

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, 2011 to December 31, 2011



FILED
05/18/2012

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	12-27
Required Supplementary Information:	
Schedules of Funding Progress	28
Combining Financial Statements:	
Combining Statement of Net Assets.....	29
Combining Statement of Revenues, Expenses, and Changes in Net Assets	30
Combining Statement of Cash Flows - Restricted and Unrestricted Funds	31
Exit Conference.....	32

HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Peter V. Resnick	04-01-10 to 05-12-12
Treasurer	Peter V. Resnick	04-01-10 to 05-12-12
Chairman of the Hospital Board	William F. Ritzmann Robert Schroeder	04-01-10 to 03-31-11 04-01-11 to 03-31-13
President of the Board of County Commissioners	Jeffrey Hughes	01-01-11 to 12-31-12



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the Dearborn County Hospital (Hospital) as of and for the year ended December 31, 2011, 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 of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2011, 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 of America.

The Management's Discussion and Analysis and Schedule of Funding Progress, as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

STATE BOARD OF ACCOUNTS

April 25, 2012

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, 2011 and 2010. Please read it in conjunction with the Hospital's financial statements.

Financial Highlights

Dearborn County Hospital's net assets decreased <\$3,737,371>, down <4.3%> during 2011.

The Hospital reported an operating loss of <\$5,056,425> in 2011, versus a loss of <\$1,460,266> in 2010.

DCH's nonoperating revenue decreased to a gain of \$569,054 in 2011, down from a gain of \$1,474,251 in 2010.

Capital grants and contributions decreased to \$750,000, down <56.1%> from \$1,707,480 in 2010.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

Net Assets

The Hospital's net assets are the differences between its assets and liabilities reported on the Statement of Net Assets. As presented on Table 1, DCH's net assets decreased <\$3,737,371> during 2011, down <317.1%> versus the prior year increase in net assets.

Table 1: Assets, Liabilities, and Net Assets

Assets:	<u>2011</u>	<u>2010</u>
Current assets	\$ 24,697,782	\$ 28,581,762
Capital assets, net	52,497,639	53,336,081
Other noncurrent assets	<u>42,475,851</u>	<u>41,370,954</u>
Total Assets	<u>\$119,671,272</u>	<u>\$123,288,797</u>
Liabilities:		
Long-term debt outstanding	\$ 28,549,214	\$ 28,931,711
Other current and noncurrent liabilities	<u>7,535,751</u>	<u>7,033,408</u>
Total liabilities	<u>\$ 36,084,965</u>	<u>\$ 35,965,119</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 29,181,725	\$ 29,922,709
Restricted:		
Expendable for capital acquisitions, net of related debt	-	-
Unrestricted	<u>54,404,582</u>	<u>57,400,969</u>
	<u>\$ 83,586,307</u>	<u>\$ 87,323,678</u>

Capital assets, net decreased <\$838,442> during 2011 as depreciation expense exceeded the acquisition cost of capital assets.

The Hospital ended 2011 with long-term debt outstanding in the amount of \$28,549,214, net of current maturities.

Operating Results and Changes in Net Assets

In 2011, Dearborn County Hospital's net assets decreased by <\$3,737,371> down <4.3%> from the prior year, as shown on Table 2. During 2010 net assets increased by \$1,721,465.

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

Table 2: Operating Results and Changes in Net Assets

Operating Revenues:	<u>2011</u>	<u>2010</u>
Net patient service revenues	\$ 78,704,526	\$ 79,754,577
Other operating revenues	<u>2,380,381</u>	<u>2,260,165</u>
Total operating revenues	<u>\$ 81,084,907</u>	<u>\$ 82,014,742</u>
Operating Expenses:		
Wages and benefits	\$ 52,053,943	\$ 49,829,943
Medical supplies and drugs	13,151,281	13,548,370
Depreciation and Rentals	7,132,862	7,189,338
Other operating expenses	<u>13,803,246</u>	<u>12,907,357</u>
Total operating expenses	<u>\$ 86,141,332</u>	<u>\$ 83,475,008</u>
Operating gain <loss>	<u><\$ 5,056,425></u>	<u><\$ 1,460,266></u>
Nonoperating revenue <expenses>:		
Investment income	\$ 785,262	\$ 2,272,844
Interest expense	<347,710>	<236,924>
Other	<u>131,502</u>	<u><561,669></u>
Total nonoperating revenues <expenses>	<u>\$ 569,054</u>	<u>\$ 1,474,251</u>
Capital grants and contributions	<u>\$ 750,000</u>	<u>\$ 1,707,480</u>
Increase/<Decrease> in net assets	<u>\$ <3,737,371></u>	<u>\$ 1,721,465</u>
Net assets end of year:	<u>\$ 83,586,307</u>	<u>\$ 87,323,678</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.

Operating revenues totaled \$81,084,907 in 2011, down <1.1%> from 2010. During 2011, the Hospital's supplemental revenue, a component of operating revenues, was \$2,442,441, down <3.8%> from the prior year, as shown on Table 3.

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Table 3: Supplemental Revenue, follows

Table 3: Supplemental Revenue

	<u>2011</u>	<u>2010</u>	<u>Aggregate Posted To Date</u>
Indiana Medicaid Upper Payment Limit:			
State FY 2010		\$2,033,735	2,033,735
State FY 2011	<u>\$ 1,892,181</u>		1,892,181
Total	<u>\$ 1,892,181</u>	<u>\$ 2,033,735</u>	
Medicaid Disproportionate Share Hospital:			
Total	<u>\$ -</u>	<u>\$ -</u>	
Medicare Disproportionate Share Hospital:			
DCH FY 2005		\$ 273	567,343
DCH FY 2006	\$ 260	2,028	599,432
DCH FY 2007		<50,000>	425,000
DCH FY 2009		550,000	550,000
DCH FY 2010	<u>550,000</u>		550,000
Total	<u>\$ 550,260</u>	<u>\$ 502,301</u>	
Grand Total	<u>\$ 2,442,441</u>	<u>\$ 2,536,036</u>	

Meanwhile, 2011 operating expenses increased 3.2%. Salaries and benefits, which generated 60.4% of total operating expenses during 2011, finished the year up 4.5% over 2010 and non-labor expenses were up 1.3%.

As a result, DCH's 2011 operating loss increased \$3,596,159 from 2010.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of interest revenue and investment earnings. For 2011, investment income includes <\$220,675> pertaining to an unrealized loss in the market value of DCH's investments, down from an unrealized gain of \$731,801 in 2010.

Capital grants and contributions for 2011 totaled \$750,000, down from \$1,707,480 in 2010. That decrease is due to the difference between a \$1,207,480 grant, made in the prior year, from the City of Lawrenceburg for land improvements pertaining to the senior living health campus across the road from the Hospital and a \$250,000 capital grant from the City of Lawrenceburg toward DCH's current year capital equipment purchases. Both years include a \$500,000 building project donation from the City of Lawrenceburg.

Cash Flows

After paying its employees, suppliers and contractors during 2011, the Dearborn County Hospital's operating activities generated negative cash flow in the amount of <\$145,680>. The Hospital's capital and related financing activities used net cash in the amount of \$<5,231,493> including \$5,187,340 for capital asset purchases and sales and \$794,153 for principal and interest on long-term debt, which were partially offset by capital grants and contributions totaling \$750,000. The Hospital's investing activities provided net cash in the amount of \$3,537,664, of which \$2,627,311 pertains to the sale of investments as the Hospital moved funds from equities and certificates of deposit into money market accounts due to the interest rate environment. Therefore, during 2011 the Hospital realized a net decrease in cash and cash equivalents in the amount of <\$1,839,509>.

Capital Asset and Debt Administration

At the end of 2011, Dearborn County Hospital had \$52,497,639 invested in capital assets, net of accumulated depreciation, as detailed in Note II.C. to the financial statements. In 2011, the Hospital purchased and sold capital assets at a cost of \$5,187,340, up 25.3% from the amount spent for capital assets in the prior year.

Debt

The Hospital ended 2011 with long-term debt outstanding, net of current maturities, in the amount of \$28,549,214. Of that long-term debt, \$28,500,000 pertains to its 2006 Bond Issue and \$49,214 for four capitalized lease obligations. In addition, the current portion (i.e., due within one year) of long-term debt is \$447,460 representing \$400,000 due on the Bond Issue and \$47,460 due on the capitalized leases.

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, 2011

Assets

Current assets:	
Cash and cash equivalents	\$ 6,825,510
Patient accounts receivable, net of estimated uncollectibles of \$18,935,862	15,305,571
Inventories	1,272,807
Prepaid expenses	1,278,262
Short-term loans receivable	9,142
Other current assets	6,490
Noncurrent cash and investments:	
Internally designated	41,688,903
Capital assets:	
Capital assets not being depreciated	2,559,497
Depreciable capital assets, net of accumulated depreciation	49,938,142
Long-term loans receivable	630,138
Other assets	<u>156,810</u>
Total assets	<u>\$ 119,671,272</u>

Liabilities and Net Assets

Current liabilities:	
Current maturities of long-term debt	\$ 447,460
Accounts payable	1,152,758
Accrued salaries and wages	1,082,819
Accrued taxes and other withholdings	400,790
Accrued employee benefits	2,252,769
Other current liabilities	2,199,155
Long-term debt, net of current maturities	<u>28,549,214</u>
Total liabilities	<u>36,084,965</u>
Net assets:	
Invested in capital assets, net of related debt	23,657,775
Unrestricted	<u>59,928,532</u>
Total net assets	<u>83,586,307</u>
Total liabilities and net assets	<u>\$ 119,671,272</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, 2011

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 78,704,526
Other	<u>2,380,381</u>
Total operating revenues	<u>81,084,907</u>
Operating expenses:	
Salaries and wages	39,437,136
Employee benefits	12,616,807
Physician fees	3,492,523
Supplies	13,151,281
Insurance	627,319
Depreciation and rentals	7,132,862
Other expenses	<u>9,683,404</u>
Total operating expenses	<u>86,141,332</u>
Operating loss	<u>(5,056,425)</u>
Nonoperating revenues (expenses):	
Investment income	785,262
Investment expense	(347,710)
Other	<u>131,502</u>
Total nonoperating revenues (expenses)	<u>569,054</u>
Excess (deficiency) of revenues over (under) expenses before capital grants and contributions	(4,487,371)
Capital grants and contributions	<u>750,000</u>
Increase in net assets	(3,737,371)
Net assets beginning of the year	<u>87,323,678</u>
Net assets end of the year	<u>\$ 83,586,307</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, 2011

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 77,341,859
Payments to suppliers and contractors	(30,430,184)
Payments to employees	(51,807,275)
Other receipts and payments, net	<u>4,749,920</u>
Net cash provided by operating activities	<u>(145,680)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(5,209,299)
Proceeds from sale of capital assets	21,959
Capital grants and contributions	750,000
Principal paid on long-term debt	(442,365)
Interest paid on long-term debt	<u>(351,788)</u>
Net cash used by capital and related financing activities	<u>(5,231,493)</u>
Cash flows from investing activities:	
Interest and dividends on investments	910,353
Proceeds from sale of investments	<u>2,627,311</u>
Net cash provided by investing activities	<u>3,537,664</u>
Net increase in cash and cash equivalents	(1,839,509)
Cash and cash equivalents at beginning of year	<u>17,498,347</u>
Cash and cash equivalents at end of year	<u>\$ 15,658,838</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 6,825,510
Restricted cash and cash equivalents	<u>8,833,328</u>
Total cash and cash equivalents	<u>\$ 15,658,838</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (5,056,425)
Adjustments to reconcile operating loss to net cash flows provided in operating activities:	
Depreciation	6,033,855
Provision for bad debts	9,965,795
Other nonoperating income	226,459
(Increase) decrease in current assets:	
Patient accounts receivable	(11,328,462)
Supplies and other current assets	(628,956)
Long-term loans receivable	76,766
Increase (decrease) in current liabilities:	
Accounts payable	255,675
Accrued wages and benefits	247,859
Other current liabilities	<u>61,754</u>
Net cash provided in operating activities	<u>\$ (145,680)</u>

Supplementary Information:

The Hospital held investments at December 31, 2010, with a fair value of \$27,876,734. During 2011, the net increase in the fair value of these investments was \$568,165.

The Hospital entered into capital lease obligations of \$87,174 for new equipment in 2011.

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 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. Separate audit reports are not prepared for the individual component units.

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. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statement to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Hospital has elected to apply subsequent private-sector guidance.

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 3 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 non-operating revenues in the Statement of Revenues, Expenses, and Changes in Net Assets.

2. Use of Estimates

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

3. Capital Assets

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

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest expense was capitalized by the Hospital during the audit period.

4. Net Assets

Net assets of the Hospital are classified in two components.

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

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

D. Contributions

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

E. Operating Revenues and Expenses

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

F. Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Patient service revenue represents the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although there is a reasonable possibility that recorded estimates will change, they are not expected to have a material effect on the accompanying consolidated financial statements.

G. Premium Revenue

The Hospital has agreements with various health management organizations (HMO's) to provide medical services to subscribing participants. Under these agreements, the HMO's make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

H. Charity Care

The Hospital has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Because the Hospital does not expect payment, estimated charges for charity are not included in revenue.

I. Supplies

Inventories of drugs and other supplies are stated at average cost.

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

J. Compensated Absences

1. Sick Leave

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

2. Vacation Leave

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

3. Personal Leave

Hospital employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year. Vacation and personal leave is accrued when incurred and reported as a liability.

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-16 requires only that money in the Hospital funds be deposited in the manner determined by the governing board. The Hospital's policy for deposits provides for all deposit accounts to be insured by the Federal Deposit Insurance Corporation or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories. At December 31, 2011, the Hospital had deposit balances in the amount of \$21,437,595. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20. As of December 31, 2011, the Hospital had the following investments:

Investment Type	Hospital Market Value
Mutual funds	\$ 27,876,734

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital manages interest rate risk by authorizing investments with stated final maturities of less than one year. The Hospital does not have a formal investment policy for interest rate risk for investments.

Investment Type	Investment Maturities (in Years)
	Less Than 1
Mutual funds	\$ 27,876,734

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.

The Hospital's investment policy for credit risk states the Hospital shall not invest more than 10 percent of the fixed-income portfolio's market value in securities rated below investment grade, i.e., securities rated below BBB-by Standard & Poor's Rating Group, Baa3 by Moody's Investors Services, or equivalently rated by any other nationally recognized statistical rating organization (or unrated debt securities which a mutual fund's professional investment advisor determines to be of comparable quality).

Standard and Poor's Rating	Mutual Funds
Unrated	\$ 27,876,734

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Accounts Receivable and Payable

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

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 15,083,444
Receivable from Medicare	15,082,718
Receivable from Medicaid	<u>4,075,271</u>

Total patient accounts receivable	34,241,433
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Less allowance for uncollectible amounts	<u>18,935,862</u>
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Patient accounts receivable, net	<u>\$ 15,305,571</u>
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Accounts Payable and Accrued Expenses

Payable to suppliers	<u>\$ 1,546,211</u>
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C. Capital Assets

Capital asset activity for the year ended December 31, 2011, 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	\$ 771,882	\$ -	\$ -	\$ 771,882
Construction in progress	<u>484,176</u>	<u>1,887,548</u>	<u>584,109</u>	<u>1,787,615</u>
Total capital assets, not being depreciated	<u>1,256,058</u>	<u>1,887,548</u>	<u>584,109</u>	<u>2,559,497</u>
Capital assets, being depreciated:				
Land improvements	1,485,271	-	-	1,485,271
Buildings and improvements	66,422,594	752,791	-	67,175,385
Equipment	<u>44,115,060</u>	<u>3,151,142</u>	<u>1,014,937</u>	<u>46,251,265</u>
Totals	<u>112,022,925</u>	<u>3,903,933</u>	<u>1,014,937</u>	<u>114,911,921</u>

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Land improvements	792,890	76,099	-	868,989
Buildings and improvements	26,824,599	2,991,207	-	29,815,806
Equipment	32,325,413	2,966,548	1,002,977	34,288,984
Totals	59,942,902	6,033,854	1,002,977	64,973,779
Total capital assets, being depreciated, net	52,080,023	(2,129,921)	11,960	49,938,142
Total primary government capital assets, net	<u>\$ 53,336,081</u>	<u>\$ (242,373)</u>	<u>\$ 596,069</u>	<u>\$ 52,497,639</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, 2011</u>	<u>Committed</u>
Operating Room	\$ 1,622,525	\$ 1,593,552	\$ 28,973
Lab Renovation Phase II	296,077	143,782	152,295
Pharmacy Renovation	370,000	2,860	367,140
Physician Care Manager	27,199	5,252	21,947
Data Repository	140,000	12,689	127,311
Miscellaneous Information Systems	67,565	2,469	65,096
Miscellaneous Other	25,000	10,440	14,560
Medical Office Building Parking Lot/ Land Improvements	19,871	16,571	3,300
Totals	<u>\$ 2,568,238</u>	<u>\$ 1,787,615</u>	<u>\$ 780,622</u>

E. Leases

1. Operating Leases

The Hospital has entered into various operating leases having initial or remaining noncancelable terms exceeding one year for rental of office space. Rental expenditures for these leases were \$549,684. The following is a schedule by years of future minimum rental payments as of year end:

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2012	\$ 533,883
2013	398,461
2014	316,868
2015	237,728
2016	<u>92,566</u>
Total	<u>\$ 1,579,506</u>

2. Capital Leases

The Hospital has entered into four capital leases, one for a chemistry system, one for a biopsy and excision system, one for an image pilot CR system and DS 4 radiographic system, and one for a Radinfo Systems orthopedic web based PACS system. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of year end, are as follows:

2012	\$ 54,079
2013	28,803
2014	<u>24,455</u>
Total minimum lease payments	107,337
Less amount representing interest	<u>10,663</u>
Present value of net minimum lease payments	<u>\$ 96,674</u>

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

Equipment	\$ 184,374
Accumulated depreciation	<u>93,368</u>
Total	<u>\$ 91,006</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>\$ 28,900,000</u>

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

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
2012	\$ 400,000	\$ 28,900
2013	500,000	28,500
2014	500,000	28,000
2015	500,000	27,500
2016	600,000	27,000
2017-2021	3,600,000	125,300
2022-2026	5,200,000	104,300
2027-2031	7,300,000	74,500
2032-2036	10,300,000	32,400
Totals	<u>\$ 28,900,000</u>	<u>\$ 476,400</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

Primary Government	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 29,300,000	\$ -	\$ 400,000	\$ 28,900,000	\$ 400,000
Capital leases	51,865	87,174	42,365	96,674	47,460
Total long-term liabilities	<u>\$ 29,351,865</u>	<u>\$ 87,174</u>	<u>\$ 442,365</u>	<u>\$ 28,996,674</u>	<u>\$ 447,460</u>

G. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

1. Medicare

Medicare inpatient services are reimbursed based on a predetermined amount for each case based on the diagnosis associated with the patient (Prospective Payment Hospital). These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The prospectively determined rates are not subject to retroactive adjustment. The Hospital's classification of patients under the Prospective Payment Hospital and the appropriateness of patient admissions are subject to validation reviews by the Medicare peer review organization, which is under contract with the Hospital to perform such reviews. Medicare outpatient services are primarily reimbursed on predetermined rates based on the services provided.

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Medicaid

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

Revenue from the Medicare and Medicaid programs accounted for approximately 48 percent of the Hospital's net patient revenue for the year ended 2011.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, HMO's, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

H. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$2,348,101 for 2011.

I. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

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

Internally designated:	
Funded depreciation:	
Cash and cash equivalents	\$ 8,833,328
Investments	32,853,835
Accrued interest receivable	<u>1,740</u>
Total funded depreciation	<u>\$ 41,688,903</u>

J. Revenues Pledged

Revenues Pledged in Connection with Component Unit Debt

The Hospital has pledged, as security for bonds issued by Dearborn County, State of Indiana, a portion of the Hospital's revenues. The bonds, issued by the Hospital in 2006 in the amount of \$30,000,000, are payable through April 1, 2036. The Hospital has committed to appropriate each year, from the Hospital's revenue, amounts sufficient to cover the principal and interest requirements on the Hospital's debt. The Hospital has pledged, as the sole security for the bonds, the annual appropriations from the Hospital. Annual principal and interest payments are expected to equal less than 3.5 percent of the revenue of the Hospital.

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 3 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 \$225,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past 3 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 2 years are as follows:

	<u>2011</u>	<u>2010</u>
Unpaid claims, beginning of fiscal year	\$ 1,050,000	\$ 1,020,000
Incurred claims and changes in estimates	6,565,731	6,424,392
Claim payments	<u>(6,565,731)</u>	<u>(6,394,392)</u>
Unpaid claims, end of fiscal year	<u>\$ 1,050,000</u>	<u>\$ 1,050,000</u>

Natural Disasters

Risk financing is not utilized for natural disasters.

B. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Short-Term Investments

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

Investments

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

Accounts Payable and Accrued Expenses

The carrying amount reported in the Statement of Net Assets for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the Statement of Net Assets for estimated third-party payor settlements approximates its fair value.

C. Fair Value Measurements

The Hospital has characterized its investments in securities, based on the priority of the inputs used to value the investments, into a three level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

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

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

Level 2 – These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. These investments are comprised of certificates of deposit.

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

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Based upon the levels as defined, the investments as of December 31, 2011, are classified as follows:

Hospital Investment Type	December 31, 2011	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets For Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 6,208,933	\$ -	\$ 6,208,933	\$ -
Mutual funds	27,876,734	27,876,734	-	-
Totals	<u>\$ 34,085,667</u>	<u>\$ 27,876,734</u>	<u>\$ 6,208,933</u>	<u>\$ -</u>

D. Subsequent Event - Nursing Homes

On March 6, 2012, the Hospital obtained a License from the State of Indiana to operate a 94-bed nursing home. On April 5, 2012, the Hospital obtained a License from the State of Indiana to operate a 100-bed nursing home and a 40-bed assisted living facility.

E. Pension Plans

1. Defined Benefit Pension Plan

Plan Description

The Hospital and Health Services Corporation of Southeastern Indiana (component unit) have 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 and can be amended by the Hospital Board of Trustees.

Funding Policy

The contribution requirements of plan members are established and can be amended by the Hospital Board of Trustees. The Hospital is required to contribute at an actuarially determined rate. The current rate is 4.00 percent of annual covered payroll.

Annual Pension Cost

For 2011, the Hospital's annual pension cost of \$1,511,254 was equal to the Hospital's required and actual contributions.

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	<u>Defined Benefit Pension Plan</u>
Annual required contribution	\$ 1,511,254
Interest on net pension obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual pension cost	1,511,254
Contributions made	<u>1,511,254</u>
Increase (decrease) in net pension obligation	-
Net pension obligation, beginning of year	<u>-</u>
Net pension obligation, end of year	<u>\$ -</u>
Contribution rate:	
Hospital	4.00%
Plan members	0.00%
Actuarial valuation date	11-01-10
Actuarial cost method	Frozen entry age
Amortization method	Level dollar amount
Amortization period	Various years ranging from 10-30; minimum contribution amount is interest only on unfunded liability
Amortization period (from date)	Not applicable
Asset valuation method	5 year expected return

Actuarial Assumptions

Investment rate of return	7.5%
Projected future salary increases	4.5%
Cost-of-living adjustments	N/A

N/A = Not applicable

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
10-31-09	\$ 1,241,227	100%	\$ -
10-31-10	1,402,407	100%	-
10-31-11	1,511,254	100%	-

Funded Status and Funding Progress for the Above Plan

The funded status of the plan as of November 1, 2010, the most recent actuarial valuation date, is as follows:

<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)</u>
\$ 21,898,927	\$ 28,837,043	\$ (6,938,116)	76%	\$ 37,813,590	(18%)

The Schedule of Funding Progress, presented as RSI for the above plan following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 and can be amended 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

DEARBORN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established and can be amended 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 0 percent. Employee contributions to the plan were \$1,478,615.

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 was established and can be amended 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

Plan members are not required to contribute to the plan. The Health Services Corporation of Southeastern Indiana's current contribution rate is 0 percent. Employee contributions to the plan were \$338,570.

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)
11-01-08	\$ 17,978,531	\$ 24,427,463	\$ (6,448,932)	74%	\$ 30,375,188	(21%)
11-01-09	20,838,619	27,737,305	(6,898,686)	75%	37,812,790	(18%)
11-01-10	21,898,927	28,837,043	(6,938,116)	76%	37,813,590	(18%)

DEARBORN COUNTY HOSPITAL
COMBINING STATEMENT OF NET ASSETS
December 31, 2011

<u>Assets</u>	<u>Hospital</u>	<u>Health Services Corporation</u>	<u>Eliminations</u>	<u>Total Primary Government</u>
Current assets:				
Cash and cash equivalents	\$ 6,502,917	\$ 322,593	\$ -	\$ 6,825,510
Patient accounts receivable, net of estimated uncollectibles of \$18,084,000, Hospital and \$851,862, Health Services Corp	14,326,497	979,074	-	15,305,571
Inventories	1,272,807	-	-	1,272,807
Prepaid expenses	1,163,329	114,933	-	1,278,262
Short-term loans receivable	-	9,142	-	9,142
Other current assets	6,490	-	-	6,490
Noncurrent cash and investments:				
Internally designated	41,688,903	-	-	41,688,903
Capital assets:				
Capital assets not being depreciated	1,846,252	713,245	-	2,559,497
Depreciable capital assets, net of accumulated depreciation	45,127,437	4,810,705	-	49,938,142
Long-term loans receivable	7,120,950	478,204	(6,969,016)	630,138
Other assets	156,810	-	-	156,810
Total assets	<u>\$ 119,212,392</u>	<u>\$ 7,427,896</u>	<u>\$ (6,969,016)</u>	<u>\$ 119,671,272</u>
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Current maturities of long-term debt	\$ 447,460	\$ -	\$ -	\$ 447,460
Accounts payable	1,150,128	2,630	-	1,152,758
Accrued salaries and wages	771,436	311,383	-	1,082,819
Accrued taxes and other withholdings	392,005	8,785	-	400,790
Accrued employee benefits	2,193,610	59,159	-	2,252,769
Other current liabilities	2,122,232	76,923	-	2,199,155
Long-term debt, net of current maturities	28,549,214	-	-	28,549,214
Other long-term liabilities	-	6,969,016	(6,969,016)	-
Total liabilities	<u>35,626,085</u>	<u>7,427,896</u>	<u>(6,969,016)</u>	<u>36,084,965</u>
Net assets:				
Invested in capital assets, net of related debt	18,133,825	5,523,950	-	23,657,775
Unrestricted	65,452,482	(5,523,950)	-	59,928,532
Total net assets	<u>83,586,307</u>	<u>-</u>	<u>-</u>	<u>83,586,307</u>
Total liabilities and net assets	<u>\$ 119,212,392</u>	<u>\$ 7,427,896</u>	<u>\$ (6,969,016)</u>	<u>\$ 119,671,272</u>

DEARBORN COUNTY HOSPITAL
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2011

	Hospital	Health Services Corporation	Eliminations	Total Primary Government
Operating revenues:				
Net patient service revenue (net of provision for bad debt)	\$ 70,317,265	\$ 8,387,261	\$ -	\$ 78,704,526
Other	2,038,549	341,832	-	2,380,381
Total operating revenues	72,355,814	8,729,093	-	81,084,907
Operating expenses:				
Salaries and wages	32,627,591	6,809,545	-	39,437,136
Employee benefits	11,310,790	1,306,017	-	12,616,807
Physician fees	3,492,523	-	-	3,492,523
Supplies	12,388,497	762,784	-	13,151,281
Insurance	389,574	237,745	-	627,319
Depreciation and rentals	6,190,779	942,083	-	7,132,862
Other expenses	10,976,850	773,868	(2,067,314)	9,683,404
Total operating expenses	77,376,604	10,832,042	(2,067,314)	86,141,332
Operating loss	(5,020,790)	(2,102,949)	2,067,314	(5,056,425)
Nonoperating revenues (expenses):				
Investment income	750,628	34,634	-	785,262
Investment expense	(347,710)	-	-	(347,710)
Other	130,501	2,068,315	(2,067,314)	131,502
Total nonoperating revenues (expenses)	533,419	2,102,949	(2,067,314)	569,054
Excess (deficiency) of revenues over (under) expenses before capital grants and contributions	(4,487,371)	-	-	(4,487,371)
Capital grants and contributions	750,000	-	-	750,000
Increase in net assets	(3,737,371)	-	-	(3,737,371)
Net assets beginning of the year	87,323,678	-	-	87,323,678
Net assets end of the year	\$ 83,586,307	\$ -	\$ -	\$ 83,586,307

DEARBORN COUNTY HOSPITAL
COMBINING STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2011

	Hospital	Health Services Corporation	Eliminations	Total Primary Government
Cash flows from operating activities:				
Receipts from and on behalf of patients	\$ 69,129,279	\$ 8,212,580	\$ -	\$ 77,341,859
Payments to suppliers and contractors	(28,080,520)	(2,349,664)	-	(30,430,184)
Payments to employees	(43,690,522)	(8,116,753)	-	(51,807,275)
Other receipts and payments, net	2,363,724	2,386,196	-	4,749,920
Net cash provided by operating activities	(278,039)	132,359	-	(145,680)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(5,089,636)	(119,663)	-	(5,209,299)
Proceeds from sale of capital assets	11,000	10,959	-	21,959
Capital grants and contributions	750,000	-	-	750,000
Principal paid on long-term debt	(442,365)	-	-	(442,365)
Interest paid on long-term debt	(351,788)	-	-	(351,788)
Net cash used by capital and related financing activities	(5,122,789)	(108,704)	-	(5,231,493)
Cash flows from investing activities:				
Interest and dividends on investments	910,353	-	-	910,353
Proceeds from sale of investments	2,627,311	-	-	2,627,311
Net cash provided by investing activities	3,537,664	-	-	3,537,664
Net increase (decrease) in cash and cash equivalents	(1,863,164)	23,655	-	(1,839,509)
Cash and cash equivalents at beginning of year	17,199,409	298,938	-	17,498,347
Cash and cash equivalents at end of year	<u>\$ 15,336,245</u>	<u>\$ 322,593</u>	<u>\$ -</u>	<u>\$ 15,658,838</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:				
Cash and cash equivalents in current assets	\$ 6,502,917	\$ 322,593	\$ -	\$ 6,825,510
Restricted cash and cash equivalents	8,833,328	-	-	8,833,328
Total cash and cash equivalents	<u>\$ 15,336,245</u>	<u>\$ 322,593</u>	<u>\$ -</u>	<u>\$ 15,658,838</u>
Reconciliation of operating loss to net cash provided by operating activities:				
Operating loss	\$ (5,020,790)	\$ (2,102,949)	\$ 2,067,314	\$ (5,056,425)
Adjustments to reconcile operating loss to net cash flows provided in operating activities:				
Depreciation	5,673,862	359,993	-	6,033,855
Provision for bad debts	9,591,432	374,363	-	9,965,795
Other nonoperating income (expenses)	190,823	2,102,950	(2,067,314)	226,459
(Increase) decrease in current assets:				
Patient accounts receivable	(10,779,418)	(549,044)	-	(11,328,462)
Supplies and other current assets	(569,551)	(59,405)	-	(628,956)
Long-term loans receivable	134,352	8,571	(66,157)	76,766
Increase (decrease) in current liabilities:				
Accounts payable	189,446	66,229	-	255,675
Accrued wages and benefits	247,859	-	-	247,859
Other current liabilities	63,946	(2,192)	-	61,754
Other long-term liabilities	-	(66,157)	66,157	-
Net cash provided in operating activities	<u>\$ (278,039)</u>	<u>\$ 132,359</u>	<u>\$ -</u>	<u>\$ (145,680)</u>

Supplementary Information:

The Hospital held investments at December 31, 2010, with a fair value of \$27,876,734. During 2011, the net increase in the fair value of these investments was \$568,165.

The Hospital entered into capital lease obligations of \$87,174 for new equipment in 2011.

DEARBORN COUNTY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on April 25, 2012, with Peter V. Resnick, Executive Director/Treasurer; Roger Howard, Director of Clinical Services and Facilities; Robert Schroeder, Chairman of the Hospital Board; Philip Meyer, Director of Finance; and Debbie Kaeser, Controller. Our audit disclosed no material items that warrant comment at this time.