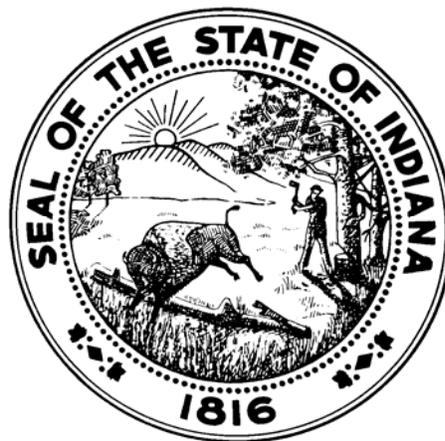


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

DEARBORN COUNTY HOSPITAL
A COMPONENT UNIT OF
DEARBORN COUNTY, INDIANA

January 1, 2006 to December 31, 2006



FILED

05/29/2007

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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Peter V. Resnick	04-01-05 to 03-30-08
Treasurer	Peter V. Resnick	04-01-05 to 03-30-08
Chairman of the Hospital Board	Robert Hoffmeier Ronald Denney	04-01-05 to 03-30-07 04-01-07 to 03-30-08
President of the Board of County Commissioners	Vera Benning Jeffrey L. Hughes	01-01-06 to 12-31-06 01-01-07 to 12-31-07



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of Dearborn County Hospital (Hospital), as of and for 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 as of December 31, 2006, 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 a required part 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 11, 2007

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, 2006 and 2005. Please read it in conjunction with the Hospital's financial statements.

Financial Highlights

Dearborn County Hospital's net assets increased \$6,374,217, up 9.6%, during 2006.

The Hospital reported an operating gain of \$4,076,859 in 2006, up 157.8% from \$1,581,560 in 2005.

DCH's nonoperating revenue increased to \$2,297,358 in 2006, up from \$1,210,903 in 2005.

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 and measures 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 difference between its assets and liabilities reported on the Statement of Net Assets. As presented on Table 1, DCH's net assets increased \$6,374,217 during 2006, up 128.3% versus the prior year increase in net assets.

Table 1, Assets, Liabilities, and Net Assets

Assets:	<u>2006</u>	<u>2005</u>
Current assets	\$21,534,375	\$19,352,912
Capital assets, net	30,502,832	22,560,132
Other noncurrent assets	<u>57,435,244</u>	<u>30,321,695</u>
Total assets	<u>\$109,472,451</u>	<u>\$72,234,739</u>
Liabilities:		
Long-term debt outstanding	\$30,000,000	\$ -0-
Other current and noncurrent liabilities	<u>6,401,281</u>	<u>5,537,786</u>
Total liabilities	<u>\$36,401,281</u>	<u>\$ 5,537,786</u>
Net Assets		
Invested in capital assets, net of related debt	\$22,200,298	\$22,560,132
Restricted:		
Expendable for capital acquisitions, net of related debt	905,807	-0-
Unrestricted	<u>49,965,065</u>	<u>44,136,821</u>
Total net assets	<u>\$73,071,170</u>	<u>\$66,696,953</u>

Capital assets, net increased \$7,942,700 during 2006 as the acquisition cost of capital assets exceeded depreciation expense.

The Hospital ended 2006 with long-term debt outstanding in the amount of \$30,000,000.

Operating Results and Changes in Net Assets

In 2006, Dearborn County Hospital's net assets increased by \$6,374,217 up 9.6% from the prior year, as show on Table 2. That increase is up 128.3% compared with the \$2,792,463 increase in net assets during 2005.

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Table 2., Operating Results and Changes in Net Assets, follows

Table 2: Operating Results and Changes in Net Assets

Operating Revenues:	<u>2006</u>	<u>2005</u>
Net patient service revenues	\$71,781,307	\$64,977,249
Other operating revenues	<u>1,876,751</u>	<u>1,733,316</u>
Total operating revenues	<u>\$73,658,058</u>	<u>\$66,710,565</u>
Operating Expenses:		
Wages and benefits	\$43,042,677	\$39,291,639
Medical supplies and drugs	7,058,167	6,846,301
Depreciation	3,573,546	3,383,943
Other operating expenses	<u>15,906,809</u>	<u>15,607,122</u>
Total operating expenses	<u>\$69,581,199</u>	<u>\$65,129,005</u>
	Operating gain (loss)	\$ 1,581,560
	\$ 4,076,859	<u>\$ 4,076,859</u>
Nonoperating revenue (expenses):		
Investment income	\$ 2,296,055	\$ 1,118,103
Interest expense	<26,909>	-0-
Gain <loss> on sale of equipment	<52,876>	<10,330>
Other	<u>81,088</u>	<u>103,130</u>
Total nonoperating revenues (expenses)	<u>\$ 2,297,358</u>	<u>\$ 1,210,903</u>
	Increase in net assets	<u>\$ 2,792,463</u>
	\$ 6,374,217	<u>\$ 6,374,217</u>
Net assets end of year	<u>\$73,071,170</u>	<u>\$66,696,953</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 years, the Hospital reported an operating gain.

Operating revenues, total \$73,658,058 in 2006, up 10.4% from 2005. During 2006, the Hospital is reporting supplemental Medicaid revenue totaling \$2,406,309, comprised of \$1,735,415 pertaining to Indiana's State Fiscal Year 2005 Medicaid Upper Payment Limit (UPL) program for municipal hospitals and \$670,894 as final payment for the SFY 2004 UPL (raising the total for that State fiscal year to \$2,048,249). That 2006 Medicaid supplemental revenue is up from \$-0- reported in 2005 when the State of Indiana did not process any supplemental Medicaid payments. During 2006, the Hospital is also reporting supplemental Medicare revenue totaling \$617,736, comprised of \$56,779 as the final Medicare Disproportionate Share Hospital (DSH) payment for DCH's FY 2004 (raising the total for that fiscal year to \$456,779) and Medicare DSH revenue of \$560,957 for DCH's FY 2005. That 2006 Medicare supplemental revenue is down from Medicare DSH revenue of \$1,060,631 reported during 2005 for DCH's FY's 2002, 2003 and 2004. Meanwhile, 2006 operating expenses increased 6.8%. Labor-related costs propelled the increase in operating expenses. Salaries and benefits, which generated 61.9% of total operating expenses during 2006, finished the year up 9.5% over 2005 while non-labor expenses were up 2.7%. As a result, DCH's 2006 operating gain increased \$2,495,299 from 2005.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of interest revenue and investment earnings. For 2006, investment income was increased by \$415,846 pertaining to an unrealized gain in the market value of DCH's investments. For 2005, investment income included an unrealized loss of <\$180,191>pertaining to the market value of investments.

Cash Flows

After paying its employees, suppliers and contractors during 2006, the Dearborn County Hospital's operating activities generated positive cash flow in the amount of \$7,760,248. Meanwhile, the Hospital's capital and related financing activities generated net cash in the amount of \$18,403,966, comprised of \$30,000,000 from the proceeds of the sale of bonds less uses for capital asset purchases totaling \$11,569,125 and for interest on long-term debt totaling \$26,909. The Hospital's investing activities consumed net cash in the amount of \$2,377,465 while noncapital financing activities used net cash in the amount of \$30,158. Therefore, during 2006, the Hospital realized a net increase in cash and cash equivalents in the amount of \$23,756,591.

Capital Asset and Debt Administration

At the end of 2006, Dearborn County Hospital had \$30,502,832 invested in capital assets, net of accumulated depreciation, as detailed in Note II.C. to the financial statements. In 2006, the Hospital purchased capital assets at a cost of \$11,569,125, up 163.3% from the amount spent for capital assets in the prior year.

Debt

DCH entered into a new \$30,000,000 loan agreement on April 13, 2006 for the acquisition, construction and equipping of a new patient tower, a parking garage, and other improvements to the hospital facility. That loan comprises the Hospital's total long-term debt outstanding at year-end. The Hospital did not have any capital lease obligations outstanding at the end of 2006.

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, 2006

Assets

Current assets:	
Cash and cash equivalents	\$ 5,084,534
Short-term investments	2,101,153
Patient accounts receivable, net of estimated uncollectibles of \$13,265,777	12,268,377
Physician recruitment loans receivable	304,917
Supplies and other current assets	1,775,394
Noncurrent cash and investments:	
Internally designated	32,691,438
Held by trustee for construction	22,414,243
Other long-term investments	2,099,692
Capital assets:	
Land and work in progress	9,648,698
Depreciable capital assets, net of accumulated depreciation	20,854,134
Other assets	<u>229,871</u>
 Total assets	 <u><u>\$ 109,472,451</u></u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable and accrued expenses	\$ 1,468,924
Estimated third-party payor settlements	358,725
Other current liabilities	4,573,632
Long-term debt, net of current maturities	<u>30,000,000</u>
 Total liabilities	 <u>36,401,281</u>
Net assets:	
Invested in capital assets, net of related debt	22,200,298
Restricted:	
Expendable for capital acquisitions, net of related debt	905,807
Unrestricted	<u>49,965,065</u>
 Total net assets	 <u>73,071,170</u>
 Total liabilities and net assets	 <u><u>\$ 109,472,451</u></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, 2006

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 71,781,307
Other	<u>1,876,751</u>
Total operating revenues	<u>73,658,058</u>
Operating expenses:	
Salaries and benefits	43,042,677
Medical professional fees	2,696,322
Outside services	2,293,177
Medical supplies and drugs	7,058,167
Other supplies	4,725,511
Insurance	667,675
Depreciation	3,573,546
Physician recruitment	218,642
Other expenses	<u>5,305,482</u>
Total operating expenses	<u>69,581,199</u>
Operating income	<u>4,076,859</u>
Nonoperating revenues (expenses):	
Investment income	2,296,055
Interest expense	(26,909)
Loss on sale of equipment	(52,876)
Other	<u>81,088</u>
Total nonoperating revenues (expenses)	<u>2,297,358</u>
Increase in net assets	6,374,217
Net assets beginning of the year	<u>66,696,953</u>
Net assets end of the year	<u><u>\$ 73,071,170</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, 2006

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 71,374,727
Payments to suppliers and contractors	(22,927,243)
Payments to employees	(42,456,044)
Other receipts and payments, net	<u>1,768,808</u>
Net cash provided by operating activities	<u>7,760,248</u>
Cash flows from noncapital financing activities:	
Loans to physicians	<u>(30,158)</u>
Cash flows from capital and related financing activities:	
Purchase and construction of capital assets	(11,569,125)
Proceeds from sale of bonds	30,000,000
Interest paid on long-term debt	<u>(26,909)</u>
Net cash provided by capital and related financing activities	<u>18,403,966</u>
Cash flows from investing activities:	
Interest and dividends on investments	2,296,057
Purchase of investments	<u>(4,673,522)</u>
Net cash used by investing activities	<u>(2,377,465)</u>
Net increase in cash and cash equivalents	23,756,591
Cash and cash equivalents at beginning of year	<u>3,750,122</u>
Cash and cash equivalents at end of year	<u>\$ 27,506,713</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 5,084,534
Noncurrent cash and cash equivalents	<u>22,422,179</u>
Total cash and cash equivalents	<u>\$ 27,506,713</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 4,076,859
Adjustments to reconcile operating income to net cash flows provided in operating activities:	
Depreciation and amortization	3,573,546
Provision for bad debts	5,518,461
Physician recruitment loans forgiven	244,200
Other nonoperating income	81,088
(Increase) decrease in current assets:	
Patient accounts receivable	(6,121,702)
Supplies and other current assets	(211,670)
Provision for physician loans	(75,000)
Other assets	(189,031)
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	30,761
Other current liabilities	636,075
Estimated third-party payor settlements	<u>196,661</u>
Net cash provided in operating activities	<u>\$ 7,760,248</u>
Noncash investing, capital, and financing activities:	
The Hospital held investments at December 31, 2006, with a fair value of \$18,293,352. During 2006, the net increase in the fair value of these investments was \$415,846.	

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 outpatient 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 units. The component unit discussed below is included in the Hospital's reporting entity because of the significance of its operational or financial relationship with the Hospital. Blended component units, although legally separate entities, are in substance part of the government's operations and exist solely to provide services for the government; data from these units is combined with data of the primary government.

Blended Component Units

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 \$2,000 per item, or a group of items with an aggregate cost of at least \$4,000. 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. The total interest expense incurred by the Hospital during the current year was zero.

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.

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, including amounts deposited with trustees as required by revenue bond indentures.

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. 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

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 of 15 days to 25 days per year based upon the number of years of service. Vacation leave may be accrued to a maximum of 45 days to 75 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 16-22-3-15 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, 2006, the Hospital had the following investments:

<u>Investment Type</u>	<u>Market Value</u>
Mutual funds	<u>\$ 18,293,352</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.

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. It is the Hospital's policy to invest in instruments that are not subject to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Credit Risk

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

Standard and Poor's Rating	Moody's Rating	Mutual Funds
Unrated	Unrated	\$ 18,293,352

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's investment policy regarding concentration of credit risk states: (1) The Hospital shall not invest more than 5% of the fixed-income portfolio in the obligations of a single issuer; (2) the Hospital shall not invest more than 8% of the equity portfolio's market value in securities of any one corporation; and (3) the Hospital shall not invest more than 20% of the equity portfolio's market value in securities of any one industry group. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

Foreign Currency Risk

The Hospital invests in international mutual funds that are subject to foreign currency risk. The international mutual funds consist of instruments from several foreign countries. The Hospital's investment policy limits investment in international mutual funds to 10% of the equity portfolio's market value.

B. Accounts Receivable and Payable

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

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 11,905,981
Receivable from Medicare	9,296,113
Receivable from Medicaid	4,332,060
Total patient accounts receivable	25,534,154
Less allowance for uncollectible amounts	13,265,777
Patient accounts receivable, net	\$ 12,268,377

Accounts Payable and Accrued Expenses

Payable to suppliers	\$ 1,468,924
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DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Capital Assets

Capital asset activity for the year ended December 31, 2006, 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>598,815</u>	<u>8,057,191</u>	<u>-</u>	<u>8,656,006</u>
Total capital assets, not being depreciated	<u>1,591,507</u>	<u>8,057,191</u>	<u>-</u>	<u>9,648,698</u>
Capital assets, being depreciated:				
Land improvements	671,594	17,100	-	688,694
Buildings and improvements	27,706,276	60,000	94,809	27,671,467
Equipment	<u>33,130,035</u>	<u>3,472,850</u>	<u>1,700,768</u>	<u>34,902,117</u>
Totals	<u>61,507,905</u>	<u>3,549,950</u>	<u>1,795,577</u>	<u>63,262,278</u>
Less accumulated depreciation for:				
Land improvements	483,022	30,286	-	513,308
Buildings and improvements	16,376,192	1,238,947	56,303	17,558,836
Equipment	<u>23,680,066</u>	<u>2,307,060</u>	<u>1,651,126</u>	<u>24,336,000</u>
Totals	<u>40,539,280</u>	<u>3,576,293</u>	<u>1,707,429</u>	<u>42,408,144</u>
Total capital assets, being depreciated, net	<u>20,968,625</u>	<u>(26,343)</u>	<u>88,148</u>	<u>20,854,134</u>
Total primary government capital assets, net	<u>\$ 22,560,132</u>	<u>\$ 8,030,848</u>	<u>\$ 88,148</u>	<u>\$ 30,502,832</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2006</u>	<u>Committed</u>
Emergency room addition	\$ 1,927,625	\$ 1,812,363	\$ 115,262
Patient tower	8,770,400	2,260,293	6,510,106
Parking lot	269,000	238,298	30,702
Parking garage	3,977,014	3,912,574	64,440
Hospital renovation	17,029,298	416,076	16,613,222
Endoscopy	<u>497,323</u>	<u>16,402</u>	<u>480,921</u>
Totals	<u>\$ 32,470,660</u>	<u>\$ 8,656,006</u>	<u>\$ 23,814,653</u>

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Leases

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 \$267,963. The following is a schedule by years of future minimum rental payments as of year end:

2007	\$	227,729
2008		183,001
2009		108,001
2010		108,001
2011		84,713
2012-2016		<u>338,853</u>
 Total	 \$	 <u>1,050,298</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>\$ 30,000,000</u>

**The interest rate is variable, based on the judgment of the Remarketing Agent (taking into consideration current transactions 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.

Revenue bonds debt service requirements to maturity are as follows:

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Year Ended December 31	Principal	Interest
2007	\$ -	\$ 1,188,000
2008	-	1,188,000
2009	300,000	1,188,000
2010	400,000	1,176,120
2011	400,000	1,160,280
2012-2016	2,500,000	5,540,040
2017-2021	3,600,000	4,961,880
2022-2026	5,200,000	4,130,280
2027-2031	7,300,000	2,950,200
2032-2036	<u>10,300,000</u>	<u>1,283,040</u>
Totals	<u>\$ 30,000,000</u>	<u>\$ 24,765,840</u>

2. Changes in Long-Term Liabilities

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

Hospital	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable	<u>\$ -</u>	<u>\$ 30,000,000</u>	<u>\$ -</u>	<u>\$ 30,000,000</u>	<u>\$ -</u>

G. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$1,025,280 for 2006.

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 Indiana Code 16-22-3-13.

Internally designated:

Funded depreciation:

Cash and cash equivalents	\$ 7,936
Investments	32,354,708
Accrued interest receivable	<u>328,794</u>

Total funded depreciation \$ 32,691,438

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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:

	2006	2005
Unpaid claims, beginning of fiscal year	\$ 530,000	\$ 490,000
Incurred claims and changes in estimates	5,121,580	5,295,396
Claim payments	(4,981,580)	(5,255,396)
Unpaid claims, end of fiscal year	\$ 670,000	\$ 530,000

Natural Disasters

Risk financing is not utilized for natural disasters.

B. Postemployment Benefits

In addition to the pension benefits described in Note III.D. the Hospital provides postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the Hospital on or after attaining age 59 1/2 with at least ten years of service. Currently, eight retirees meet these eligibility requirements. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. Expenditures for postemployment benefits cannot be reasonably estimated.

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

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.

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 4.24% of annual covered payroll.

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	Defined Benefit Pension Plan
Annual required contribution	\$ 1,091,497
Interest on net pension obligation	-
Adjustment to annual required contribution	-
Annual pension cost	1,091,497
Contributions made	1,091,497
Increase (decrease) in net pension obligation	-
Net pension obligation, beginning of year	-
Net pension obligation, end of year	\$ -
Contribution rate:	
Hospital	4.24%
Actuarial valuation date	11-01-05
Actuarial cost method	Frozen Entry Age
Asset valuation method	Market

Actuarial Assumptions

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

Three Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
10-31-04	\$ 872,607	100%	\$ -
10-31-05	971,723	100%	-
10-31-06	1,091,497	100%	-

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 Indiana Code 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 \$245,077 and \$1,207,704, 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:

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 \$41,284 and \$224,244, respectively.

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$84,791.

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)
11-01-03	\$ 11,428,366	\$ 13,441,578	\$ (2,013,212)	85%	\$ 20,170,910	(10%)
11-01-04	12,900,449	14,909,542	(2,009,093)	87%	21,636,990	(9%)
11-01-05	14,467,406	16,476,204	(2,008,798)	88%	25,767,698	(8%)

DEARBORN COUNTY HOSPITAL
 COMBINING STATEMENT OF NET ASSETS - HOSPITAL AND BLENDED COMPONENT UNIT
 December 31, 2006

<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	\$ 5,004,315	\$ 80,219	\$ -	\$ 5,084,534
Short-term investments	2,101,153	-	-	2,101,153
Patient accounts receivable, net of estimated uncollectibles of \$13,265,777	11,482,868	785,509	-	12,268,377
Physician recruitment loans receivable	304,917	-	-	304,917
Supplies and other current assets	1,719,083	56,311	-	1,775,394
Noncurrent cash and investments:				
Internally designated	32,691,438	-	-	32,691,438
Held by trustee for construction	22,414,243	-	-	22,414,243
Other long-term investments	2,099,692	-	-	2,099,692
Capital assets:				
Land and work in progress	8,731,215	917,484	-	9,648,698
Depreciable capital assets, net of accumulated depreciation	19,320,138	1,533,995	-	20,854,134
Other assets	<u>3,016,586</u>	<u>-</u>	<u>(2,786,715)</u>	<u>229,871</u>
Total assets	<u>\$ 108,885,648</u>	<u>\$ 3,373,518</u>	<u>\$ (2,786,715)</u>	<u>\$ 109,472,451</u>
 <u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 1,441,810	\$ 27,114	\$ -	\$ 1,468,924
Estimated third-party payor settlements	358,725	-	-	358,725
Other current liabilities	4,013,943	559,689	-	4,573,632
Long-term debt, net of current maturities	30,000,000	-	-	30,000,000
Other long-term liabilities	<u>-</u>	<u>2,786,715</u>	<u>(2,786,715)</u>	<u>-</u>
Total liabilities	<u>35,814,478</u>	<u>3,373,518</u>	<u>(2,786,715)</u>	<u>36,401,281</u>
 Net assets:				
Invested in capital assets, net of related debt	19,748,819	2,451,479	-	22,200,298
Restricted:				
Expendable for capital acquisitions, net of related debt	905,807	-	-	905,807
Unrestricted	<u>52,416,544</u>	<u>(2,451,479)</u>	<u>-</u>	<u>49,965,065</u>
Total net assets	<u>73,071,170</u>	<u>-</u>	<u>-</u>	<u>73,071,170</u>
Total liabilities and net assets	<u>\$ 108,885,648</u>	<u>\$ 3,373,518</u>	<u>\$ (2,786,715)</u>	<u>\$ 109,472,451</u>

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

DEARBORN COUNTY HOSPITAL
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - HOSPITAL AND BLENDED COMPONENT UNIT
 Year Ended December 31, 2006

	Hospital	Health Services Corporation	Eliminations	Total Primary Government
Operating revenues:				
Net patient service revenue (net of provision for bad debt)	\$ 65,152,380	\$ 6,628,927	\$ -	\$ 71,781,307
Other	<u>1,740,003</u>	<u>136,748</u>	<u>-</u>	<u>1,876,751</u>
Total operating revenues	<u>66,892,383</u>	<u>6,765,675</u>	<u>-</u>	<u>73,658,058</u>
Operating expenses:				
Salaries and benefits	37,480,256	5,562,421	-	43,042,677
Medical professional fees	2,696,322	-	-	2,696,322
Outside services	2,119,762	173,415	-	2,293,177
Medical supplies and drugs	7,058,167	-	-	7,058,167
Other supplies	4,266,605	458,906	-	4,725,511
Insurance	502,149	165,526	-	667,675
Depreciation	3,354,865	218,681	-	3,573,546
Physician recruitment	218,642	-	-	218,642
Other expenses	<u>5,112,063</u>	<u>725,268</u>	<u>(531,849)</u>	<u>5,305,482</u>
Total operating expenses	<u>62,808,831</u>	<u>7,304,217</u>	<u>(531,849)</u>	<u>69,581,199</u>
Operating income (loss)	<u>4,083,552</u>	<u>(538,542)</u>	<u>531,849</u>	<u>4,076,859</u>
Nonoperating revenues (expenses):				
Investment income	2,286,545	9,510	-	2,296,055
Interest expense	(26,909)	-	-	(26,909)
Loss on sale of equipment	(50,059)	(2,817)	-	(52,876)
Other	<u>81,088</u>	<u>531,849</u>	<u>(531,849)</u>	<u>81,088</u>
Total nonoperating revenues (expenses)	<u>2,290,665</u>	<u>538,542</u>	<u>(531,849)</u>	<u>2,297,358</u>
Increase in net assets	6,374,217	-	-	6,374,217
Net assets beginning of the year	<u>66,696,953</u>	<u>-</u>	<u>-</u>	<u>66,696,953</u>
Net assets end of the year	<u>\$ 73,071,170</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73,071,170</u>

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

DEARBORN COUNTY HOSPITAL
COMBINING STATEMENT OF CASH FLOWS - HOSPITAL AND BLENDED COMPONENT UNIT
Year Ended December 31, 2006

	Hospital	Health Services Corporation	Eliminations	Total Primary Government
Cash flows from operating activities:				
Receipts from and on behalf of patients	\$ 64,795,808	\$ 6,578,919	\$ -	\$ 71,374,727
Payments to suppliers and contractors	(21,442,106)	(1,485,137)	-	(22,927,243)
Payments to employees	(37,087,522)	(5,368,522)	-	(42,456,044)
Other receipts and payments, net	1,419,853	348,955	-	1,768,808
Net cash provided by operating activities	<u>7,686,033</u>	<u>74,215</u>	<u>-</u>	<u>7,760,248</u>
Cash flows from noncapital financing activities:				
Loans to physicians	(30,158)	-	-	(30,158)
Cash flows from capital and related financing activities:				
Purchase and construction of capital assets	(11,485,347)	(83,778)	-	(11,569,125)
Proceeds from sale of bonds	30,000,000	-	-	30,000,000
Interest paid on long-term debt	(26,909)	-	-	(26,909)
Net cash provided (used) by capital and related financing activities	<u>18,487,744</u>	<u>(83,778)</u>	<u>-</u>	<u>18,403,966</u>
Cash flows from investing activities:				
Interest and dividends on investments	2,286,547	9,510	-	2,296,057
Purchase of investments	(4,673,522)	-	-	(4,673,522)
Net cash provided (used) by investing activities	<u>(2,386,975)</u>	<u>9,510</u>	<u>-</u>	<u>(2,377,465)</u>
Net increase (decrease) in cash and cash equivalents	23,756,644	(53)	-	23,756,591
Cash and cash equivalents at beginning of year	3,669,850	80,272	-	3,750,122
Cash and cash equivalents at end of year	<u>\$ 27,426,494</u>	<u>\$ 80,219</u>	<u>\$ -</u>	<u>\$ 27,506,713</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:				
Cash and cash equivalents in current assets	\$ 5,004,315	\$ 80,219	\$ -	\$ 5,084,534
Noncurrent cash and cash equivalents	22,422,179	-	-	22,422,179
Total cash and cash equivalents	<u>\$ 27,426,494</u>	<u>\$ 80,219</u>	<u>\$ -</u>	<u>\$ 27,506,713</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 4,083,552	\$ (538,542)	\$ 531,849	\$ 4,076,859
Adjustments to reconcile operating income (loss) to net cash flows provided in operating activities:				
Depreciation and amortization	3,354,865	218,681	-	3,573,546
Provision for bad debts	5,280,521	237,940	-	5,518,461
Physician recruitment loans forgiven	244,200	-	-	244,200
Other nonoperating income	81,088	531,849	(531,849)	81,088
(Increase) decrease in current assets:				
Patient accounts receivable	(5,833,754)	(287,948)	-	(6,121,702)
Supplies and other current assets	(245,269)	33,599	-	(211,670)
Provision for physician loans	(75,000)	-	-	(75,000)
Other assets	130,611	-	(319,642)	(189,031)
Increase (decrease) in current liabilities:				
Accounts payable and accrued expenses	26,382	4,379	-	30,761
Other current liabilities	442,176	193,899	-	636,075
Estimated third-party payor settlements	196,661	-	-	196,661
Other liabilities	-	(319,642)	319,642	-
Net cash provided in operating activities	<u>\$ 7,686,033</u>	<u>\$ 74,215</u>	<u>\$ -</u>	<u>\$ 7,760,248</u>

Noncash investing, capital, and financing activities:

The Hospital held investments at December 31, 2006, with a fair value of \$18,293,352. During 2006, the net increase in the fair value of these investments was \$415,846.

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

DEARBORN COUNTY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on May 11, 2007, with Peter V. Resnick, Executive Director and Treasurer; Philip A. Meyer, Director of Finance; and Linda S. Cherry, Controller. Our audit disclosed no material items that warrant comment at this time.