



COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

CPAs / ADVISORS



HANCOCK REGIONAL HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Hancock Regional Hospital
Greenfield, Indiana

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Hancock Regional Hospital and component units (the "Hospital"), which comprise the combined balance sheets as of December 31, 2012 and 2011, and the related combined statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

Board of Trustees
Hancock Regional Hospital
Greenfield, Indiana

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Blue & Co., LLC
Indianapolis, Indiana
April 16, 2013

REQUIRED SUPPLEMENTARY INFORMATION

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2012 AND 2011

This section of Hancock Regional Hospital's (Hospital) annual combined financial statements presents background information and management's discussion and analysis of the Hospital's financial performance during the years ended December 31, 2012 and 2011. Please read it in conjunction with the Hospital's combined financial statements, which begin on page 3. Unless otherwise indicated, amounts are in thousands.

FINANCIAL HIGHLIGHTS

- The Hospital reported an increase in net position of approximately \$9,037 or 9.2% for the year ended 2012.
- Operating income in 2012 compared to 2011 increased by \$3,965 or 118%.
- Nonoperating income increased from 2012 to 2011 by \$5,793 or 231%.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements—a Balance Sheet; a Statement of Operations and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE BALANCE SHEET AND STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION

Our analysis of the Hospital finances begins on page ii. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Operations and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted 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 cash is received or paid.

These statements report the Hospital's net position and changes in them. You can think of the Hospital's net position—the difference between assets and liabilities—as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2012 AND 2011

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as “Where did cash come from?” “What was cash used for?” and “What was the change in cash balance during the reporting period?”

THE HOSPITAL’S NET POSITION

The Hospital’s net position is the difference between its assets and liabilities reported in the Balance Sheet on page 3. The Hospital’s net position increased in 2012 by \$9,037 (9.2%) as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Position

	<u>2012</u>	<u>2011</u>	<u>2012 - 2011</u> <u>\$ Change</u>	<u>2010</u>
Assets				
Current assets	\$ 37,376	\$ 31,563	\$ 5,813	\$ 28,541
Capital assets, net	61,722	64,536	(2,814)	67,041
Restricted and limited use assets	48,692	43,730	4,962	45,780
Other noncurrent assets	4,140	4,670	(530)	3,128
Total assets	<u>151,930</u>	<u>144,499</u>	<u>7,431</u>	<u>144,490</u>
Liabilities				
Current liabilities	16,350	16,956	(606)	15,868
Long - term debt outstanding	28,245	29,245	(1,000)	30,205
Total liabilities	<u>44,595</u>	<u>46,201</u>	<u>(1,606)</u>	<u>46,073</u>
Net Position				
Unrestricted	66,884	56,494	10,390	53,928
Net investment in capital assets	32,477	34,331	(1,854)	35,916
Restricted by trustee for debt service	3,961	3,798	163	5,030
Donor restricted - expendable	1,211	805	406	694
Net position - controlling interest	104,533	95,428	9,105	95,568
Non-controlling interest	2,802	2,870	(68)	2,849
Total net position	<u>107,335</u>	<u>98,298</u>	<u>9,037</u>	<u>98,417</u>
Total liabilities and net position	<u>\$ 151,930</u>	<u>\$ 144,499</u>	<u>\$ 7,431</u>	<u>\$ 144,490</u>

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2012 AND 2011

A significant component in the Hospital's assets is the increase in Restricted and Limited Use Assets. Restricted and Limited Use Assets increased significantly by \$4,962 or 11% due primarily to market improvements. Capital assets reduction is attributable to management's efforts in removing unused retired assets from being placed in service and depreciation expense outpacing additions. The increase in restricted and limited use assets is attributable to the market conditions in investments.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2012, the Hospital's change in net position increased by \$9,037 compared to 2011 as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2012	2011	2012 - 2011 \$ Change	2010
Operating Revenue				
Net patient service revenue	\$ 114,376	\$ 89,363	\$ 25,013	\$ 87,626
Other	9,770	7,498	2,272	6,449
Total operating revenue	<u>124,146</u>	<u>96,861</u>	<u>27,285</u>	<u>94,075</u>
Operating expenses				
Salaries and benefits	52,541	50,930	1,611	48,712
Medical supplies and drugs	10,867	11,308	(441)	10,775
Purchased services and medical fees	32,715	16,105	16,610	14,764
Depreciation and amortization	8,221	8,205	16	8,175
Hospital assessment fee	5,748	-0-	5,748	-0-
Other operating expense	7,235	7,189	46	7,292
Total operating expense	<u>117,327</u>	<u>93,737</u>	<u>23,590</u>	<u>89,718</u>
Operating income	<u>6,819</u>	<u>3,124</u>	<u>3,695</u>	<u>4,357</u>
Nonoperating income (expense)				
Noncapital contributions	1,071	989	82	913
Other nonoperating expense	(1,032)	(992)	(40)	(610)
Interest expense	(1,618)	(1,663)	45	(1,663)
Investment income	4,864	(842)	5,706	3,813
Total nonoperating income (expense)	<u>3,285</u>	<u>(2,508)</u>	<u>5,793</u>	<u>2,453</u>
Change in net position before capital distributions	10,104	616	9,488	6,810
Capital distributions	<u>(1,067)</u>	<u>(735)</u>	<u>(332)</u>	<u>(857)</u>
Change in net position	9,037	(119)	9,156	5,953
Net position				
Beginning of year	98,298	98,417	(119)	92,464
End of year	<u>\$ 107,335</u>	<u>\$ 98,298</u>	<u>\$ 9,037</u>	<u>\$ 98,417</u>

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2012 AND 2011

SOURCES OF REVENUE

During 2012, the Hospital derived substantially all of its revenue from patient service and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

The table below presents the percentages of gross revenue for patient services by payor, for the years ended December 31, 2012 and 2011, respectively.

PAYOR MIX

	2012	2011	2010
Medicare	46%	49%	47%
Medicaid	9%	8%	8%
Commercial	36%	34%	35%
Self-Pay	7%	7%	7%
Other	2%	2%	3%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Hospital provides care to patients under payment arrangement with Medicare, Medicaid, and various managed care programs. Services provided under those arrangements are paid at predetermined rates and /or reimbursable costs as defined. Provisions have been made in the financial statements for contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payment. It was noted that the payer mix in 2012 shifted from Medicare to Medicaid. Disproportionate Share Hospital Payment for years 2011 and 2012 were \$2,060 and \$561 respectively. The Hospital recognized Electronic Health Record Incentive revenue in 2012 of \$1,482 by meeting Stage I of Meaningful Use requirements. This revenue is included in Other Operating Revenue.

OPERATING GAINS

The first component of the overall change in the Hospital's net position is its operating income, generally the difference between net patient service and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating gain. This is consistent with the Hospital's entire operating history. The Hospital's operations were begun in 1951 as a county owned and operated hospital under Indiana Code 16-22.

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2012 AND 2011

The increase in the Hospital's total operating income in 2012 of \$3,695 or 118% from 2011 is the result of a rate, statistical increases and long-term care operations. During 2012, the Hospital increased gross charge rates 5% compared to 2011 which was increased by 7%.

More importantly, the Hospital experienced statistical changes in the following areas:

Statistical Growth	2012	2011	2012-2011 % Increase / <Decrease>	2010
Patient Days	15,683	16,210	-3.25%	19,096
Diagnostic Imaging Procedures	58,452	60,272	-3.02%	62,275
Laboratory Procedures	334,278	310,832	7.54%	291,089
Pharmaceutical Medication Units	502,315	494,915	1.50%	545,403
Rehab Procedures	69,995	75,195	-6.92%	77,815
Home Health Units of Service	29,162	42,496	-31.38%	53,073
Outpatient Clinic Procedures	15,673	14,944	4.88%	14,482

Excluded from net patient service revenue are charges for patient service waived under the Hospital's uncompensated care policy. Uncompensated care represents unreimbursed charges, both charity care and bad debt, incurred by the Hospital in providing uncompensated care to patients. Based on established rates, gross charges of \$14,613 were waived during 2012. This is consistent with the previous year.

The Hospital sometimes provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals established for the Hospital when it was established in 1951. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Hospital.

NON-OPERATING INCOME AND EXPENSES

Non-operating income and expenses are the result of changes in the Hospital's investment income and other non-capital grants and contributions. The Hospital's investment income increased due to market improvements during 2012. The Hospital's non-operating income and expenses increased in 2012 by \$5,793 from 2011. During 2012 the Hospital recognized Electronic Health Record incentives from Medicare of \$1,196 and from Medicaid of \$286.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives operating grants from various state and federal agencies for specific programs. Operating grants received in 2012 totaled \$1,071 compared to \$989 in 2011.

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2012 AND 2011

Some of the significant grants received by the Hospital are:

- Tobacco Cessation – From Indiana State Department of Health for prevention of tobacco use
- Rural Health Clinic – Knightstown from Indiana State Department of Health – for rural health clinic operations in Knightstown
- Disaster Preparedness & Bioterrorism– From the State Department of Health – for Hospital disaster preparation and bioterrorism.
- Critical Needs Expansion – from Hancock Regional Hospital Foundation
- Women’s Health Center
- In Patient Hospice Program – from Hancock Regional Hospital Foundation

THE HOSPITAL’S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating income and non-operating income and expenses as discussed earlier.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

During 2012, the Hospital's net capital assets decreased by approximately \$2,814. This compares to a decrease of approximately \$2,505 for 2011 compared to 2010. The change in capital assets is outlined in the following table:

	2012	2011	Change	2010
Land	\$ 270	\$ 270	\$ -0-	\$ 270
Land improvements	5,490	5,490	-0-	5,489
Buildings and fixed equipment	100,819	100,059	760	105,165
Major movable equipment	56,661	53,042	3,619	46,271
Construction in progress	501	1	500	1,963
Total capital assets	<u>163,741</u>	<u>158,862</u>	<u>4,879</u>	<u>159,158</u>
Less accumulated depreciation	<u>102,019</u>	<u>94,326</u>	<u>7,693</u>	<u>92,117</u>
Capital assets, net	<u>\$ 61,722</u>	<u>\$ 64,536</u>	<u>\$ (2,814)</u>	<u>\$ 67,041</u>

Capital assets, net decreased as depreciation exceeded the additions/retirements, net activity.

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2012 AND 2011

DEBT

At year-end, the Hospital had \$29.2 million in revenue notes, mortgage loans, and capital lease obligations outstanding. The Indiana Bond Bank issued new debt in June 2004 totaling \$35 million pursuant to a Trust Indenture with the Trustee – the Bank of New York Trust Company. The Hancock County Association was created in 2004 under Indiana Code and is authorized to enter into leases with a county to provide funds to the Hospital. The Association issued the Series 2004 C Qualified Obligations pursuant to a Trust Indenture dated June 1, 2004 between the Association and Trustee. This debt was issued for a new 122,000 square foot hospital expansion with the expanded services in Emergency Medicine, Cardiology and Critical Care and an expansion of space for future health needs of the community. The Board of Trustees of the Hospital and Hancock County, Indiana, acting through its Board of Commissioners are lessees with the Association for the Hospital additions and improvements. The Lessee has agreed to make payments directly to the Trustee in amounts and times sufficient to pay in full, when due, the principal and interest of the Series 2004 C Obligations.

The County and Hospital anticipate that the full lease rental payments will be paid from Hospital Revenues. This debt consists of Revenue Bonds maturing in January 2031. This transaction is further detailed in Note 8.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Financial Officer's Office, 801 N State Street, Greenfield, IN 46140.

HANCOCK REGIONAL HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 20,880,465	\$ 12,989,596
Investments	2,440,693	2,010,425
Patient accounts receivable, net	9,860,974	12,796,764
Inventories and other current assets	<u>4,193,838</u>	<u>3,766,032</u>
Total current assets	37,375,970	31,562,817
Assets whose use is limited		
Board designated funds	43,520,822	39,126,852
Trustee held funds for debt service	3,960,721	3,798,191
Donor restricted funds	<u>1,210,519</u>	<u>804,788</u>
Total assets whose use is limited	48,692,062	43,729,831
Capital assets		
Land and land improvements	5,760,136	5,760,136
Buildings and fixed equipment	100,818,272	100,058,414
Major movable equipment	56,661,287	53,041,760
Construction in progress	<u>500,915</u>	<u>915</u>
Total capital assets	163,740,610	158,861,225
Less accumulated depreciation	<u>102,018,188</u>	<u>94,325,652</u>
Capital assets, net	61,722,422	64,535,573
Other assets		
Bond issuance costs, net of accumulated amortization of \$384,965 in 2012 and \$379,834 in 2011	97,480	102,611
Other assets	<u>4,042,122</u>	<u>4,568,347</u>
Total other assets	4,139,602	4,670,958
Total assets	<u>\$ 151,930,056</u>	<u>\$ 144,499,179</u>

See accompanying notes to combined financial statements

HANCOCK REGIONAL HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2012 AND 2011

LIABILITIES AND NET POSITION

	<u>2012</u>	<u>2011</u>
Current liabilities		
Current portion of long-term debt	\$ 1,000,000	\$ 960,000
Accounts payable and other liabilities	4,184,500	5,117,273
Accrued salaries and related liabilities	6,411,168	6,431,488
Estimated third-party settlements	4,754,474	4,447,679
Total current liabilities	<u>16,350,142</u>	<u>16,956,440</u>
Long-term debt, less current portion	<u>28,245,000</u>	<u>29,245,000</u>
Total liabilities	44,595,142	46,201,440
Net position		
Unrestricted	66,884,394	56,493,914
Net investment in capital assets	32,477,422	34,330,573
Restricted by trustee for debt service	3,960,721	3,798,191
Donor restricted-expendable	1,210,519	804,788
Net position before non-controlling interest	<u>104,533,056</u>	<u>95,427,466</u>
Unrestricted - non-controlling interest	2,801,858	2,870,273
Total net position	<u>107,334,914</u>	<u>98,297,739</u>
Total liabilities and net position	<u>\$ 151,930,056</u>	<u>\$ 144,499,179</u>

See accompanying notes to combined financial statements

HANCOCK REGIONAL HOSPITAL

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating revenue		
Net patient service revenue	\$ 114,375,626	\$ 89,362,939
Other operating revenue	9,770,024	7,497,786
Total operating revenue	124,145,650	96,860,725
Operating expenses		
Salaries and wages	40,020,612	39,577,347
Employee benefits	12,520,126	11,353,124
Professional medical fees	1,502,135	1,618,758
Supplies and drugs	10,867,261	11,308,008
Purchased services	31,212,523	14,486,706
Utilities and insurance	2,563,466	2,463,970
Depreciation and amortization	8,220,836	8,204,792
Hospital assessment fee	5,747,849	-0-
Other	4,671,890	4,724,014
Total operating expenses	117,326,698	93,736,719
Operating income	6,818,952	3,124,006
Nonoperating income (expense), net		
Noncapital contributions	1,071,226	989,259
Other nonoperating expense	(1,031,502)	(992,558)
Interest expense	(1,542,787)	(1,663,357)
Investment income (loss)	4,788,445	(841,529)
Total nonoperating income (expense), net	3,285,382	(2,508,185)
Change in net position before capital distributions	10,104,334	615,821
Capital distributions	(1,067,159)	(734,710)
Change in net position	9,037,175	(118,889)
Net position		
Beginning of year	98,297,739	98,416,628
End of year	\$ 107,334,914	\$ 98,297,739

See accompanying notes to combined financial statements

HANCOCK REGIONAL HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating activities		
Cash received from patients and third party payors	\$ 117,618,211	\$ 86,293,583
Cash paid to employees for wages and benefits	(52,561,058)	(50,178,225)
Cash paid to vendors for goods and services	(57,925,703)	(35,019,222)
Other operating receipts, net	9,977,370	7,353,616
Net cash from operating activities	<u>17,108,820</u>	<u>8,449,752</u>
Noncapital financing activities		
Noncapital contributions	1,071,226	989,259
Other nonoperating	(1,031,502)	(992,558)
Net cash from noncapital financing activities	<u>39,724</u>	<u>(3,299)</u>
Capital and related financing activities		
Acquisition and construction of capital assets	(5,302,346)	(5,915,575)
(Gain) loss on disposal of capital assets	(10,995)	410,922
Capital distributions	(1,067,159)	(734,710)
Interest paid on long-term debt	(1,542,787)	(1,663,357)
Principal payments on long-term debt	(960,000)	(920,000)
Net cash from capital and related financing activities	<u>(8,883,287)</u>	<u>(8,822,720)</u>
Investing activities		
Other assets	526,225	(1,548,162)
Investment income	4,788,445	(841,529)
Other changes in assets whose use is limited, net	(5,603,191)	(2,105,095)
Net cash from investing activities	<u>(288,521)</u>	<u>(4,494,786)</u>
Net change in cash and cash equivalents	7,976,736	(4,871,053)
Cash and cash equivalents		
Beginning of year	16,289,021	21,160,074
End of year	<u>\$ 24,265,757</u>	<u>\$ 16,289,021</u>

See accompanying notes to combined financial statements

HANCOCK REGIONAL HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ 6,818,952	\$ 3,124,006
Adjustment to reconcile operating income to net cash from operating activities		
Depreciation and amortization	8,220,836	8,204,792
Bad debts	9,855,324	10,157,492
Realized and unrealized gain (loss) on investments	207,346	(144,170)
Changes in assets and liabilities		
Patient accounts receivable	(6,919,534)	(12,869,071)
Other current assets	(427,806)	(1,071,412)
Accounts payable and other liabilities	(932,773)	653,646
Accrued salaries and related liabilities	(20,320)	752,246
Estimated third-party settlements	306,795	(357,777)
Net cash from operating activities	<u>\$ 17,108,820</u>	<u>\$ 8,449,752</u>
 Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents:		
In current assets	\$ 20,880,465	\$ 12,989,596
In investments and assets whose use is limited	3,385,292	3,299,425
Total cash and cash equivalents	<u>\$ 24,265,757</u>	<u>\$ 16,289,021</u>

See accompanying notes to combined financial statements

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Hancock Regional Hospital (HRH) is an acute-care hospital located in Greenfield, Indiana, organized for the purpose of providing healthcare services to the residents of Hancock County and the surrounding communities. HRH also provides long-term healthcare services. Hancock Regional Hospital is a county owned facility operated under the Indiana County Hospital Law, Indiana Code 16-22. The Board of County Commissioners of Hancock County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and HRH. For these reasons, HRH is considered a component unit of Hancock County.

In 2004, the Board of County Commissioners of Hancock County, upon written request of the Hancock County Hospital Board of Trustees created the Hancock County Hospital Association (Association). The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose to provide funds to finance, acquire, renovate, equip and lease land and buildings for HRH.

Pursuant to the provision of long-term care, HRH owns the operations of a long-term care facility by way of an arrangement with the manager of the facilities, Westminster Village North (the Manager). These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the long-term care facility are the property of HRH and HRH is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the Manager shall be on behalf of HRH and HRH retains the authority and legal responsibility for the operation of the facilities.

Specifically, during 2012, HRH entered into a lease agreement with the long-term care facility to lease the facility managed by the Manager. Concurrently, HRH entered into an agreement with the Manager to manage the leased facility. As part of the agreements, HRH will pay the Manager a management fee to continue managing the facility on behalf of HRH in accordance with the terms of the agreements. Rental, management, and other fees paid under these agreements approximated \$3,300,000 for 2012. The agreements expire on January 31, 2015 and are automatically extended for successive terms of two years unless appropriately terminated. All parties involved can terminate the agreement without cause with 90 days written notice.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Accounting principles generally accepted in the United States of America require that these combined financial statements present HRH and its blended component units, collectively referred to as the "Hospital". The component units discussed below are included in HRH's reporting entity because of the significance of their operation or financial relationship with HRH. A blended component unit although a legally separate entity is in substance part of the primary government unit's operations and exists solely or primarily to provide services to or for HRH.

Blended Component Units

The accompanying combined financial statements include the accounts of Hancock Regional Hospital Foundation, Inc. (Foundation), a separate not-for-profit entity organized to support the operations of HRH. The accompanying combined financial statements also include the accounts of the Hancock Wellness Center, LLC (Wellness), a separate for-profit entity organized to support the operations of HRH. During 2012, Wellness was dissolved and became a department of HRH. The accompanying combined financial statements also include the accounts of the Blended Component Unit – Hancock Regional Surgery Center, LLC (HRSC) and O3PureMed, LLC (O3PureMed); both are separate limited liability companies. All significant intercompany transactions have been eliminated for financial reporting purposes.

HRSC was formed for the purpose of owning and operating a multi-specialty ambulatory surgery facility that provides the medical, management and administrative support necessary for licensed physicians to perform non-emergency surgical procedures on an outpatient basis. HRH's membership interest in HRSC is 51%. HRH maintains substantial participation in the operations of HRSC in addition to an economic interest in HRSC's financial position.

O3PureMed was formed for the purpose of operating a medical and infectious waste treatment facility. HRH's membership interest in O3PureMed is 75%. HRH maintains substantial participation in the operations of O3PureMed in addition to an economic interest in O3PureMed financial position.

The separate financial statements for each of the entities discussed above may be obtained through contacting management of HRH. All entities contained in the combined financial statements are collectively referred to as the "Hospital".

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Use of Estimates

The preparation of combined 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 disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Proprietary Fund Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis of accounting. Substantially all revenues and expenses are subject to accrual.

Accounting Standards

During 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of GASB No. 20 for business-type activities to apply post November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities that so elected can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. GASB No. 62 has been applied retrospectively and had no impact on the Hospital's net position, changes in net position or financial reporting disclosures.

Also during 2012, the Hospital adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which primarily resulted in renaming net assets to net position within the combined balance sheets and combined statements of operations and changes in net position. GASB No. 63 has been applied retroactively in the accompanying financial statements.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid assets with maturity dates of 90 days or less when purchased with the exception of those included in assets whose use is limited. The Hospital maintains its cash in accounts, which at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. Management estimates an allowance for doubtful accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at 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.

A summary of the payment arrangements with major third-party payors follows.

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue.

During 2012, the Indiana Hospital Assessment Fee (HAF) Program for the period July 1, 2011 through June 30, 2013 was approved by Centers for Medicare & Medicaid Services retroactive to July 1, 2011. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the Hospital Assessment Fee reported in the combined statements of operations and changes in net position. Previously, the State share was funded by governmental entities through intergovernmental transfers.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The Medicaid enhanced payments relate to both fee for service and managed care claims. Under the HAF Program, the enhanced Medicaid payments follow the patients and are realized through increased Medicaid rates. During 2012, HRH recognized HAF Program expense of approximately \$5,750,000 which resulted in Medicaid rate increases of approximately \$5,120,000.

Net revenue from the Medicare and Medicaid programs accounted for approximately 30 percent and 6 percent, respectively, of the Hospital's net patient revenue for the year ended 2012, and 44 percent and 12 percent, respectively, of the Hospital's net patient revenue, for the year ended 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Hospital recognized revenue related to the Medicaid Disproportionate Share Hospital and the Upper Payment Limitation programs of approximately \$560,000 and \$2,060,000 for the years ended December 31, 2012 and 2011, respectively. These amounts are reimbursements for providing care to the uninsured and underinsured.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, 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.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy on a sliding scale on the basis of financial need. Because the Hospital does not pursue collection of approved charity care balances, the charges are not reflected in net revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient service revenue.

Of the Hospital's total expenses reported (approximately \$117,300,000 and \$93,700,000 during 2012 and 2011, respectively), an estimated \$2,400,000 and \$2,200,000 arose from providing services to charity patients during 2012 and 2011, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Combined Statements of Cash Flows

For purposes of the combined statements of cash flows, cash consists of unrestricted cash and cash equivalents that is readily available for use in operations.

Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventory at year-end consists mainly of pharmaceuticals and medical supplies.

Assets Whose Use is Limited and Investments

Assets whose use is limited include investments designated by HRH's Board for internal purposes, investments and other assets restricted by donors for a specific purpose and investments held by trustees for debt service and continued construction projects.

Assets whose use is limited and investments consist of U.S. Government securities and mutual funds that are reported at fair value. Assets whose use is limited and investments also consist of money market funds and certificates of deposit which are recorded at contract value. Interest, dividends, and gains and losses, both realized and unrealized, are included in nonoperating income when earned.

Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities, which exceed \$1,000 and meet certain useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred. The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method.

The ranges of useful lives in computing depreciation include the following:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	8-15 years
Buildings and fixed equipment	5-40 years
Major movable equipment	3-20 years

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Costs of Borrowing

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No amounts were capitalized as of December 31, 2012 and 2011.

Bond Issuance Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Annual amortization approximates \$5,000.

Income Taxes

HRH is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. HRH is exempt from federal income tax as a unit of local government.

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and recognize a tax liability if the Hospital has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and has concluded that as of December 31, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying combined financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

HRSC and O3PureMed are organized as a limited liability company, whereby net taxable income is taxed directly to the members of the limited liability company. Thus, the combined financial statements do not include any provision for Federal or State income taxes related to HRSC or O3PureMed.

These entities have filed their federal and state income tax returns for periods through their most recent fiscal year ends. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Advertising and Community Relations

The Hospital records advertising and promotion expense in the period incurred. Total expense for advertising and promotion was \$572,780 and \$546,261 for 2012 and 2011, respectively.

Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service. The estimated amount of unused earned time off is reported as a liability in combined financial statements.

Net Position

The net position of the Hospital is classified in three components. Net investment in capital assets consists 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 net position amounts are expendable noncapital net position that must be used for a particular purpose, as specified by creditors or donors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

Donor Restricted Net Position

Restricted funds include donations to the Foundation that have been restricted by donors for a specific purpose. Generally, these donations are for additions to Hospital property and equipment. Transfers are made to unrestricted funds as expenditures are made in accordance with the donor restrictions.

Operating Revenues and Expenses

The Hospital's statement of operations and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services which is the Hospital's principal activity. Contributions, investment income, fund development costs and certain other non-healthcare activities are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Electronic Health Records (EHR) Incentive Payments

HRH receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, HRH must meet "meaningful use" criteria that become more stringent over time. HRH periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in HRH's cost reports. The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

HRH recognizes EHR incentive revenues as income when there is reasonable assurance that HRH will comply with the conditions of the meaningful use objectives and any other specific requirements. In addition, the financial statement effects of the income must be both recognizable and measurable. During 2012 and 2011, HRH recognized approximately \$1,480,000 and \$-0-, respectively, in EHR incentive revenue. Under the ratable recognition method, HRH recognizes revenue ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income is included in other operating revenue in the combined statements of operations and changes in net position. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by HRH as prescribed by the programs, subject to future audits and may be subject to repayment upon a determination of noncompliance.

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 either for specific operating purposes or for capital purposes.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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.

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.

Litigation

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

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Accounting for Non-controlling Interest

The Hospital has classified the non-controlling interest as a component of net position in the combined balance sheets. Non-controlling interests represent the portion of the net position that is attributable to investors that are external to and not included in the Hospital's combined financial statements.

Reclassification

Certain amounts in the prior year combined financial statements have been reclassified for comparative purposes to conform to the current year presentation. The reclassifications had no effect on the previously reported net position and change in net position.

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the combined balance sheet date for recognition and disclosure in the accompanying combined financial statements through the date the combined financial statements are issued which is April 16, 2013.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

2. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

Board Designated Funds

The Hospital funds depreciation expense to meet the capital equipment needs of the facility. Depreciation is funded totally, with expenditures for capital equipment and debt principal payments reducing the funded depreciation balance. The Hospital designates other investments to fund specific projects. All interest earned by the funded depreciation and other board designated investment accounts are left to accumulate as an addition to the funds.

Donor Restricted Funds

The Hospital has assets, which have been donated for a specific purpose.

Trustee Held Assets

The Hospital deposited investments with a trustee, which will be utilized to provide for debt service, and continued construction projects.

The following represents assets whose use is limited and investments as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Board designated funds	\$ 43,520,822	\$ 39,126,852
Donor restricted funds	1,210,519	804,788
Trustee held assets for debt service	<u>3,960,721</u>	<u>3,798,191</u>
Total assets whose use is limited	48,692,062	43,729,831
Investments	<u>2,440,693</u>	<u>2,010,425</u>
	<u>\$ 51,132,755</u>	<u>\$ 45,740,256</u>
	<u>2012</u>	<u>2011</u>
Mutual funds - equities	\$ 29,062,803	\$ 29,185,092
Mutual funds - fixed income	16,005,677	10,617,046
Certificates of deposit	166,944	126,654
Money market funds	3,385,292	3,299,425
U.S. Government securities	<u>2,512,039</u>	<u>2,512,039</u>
	<u>\$ 51,132,755</u>	<u>\$ 45,740,256</u>

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

3. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Assets whose use is limited investments consist of cash equivalents, mutual funds and U.S. Government securities.

The Hospital's investments generally are reported at fair value. As of December 31, 2012 and 2011, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial financial institutions that are agents of the Hospital.

December 31, 2012					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Money market funds	\$ 3,385,292	\$ 3,385,292	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	166,944	135,780	31,164	-0-	-0-
Mutual funds - equities	29,062,803	29,062,803	-0-	-0-	-0-
Mutual funds - fixed income	16,005,677	16,005,677	-0-	-0-	-0-
U.S. Government securities	2,512,039	-0-	-0-	-0-	2,512,039
	<u>\$ 51,132,755</u>	<u>\$ 48,589,552</u>	<u>\$ 31,164</u>	<u>-0-</u>	<u>\$ 2,512,039</u>

December 31, 2011					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Money market funds	\$ 3,299,425	\$ 3,299,425	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	126,654	97,004	29,650	-0-	-0-
Mutual funds - equities	29,185,092	29,185,092	-0-	-0-	-0-
Mutual funds - fixed income	10,617,046	10,617,046	-0-	-0-	-0-
U.S. Government securities	2,512,039	-0-	-0-	-0-	2,512,039
	<u>\$ 45,740,256</u>	<u>\$ 43,198,567</u>	<u>\$ 29,650</u>	<u>\$ -0-</u>	<u>\$ 2,512,039</u>

Interest rate risk - The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Credit risk - Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market 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.

Concentration of credit risk - The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

Deposits and investments consist of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Carrying amount		
Deposits	\$ 20,880,465	\$ 12,989,596
Investments	51,132,755	45,740,256
	<u>\$ 72,013,220</u>	<u>\$ 58,729,852</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 20,880,465	\$ 12,989,596
Investments	2,440,693	2,010,425
Board designated funds	43,520,822	39,126,852
Trustee held funds, less current portion	3,960,721	3,798,191
Donor restricted funds	1,210,519	804,788
	<u>\$ 72,013,220</u>	<u>\$ 58,729,852</u>

4. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels during 2012 and 2011.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012 and 2011.

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Hospital in the deferred compensation plan are deemed to be actively traded.
- *U.S. Government securities*: Valued using pricing models maximizing the use of observable inputs for similar securities.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The following table sets forth by level, within the hierarchy, the Hospital's assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and 2011.

	December 31, 2012			
	Total	Level 1	Level 2	Level 3
Assets				
Investments and assets whose use is limited				
Mutual funds - equities				
Large blend	\$ 14,518,610	\$ 14,518,610	\$ -0-	\$ -0-
Large growth	3,049,769	3,049,769	-0-	-0-
Large value	118,686	118,686	-0-	-0-
Medium blend	4,076,960	4,076,960	-0-	-0-
Small growth	1,244,801	1,244,801	-0-	-0-
Small value	1,084,432	1,084,432	-0-	-0-
Other (global, commodities, and index)	4,969,545	4,969,545	-0-	-0-
Total mutual funds - equities	29,062,803	29,062,803	-0-	-0-
Mutual funds - fixed income				
Intermediate term bond	6,796,039	6,796,039	-0-	-0-
Ultrashort bond	4,554,218	4,554,218	-0-	-0-
Short-term bond	3,462,566	3,462,566	-0-	-0-
World bond	1,192,854	1,192,854	-0-	-0-
Total mutual funds - fixed income	16,005,677	16,005,677	-0-	-0-
U.S. Government securities	2,512,039	-0-	2,512,039	-0-
		<u>\$ 45,068,480</u>	<u>\$ 2,512,039</u>	<u>\$ -0-</u>
Cash and equivalents	3,385,292			
Certificate of deposit	166,944			
	<u>\$ 51,132,755</u>			
	December 31, 2011			
	Total	Level 1	Level 2	Level 3
Assets				
Investments and assets whose use is limited				
Mutual funds - equities				
Large blend	\$ 9,783,125	\$ 9,783,125	\$ -0-	\$ -0-
Large growth	2,435,490	2,435,490	-0-	-0-
Large value	928,451	928,451	-0-	-0-
Medium blend	4,891,854	4,891,854	-0-	-0-
Small growth	1,085,379	1,085,379	-0-	-0-
Small value	1,054,054	1,054,054	-0-	-0-
Other (global, commodities, and index)	9,006,739	9,006,739	-0-	-0-
Total mutual funds - equities	29,185,092	29,185,092	-0-	-0-
Mutual funds - fixed income				
Intermediate term bond	5,661,246	5,661,246	-0-	-0-
Ultrashort bond	1,565,714	1,565,714	-0-	-0-
Short-term bond	3,390,086	3,390,086	-0-	-0-
Total mutual funds - fixed income	10,617,046	10,617,046	-0-	-0-
U.S. Government securities	2,512,039	-0-	2,512,039	-0-
		<u>\$ 39,802,138</u>	<u>\$ 2,512,039</u>	<u>\$ -0-</u>
Cash and equivalents	3,299,425			
Certificate of deposit	126,654			
	<u>\$ 45,740,256</u>			

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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

Cash and cash equivalents, patient accounts receivable, assets whose use is limited, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements: The carrying amount reported in the combined balance sheet for cash and cash equivalents, patient accounts receivable, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements approximate fair value based on short-term maturities.

Long-term debt: Fair value of the Hospital's fixed rate revenue bonds is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2012 and 2011, the carrying value of the fixed rate long-term debt was \$29,245,000 and \$30,205,000, with a fair value of approximately \$30,600,000 and \$31,900,000, respectively.

5. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including expenses) reported as current assets and liabilities as of December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 20,365,294	\$ 22,098,765
Receivable from Medicare	10,277,580	15,796,040
Receivable from Medicaid	2,055,566	2,390,907
Total patient accounts receivable	<u>32,698,440</u>	<u>40,285,712</u>
Less contractual allowances	(13,093,692)	(17,975,959)
Less allowance for uncollectible amounts	(9,743,774)	(9,512,989)
Patient accounts receivable, net	<u>\$ 9,860,974</u>	<u>\$ 12,796,764</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	\$ 6,411,168	\$ 6,431,488
Payable to suppliers and other accrued expenses	4,184,500	5,117,273
Total accounts payable and accrued expenses	<u>\$ 10,595,668</u>	<u>\$ 11,548,761</u>

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

6. INVESTMENTS IN AFFILIATES

HRH owns 50% of Hancock Health Network, LLC (Network) and has recorded the investment on the equity method of accounting in the amount of \$870,723 and \$1,064,860 as of December 31, 2012 and 2011, respectively. This investment is included within other assets in the combined financial statements. HRH paid the Network approximately \$3,252,000 and \$1,147,000 during 2012 and 2011, respectively for management and other operating expenses. HRH received \$904,000 and \$880,000 for 2012 and 2011, respectively from the Network for rental and housecleaning income. HRH contributed capital of \$2,512,000 and \$2,436,000 to the Network during 2012 and 2011, respectively.

HRH has a receivable from the Network of \$370,000 and \$229,000 as of December 31, 2012 and 2011, respectively. The Hospital has a payable to the Network of \$945,000 and \$287,000 as of December 31, 2012 and 2011, respectively. HRH expects to continue providing capital contributions to the Network at a commensurate level with its past experience.

HRH also owns 50% of a Physician Hospital Organization (PHO) and approximately 37% of Parkway, LLC. HRH has recorded these investments in affiliates on the equity method of accounting within other assets in the combined financial statements. Investments in PHO and Parkway, LLC are immaterial to the combined financial statements.

7. CAPITAL ASSETS

Capital assets consist of the following as of December 31, 2012 and 2011:

	Balance December 31, 2011	Additions	Retirements	Transfers	Balance December 31, 2012
Land	\$ 270,285	\$ -0-	\$ -0-	\$ -0-	\$ 270,285
Land improvements	5,489,851	-0-	-0-	-0-	5,489,851
Buildings and fixed equipment	100,058,414	1,000,527	(240,669)	-0-	100,818,272
Major movable equipment	53,041,760	3,801,819	(182,292)	-0-	56,661,287
Construction in progress	915	500,000	-0-	-0-	500,915
Total capital assets	<u>158,861,225</u>	<u>5,302,346</u>	<u>(422,961)</u>	<u>-0-</u>	<u>163,740,610</u>
Less accumulated depreciation					
Land improvements	(3,474,478)	(359,384)	-0-	-0-	(3,833,862)
Buildings and fixed equipment	(52,988,771)	(4,210,405)	155,872	-0-	(57,043,304)
Major movable equipment	(37,862,403)	(3,556,703)	278,084	-0-	(41,141,022)
Total accumulated depreciation	<u>(94,325,652)</u>	<u>(8,126,492)</u>	<u>433,956</u>	<u>-0-</u>	<u>(102,018,188)</u>
Capital assets, net	<u>\$ 64,535,573</u>	<u>\$ (2,824,146)</u>	<u>\$ 10,995</u>	<u>\$ -0-</u>	<u>\$ 61,722,422</u>

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

	Balance December 31, 2010	Additions	Retirements	Transfers	Balance December 31, 2011
Land	\$ 270,285	\$ -0-	\$ -0-	\$ -0-	\$ 270,285
Land improvements	5,489,207	-0-	-0-	644	5,489,851
Buildings and fixed equipment	105,200,517	1,070,178	(6,212,281)	-0-	100,058,414
Major movable equipment	46,235,397	4,675,756	-0-	2,130,607	53,041,760
Construction in progress	1,962,525	169,641	-0-	(2,131,251)	915
Total capital assets	159,157,931	5,915,575	(6,212,281)	-0-	158,861,225
Less accumulated depreciation					
Land improvements	(3,096,342)	(378,136)	-0-	-0-	(3,474,478)
Buildings and fixed equipment	(54,366,833)	(4,423,297)	5,801,359	-0-	(52,988,771)
Major movable equipment	(34,653,354)	(3,209,049)	-0-	-0-	(37,862,403)
Total accumulated depreciation	(92,116,529)	(8,010,482)	5,801,359	-0-	(94,325,652)
Capital assets, net	\$ 67,041,402	\$ (2,094,907)	\$ (410,922)	\$ -0-	\$ 64,535,573

8. LONG-TERM DEBT

The Indiana Bond Bank (the "Bond Bank") issued Special Program Bonds, Series 2004 C (Hancock Memorial Hospital and Health Services Project) on June 1, 2004 pursuant to the provisions of a Trust Indenture with the Trustee, the Bank of New York Trust Company, NA, Indianapolis, Indiana in the aggregate principal amount of \$35,010,000.

The Bond Bank is the obligor to the bondholders. The bonds are insured. The proceeds from the sale of the Series 2004 C Bonds were used to provide funds to (a) purchase Series 2004 C Qualified Obligations in the amount of \$34,475,000, (b) provide a credit facility for the Debt Service Reserve fund, (c) pay a portion of the interest on the Series 2004 C Bonds, (d) pay the premium for bond insurance, and (e) pay all of the Costs of Issuance of the Series 2004 C Bonds, including the underwriters discount.

The Hancock County Hospital Association (the "Association") was created in 2004 under the Indiana Code and is authorized to enter into leases with a county in order to provide funds to finance, acquire, renovate, equip and lease land and buildings. The Association issued the Series 2004 C Qualified Obligations pursuant to a Trust Indenture dated June 1, 2004 between the Association and the Trustee.

The net proceeds from the Series 2004 C Qualified Obligations were used for Hospital additions and improvements, which will include a new Emergency Department, Intensive Care and Cardiac Care Center and expansion of space for future hospital and healthcare needs.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The Board of Trustees of the Hospital and Hancock County, Indiana, acting through its Board of Commissioners are lessees (collectively, the "Lessee") under a lease agreement dated April 1, 2004 (the "Lease") with the Association (the "Lessor") for the Hospital additions and improvements (the "Leased Premises").

Pursuant to the Lease, the Lessee has agreed to make payments directly to the Trustee in such amounts and at such times as are sufficient to pay in full, when due, the principal and interest of the Series 2004 C Obligations. The County and the Hospital anticipate that the full lease rental payments will be paid from Hospital revenues.

The Series 2004 C Obligations and the Lease have essentially the same terms with interest rates ranging from 2.94% to 5.52% to be paid semi-annually on January 15 and July 15 through January 15, 2031. The Trust Indenture has certain compliance requirements for which management believes it is in compliance. The lease rental revenues are pledged to secure the Series 2004 C obligations.

Long-term debt as of December 31, 2012 and 2011 includes the following:

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Current Portion	Long-Term Portion
The Series 2004 C Obligations Capital Lease	\$ 30,205,000	\$ -0-	\$ (960,000)	\$ 29,245,000	\$ 1,000,000	\$ 28,245,000
	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011	Current Portion	Long-Term Portion
The Series 2004 C Obligations Capital Lease	\$ 31,125,000	\$ -0-	\$ (920,000)	\$ 30,205,000	\$ 960,000	\$ 29,245,000

Aggregate maturities of long-term debt are as follows:

Year Ending December 31,	Principal	Interest	Total
2013	\$ 1,000,000	\$ 1,511,015	\$ 2,511,015
2014	1,040,000	1,466,593	2,506,593
2015	1,090,000	1,418,987	2,508,987
2016	1,140,000	1,368,015	2,508,015
2017	1,195,000	1,313,381	2,508,381
2018-2022	6,930,000	5,610,074	12,540,074
2023-2027	8,965,000	3,566,607	12,531,607
2028-2032	7,885,000	893,745	8,778,745
	<u>\$ 29,245,000</u>	<u>\$ 17,148,417</u>	<u>\$ 46,393,417</u>

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

9. PATIENT SERVICE REVENUE

Patient service revenue for 2012 and 2011 consists of the following:

	2012	2011
Inpatient	\$ 63,848,478	\$ 57,637,724
Outpatient	168,196,159	132,997,609
Transitional Care/Inpatient Rehabilitation	3,219,803	4,124,796
Geriatric Psychiatric	4,462,951	4,019,960
Gross patient service revenue	<u>239,727,391</u>	<u>198,780,089</u>
Contractual allowance	110,738,702	94,690,907
Bad debts	9,855,324	10,157,492
Charity care	4,757,739	4,568,751
Deductions from revenue	<u>125,351,765</u>	<u>109,417,150</u>
Net patient service revenue	<u>\$ 114,375,626</u>	<u>\$ 89,362,939</u>

10. PENSION PLAN

The Hospital offers a defined contribution plan that covers all employees who meet eligibility requirements as to age and length of service and who elect to participate. The Hospital matches 50% of the employee contribution up to 4% of the eligible wages. Pension expense related to the defined contribution plan was \$1,275,466 and \$1,262,872 in 2012 and 2011, respectively.

11. CONCENTRATION OF CREDIT RISK

The Hospital is located in Greenfield, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross patient accounts receivable and gross revenue from patients and third-party payors at December 31 was as follows:

	Receivables		Revenue	
	2012	2011	2012	2011
Medicare	33%	40%	46%	49%
Medicaid	7%	6%	9%	8%
Commercial	30%	28%	36%	34%
Self pay and other	30%	26%	9%	9%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

12. ACCOUNTING FOR NON-CONTROLLING INTEREST

The following depicts the changes in combined net position attributable to the controlling financial interest of the Hospital and the non-controlling interest as of December 31, 2012 and 2011:

	Controlling interest	Non-controlling interest	Total
Net position			
December 31, 2010	\$ 95,568,104	\$ 2,848,524	\$ 98,416,628
Change in net position before capital distributions	(140,638)	756,459	615,821
Capital distributions	-0-	(734,710)	(734,710)
Change in net position	<u>(140,638)</u>	<u>21,749</u>	<u>(118,889)</u>
December 31, 2011	95,427,466	2,870,273	98,297,739
Change in net position before capital distributions	9,105,590	998,744	10,104,334
Capital distributions	-0-	(1,067,159)	(1,067,159)
Change in net position	<u>9,105,590</u>	<u>(68,415)</u>	<u>9,037,175</u>
December 31, 2012	<u>\$ 104,533,056</u>	<u>\$ 2,801,858</u>	<u>\$ 107,334,914</u>

13. SELF-INSURED HEALTH CLAIMS PROGRAM AND OTHER POSTEMPLOYMENT BENEFITS

The Hospital is self-insured for employee health claims. A third party administrator processes the claims for the Hospital. The Hospital maintains an estimated liability for the amount of claims incurred but not reported.

The Hospital maintains reinsurance including a stop loss for specific incident claims over \$300,000 and an employee lifetime maximum of \$1,700,000. Substantially all employees are covered for major medical benefits. The total health claims expense was \$9,197,867 and \$6,949,383 for 2012 and 2011, respectively.

Claim expenditures and liabilities 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. The Hospital has recorded the accrual for the unpaid claims estimate within accrued salaries and related liabilities on the combined financial statements.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Changes in the accrual for unpaid claims for 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Unpaid claims estimate, beginning of year	\$ 647,164	\$ 659,251
Incurred claims and changes in estimates	9,197,867	6,949,383
Claims payments	<u>(9,049,125)</u>	<u>(6,961,470)</u>
Unpaid claims estimate, end of year	<u>\$ 795,906</u>	<u>\$ 647,164</u>

As a component of the self-insured employee health program, the Hospital provides for continued coverage of medical benefits for eligible retired employees and their beneficiaries. To be eligible for postemployment healthcare benefits, the employees must retire in good standing after the age of fifty-nine and one half with at least ten years of continuous service and must continue to make the stipulated required employee contributions. The coverage may be continued under the same health plan option as was enrolled in at the time of retirement through December 31st of that year. Beginning the following January 1st and all subsequent years of eligible retirement, coverage the retiree is only eligible for the high deductible plan option. Coverage generally terminates at the date the retiree becomes Medicare eligible.

As of December 31, 2012, the most recent actuarial valuation date, this plan was not funded. The Hospital provides funding for expenditures on a pay-as-you-go basis. 2012 was the first year the plan had an actuarial valuation performed. The unfunded actuarial accrued liability for benefits was approximately \$1,020,000 as of December 31, 2012. The unfunded accrued liability estimated by the Hospital was \$1,671,000 as of December 31, 2011. These liabilities are included in the combined balance sheets within the accrued salaries and related liabilities. The contribution expense incurred by the Hospital for 2012 and 2011 approximated \$400,000 and \$500,000, respectively.

The covered payroll (annual payroll of active employees covered by the plan) was approximately \$23.9 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 4 percent at December 31, 2012. The estimated annual required employer contribution and employer annual benefit approximate \$400,000.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2012 actuarial valuation, the projected unit credit cost method was used. The significant applicable assumptions utilized in calculating the estimated obligation under the retiree continuance of coverage provision for 2012 include a healthcare cost trend rate of 10%, a premium growth rate of 10%, a discount rate of 4.5% and average years to termination of benefits of 9 years. The plan does not issue a separate report.

Effective January 1, 2013, this plan was amended to change the benefit eligibility age from 59 ½ to 61. Furthermore, the amendment increased the retirees contribution amount thereby decreasing the Hospital's contributions.

14. COMMITMENTS AND CONTINGENCIES

Malpractice Insurance

The Indiana Medical Malpractice Act, IC 27-12 (the Act), provides a recovery for an occurrence of malpractice and for any injury or death of a patient due to an act of malpractice in excess of certain thresholds. The Act requires the Hospital to maintain medical malpractice liability insurance on a per occurrence basis and in the annual aggregate for amounts below the thresholds of the Act. During 2001, the Hospital's malpractice carrier filed bankruptcy. The Hospital has obtained malpractice coverage through another carrier.

The Hospital may be liable for certain pending claims incurred while with the former carrier. Management is not aware of any related material adverse effects to its financial position, results of operations, and cash flows. Prior to July 1, 1999, the Indiana Medical Malpractice Act provided for a maximum recovery of \$750,000 per occurrence (\$3,000,000 annual aggregate) for professional liability, \$100,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund (Fund).

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

For claims on or after July 1, 1999, the Indiana Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Fund.

The Hospital is a member in a captive insurance company, Suburban Health Organization Segregated Portfolio Company, LLC, to fund the Hospital's required portion of the professional and physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage.

15. BLENDED COMPONENT UNITS

Below is condensed financial information of the material blended component units.

	Foundation	
	2012	2011
Assets		
Current assets	\$ 2,448,195	\$ 2,015,607
Capital assets	17,935	20,045
Other assets	1,210,519	804,788
Total assets	<u>\$ 3,676,649</u>	<u>\$ 2,840,440</u>
Liabilities		
Long-term debt	\$ -0-	\$ -0-
Other liabilities	35,450	77,565
Total liabilities	<u>35,450</u>	<u>77,565</u>
Net position		
Unrestricted	2,412,745	1,938,042
Invested in capital assets, net of related debt	17,935	20,045
Restricted by trustee for debt service	-0-	-0-
Donor restricted-expendable	1,210,519	804,788
Total net position	<u>3,641,199</u>	<u>2,762,875</u>
Total liabilities and net position	<u>\$ 3,676,649</u>	<u>\$ 2,840,440</u>
Revenues		
Contributions	\$ 1,071,226	\$ 989,259
Investment income (loss)	298,037	(44,423)
Total revenues	<u>1,369,263</u>	<u>944,836</u>
Expenses		
Depreciation	2,110	2,110
Other expenses	488,829	600,255
Total expenses	<u>490,939</u>	<u>602,365</u>
Operating income / change in net position	878,324	342,471
Net position, beginning of year	<u>2,762,875</u>	<u>2,420,404</u>
Net position, end of year	<u>\$ 3,641,199</u>	<u>\$ 2,762,875</u>

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

	HRSC	
	2012	2011
Assets		
Current assets	\$ 5,143,878	\$ 5,233,546
Capital assets	1,394,862	2,109,427
Total assets	<u>\$ 6,538,740</u>	<u>\$ 7,342,973</u>
Liabilities		
Long-term debt	\$ -0-	\$ -0-
Other liabilities	565,099	1,210,886
Total liabilities	<u>565,099</u>	<u>1,210,886</u>
Net position		
Unrestricted	4,578,779	4,022,660
Invested in capital assets, net of related debt	1,394,862	2,109,427
Total net position	<u>5,973,641</u>	<u>6,132,087</u>
Total liabilities and net position	<u>\$ 6,538,740</u>	<u>\$ 7,342,973</u>
Operating revenues (patient and other)	\$ 12,122,346	\$ 10,988,495
Expenses		
Depreciation	795,548	786,494
Other expenses	9,138,443	8,592,129
Total expenses	<u>9,933,991</u>	<u>9,378,623</u>
Operating income	2,188,355	1,609,872
Nonoperating revenues, net	3,201	2,805
Capital distributions	<u>(2,350,002)</u>	<u>(1,500,000)</u>
Change in net position	(158,446)	112,677
Net position, beginning of year	6,132,087	6,019,410
Net position, end of year	<u>\$ 5,973,641</u>	<u>6,132,087</u>

The individual cash flows of the above entities are not significant to the overall combined financial statements.

16. SUBSEQUENT EVENTS

Management Agreements

Subsequent to December 31, 2012, HRH entered into agreements with distinct lessor entities to lease long-term care facilities operated by related management companies. Additionally, HRH entered into agreements with the related management companies to manage the leased long-term care facilities. As part of the agreement, HRH will pay the management companies a fee to continue managing the long-term care facilities on behalf of HRH in accordance with the terms of the agreement. While the leases are in effect, the performance of all activities of the management companies shall be on behalf of HRH. Furthermore, HRH retains ultimate authority and legal responsibility for the operation and control of the long-term care facilities.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Under the agreements, all gross patient revenues from the operation of the long-term care facilities will be the property of HRH and HRH shall be responsible for all operating expenses and working capital requirements. The agreements expire at various times. All parties involved can terminate the agreements without cause with written notice.