

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

AUDIT REPORT  
OF

GOOD SAMARITAN HOSPITAL  
A COMPONENT UNIT OF  
KNOX COUNTY, INDIANA

January 1, 2006 to December 31, 2006



**FILED**  
08/23/2007



## 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 – Restricted and Unrestricted Funds .....	11
Notes to Financial Statements .....	12-23
Exit Conference.....	24

HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
President/Chief Executive Officer	Matthew Bailey	01-01-06 to 12-31-07
Chief Financial Officer	Robert D. McLin	01-01-06 to 12-31-07
Chairman of the Hospital Board	Dr. Ralph J. Jacqmain	01-01-06 to 06-30-07
President of the Board of County Commissioners	James Bobe James Parish	01-01-06 to 12-31-06 01-01-07 to 12-31-07



**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](http://www.in.gov/sboa)

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE GOOD SAMARITAN HOSPITAL, KNOX COUNTY, INDIANA

We have audited the accompanying basic financial statements of Good Samaritan 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 Discussion and Analysis listed in the Table of Contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

STATE BOARD OF ACCOUNTS

July 24, 2007



GOOD SAMARITAN  
HOSPITAL

Vincennes, Indiana

## *Management's Discussion and Analysis*

Our discussion and analysis of Good Samaritan Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial statement for the fiscal year ended December 31, 2006. Please read it in conjunction with the Hospital's financial statement and accompanying notes to the financial statements.

### *Using This Annual Report*

This annual report consists of the **Management's Discussion and Analysis**, and the **Basic Financial Statements**.

- In the **Management's Discussion and Analysis** section of this report, the Hospital discusses various components of the annual report and provides an analysis of the current financial statement information.
- The **Basic Financial Statement** section of this report includes a series of financial statements which provide information about the activities of the Hospital as a whole. The Statement of Net Assets reveals the assets and liabilities of the Hospital on December 31, 2006, the Statement of Revenues, Expenses and Changes in Net Assets summarizes the change in assets and liabilities as a result of financial activity while the Statement of Cash Flows summarizes the change in cash and cash equivalents as a result of the financial activity during the year. The Notes to the Financial Statements disclose additional information addressed within the body of the financial statements.

### *Financial Highlights*

- The Hospital's net assets increased \$12.2 million or 10.5% as a result of this year's operations.
- The Hospital's net patient service revenues of \$124.5 million increased by \$3.5 million or 2.9% from the prior year. Several areas of the hospital that experienced significant growth in 2006 were Laboratory, Physical Medicine, Pharmacy, Radiology, Medical Surgical Floors, Emergency Services and Surgery.
- The Hospital's operating expenses of \$122.7 million increased by \$3 million or 2.5% from prior year which was led primarily by the 2.8 million or 4.2% increase in salary and benefit expense. (8.7% increase in health plan costs was the largest area of growth.)
- In a continuing effort to provide the highest quality patient care the hospital made the commitment to upgrade our equipment/technology in several areas such as Nursing, Radiology and Information Systems.
- In 2006 began an infrastructure improvement project that will include a new state of the art Oncology Center, Cardiology expansion, Data Center expansion, Emergency Room renovation and major renovation of Campus Parking.

## ***Summarized Financial Statement Information***

The following financial reports: "Net Assets" and "Changes in Net Assets" document in summary form the financial information related to the activities of the Hospital for Calendar Year 2006 and Prior Year. Related notes follow the financial reports.

(Amounts are Stated in Millions)

<b>NET ASSETS</b>		
	<u>2006</u>	<u>2005</u>
Current Assets	\$78.5	\$69.2
Noncurrent Assets	25.2	27.1
Capital Assets	73.4	70.9
<b>Total Assets</b>	<b>177.1</b>	<b>167.2</b>
Current Liabilities	14.1	13.8
Long-Term Debt	34.7	37.3
<b>Total Liabilities</b>	<b>48.8</b>	<b>51.1</b>
<b>Net Assets</b>		
Invested in Capital Assets	35.4	33.6
Restricted	2.2	2.2
Unrestricted	90.7	80.3
<b>Total Net Assets</b>	<b>\$128.3</b>	<b>\$116.1</b>

Total Assets of \$177.1 million increased \$9.9 million or 5.9% from the prior year. One component of the change in total assets is the completion of the \$5.0 million in major technology upgrades reviewed in our discussion of capital assets. The other primary component however was the growth in Cash and Investments by \$7.1 million which was a result of operations of the hospital in 2006.

(Amounts are Stated in Millions)

CHANGES IN NET ASSETS		
	<u>2006</u>	<u>2005</u>
Revenue		
Net Patient Service Revenue	\$124.5	\$121.0
Other Revenues	3.0	4.5
Total Revenues	127.5	125.5
Expenses		
Salaries and Benefits	67.9	65.1
Supplies and Drugs	33.0	36.6
Insurance	1.5	1.4
Depreciation and Amortization	8.3	7.9
Other Expenses	12.0	8.7
Total Expenses	122.7	119.7
Operating Income	4.8	5.8
Non-operating Revenue	7.4	14.8
Increase In Net Assets	12.2	20.6
Net Assets Beginning of the Year	116.1	95.5
Net Assets End of the Year	\$128.3	\$116.1

The Hospital reported a \$12.2 million increase in net assets for Calendar Year 2006. Net assets is the difference between net patient service revenues and the expenses incurred to perform those services.

The primary components for net assets in 2006 are:

- The Hospital's net operating revenues of \$124.5 million increased by \$3.5 million or 2.9% from prior year. The Same Day Surgery Department experienced significant growth in utilization which contributed \$1.4 million to net revenue. Other factors included a 5.7% increase in Physical Medicine services from the prior year and a 6.2% increase in Radiology services from the prior year.
- The Hospital's operating expenses of \$122.7 million increased by \$3.0 million or 2.5% from prior year which corresponds with the increases in net patient service revenue noted above. This increase was primarily related to the \$2.8 million or 4.2% increase in salary and benefit expense which was led by an 8.7% increase in health plan expenses.
- Non-operating Revenue decreased by \$7.4 million. This decrease is primarily related to the \$8.6 gain on service line divestiture in the prior year.

## ***Capital Assets and Debt Administration***

### ***Capital Assets***

At the end of 2006, the Hospital had approximately \$73.4 million invested in capital assets. The Hospital had a net increase of approximately \$2.5 million or a 3.5% increase over prior year. The table displayed below documents the type of assets that makeup the capital assets held by the hospital as of December 31, 2006 and 2005.

(Amounts are Stated in Millions)

<b>Capital Assets at Year End Net of Depreciation</b>		
	<u>2006</u>	<u>2005</u>
Land	\$5.4	\$4.9
Land Improvements/Leasehold Improvements	2.8	2.8
Building	65.9	65.2
Equipment	111.4	102.7
<b>Total</b>	<b>185.5</b>	<b>175.6</b>
<b>Less Accumulated Depreciation</b>	<b>113.1</b>	<b>108.4</b>
<b>Subtotal</b>	<b>72.4</b>	<b>67.2</b>
<b>Construction In Progress</b>	<b>1.0</b>	<b>3.7</b>
<b>Capital Assets (Net)</b>	<b>\$73.4</b>	<b>\$70.9</b>

Significant equipment/technology upgrades such as Alaris Patient Monitoring (\$1.0 million), a Linear Accelerator with IMRT (\$2.1 million), a CT Scanner (\$1.4 million) and Information Technology (\$.4 million) resulted in capital equipment increasing \$8.7 million. Construction in progress decreased \$1.9 million as a result of completion of the air handling unit replacement project.

## ***Debt***

At year-end, the Hospital had approximately \$38.2 million in long-term debt. This debt includes two bond issues used for Capital Improvement projects of a new Out Patient Health Pavilion and a Same Day Surgery Center with significant campus infrastructure improvements. Non-Bond debt includes loans used to update the hospital's air-handling systems and Surgical Equipment. The table below documents the debt held at 12/31/06 & 05.

(Amounts are Stated in Millions)

<b>Outstanding Debt at Year End</b>		
	<u>2006</u>	<u>2005</u>
Variable Rate Hospital Revenue Bonds 2002 Revenue Bonds	\$15.9	\$17.1
Variable Rate Hospital Revenue Bonds 2004 Revenue Bonds	16.2	16.9
Non-Bond Debt	6.2	6.8
Total Debt	\$38.3	\$40.8

## ***Economic Factors***

With decreasing reimbursement from not only Medicare and Medicaid but growing pressure from commercial payers as well as Managed Care participants the hospital has strategically structured its efforts toward minimizing its annual increases in operating expenses.

With the national nursing shortage and a high nursing vacancy rate, the Hospital increased compensation in an effort to both retain staff and be competitive in the recruitment of new nursing staff.

## ***Contacting the Hospital's Management***

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it received. If you have question about this report or need additional financial information, please contact Good Samaritan Hospital, Department of Accounting, 520 South Seventh Street, Vincennes, IN 47591.

GOOD SAMARITAN HOSPITAL  
STATEMENT OF NET ASSETS  
December 31, 2006

Assets

Current assets:	
Cash and cash equivalents	\$ 36,258,921
Short-term investments	15,541,667
Patient accounts receivable, net of estimated uncollectibles of \$23,462,737	21,383,745
Physician contracts receivable	202,993
Other receivable	1,590,284
Supplies and other current assets	3,573,031
Noncurrent cash and investments:	
Internally designated	11,844,806
Held by trustee for debt service	2,227,700
Other long-term investments	9,469,334
Capital assets:	
Land and construction in progress	6,374,770
Depreciable capital assets, net of accumulated depreciation	67,020,121
Other assets	<u>1,660,722</u>
Total assets	<u>\$ 177,148,094</u>

Liabilities and Net Assets

Current liabilities:	
Current maturities of long-term debt	\$ 3,227,685
Accounts payable and accrued expenses	1,863,875
Estimated third-party payor settlements	2,946,479
Other current liabilities	6,031,234
Long-term debt, net of current maturities	<u>34,730,536</u>
Total liabilities	<u>48,799,809</u>
Net assets:	
Invested in capital assets, net of related debt	35,436,671
Restricted:	
For debt service	2,227,700
Unrestricted	<u>90,683,914</u>
Total net assets	<u>128,348,285</u>
Total liabilities and net assets	<u>\$ 177,148,094</u>

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

GOOD SAMARITAN 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)	\$ 124,476,914
Premium revenue	2,107,262
Other	<u>940,151</u>
Total operating revenues	<u>127,524,327</u>
Operating expenses:	
Salaries and benefits	67,893,946
Medical supplies and drugs	21,904,525
Insurance	1,533,317
Other supplies	11,038,830
Other expenses	11,978,613
Depreciation and amortization	<u>8,330,753</u>
Total operating expenses	<u>122,679,984</u>
Operating income	<u>4,844,343</u>
Nonoperating revenues (expenses):	
Investment income	5,629,600
Interest expense	(1,697,441)
Noncapital grants and contributions	2,434,924
Loss on sale of equipment	(74,584)
Other	<u>1,132,417</u>
Total nonoperating revenues	<u>7,424,916</u>
Increase in net assets	12,269,259
Net assets beginning of the year	<u>116,079,026</u>
Net assets end of the year	<u>\$ 128,348,285</u>

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

GOOD SAMARITAN HOSPITAL  
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS  
Year Ended December 31, 2006

	2006
Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 123,774,113
Payments to suppliers and contractors	(46,582,928)
Payments to employees	(68,047,853)
Other receipts and payments, net	5,068,236
Net cash provided by operating activities	14,211,568
Cash flows from capital and related financing activities:	
Capital grants and contributions	2,434,924
Principal paid on long-term debt	(3,193,715)
Interest paid on long-term debt	(1,697,441)
Proceeds from sale of assets	764,007
Purchase of capital assets	(10,952,010)
Net cash used by capital and related financing activities	(12,644,235)
Cash flows from investing activities:	
Interest and dividends on investments	5,566,021
Proceeds from sale of investments	(7,625,001)
Net cash used by investing activities	(2,058,980)
Net decrease in cash and cash equivalents	(491,647)
Cash and cash equivalents at beginning of year	48,039,808
Cash and cash equivalents at end of year	\$ 47,548,161
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 36,258,921
Restricted cash and cash equivalents	11,289,240
Total cash and cash equivalents	\$ 47,548,161
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 4,844,343
Adjustments to reconcile operating income to net cash flows used in operating activities:	
Depreciation and amortization	8,330,753
Provision for bad debts	7,025,401
Other nonoperating income	1,132,417
(Increase) decrease in current assets:	
Patient accounts receivable	(7,728,202)
Supplies and other current assets	(556,040)
Other assets	1,029,917
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	428,397
Other current liabilities	(153,907)
Estimated third-party payor settlements	(141,511)
Net cash provided in operating activities	\$ 14,211,568
Noncash investing, capital, and financing activities:	
The Hospital entered into capital lease obligations of \$704,467 for new equipment in 2006.	
The Hospital held investments at December 31, 2006, with a fair value of \$27,678,645.	
During 2006, the net increase in the fair value of these investments was \$7,625,001.	

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

GOOD SAMARITAN HOSPITAL  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Good Samaritan 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 Knox 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 Knox County.

On August 4, 1962, the Board of County Commissioners of Knox County, upon written request of the Hospital Board of Trustees created the Good Samaritan Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

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

Blended Component Units

The Good Samaritan Hospital Foundation is a significant blended component unit of the Hospital. The primary government appoints a voting majority of the Foundation's board and a financial benefit/burden relationship exists between the Hospital and the Foundation. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

B. Enterprise Fund Accounting

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

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

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

GOOD SAMARITAN HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

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

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

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.

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

Other investments are generally reported at fair value.

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

2. Use of Estimates

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

3. Capital Assets

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements	\$ 500	Straight-line	5 to 25 years
Buildings and improvements	500	Straight-line	5 to 40 years
Equipment	500	Straight-line	5 to 20 years

GOOD SAMARITAN HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 three components.

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

Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note II(F)1.

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

D. Grants and Contributions

From time to time, the Hospital receives grants from Knox County and the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

E. Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

F. Operating Revenues and Expenses

The Hospital's Statement of Revenues, Expenses and Changes in Net Assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

G. Compensated Absences

The Hospital's policy on paid days off (which includes vacation, sick leave, and holidays) allows full-time employees and regular part-time employees to accrue paid time off, to a maximum of 720 hours.

GOOD SAMARITAN HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Nonexempt employees can accrue paid time off at a rate of .085 to .123 based on the number of hours paid and years of service. Exempt employees can accrue paid time off at a rate of .104 to .123 based on the number of hours paid and years of service.

Four times a year, the second full pay period beginning and ending in February, May, August, and November, employees may cash out their paid time off hours which are in excess of 350 hours. The cash out is granted at 100% of the employee's basic hourly rate for the home cost center.

Paid time off is accrued when incurred and reported as a liability.

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-2-15 requires only that money in the hospital funds be deposited in the manner determined by the governing board. The Hospital does not have a formal policy regarding custodial credit risk for deposits. At December 31, 2006, the balance held at The Trust Company of Oxford in the amount of \$30,617,269 was uncollateralized. The remaining bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20. As of December 31, 2006, the Hospital had the following investments:

Investment Type	Primary Government Market Value	Investment Maturities (in Years) Less Than 1
Mutual funds	\$ 30,617,269	\$ 30,617,269

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

GOOD SAMARITAN HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

or fully insured or guaranteed by the United States or any United States government agency; or (5) pooled fund investments for participating hospitals offered, managed, and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Hospital does not have a formal investment policy for custodial credit risk for investments. At December 31, 2006, the Hospital held investments in mutual funds in the amount of \$30,617,269.

Interest Rate Risk

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

Credit Risk

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

<u>Standard and Poor's Rating</u>	<u>Moody's Rating</u>	<u>Hospital's Investments Mutual Funds</u>
Unrated	Unrated	<u>\$ 30,617,269</u>

Concentration of Credit Risk

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

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

Total patient accounts receivable	\$ 44,846,482
Less allowance for uncollectible amounts	<u>23,462,737</u>
Patient accounts receivable, net	<u>\$ 21,383,745</u>

GOOD SAMARITAN HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Accounts Payable and Accrued Expenses

Payable to suppliers	\$ 1,523,169
Other	<u>340,706</u>
Total accounts payable and accrued expenses	<u>\$ 1,863,875</u>

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	\$ 4,905,485	\$ 459,215	\$ -	\$ 5,364,700
Construction in progress	<u>3,673,924</u>	<u>1,257,238</u>	<u>3,921,092</u>	<u>1,010,070</u>
Total capital assets, not being depreciated	<u>8,579,409</u>	<u>1,716,453</u>	<u>3,921,092</u>	<u>6,374,770</u>
Capital assets, being depreciated:				
Land improvements	2,800,081	8,249	-	2,808,330
Buildings and improvements	65,271,844	715,846	-	65,987,690
Equipment	<u>102,650,155</u>	<u>13,137,021</u>	<u>4,433,508</u>	<u>111,353,668</u>
Totals	<u>170,722,080</u>	<u>13,861,116</u>	<u>4,433,508</u>	<u>180,149,688</u>
Less accumulated depreciation for:				
Land improvements	2,294,169	96,016	-	2,390,185
Buildings and improvements	32,685,403	2,014,330	-	34,699,733
Equipment	<u>73,457,330</u>	<u>6,175,637</u>	<u>3,593,318</u>	<u>76,039,649</u>
Totals	<u>108,436,902</u>	<u>8,285,983</u>	<u>3,593,318</u>	<u>113,129,567</u>
Total capital assets, being depreciated, net	<u>62,285,178</u>	<u>5,575,133</u>	<u>840,190</u>	<u>67,020,121</u>
Total primary government capital assets, net	<u>\$ 70,864,587</u>	<u>\$ 7,291,586</u>	<u>\$ 4,761,282</u>	<u>\$ 73,394,891</u>

D. Construction Commitments

Construction work in progress is composed of the following:

GOOD SAMARITAN HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2006</u>	<u>Committed</u>
Campus site development	\$ 115,505	\$ 115,505	\$ -
Facility planning	261,712	62,689	199,023
Breast Cancer/ER	81,645	81,645	-
Cancer Center/ER	320,155	320,155	-
Patient tower expansion	29,275	29,275	-
Projects	<u>400,801</u>	<u>400,801</u>	<u>-</u>
 Totals	 <u>\$ 1,209,093</u>	 <u>\$ 1,010,070</u>	 <u>\$ 199,023</u>

E. Capital Leases

The Hospital has entered into various capital leases for energy system improvements, surgical equipment, in vivo MR breast device, and a blood gas instrument. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of year end, are as follows:

2007	\$ 1,538,281
2008	1,538,281
2009	1,449,836
2010	1,049,969
2011	877,196
2012-2016	<u>365,499</u>
 Total minimum lease payments	 6,819,062
 Less amount representing interest	 <u>645,096</u>
 Present value of net minimum lease payments	 <u>\$ 6,173,966</u>

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

Buildings and improvements	\$ 6,579,985
Equipment	<u>1,940,677</u>
 Total	 8,520,662
 Accumulated depreciation	 <u>2,896,350</u>
 Total	 <u>\$ 5,624,312</u>

GOOD SAMARITAN HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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
Lease revenue refunding bonds, series 2002	2.95% to 3.9%	\$ 15,910,000
Hospital improvement project revenue bonds, series 2004	2.125% to 5.0%	<u>16,210,000</u>
Total		<u>\$ 32,120,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
2007	\$ 1,915,000	\$ 1,342,011
2008	1,985,000	1,261,299
2009	2,060,000	1,191,918
2010	2,125,000	1,121,618
2011	2,210,000	1,044,874
2012-2016	12,445,000	3,776,660
2017-2021	6,220,000	1,530,282
2022-2026	<u>3,160,000</u>	<u>216,412</u>
Totals	<u>\$ 32,120,000</u>	<u>\$ 11,485,074</u>

2. Advance Refunding

In prior years, the Hospital defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Hospital's financial statements. The following outstanding bonds, at December 31, 2006, were considered defeased:

	Amount
Hospital	<u>\$ 15,095,000</u>

GOOD SAMARITAN HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, 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>
Bonds payable:					
Revenue:					
Hospital Association	\$ 33,985,000	\$ -	\$ 1,865,000	\$ 32,120,000	\$ 1,915,000
Add deferred amount on bond premium	517,485	-	31,530	485,955	-
Less deferred amount on refunding	<u>896,401</u>	<u>-</u>	<u>74,700</u>	<u>821,701</u>	<u>-</u>
Total bonds payable	33,606,084	-	1,821,830	31,784,254	1,915,000
Capital leases	<u>6,798,214</u>	<u>718,305</u>	<u>1,342,553</u>	<u>6,173,966</u>	<u>1,312,685</u>
Total long-term liabilities	<u>\$ 40,404,298</u>	<u>\$ 718,305</u>	<u>\$ 3,164,383</u>	<u>\$ 37,958,220</u>	<u>\$ 3,227,685</u>

G. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$4,707,968 for 2006.

H. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

1. 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.
2. Designated Funds – Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Internally designated:

Funded depreciation:

Cash and cash equivalents      \$ 1,391,694

Board designation:

Cash and cash equivalents      7,669,845

Investments                              2,667,644

Accrued interest receivable      115,623

Total board designation              10,453,112

Total internally designated              \$ 11,844,806

GOOD SAMARITAN 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 benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage during 2006. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees

The Hospital has chosen to establish a risk financing fund for risks associated with employee health claims. The risk financing fund is accounted for in the Hospital's Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$150,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all insured funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based primarily upon the percentage of each fund's current year payroll as it relates to total payroll and are reported as quasi-external interfund transactions. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of payouts and other economic and social factors.

However, claim liabilities cannot be reasonably estimated.

B. 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.

GOOD SAMARITAN HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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. Investment in Affiliated Companies

In 1999, the Hospital entered into an agreement with two unrelated organizations, Southwestern Medical Center of Evansville and Southern Hills Counseling Center of Jasper, to establish and operate Trillium, Inc. In accordance with this agreement, the Hospital invested \$10,000 for 33 $\frac{1}{3}$ % equity interest. The investment is recorded on the equity method. The Hospital's (d.b.a. Samaritan Center) investment in affiliated companies is included in the Other Assets category of the Statement of Net Assets.

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

Current assets	\$	22,538
Stockholders equity		22,538
Revenue		86
Net income		76

D. Estimated Third-Party Settlements

Regulations in effect require annual retroactive settlements for third-party settlements based upon cost reports filed by the Hospital. These retroactive settlements are estimated and recorded in the accompanying financial statements. Changes in these estimates are reflected in the year in which they occur. During 2006, net patient service revenues in the accompanying statements of operations were increased by \$893,507, to reflect changes in the estimated settlements for certain prior years.

E. Pension Plan

Defined Contribution Pension Plan

Plan Description

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

GOOD SAMARITAN HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

MetLife  
State Street Research  
One Financial Center  
Boston, MA 02111  
Phone (617)357-1200/1-800-531-0131

Funding Policy and Annual Pension Cost

The current rate is 7% of the first \$9,999 and 10% thereafter of annual covered payroll for employees hired prior to January 1, 2002. Employees hired January 1, 2002, or later will receive pension contributions equal to 7% of annual earnings (annual earnings exclude overtime and bonus payments). Employer contributions to the plan were \$3,582,239 in 2006.

Information is not available to report additional disclosures required by GASB Statement No. 27.

F. Subsequent Event

1. Contracts

The Hospital entered into contracts in the subsequent period for construction of the Campus Site Development, Breast Cancer Center, and the Cancer Center in the amounts of \$1,256,800, \$1,126,550, and \$6,059,593, respectively.

2. Capital Leases

The Hospital entered into a capital lease in the subsequent period with AGFA NX Technology in the amount of \$279,883.

GOOD SAMARITAN HOSPITAL  
EXIT CONFERENCE

The contents of this report were discussed on July 24, 2007, with Matthew Bailey, President/Chief Executive Officer; Robert D. McLin, Chief Financial Officer; John Manning, Chief Operating Officer; James W. Zeigler, Board member; Randy Thompson, Director of Accounting; and Angie Bottoms, Samaritan Center Financial Services. Our audit disclosed no material items that warrant comment at this time.