Receivable Without Supporting Documentation.....	27
Combining Financial Statements:	
Combining Statement of Net Assets.....	28
Combining Statement of Revenues, Expenses, and Changes in Net Assets	29
Combining Statement of Cash Flows	30
Exit Conference.....	31

HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Peter V. Resnick	04-01-07 to 03-31-10
Treasurer	Peter V. Resnick	04-01-07 to 03-31-10
Chairman of the Hospital Board	Ronald Denney William F. Ritzmann	04-01-07 to 03-31-09 04-01-09 to 03-31-10
President of the Board of County Commissioners	Jeffery Hughes Ralph Thompson	01-01-08 to 12-31-08 01-01-09 to 12-31-09



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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 THE DEARBORN COUNTY HOSPITAL, DEARBORN COUNTY, INDIANA

We have audited the accompanying basic financial statements of the Dearborn County Hospital (Hospital), as of and for the year ended December 31, 2008, 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 as of December 31, 2008, 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's Discussion and Analysis and the 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.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining statements, listed in the Table of Contents, are presented for purposes of additional analysis and are not required parts of the financial statements of the Hospital. This information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

May 1, 2009

Dearborn County Hospital
A Component Unit of Dearborn County, Indiana
Management's Discussion and Analysis

Our discussion and analysis of Dearborn County Hospital's (DCH) financial performance provides an overview of DCH's financial activities for the fiscal years ended December 31, 2008 and 2007. Please read it in conjunction with the Hospital's financial statements.

Financial Highlights

Dearborn County Hospital's net assets increased \$2,656,325, up 3.3% during 2008.

The Hospital reported an operating gain of \$3,706,948 in 2008, up 50.9% from \$2,457,161 in 2007.

DCH's nonoperating revenue decreased to a loss of <\$1,050,623> in 2008, down from a gain of \$4,612,410 in 2007.

Using This Annual Report

Dearborn County Hospital's financial statements consists of three statements – a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets include all assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

The Hospital's net assets – the difference between assets and liabilities – provides one measure of DCH's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors, such as changes in the Hospital's patient utilization, the quality of service it provides to the community, as well as local economic factors, to assess the overall health of DCH.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The Hospital's true financial condition is more closely related to the cash flows it generates than to its reported income. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financial activities. It provides answers to such questions as "Where did cash come from?" "What was the cash used for?" and "What was the change in cash balance during the reporting period?"

Net Assets

The Hospital's net assets are the differences between its assets and liabilities reported on the Statement of Net Assets. As presented on Table 1, DCH's net assets increased \$2,656,325 during 2008, down <62.4%> versus the prior year increase in net assets.

Table 1: Assets, Liabilities, and Net Assets

Assets:	2008	2007
Current assets	\$ 28,175,853	\$ 25,998,839
Capital assets, net	56,829,265	50,273,336
Other noncurrent assets	<u>36,674,182</u>	<u>42,628,444</u>
Total assets	<u>\$121,679,300</u>	<u>\$118,900,619</u>
Liabilities:		
Long-term debt outstanding	\$ 29,751,791	\$ 30,000,000
Other current and noncurrent liabilities	<u>9,130,443</u>	<u>8,759,878</u>
Total liabilities	<u>\$ 38,882,234</u>	<u>\$ 38,759,878</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 26,939,596	\$ 24,952,571
Restricted:		
Expendable for capital acquisitions, net of related debt	-	1,092,405
Unrestricted	<u>55,857,470</u>	<u>54,095,765</u>
Total net assets	<u>\$ 82,797,066</u>	<u>\$ 80,140,741</u>

Capital assets, net increased \$6,555,929 during 2008 as the acquisition cost of capital assets exceeded depreciation expense.

The Hospital ended 2008 with long-term debt outstanding in the amount of \$29,751,791.

Operating Results and Changes in Net Assets

In 2008, Dearborn County Hospital's net assets increased by \$2,656,325 up 3.3% from the prior year, as shown on Table 2. That increase is down <62.4%> compared with the \$7,069,571 increase in net assets during 2007.

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Table 2: Operating Results and Change in Net Assets, follows

Table 2: Operating Results and Changes in Net Assets

Operating Revenues:	<u>2008</u>	<u>2007</u>
Net patient service revenues	\$ 83,157,147	\$ 73,162,962
Other operating revenues	<u>2,248,202</u>	<u>1,943,517</u>
Total operating revenues	<u>\$ 85,405,349</u>	<u>\$ 75,106,479</u>
Operating Expenses:		
Wages and benefits	\$ 49,553,616	\$ 44,406,516
Medical supplies and drugs	13,421,993	12,045,394
Depreciation and Rentals	6,083,030	4,948,600
Other operating expenses	<u>12,639,762</u>	<u>11,248,808</u>
Total operating expenses	<u>\$ 81,698,401</u>	<u>\$ 72,649,318</u>
	Operating gain <loss>	<u>\$ 2,457,161</u>
	<u>\$ 3,706,948</u>	
Nonoperating revenue <expenses>:		
Investment income	<\$ 1,029,308>	\$ 2,583,386
Interest expense	<628,330>	<177,508>
Other	<u>607,015</u>	<u>2,206,528</u>
Total nonoperating revenues <expenses>	<u><\$ 1,050,623></u>	<u>\$ 4,612,406</u>
	Increase in net assets	<u>\$ 7,069,571</u>
	<u>\$ 2,656,325</u>	
Net assets end of year:	<u>\$ 82,797,066</u>	<u>\$ 80,140,741</u>

Operating Gains

The first component of the overall change in Dearborn County Hospital's net assets is its operating gain <loss> - generally, the difference between net patient service revenue and the expenses incurred to perform those services. In each of the past two year, the Hospital reported an operating gain.

Operating revenues totaled \$85,405,349 in 2008, up 13.7% from 2007. During 2008, the Hospital's supplemental revenue, a component of operating revenues, was \$5,850,515, up 232.5% from the prior year, as shown on Table 3.

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Table 3: Supplemental Revenue, follows

Table 3: Supplemental Revenue

	<u>2008</u>	<u>2007</u>	<u>Aggregate Posted To Date</u>
Indiana Medicaid Upper Payment Limit:			
State Fiscal Year 2006		\$ 895,548	\$ 895,548
State FY 2007	\$ 961,189		961,189
State FY 2008	<u>\$ 1,188,188</u>		1,188,188
Total	<u>\$ 2,149,377</u>	<u>\$ 895,548</u>	
Medicaid Disproportionate Share Hospital:			
State FY 2005		\$ 282,616	\$ 282,616
State FY 2006	\$ 1,137,332		1,137,332
State FY 2007	1,049,590		1,049,590
State FY 2008	<u>993,092</u>		993,092
Total	<u>\$ 3,180,014</u>	<u>\$ 282,616</u>	
Medicare Disproportionate Share Hospital:			
DCH FY 2004	\$ 382	\$ 207	\$ 457,368
DCH FY 2005	133	\$ 6,342	567,432
DCH FY 2006	20,609	575,000	595,609
DCH FY 2007	<u>500,000</u>		500,000
Total	<u>\$ 521,124</u>	<u>\$ 581,549</u>	
Grand Total	<u>\$ 5,850,515</u>	<u>\$ 1,759,713</u>	

Meanwhile, 2008 operating expenses increased 12.5%. Salaries and benefits, which generated 60.7% of total operating expenses during 2008, finished the year up 11.6% over 2007 while non-labor expenses were up 13.8%.

As a result, DCH's 2008 operating gain increased \$1,249,787 from 2007.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of interest revenue and investment earnings. For 2008, investment income includes <\$3,239,311> pertaining to an unrealized loss in the market value of DCH's investments. For 2007, investment income included an unrealized gain of \$317,136 pertaining to the market value of investments.

Other non-operating revenue for 2008 was \$607,015, down from \$2,206,528 in 2007. That decrease is primarily due to the receipt of a donation of \$1,566,274 from Anna Cook O'Brien and Mary O'Brien Gibson in August, 2007. Both years include a \$500,000 donation from the City of Lawrenceburg.

Cash Flows

After paying its employees, suppliers and contractors during 2008, the Dearborn County Hospital's operating activities generated positive cash flow in the amount of \$10,234,613. Meanwhile, the Hospital's capital and related financing activities used net cash in the amount of \$<12,214,025> comprised of capital asset purchases totaling \$11,585,695 and interest on long-term debt totaling \$628,330. The Hospital's investing activities used net cash in the amount of \$<4,512,087>. Therefore, during 2008 the Hospital realized a net decrease in cash and cash equivalents in the amount of \$<6,491,499>.

Capital Asset and Debt Administration

At the end of 2008, Dearborn County Hospital had \$56,829,265 invested in capital assets, net of accumulated depreciation, as detailed in Note II.C. to the financial statements. In 2008, the Hospital purchased capital assets at a cost of \$11,585,695, down <51.5%> from the amount spent for capital assets in the prior year.

Debt

The Hospital ended 2008 with long-term debt outstanding, net of current maturities, in the amount of \$29,751,791. Of that long-term debt, \$29,700,000 pertains to its 2006 Bond Issue and \$51,791 for a capitalized lease obligation. In addition, the current portion (i.e., due within one year) of long-term debt is \$314,021 representing \$300,000 due on the Bond Issue and \$14,021 due on the capitalized lease.

Contacting Dearborn County Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, and creditors with a general overview of Dearborn County Hospital's finances. If you have any questions about this report or need additional information, contact the Hospital Treasurer's office at Dearborn County Hospital, 600 Wilson Creek Road, Lawrenceburg, Indiana 47025.

DEARBORN COUNTY HOSPITAL
STATEMENT OF NET ASSETS
December 31, 2008

Assets

Current assets:	
Cash and cash equivalents	\$ 6,877,349
Short-term investments	5,946,362
Patient accounts receivable, net of estimated uncollectibles of \$16,148,683	13,275,526
Inventories	1,101,383
Prepaid expenses	904,733
Other current assets	70,500
Noncurrent cash and investments:	
Internally designated	34,152,292
Other long-term investments	1,741,791
Capital assets:	
Capital assets not being depreciated	3,636,579
Depreciable capital assets, net of accumulated depreciation	53,192,686
Long term loans receivable	603,956
Other assets	<u>176,143</u>
Total assets	<u>\$ 121,679,300</u>

Liabilities and Net Assets

Current liabilities:	
Current maturities of long-term debt	\$ 314,021
Accounts payable	1,709,569
Accrued salaries and wages	1,628,728
Accrued taxes and other withholdings	583,888
Accrued employee benefits	2,488,017
Other current liabilities	2,406,220
Long-term debt, net of current maturities	<u>29,751,791</u>
Total liabilities	<u>38,882,234</u>
Net assets:	
Invested in capital assets, net of related debt	26,939,596
Unrestricted	<u>55,857,470</u>
Total net assets	<u>82,797,066</u>
Total liabilities and net assets	<u>\$ 121,679,300</u>

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

DEARBORN COUNTY HOSPITAL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2008

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 83,157,147
Other	<u>2,248,202</u>
Total operating revenues	<u>85,405,349</u>
Operating expenses:	
Salaries and wages	37,498,175
Employee benefits	12,055,441
Physician fees	3,145,289
Supplies	13,421,993
Insurance	694,622
Depreciation and rentals	6,083,030
Other expenses	<u>8,799,851</u>
Total operating expenses	<u>81,698,401</u>
Operating income	<u>3,706,948</u>
Nonoperating revenues (expenses):	
Investment income	(1,029,308)
Investment expense	(628,330)
Other	<u>607,015</u>
Total nonoperating revenues (expenses)	<u>(1,050,623)</u>
Increase in net assets	2,656,325
Net assets beginning of the year	<u>80,140,741</u>
Net assets end of the year	<u><u>\$ 82,797,066</u></u>

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

DEARBORN COUNTY HOSPITAL
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2008

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 84,183,830
Payments to suppliers and contractors	(24,558,091)
Payments to employees	(53,632,654)
Other receipts and payments, net	<u>4,241,528</u>
Net cash used by operating activities	<u>10,234,613</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(11,585,695)
Interest paid on long-term debt	<u>(628,330)</u>
Net cash used by capital and related financing activities	<u>(12,214,025)</u>
Cash flows from investing activities:	
Interest and dividends on investments	(1,034,537)
Purchase of investments	(6,811,794)
Proceeds from sale of investments	<u>3,334,244</u>
Net cash used by investing activities	<u>(4,512,087)</u>
Net decrease in cash and cash equivalents	(6,491,499)
Cash and cash equivalents at beginning of year	<u>13,383,149</u>
Cash and cash equivalents at end of year	<u>\$ 6,891,650</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 6,877,349
Noncurrent cash and cash equivalents	<u>14,301</u>
Total cash and cash equivalents	<u>\$ 6,891,650</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 3,706,948
Adjustments to reconcile operating income to net cash flows provided in operating activities:	
Depreciation and amortization	5,095,578
Provision for bad debts	8,566,559
Other nonoperating income	612,245
(Increase) decrease in current assets:	
Patient accounts receivable	(7,539,876)
Inventories	(185,258)
Prepaid expenses	(87,741)
Other current assets	24,313
Long term loans receivable	(21,142)
Other assets	6,444
Increase (decrease) in current liabilities:	
Accounts payable	874,231
Accrued salaries and wages	(174,381)
Accrued taxes and other withholdings	365,608
Accrued employee benefits	331,985
Other current liabilities	<u>(1,340,900)</u>
Net cash provided in operating activities	<u>\$ 10,234,613</u>

The Hospital held investments at December 31, 2008, with a fair value of \$17,238,470. During 2008, the net decrease in the fair value of these investments was \$3,239,311.

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

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Dearborn 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 out-patient health care.

The Board of County Commissioners of Dearborn 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 Dearborn County.

The accompanying financial statements present the activities of the Hospital (primary government) and its significant component unit. 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. Blended component units, although legally separate entities, are in substance part of the government's operations and exist solely to provide services for the government; data from these units is combined with data of the primary government.

Blended Component Unit

Health Services Corporation of Southeastern Indiana (Corporation) is a significant blended component unit of the Hospital. The primary government appoints a voting majority of the Corporation's board and a financial benefit/burden relationship exists between the Hospital and the Corporation. Although it is legally separate from the Hospital, the Corporation 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.

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.

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Open-end mutual funds are reported at fair value.

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

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.

The capitalization threshold (the dollar values above which asset acquisitions are added to the capital asset accounts) is \$2,500 per item, or a group of items with an aggregate cost of at least \$5,000. Depreciation is calculated based on the straight-line method. Estimated useful lives of capital assets are based on estimated life in years as suggested in the American Hospital Association publication "Estimated Useful Lives of Depreciable Hospital Assets."

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.

4. Net Assets

Net assets of the Hospital are classified in two 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.

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Contributions

From time to time, the Hospital receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. 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. 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.

F. Compensated Absences

1. Sick Leave

Hospital employees earn sick leave at the rate of 96 hours per year. Unused sick leave may be accumulated to a maximum of 960 hours. A portion of accumulated sick leave is paid to eligible employees with more than 500 accumulated hours upon retirement.

2. Vacation Leave

Hospital employees earn vacation leave at rates from 15 days to 25 days per year based upon the number of years of service. Vacation leave may be accrued to a maximum of 60 days to 100 days depending on years of service. Accumulated vacation leave is paid to employees through cash payments upon retirement or other separation from service.

3. Personal Leave

Hospital employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year.

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

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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's policy for deposits provides for all deposit accounts to be insured by the Federal Deposit Insurance Corporation or by 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, 2008, the Hospital had the following investments:

<u>Investment Type</u>	<u>Hospital Market Value</u>
Mutual funds	<u>\$ 17,238,470</u>

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 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.

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Accounts Receivable and Payable

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

Receivable from patients and their insurance carriers	\$ 14,640,093
Receivable from Medicare	11,207,241
Receivable from Medicaid	<u>3,576,875</u>
Total patient accounts receivable	29,424,209
Less allowance for uncollectible amounts	<u>16,148,683</u>
Patient accounts receivable, net	<u><u>\$ 13,275,526</u></u>

Accounts Payable and Accrued Expenses

Payable to suppliers	<u><u>\$ 2,096,672</u></u>
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C. Capital Assets

Capital asset activity for the year ended December 31, 2008, 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	\$ 992,692	\$ -	\$ -	\$ 992,692
Construction in progress	<u>22,325,005</u>	<u>7,959,689</u>	<u>27,640,807</u>	<u>2,643,887</u>
Total capital assets, not being depreciated	<u>23,317,697</u>	<u>7,959,689</u>	<u>27,640,807</u>	<u>3,636,579</u>
Capital assets, being depreciated:				
Land improvements	732,796	748,513	-	1,481,309
Buildings and improvements	34,997,473	26,404,982	161,364	61,241,091
Equipment	<u>37,118,084</u>	<u>4,740,548</u>	<u>1,210,395</u>	<u>40,648,237</u>
Totals	<u>72,848,353</u>	<u>31,894,043</u>	<u>1,371,759</u>	<u>103,370,637</u>
Less accumulated depreciation for:				
Land improvements	548,958	70,905	-	619,863
Buildings and improvements	19,078,947	2,231,259	153,657	21,156,549
Equipment	<u>26,264,809</u>	<u>2,779,245</u>	<u>642,515</u>	<u>28,401,539</u>
Totals	<u>45,892,714</u>	<u>5,081,409</u>	<u>796,172</u>	<u>50,177,951</u>
Total capital assets, being depreciated, net	<u>26,955,639</u>	<u>26,812,634</u>	<u>575,587</u>	<u>53,192,686</u>
Total primary government capital assets, net	<u><u>\$ 50,273,336</u></u>	<u><u>\$ 34,772,323</u></u>	<u><u>\$ 28,216,394</u></u>	<u><u>\$ 56,829,265</u></u>

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 2008</u>	<u>Committed</u>
Hospital renovation	\$ 1,230,727	\$ 997,365	\$ 233,362
Surgical floor renovation	1,931,200	1,581,053	350,147
Patient tower	37,144	37,144	-
605 Wilson Creek Road medical office building	<u>67,300</u>	<u>28,325</u>	<u>38,975</u>
Totals	<u>\$ 3,266,371</u>	<u>\$ 2,643,887</u>	<u>\$ 622,484</u>

E. Leases

1. Operating Leases

The Hospital has entered into various operating leases having initial or remaining noncancelable terms exceeding one year for rental of office space. Rental expenditures for these leases were \$343,048. The following is a schedule by years of future minimum rental payments as of year end:

2009	\$ 331,277
2010	271,219
2011	223,972
2012	124,529
2013	<u>7,752</u>
Total	<u>\$ 958,749</u>

2. Capital Leases

The Hospital has entered into a capital lease for a chemistry system. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of year end, are as follows:

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2009	\$	19,224
2010		19,224
2011		19,224
2012		19,224
2013		<u>1,602</u>
Total minimum lease payments		78,498
Less amount representing interest		<u>12,686</u>
Present value of net minimum lease payments		<u><u>\$ 65,812</u></u>

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

Equipment	\$	78,200
Accumulated depreciation		<u>13,033</u>
Total	\$	<u><u>65,167</u></u>

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
Patient tower, parking garage, and facility improvements	variable**	<u><u>\$ 30,000,000</u></u>

**The interest rate is variable, based on the judgment of the Remarketing Agent (taking into consideration current transaction and comparable securities with which the Remarketing Agent is involved or of which it is aware and prevailing financial market conditions) to produce as nearly as practical a par bid. The maximum interest rate is 10% per annum.

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
2009	\$ 300,000	\$ 843,000
2010	400,000	834,570
2011	400,000	823,330
2012	400,000	812,090
2013	500,000	800,580
2014-2018	2,900,000	3,785,070
2019-2023	4,200,000	3,310,180
2024-2028	5,900,000	2,627,350
2029-2033	8,400,000	1,669,140
2034-2036	6,600,000	382,160
Totals	<u>\$ 30,000,000</u>	<u>\$ 15,887,470</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable	\$ 30,000,000	\$ -	\$ -	\$ 30,000,000	\$ 300,000
Capital leases	-	78,200	12,388	65,812	14,021
Total long-term liabilities	<u>\$ 30,000,000</u>	<u>\$ 78,200</u>	<u>\$ 12,388</u>	<u>\$ 30,065,812</u>	<u>\$ 314,021</u>

G. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$2,215,796 for 2008.

H. 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 IC 16-22-3-13.

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Internally designated:	
Funded depreciation:	
Cash and cash equivalents	\$ 14,301
Investments	34,120,003
Accrued interest receivable	<u>17,988</u>
Total funded depreciation	<u><u>34,152,292</u></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; medical and dental 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 and job related illnesses or injuries to employees 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 and Dental Benefits to Employees, Retirees and Dependents

The Hospital has chosen to establish a risk financing fund for risks associated with medical and dental benefits to employees. The risk financing fund is accounted for in the Operating Fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$85,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

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

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

	2008	2007
Unpaid claims, beginning of fiscal year	\$ 770,000	\$ 670,000
Incurred claims and changes in estimates	5,974,713	4,715,803
Claim payments	<u>(5,774,713)</u>	<u>(4,615,803)</u>
Unpaid claims, end of fiscal year	<u><u>\$ 970,000</u></u>	<u><u>\$ 770,000</u></u>

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Natural Disasters

Risk financing is not utilized for natural disasters.

B. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Short-Term Investments

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

Investments

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

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.

C. Fair Value Measurements

Statement on Financial Accounting Standards No. 157, Fair Value Measurements (as amended), requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by the Hospital impacted by this pronouncement include the Hospital's investments and assets whose use is limited which are measured using quoted prices in active markets and other significant observable inputs.

The Hospital partially adopted the provisions of FAS 157 for fiscal year 2008, but will delay adoption of nonfinancial assets and nonfinancial liabilities covered by FASB Staff Position No. FAS 157-2. This Staff Position permits entities to partially defer the effective date of FAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal year 2009.

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

When fully adopted, the Hospital will apply the provisions of FAS 157-2 to certain nonfinancial assets and liabilities and is currently evaluating the impact of the full adoption of this statement on the activities, changes in net assets and financial position. Using the provisions within SFAS No. 157, the Hospital has characterized its investments in securities, based on the priority of the inputs used to value the investments, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

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

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

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

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

Based upon the levels as defined the Hospital's investments as of December 31, 2008, are classified as follows:

Investment Type	December 31, 2008	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	\$ 17,238,470	\$ 17,238,470	\$ -	\$ -

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Pension Plans

1. Defined Benefit Pension Plan

Plan Description

The Hospital has a defined benefit pension plan administered by Dearborn County Hospital as authorized by Indiana Code 16-22-3-11. The plan provides retirement benefits to plan members and beneficiaries. The plan was established by the Hospital Board of Trustees.

Funding Policy

The contribution requirements of plan members are established by the Hospital Board of Trustees. The Hospital is required to contribute at an actuarially determined rate. The current rate is 3.44% of annual covered payroll.

Actuarial Information for the Above Plan

	<u>Defined Benefit Pension Plan</u>
Annual required contribution	\$ 989,643
Interest on net pension obligation	-
Adjustment to annual required contribution	-
Annual pension cost	989,643
Contributions made	989,643
Increase (decrease) in net pension obligation	-
Net pension obligation, beginning of year	-
Net pension obligation, end of year	\$ -
Contribution rate:	
Hospital	3.44%
Actuarial valuation date	11-01-07
Actuarial cost method	Frozen entry age
Asset valuation method	Market

Actuarial Assumptions

Investment rate of return	7.5%
Projected future salary increases	4.5%

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
10-31-06	\$ 1,091,497	100%	\$ -
10-31-07	1,049,410	100%	-
10-31-08	989,643	100%	-

2. Defined Contribution Pension Plans

a. Dearborn County Hospital Defined Annuity Plan

Plan Description

The Hospital has a defined contribution pension plan administered by Lincoln National as authorized by IC 16-22-3-11. The plan provides retirement 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:

Pat Sutton
Director of Human Resources and Hospital Services
600 Wilson Creek Road
Lawrenceburg, IN 47025
Ph. (812) 537-1010

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members are not required to contribute to the plan. The Hospital is required to contribute at a rate determined by the Board. The current rate is 25% of employee contributions up to 8% of annual salary. Employer and employee contributions to the plan were \$294,877 and \$1,553,473, respectively.

b. Health Services Corporation of Southeastern Indiana Defined Annuity Plan

Plan Description

The Health Services Corporation of Southeastern Indiana (component unit) has a defined contribution pension plan administered by Lincoln National. The plan provides retirement benefits to plan members and beneficiaries. 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:

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Pat Sutton
Director of Human Resources and Hospital Services
600 Wilson Creek Road
Lawrenceburg, IN 47025
Ph. (812) 537-1010

Funding Policy and Annual Pension Cost

Plan members are not required to contribute to the plan. The Health Services Corporation of Southeastern Indiana is required to contribute at a rate of 25% of employee contributions up to 8% of annual salary. Employer and employee contributions to the plan were \$50,448 and \$248,027, respectively.

c. Health Services Corporation of Southeastern Indiana Retirement Plan

Plan Description

The Health Services Corporation of Southeastern Indiana (component unit) has a defined contribution pension plan administered by Lincoln National. The plan provides retirement benefits to plan members and beneficiaries. 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:

Pat Sutton
Director of Human Resources and Hospital Services
600 Wilson Creek Road
Lawrenceburg, IN 47025
Ph. (812) 537-1010

Funding Policy and Annual Pension Cost

The Health Services Corporation of Southeastern Indiana is required to contribute at a rate of 3% of annual covered payroll. Employer contributions to the plan were \$114,078.

DEARBORN COUNTY HOSPITAL
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Defined Benefit Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
11-01-05	\$ 14,467,406	16,476,204	\$ (2,008,798)	88%	\$ 25,767,698	(8%)
11-01-06	16,779,996	18,728,357	(1,948,361)	90%	27,391,149	(7%)
11-01-07	19,564,471	21,521,885	(1,957,414)	91%	28,739,322	(7%)

DEARBORN COUNTY HOSPITAL
AUDIT RESULT AND COMMENT

RECEIVABLE WITHOUT SUPPORTING DOCUMENTATION

The financial activity of various doctor practices is accounted for on the financial records of Health Services Corporation of Southeastern Indiana (HSC), a blended component unit of the Hospital. A typical physician's contract provides for the doctor to receive a fixed compensation amount and to receive profit generated by the practice. The employment contracts do not specify who is responsible when the practice incurs an operating loss. It has been the Hospital's practice to absorb any operating losses that may occur and report the loss as an operating expense of the Hospital.

However, the operating loss for one physician's practice has historically been reported by HSC as a receivable rather than an operating expense. The receivable amount as of December 31, 2008, was \$333,652. A provision was added to this physician's contract on September 25, 2008, that provides for the Hospital to receive the first \$48,000 in profits if the physician's practice is profitable in a particular year. The physician would be entitled to all profits in excess of the first \$48,000. Hospital officials stated that the intention of this provision was for the first \$48,000 in profit to be retained by the Hospital and be used to reduce the receivable resulting from prior years' operating losses.

We did not identify any contract provision stating that the first \$48,000 would be used to reduce the outstanding receivable from prior year's operating losses. We also did not identify any contract provision that showed the physician would be responsible for the receivable in the event the physician's practice was discontinued. No contract provision or other written documentation was presented for audit to support classifying the doctor's operating loss as a receivable.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 1)

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 1)

DEARBORN COUNTY HOSPITAL
COMBINING STATEMENT OF NET ASSETS
December 31, 2008

<u>Assets</u>	<u>Hospital</u>	<u>Health Services Corporation</u>	<u>Eliminations</u>	<u>Total Primary Government</u>
Current assets:				
Cash and cash equivalents	\$ 6,801,253	\$ 76,096	\$ -	\$ 6,877,349
Short-term investments	5,946,362	-	-	5,946,362
Patient accounts receivable, net of estimated uncollectibles of \$16,148,683	12,347,083	928,443	-	13,275,526
Inventories	1,101,383	-	-	1,101,383
Prepaid expenses	812,180	92,553	-	904,733
Other current assets	70,500	-	-	70,500
Noncurrent cash and investments:				
Internally designated	34,152,292	-	-	34,152,292
Other long-term investments	1,741,791	-	-	1,741,791
Capital assets:				
Capital assets not being depreciated	2,719,095	917,484	-	3,636,579
Depreciable capital assets, net of accumulated depreciation	51,298,854	1,893,832	-	53,192,686
Long term loans receivable	4,085,146	333,652	(3,814,842)	603,956
Other assets	176,143	-	-	176,143
Total assets	<u>\$ 121,252,082</u>	<u>\$ 4,242,060</u>	<u>\$ (3,814,842)</u>	<u>\$ 121,679,300</u>
 <u>Liabilities and Net Assets</u>				
Current liabilities:				
Current maturities of long-term debt	\$ 314,021	\$ -	\$ -	\$ 314,021
Accounts payable	1,709,691	(122)	-	1,709,569
Accrued salaries and wages	1,376,783	251,945	-	1,628,728
Accrued taxes and other withholdings	534,579	49,309	-	583,888
Accrued employee benefits	2,383,958	104,059	-	2,488,017
Other current liabilities	2,384,193	22,027	-	2,406,220
Long-term debt, net of current maturities	29,751,791	-	-	29,751,791
Other long-term liabilities	-	3,814,842	(3,814,842)	-
Total liabilities	<u>38,455,016</u>	<u>4,242,060</u>	<u>(3,814,842)</u>	<u>38,882,234</u>
Net assets:				
Invested in capital assets, net of related debt	24,128,280	2,811,316	-	26,939,596
Unrestricted	58,668,786	(2,811,316)	-	55,857,470
Total net assets	<u>82,797,066</u>	<u>-</u>	<u>-</u>	<u>82,797,066</u>
Total liabilities and net assets	<u>\$ 121,252,082</u>	<u>\$ 4,242,060</u>	<u>\$ (3,814,842)</u>	<u>\$ 121,679,300</u>

DEARBORN COUNTY HOSPITAL
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 Year Ended December 31, 2008

	Hospital	Health Services Corporation	Eliminations	Total Primary Government
Operating revenues:				
Net patient service revenue (net of provision for bad debt)	\$ 75,282,535	\$ 7,874,612	\$ -	\$ 83,157,147
Other	<u>2,019,812</u>	<u>228,390</u>	<u>-</u>	<u>2,248,202</u>
Total operating revenues	<u>77,302,347</u>	<u>8,103,002</u>	<u>-</u>	<u>85,405,349</u>
Operating expenses:				
Salaries and wages	32,027,653	5,470,522	-	37,498,175
Employee benefits	10,837,742	1,217,699	-	12,055,441
Physician fees	3,145,289	-	-	3,145,289
Supplies	12,691,604	730,389	-	13,421,993
Insurance	452,166	242,456	-	694,622
Depreciation and rentals	5,340,797	742,233	-	6,083,030
Other expenses	<u>9,094,919</u>	<u>714,835</u>	<u>(1,009,903)</u>	<u>8,799,851</u>
Total operating expenses	<u>73,590,170</u>	<u>9,118,134</u>	<u>(1,009,903)</u>	<u>81,698,401</u>
Operating income (loss)	<u>3,712,177</u>	<u>(1,015,132)</u>	<u>1,009,903</u>	<u>3,706,948</u>
Nonoperating revenues (expenses):				
Investment income	(1,034,537)	5,229	-	(1,029,308)
Investment expense	(628,330)	-	-	(628,330)
Other	<u>607,015</u>	<u>1,009,903</u>	<u>(1,009,903)</u>	<u>607,015</u>
Total nonoperating revenues (expenses)	<u>(1,055,852)</u>	<u>1,015,132</u>	<u>(1,009,903)</u>	<u>(1,050,623)</u>
Increase in net assets	2,656,325	-	-	2,656,325
Net assets beginning of the year	<u>80,140,741</u>	<u>-</u>	<u>-</u>	<u>80,140,741</u>
Net assets end of the year	<u>\$ 82,797,066</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,797,066</u>

DEARBORN COUNTY HOSPITAL
COMBINING STATEMENT OF CASH FLOWS
Year Ended December 31, 2008

	Hospital	Health Services Corporation	Eliminations	Total Primary Government
Cash flows from operating activities:				
Receipts from and on behalf of patients	\$ 76,392,931	\$ 7,790,899	\$ -	\$ 84,183,830
Payments to suppliers and contractors	(22,054,702)	(2,503,389)	-	(24,558,091)
Payments to employees	(46,941,617)	(6,691,037)	-	(53,632,654)
Other receipts and payments, net	<u>2,633,271</u>	<u>1,608,257</u>	<u>-</u>	<u>4,241,528</u>
Net cash provided by operating activities	<u>10,029,883</u>	<u>204,730</u>	<u>-</u>	<u>10,234,613</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(11,192,697)	(392,998)	-	(11,585,695)
Interest paid on long-term debt	<u>(628,330)</u>	<u>-</u>	<u>-</u>	<u>(628,330)</u>
Net cash used by capital and related financing activities	<u>(11,821,027)</u>	<u>(392,998)</u>	<u>-</u>	<u>(12,214,025)</u>
Cash flows from investing activities:				
Interest and dividends on investments	(1,034,537)	-	-	(1,034,537)
Purchase of investments	(6,811,794)	-	-	(6,811,794)
Proceeds from sale of investments	<u>3,334,244</u>	<u>-</u>	<u>-</u>	<u>3,334,244</u>
Net cash used by investing activities	<u>(4,512,087)</u>	<u>-</u>	<u>-</u>	<u>(4,512,087)</u>
Net decrease in cash and cash equivalents	(6,303,231)	(188,268)	-	(6,491,499)
Cash and cash equivalents at beginning of year	<u>13,118,785</u>	<u>264,364</u>	<u>-</u>	<u>13,383,149</u>
Cash and cash equivalents at end of year	<u>\$ 6,815,554</u>	<u>\$ 76,096</u>	<u>\$ -</u>	<u>\$ 6,891,650</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:				
Cash and cash equivalents in current assets	\$ 6,801,253	\$ 76,096	\$ -	\$ 6,877,349
Restricted cash and cash equivalents	<u>14,301</u>	<u>-</u>	<u>-</u>	<u>14,301</u>
Total cash and cash equivalents	<u>\$ 6,815,554</u>	<u>\$ 76,096</u>	<u>\$ -</u>	<u>\$ 6,891,650</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 3,712,177	\$ (1,015,132)	\$ 1,009,903	\$ 3,706,948
Adjustments to reconcile operating income (loss) to net cash flows provided in operating activities:				
Depreciation and amortization	4,866,347	229,231	-	5,095,578
Provision for bad debts	8,226,118	340,441	-	8,566,559
Other nonoperating income	607,015	1,015,133	(1,009,903)	612,245
(Increase) decrease in current assets:				
Patient accounts receivable	(7,115,722)	(424,154)	-	(7,539,876)
Inventories	(185,258)	-	-	(185,258)
Prepaid expenses	(59,613)	(28,128)	-	(87,741)
Other current assets	24,313	-	-	24,313
Long term loans receivable	(385,877)	(105,901)	470,636	(21,142)
Other assets	6,444	-	-	6,444
Increase (decrease) in current liabilities:				
Accounts payable	878,995	(4,764)	-	874,231
Accrued salaries and wages	29,858	(204,239)	-	(174,381)
Accrued taxes and other withholdings	349,756	15,852	-	365,608
Accrued employee benefits	413,414	(81,429)	-	331,985
Other current liabilities	(1,338,084)	(2,816)	-	(1,340,900)
Other long-term liabilities	<u>-</u>	<u>470,636</u>	<u>(470,636)</u>	<u>-</u>
Net cash provided (used) in operating activities	<u>\$ 10,029,883</u>	<u>\$ 204,730</u>	<u>\$ -</u>	<u>\$ 10,234,613</u>

The Hospital held investments at December 31, 2008, with a fair value of \$17,238,470. During 2008 the net decrease in the fair value of these investments was \$3,239,311.

DEARBORN COUNTY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on May 1, 2009, with Peter V. Resnick, Executive Director and Treasurer; Philip A. Meyer, Director of Finance; Linda Cherry, Controller; and Tisha Owens, Senior Accountant. The officials concurred with our audit finding.