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June 17, 2011

Board of Directors  
Hancock Regional Hospital  
801 North State Street  
Greenfield, IN 46140

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2010 to December 31, 2010. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Hancock Regional Hospital, as of December 31, 2010 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

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**COMBINED FINANCIAL STATEMENTS**

**DECEMBER 31, 2010 AND 2009**

*CPAs / ADVISORS*



# HANCOCK REGIONAL HOSPITAL

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Hancock Regional Hospital  
Greenfield, Indiana

We have audited the accompanying combined balance sheets of Hancock Regional Hospital (the Hospital) and component units as of December 31, 2010 and 2009, and the related combined statements of operations and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. 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 audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2010 and 2009, and the results of its combined operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees  
Hancock Regional Hospital  
Greenfield, Indiana

Accounting principles generally accepted in the United States of America require that the Management 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*

April 19, 2011

**REQUIRED SUPPLEMENTARY INFORMATION**

# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2010 AND 2009

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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, 2010 and 2009. 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 assets of approximately \$5,953 or 6.4% for the year ended 2010. The Hospital's changes in net assets for 2009 were approximately \$13,764 or 17.5%.
- Operating income in 2010 compared to 2009 decreased by \$3,372 or 43%.
- Nonoperating income decreased from 2010 to 2009 by \$4,085 or 64%.

### USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements—a Balance Sheet; a Statement of Operations 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, 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 ASSETS

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 Assets 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 two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets—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 assets 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, 2010 AND 2009

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### 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 ASSETS

The Hospital’s net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 3. The Hospital’s net assets increased in 2010 by \$5,953 (6.4%) as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2010</u>	<u>2009</u>	<u>2010 - 2009</u> <u>\$ Change</u>	<u>2008</u>
<b>Assets</b>				
Current assets	\$ 28,541	\$ 30,657	\$ (2,116)	\$ 23,043
Capital assets, net	67,041	64,338	2,703	66,445
Restricted and limited use assets	45,780	41,382	4,398	29,274
Other noncurrent assets	<u>3,128</u>	<u>3,603</u>	<u>(475)</u>	<u>3,389</u>
Total assets	<u>144,490</u>	<u>139,980</u>	<u>4,510</u>	<u>122,151</u>
<b>Liabilities</b>				
Current liabilities	15,868	16,286	(418)	11,446
Long - term debt outstanding	<u>30,205</u>	<u>31,230</u>	<u>(1,025)</u>	<u>32,005</u>
Total liabilities	<u>46,073</u>	<u>47,516</u>	<u>(1,443)</u>	<u>43,451</u>
<b>Net Assets</b>				
Unrestricted	53,928	52,091	1,837	37,764
Invested in capital assets, net of related debt	35,916	32,193	3,723	33,336
Restricted by trustee for debt service	5,030	4,199	831	4,241
Donor restricted - expendable	<u>694</u>	<u>666</u>	<u>28</u>	<u>553</u>
Net assets - controlling interest	95,568	89,149	6,419	75,894
Non-controlling interest	<u>2,849</u>	<u>3,315</u>	<u>(466)</u>	<u>2,806</u>
Total net assets	<u>98,417</u>	<u>92,464</u>	<u>5,953</u>	<u>78,700</u>
Total liabilities and net assets	<u>\$ 144,490</u>	<u>\$ 139,980</u>	<u>\$ 4,510</u>	<u>\$ 122,151</u>

# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2010 AND 2009

A significant component of the change in the Hospital's assets is the increase in Restricted and Limited Use Assets. Restricted and Limited Use Assets increased significantly \$4,398 or 10.6% due to market increases in investments. Capital assets also increased \$2,703 or 4.2% due to the medical office building placed in service in McCordsville during March of 2010. This facility has a Physician Office, Urgent Care, Lab, Diagnostic Imaging and physical Therapy located within the facility.

### OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2010, the Hospital's change in net assets attributable to controlling interest decreased by \$6,835 as shown in Table 2.

**Table 2: Operating Results and Changes in Net Assets**

	<b>2010</b>	<b>2009</b>	<b>2010 - 2009 \$ Change</b>	<b>2008</b>
<b>Operating Revenue</b>				
Net patient service revenue	\$ 87,626	\$ 90,374	\$ (2,748)	\$ 90,736
Other	6,385	6,018	367	6,612
Total operating revenue	<u>94,011</u>	<u>96,392</u>	<u>(2,381)</u>	<u>97,348</u>
<b>Operating expenses</b>				
Salaries and benefits	48,717	49,100	(383)	47,037
Medical supplies and drugs	10,471	10,436	35	13,076
Purchased services and medical fees	14,758	12,989	1,769	13,641
Depreciation and amortization	8,175	8,658	(483)	8,812
Other operating expense	<u>7,333</u>	<u>7,280</u>	<u>53</u>	<u>7,143</u>
Total operating expense	<u>89,454</u>	<u>88,463</u>	<u>991</u>	<u>89,709</u>
Operating income	<u>4,557</u>	<u>7,929</u>	<u>(3,372)</u>	<u>7,639</u>
<b>Nonoperating income (expense)</b>				
Noncapital contributions	929	1,016	(87)	849
Other nonoperating income	(128)	(684)	556	(504)
Interest expense	(1,663)	(1,724)	61	(2,843)
Investment income	<u>3,115</u>	<u>7,730</u>	<u>(4,615)</u>	<u>(6,263)</u>
Total nonoperating income	<u>2,253</u>	<u>6,338</u>	<u>(4,085)</u>	<u>(8,761)</u>
Change in net assets	6,810	14,267	(7,457)	(1,122)
Less amount attributable to non-controlling interest	<u>(390)</u>	<u>(1,012)</u>	<u>622</u>	<u>273</u>
Change in net assets attributable to controlling interest	<u>\$ 6,420</u>	<u>\$ 13,255</u>	<u>\$ (6,835)</u>	<u>\$ (849)</u>

# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2010 AND 2009

	Controlling Interest	Non-controlling Interest	Total
<b>Net asset balances</b>			
December 31, 2008	\$ 75,893	\$ 2,806	\$ 78,699
Change in net assets	13,255	1,012	14,267
Equity transactions, net	<u>-0-</u>	<u>(503)</u>	<u>(503)</u>
December 31, 2009	89,148	3,315	92,463
Change in net assets	6,420	390	6,810
Equity transactions, net	<u>-0-</u>	<u>(856)</u>	<u>(856)</u>
December 31, 2010	<u>\$ 95,568</u>	<u>\$ 2,849</u>	<u>\$ 98,417</u>

### SOURCES OF REVENUE

During 2010, 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 payer, for the years ended December 31, 2010 and 2009, respectively.

### PAYOR MIX

	2010	2009	2008
Medicare	47%	46%	48%
Medicaid	8%	8%	8%
Commercial	35%	37%	35%
Self-Pay	7%	7%	7%
Other	3%	2%	2%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2010 AND 2009

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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 2010 shifted from Commercial to Medicare. Disproportionate Share Hospital Payment for years 2010 and 2009 were \$2,215 and \$2,282, respectively.

### OPERATING GAINS

The first component of the overall change in the Hospital's net assets 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. Investment income in 2010 compared to 2009 decreased by \$4,615 or 59.7%.

The decrease in the Hospital's total operating income in 2010 of \$3,372 or 42.5% from 2009 is the result of a rate and statistical decreases. During 2010, the Hospital increased gross charge rates 7% compared to 2009 which was increased by 8%. More importantly, the Hospital experienced statistical changes in the following areas:

<b>Statistical Growth</b>	<b>2010</b>	<b>2009</b>	<b>2010-2009 % Increase / &lt;Decrease&gt;</b>	<b>2008</b>
Patient Days	19,096	19,814	-3.62%	20,326
Diagnostic Imaging Procedures	62,275	62,069	0.33%	67,137
Laboratory Procedures	291,089	302,965	-3.92%	345,270
Pharmaceutical Medication Units	545,403	1,620,507	-66.34%	1,291,589
Rehab Procedures	77,815	81,159	-4.12%	83,444
Home Health Units of Service	53,073	55,958	-5.16%	44,118
Outpatient Clinic Procedures	14,482	15,373	-5.80%	16,459

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 \$14,267 were waived during 2010. This is an increase of \$1,246 from the previous year. Management's commitment to provide emergency care for all patients without regard to their ability to pay contributed to this increase.

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# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2010 AND 2009

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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 is the result of changes in the Hospital's Investment Income and other Non Capital Grants and Contributions. The Hospital's Investment Income decreased due to market value recoveries during 2009 that were not duplicated in 2010. The Hospital's non-operating income decreased in 2010 by \$4,085 or 64.4% from 2009.

### GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives operating grants from various state and federal agencies for specific programs. Operating grants received in 2010 totaled \$604 compared to \$1,036 in 2009. 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.
- Lifeline patient monitoring - Central Indiana Power – for remote monitoring of home-bound elderly patients
- Education Department – Substance Abuse Prevention
- Critical Needs Expansion
- Women's Health Center
- In Patient Hospice Program – from Hancock Regional Hospital Foundation

# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2010 AND 2009

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### THE HOSPITAL'S CASH FLOWS

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

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### CAPITAL ASSETS

During 2010, the Hospital's capital assets increased by approximately \$2.7 million. This compares to an decrease of approximately \$2.1 million for 2009 compared to 2008. The change in capital assets is outlined in the following table:

	2010	2009	Change	2008
Land	\$ 270	\$ 270	\$ -0-	\$ 270
Land improvements	5,489	5,217	272	5,217
Buildings and fixed equipment	105,165	101,060	4,105	98,075
Major movable equipment	46,271	41,290	4,981	40,372
Construction in progress	1,963	2,973	(1,010)	544
Total capital assets	159,158	150,810	8,348	144,478
Less accumulated depreciation	92,117	86,472	5,645	78,033
Capital assets, net	\$ 67,041	\$ 64,338	\$ 2,703	\$ 66,445

Net capital assets have increased due to the McCordsville medical office building placed in service during March of 2010. The Hospital continually evaluates facilities and equipment to ensure that everything is upgraded as necessary.

#### DEBT

At year-end, the Hospital had \$30.9 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.

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# **HANCOCK REGIONAL HOSPITAL**

## **MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) DECEMBER 31, 2010 AND 2009**

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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, 2010 AND 2009

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### ASSETS

	<u>2010</u>	<u>2009</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 14,033,704	\$ 16,872,078
Investments	1,727,208	1,578,792
Patient accounts receivable, net	10,085,185	9,235,577
Inventories and other current assets	2,694,620	2,970,911
Total current assets	<u>28,540,717</u>	<u>30,657,358</u>
<b>Assets whose use is limited</b>		
Board designated funds	40,056,110	36,517,307
Trustee held funds for debt service	5,030,178	4,198,461
Donor restricted funds	693,619	666,381
Total assets whose use is limited	<u>45,779,907</u>	<u>41,382,149</u>
<b>Capital assets</b>		
Land and land improvements	5,759,492	5,487,028
Buildings and fixed equipment	105,200,517	101,094,972
Major movable equipment	46,235,397	41,254,792
Construction in progress	1,962,525	2,972,982
Total capital assets	<u>159,157,931</u>	<u>150,809,774</u>
Less accumulated depreciation	92,116,529	86,472,175
Capital assets, net	<u>67,041,402</u>	<u>64,337,599</u>
<b>Other assets</b>		
Bond issuance costs, net of accumulated amortization of \$374,703 in 2010 and \$369,573 in 2009	107,742	112,872
Other assets	3,020,185	3,490,150
Total other assets	<u>3,127,927</u>	<u>3,603,022</u>
Total assets	<u>\$ 144,489,953</u>	<u>\$ 139,980,128</u>

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# HANCOCK REGIONAL HOSPITAL

## COMBINED BALANCE SHEETS DECEMBER 31, 2010 AND 2009

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### LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 920,000	\$ 915,000
Accounts payable and other liabilities	4,463,627	4,911,634
Accrued salaries and related liabilities	5,679,242	6,487,383
Estimated third-party settlements	4,805,456	3,972,193
Total current liabilities	<u>15,868,325</u>	<u>16,286,210</u>
<b>Long-term debt, less current portion</b>	<u>30,205,000</u>	<u>31,230,000</u>
Total liabilities	<u>46,073,325</u>	<u>47,516,210</u>
<b>Net assets</b>		
Unrestricted	53,927,905	52,091,097
Invested in capital assets, net of related debt	35,916,402	32,192,599
Restricted by trustee for debt service	5,030,178	4,198,461
Donor restricted-expendable	693,619	666,381
Net assets - controlling interest	<u>95,568,104</u>	<u>89,148,538</u>
Non-controlling interest	<u>2,848,524</u>	<u>3,315,380</u>
Total net assets	<u>98,416,628</u>	<u>92,463,918</u>
Total liabilities and net assets	<u>\$ 144,489,953</u>	<u>\$ 139,980,128</u>

# HANCOCK REGIONAL HOSPITAL

## COMBINED STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
<b>Operating revenue</b>		
Net patient service revenue	\$ 87,626,284	\$ 90,373,815
Other operating revenue	6,384,733	6,018,612
Total operating revenue	<u>94,011,017</u>	<u>96,392,427</u>
<b>Operating expenses</b>		
Salaries and wages	38,015,511	38,249,018
Employee benefits	10,701,028	10,851,080
Professional medical fees	1,976,474	1,358,844
Supplies and drugs	10,470,566	10,435,843
Purchased services	12,782,581	11,630,213
Utilities and insurance	2,468,727	2,709,095
Depreciation and amortization	8,175,497	8,657,750
Other	4,864,250	4,570,675
Total operating expenses	<u>89,454,634</u>	<u>88,462,518</u>
Operating income	4,556,383	7,929,909
<b>Nonoperating income (expense), net</b>		
Noncapital contributions	929,475	1,015,545
Other nonoperating income (expense)	(127,651)	(684,287)
Interest expense	(1,663,222)	(1,724,340)
Investment income	3,115,070	7,730,004
Total nonoperating income (expense)	<u>2,253,672</u>	<u>6,336,922</u>
Change in net assets	6,810,055	14,266,831
Less amount attributable to non-controlling interest	<u>(390,489)</u>	<u>(1,011,539)</u>
Change in net assets attributable to controlling interest	<u>\$ 6,419,566</u>	<u>\$ 13,255,292</u>

# HANCOCK REGIONAL HOSPITAL

## COMBINED STATEMENTS OF CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2010 AND 2009

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	<u>Controlling Interest</u>	<u>Non-controlling Interest</u>	<u>Total</u>
<b>Net asset balances</b>			
December 31, 2008	\$ 75,893,246	\$ 2,806,410	\$ 78,699,656
Change in net assets	13,255,292	1,011,539	14,266,831
Equity transactions, net	<u>-0-</u>	<u>(502,569)</u>	<u>(502,569)</u>
December 31, 2009	89,148,538	3,315,380	92,463,918
Change in net assets	6,419,566	390,489	6,810,055
Equity transactions, net	<u>-0-</u>	<u>(857,345)</u>	<u>(857,345)</u>
December 31, 2010	<u>\$ 95,568,104</u>	<u>\$ 2,848,524</u>	<u>\$ 98,416,628</u>

# HANCOCK REGIONAL HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009

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	<u>2010</u>	<u>2009</u>
<b>Operating activities</b>		
Cash received from patients and third party payors	\$ 87,609,939	\$ 92,333,298
Cash paid to employees for wages and benefits	(49,524,680)	(47,180,136)
Cash paid to vendors for goods and services	(32,734,314)	(30,129,458)
Other operating receipts, net	6,566,754	6,361,762
Net cash from operating activities	<u>11,917,699</u>	<u>21,385,466</u>
<b>Noncapital financing activities</b>		
Noncapital contributions	929,475	1,015,545
Other nonoperating	(127,651)	(684,287)
Net cash from noncapital financing activities	<u>801,824</u>	<u>331,258</u>
<b>Capital and related financing activities</b>		
Acquisition and construction of capital assets	(10,959,639)	(6,572,961)
Equity transactions, net	(857,345)	(502,569)
Interest paid on long-term debt	(1,663,222)	(1,724,340)
Principal payments on long-term debt, net	(1,020,000)	(850,000)
Net cash from capital and related financing activities	<u>(14,500,206)</u>	<u>(9,649,870)</u>
<b>Investing activities</b>		
Other assets and liabilities	1,284,715	(220,059)
Investment income	3,115,070	7,730,004
Other change in assets whose use is limited, net	(7,228,523)	(8,093,176)
Net cash from investing activities	<u>(2,828,738)</u>	<u>(583,231)</u>
Net change in cash and cash equivalents	(4,609,421)	11,483,623
<b>Cash and cash equivalents</b>		
Beginning of year	25,113,288	13,629,665
End of year	<u>\$ 20,503,867</u>	<u>\$ 25,113,288</u>

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# HANCOCK REGIONAL HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009

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	<u>2010</u>	<u>2009</u>
<b>Reconciliation of operating income to net cash from operating activities</b>		
Operating income	\$ 4,556,383	\$ 7,929,909
Adjustment to reconcile operating income to net cash from operating activities		
Depreciation and amortization	8,175,497	8,657,750
Bad debts	10,155,216	8,484,833
Loss on disposal of capital assets	84,535	29,018
Realized and unrealized gain(loss) on investments	97,486	314,132
Changes in assets and liabilities		
Patient accounts receivable	(11,004,824)	(9,634,427)
Other current assets	276,291	829,070
Accounts payable and other liabilities	(448,007)	(253,858)
Accrued salaries and related liabilities	(808,141)	1,919,962
Estimated third-party settlements	833,263	3,109,077
Net cash from operating activities	<u>\$ 11,917,699</u>	<u>\$ 21,385,466</u>
 <b>Reconciliation of cash and cash equivalents to the balance sheets</b>		
Cash and cash equivalents:		
In current assets	\$ 14,033,704	\$ 16,872,078
In investments	-	57,088
In assets whose use is limited	<u>6,470,163</u>	<u>8,184,122</u>
Total cash and cash equivalents	<u>\$ 20,503,867</u>	<u>\$ 25,113,288</u>

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# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Reporting Entity

Hancock Regional Hospital (the Hospital) 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. 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 the Hospital. For these reasons, the Hospital 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. 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 the Hospital.

Accounting principles generally accepted in the United States of America require that these combined financial statements present the Hospital and its blended component units, collectively referred to as the "primary government." The component units discussed below are included in the Hospital's reporting entity because of the significance of their operation or financial relationship with the Hospital. 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 the Hospital.

#### 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 the Hospital. 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 the Hospital. The accompanying combined financial statements also include the accounts of the Blended Component Unit – Hancock Regional Surgery Center, LLC (HRSC), a separate limited liability company. All significant intercompany transactions have been eliminated for financial reporting purposes.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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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. During 2009, the Hospital increased their membership interest from 46% to 51%. The Hospital maintains substantial participation in the operations of HRSC in addition to an economic interest in HRSC's financial position.

The separate financial statements for each of the entities discussed above may be obtained through contacting management of the Hospital.

### 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

Pursuant to Governmental Accounting Standards Board (GASB) Statement Number 20, *Accounting and Financial Reporting For Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 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 with 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 35 percent and 10 percent, respectively, of the Hospital's net patient revenue for the year ended 2010, and 35 percent and 8 percent, respectively, of the Hospital's net patient revenue, for the year ended 2009. 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.

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# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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The Hospital recognized revenue related to the Medicaid Disproportionate Share Hospital and the Upper Payment Limitation programs of \$2,214,561 and \$2,282,011 for the years ended December 31, 2010 and 2009, 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 to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts deemed to be charity care are reported as deductions from revenues.

### Combined Statements of Cash Flows

For purposes of the combined statements of cash flows, cash consists of unrestricted cash 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

These assets include investments designated by the Hospital 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.

### Investments in Debt and Equity Securities

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating income when earned.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 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

### 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.

### Bond Issuance Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt.

### Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is exempt from federal income tax as a unit of local government. Hancock Memorial Hospital Foundation, Inc. is a 501(c)(3) not-for-profit organization. Hancock Wellness, LLC and Hancock Surgery Center, LLC are each a limited liability company whereby, net taxable income is taxed directly to the members and not the Company. Required tax filings have been filed through December 31, 2009. 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, 2010 AND 2009

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### Investments in Affiliates

The Hospital owns 50% of a Physician Hospital Organization (PHO) and Hancock Health Network, LLC, and approximately 37% of Parkway, LLC. The Hospital has recorded the investment in affiliates on the equity method of accounting within other assets in the Hospital's combined financial statements.

### Advertising and Community Relations

The Hospital records advertising and promotion expense in the period incurred. Total expense for advertising and promotion was \$371,074 and \$305,850 for 2010 and 2009, 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.

### Reclassifications

Certain amounts from the 2009 financial statements have been reclassified to conform to the 2010 presentation.

### Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are expendable noncapital net assets 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 assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

### Donor Restricted Net Assets

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.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### Operating Revenues and Expenses

The Hospital's statement of operations 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 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.

### 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. 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 or results from operations.

### 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.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### Accounting for Non-Controlling Interest

The Hospital has reclassified the non-controlling interest as a component of net assets in the combined balance sheets and combined statements of changes in net assets. In addition, combined change in net assets is shown in two components, displaying the portions attributable to both the controlling interest and non-controlling interest, on the combined statements of revenues and expenses.

### Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is April 19, 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.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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The following represents assets whose use is limited and investments as of December 31, 2010 and 2009:

	2010	2009
Board designated funds	\$ 40,056,110	\$ 36,517,307
Donor restricted funds	693,619	666,381
Trustee held assets for debt service	<u>5,030,178</u>	<u>4,198,461</u>
Total assets whose use is limited	45,779,907	41,382,149
Investments	<u>1,727,208</u>	<u>1,578,792</u>
	<u>\$ 47,507,115</u>	<u>\$ 42,960,941</u>
Blended mutual funds - equities	\$ 30,234,303	\$ 23,635,783
Blended mutual funds - fixed income	7,511,929	8,485,575
Certificates of deposit	122,474	85,975
Money market funds	7,126,370	8,241,569
Government securities	<u>2,512,039</u>	<u>2,512,039</u>
	<u>\$ 47,507,115</u>	<u>\$ 42,960,941</u>

### 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.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2010 and 2009, 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, 2010

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Money market funds	\$ 7,126,370	\$ 7,126,370	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	122,474	63,268	59,206	-0-	-0-
Mutual funds - equities	30,234,303	30,234,303	-0-	-0-	-0-
Mutual funds - fixed income	7,511,929	7,511,929	-0-	-0-	-0-
Government securities	2,512,039	-0-	-0-	-0-	2,512,039
	<u>\$ 47,507,115</u>	<u>\$ 44,935,870</u>	<u>\$ 59,206</u>	<u>-0-</u>	<u>\$ 2,512,039</u>

December 31, 2009

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Money market funds	\$ 8,241,569	\$ 8,241,569	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	85,975	29,744	56,231	-0-	-0-
Mutual funds - equities	23,635,783	23,635,783	-0-	-0-	-0-
Mutual funds - fixed income	8,485,575	8,485,575	-0-	-0-	-0-
Government securities	2,512,039	-0-	-0-	-0-	2,512,039
	<u>\$ 42,960,941</u>	<u>\$ 40,392,671</u>	<u>\$ 56,231</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.

*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.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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Deposits and investments consist of the following as of December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Carrying amount		
Deposits	\$ 14,033,704	\$ 16,872,078
Investments	47,507,115	42,960,941
	<u>\$ 61,540,819</u>	<u>\$ 59,833,019</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 14,033,704	\$ 16,872,078
Investments	1,727,208	1,578,792
Board designated funds	40,056,110	36,517,307
Trustee held funds, less current portion	5,030,178	4,198,461
Donor restricted funds	693,619	666,381
	<u>\$ 61,540,819</u>	<u>\$ 59,833,019</u>

#### 4. FAIR VALUE MEASUREMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value 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).

- Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 are as follows:

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# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

	2010			
	Total	Level 1	Level 2	Level 3
Assets:				
U.S. Government Securities	\$ 2,512,039	\$ -0-	\$ 2,512,039	\$ -0-
Mutual funds - equities	30,234,303	30,234,303	-0-	-0-
Mutual funds - fixed income	7,511,929	7,511,929	-0-	-0-
		<u>\$ 37,746,232</u>	<u>\$ 2,512,039</u>	<u>\$ -0-</u>
Cash equivalents	7,126,370			
Certificate of deposit	122,474			
Total Investments	<u>\$ 47,507,115</u>			

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 are as follows:

	2009			
	Total	Level 1	Level 2	Level 3
Assets:				
U.S. Government Securities	\$ 2,512,039	\$ -0-	\$ 2,512,039	\$ -0-
Mutual funds - equities	23,635,783	23,635,783	-0-	-0-
Mutual funds - fixed income	8,485,575	8,485,575	-0-	-0-
		<u>\$ 32,121,358</u>	<u>\$ 2,512,039</u>	<u>\$ -0-</u>
Cash equivalents	8,241,569			
Certificate of deposit	85,975			
Total Investments	<u>\$ 42,960,941</u>			

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. The fair value of assets whose use is limited are estimated based on quoted market prices for those or similar investments.

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, 2010 and 2009, the carrying value of the fixed rate long-term debt was \$31,125,000 and \$32,005,000, with a fair value of approximately \$31,124,746 and \$32,076,550.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 5. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including expenses) reported as current assets and liabilities as of December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 18,250,198	\$ 17,390,691
Receivable from Medicare	11,196,269	10,602,251
Receivable from Medicaid	3,057,175	1,871,723
Total patient accounts receivable	<u>32,503,642</u>	<u>29,864,665</u>
Less contractual allowances	(14,629,784)	(13,377,058)
Less allowance for uncollectible amounts	(7,788,673)	(7,252,030)
Patient accounts receivable, net	<u>\$ 10,085,185</u>	<u>\$ 9,235,577</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	5,679,242	6,487,383
Payable to suppliers and other accrued expenses	4,463,627	4,911,634
Total accounts payable and accrued expenses	<u>\$ 10,142,869</u>	<u>\$ 11,399,017</u>

### 6. INVESTMENTS IN AFFILIATES

The Hospital owns 50% of Hancock Health Network, LLC (the Network) and has recorded the investment on the equity method of accounting in the amount of \$1,101,912 and \$1,372,794 as of December 31, 2010 and 2009, respectively. The Hospital paid physicians approximately \$613,000 and \$416,000 during 2010 and 2009, respectively for management and other operating expenses. The Hospital received \$665,000 and \$461,000 for 2010 and 2009, respectively from the Network for rental and housecleaning income. The Hospital contributed capital of \$2,109,382 and \$1,650,653 to the Network during 2010 and 2009, respectively. The Hospital has a receivable from the Network of \$35,452 and \$31,691 as of December 31, 2010 and 2009, respectively. The Hospital expects to continue providing capital contributions to the Network at a commensurate level with its past experience.

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

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# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

### 7. CAPITAL ASSETS

Capital assets consist of the following as of December 31, 2010 and 2009:

	Balance December 31, 2009				Balance December 31, 2010			
	Balance	Additions	Retirements	Transfers	Balance	Additions	Retirements	Transfers
Land	\$ 270,285	\$ -0-	\$ -0-	\$ -0-	\$ 270,285			
Land improvements	5,216,743	-0-	-0-	272,464	5,489,207			
Buildings and fixed equipment	101,094,972	635,657	-0-	3,469,888	105,200,517			
Major movable equipment	41,254,792	2,897,045	(2,611,482)	4,695,042	46,235,397			
Construction in progress	2,972,982	7,426,937	-0-	(8,437,394)	1,962,525			
Total capital assets	150,809,774	10,959,639	(2,611,482)	-0-	159,157,931			
Less accumulated depreciation								
Land improvements	(2,717,909)	(378,433)	-0-	-0-	(3,096,342)			
Buildings and fixed equipment	(49,996,154)	(4,370,679)	-0-	-0-	(54,366,833)			
Major movable equipment	(33,758,112)	(3,422,189)	2,526,947	-0-	(34,653,354)			
Total accumulated depreciation	(86,472,175)	(8,171,301)	2,526,947	-0-	(92,116,529)			
Capital assets, net	\$ 64,337,599	\$ 2,788,338	\$ (84,535)	\$ -0-	\$ 67,041,402			
	Balance December 31, 2008				Balance December 31, 2009			
Land	\$ 270,285	\$ -0-	\$ -0-	\$ -0-	\$ 270,285			
Land improvements	5,216,743	-0-	-0-	-0-	5,216,743			
Buildings and fixed equipment	98,075,600	3,019,960	(588)	-0-	101,094,972			
Major movable equipment	40,372,044	1,123,777	(241,029)	-0-	41,254,792			
Construction in progress	543,758	2,429,224	-	-0-	2,972,982			
Total capital assets	144,478,430	6,572,961	(241,617)	-0-	150,809,774			
Less accumulated depreciation								
Land improvements	(2,350,003)	(368,495)	589	-0-	(2,717,909)			
Buildings and fixed equipment	(45,719,486)	(4,276,668)	-0-	-0-	(49,996,154)			
Major movable equipment	(29,963,782)	(4,006,340)	212,010	-0-	(33,758,112)			
Total accumulated depreciation	(78,033,271)	(8,651,503)	212,599	-0-	(86,472,175)			
Capital assets, net	\$ 66,445,159	\$ (2,078,542)	\$ (29,018)	\$ -0-	\$ 64,337,599			

### 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.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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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.

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.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Long-term debt as of December 31, 2010 and 2009 includes the following:

	Balance December 31, 2009	Additions	Reductions	Balance December 31, 2010	Current Portion	Long-Term Portion
The Series 2004 C Obligations						
Capital Lease	\$ 32,005,000	\$ -0-	\$ (880,000)	\$ 31,125,000	\$ 920,000	\$ 30,205,000
Surgery Center Investor Buyouts	140,000	-0-	(140,000)	-0-	-0-	-0-
Total long-term debt	<u>\$ 32,145,000</u>	<u>\$ -0-</u>	<u>\$ (1,020,000)</u>	<u>\$ 31,125,000</u>	<u>\$ 920,000</u>	<u>\$ 30,205,000</u>
	Balance December 31, 2008	Additions	Reductions	Balance December 31, 2009	Current Portion	Long-Term Portion
The Series 2004 C Obligations						
Capital Lease	\$ 32,855,000	\$ -0-	\$ (850,000)	\$ 32,005,000	\$ 880,000	\$ 31,125,000
Surgery Center Investor Buyouts	-0-	140,000	-0-	140,000	35,000	105,000
Total long-term debt	<u>\$ 32,855,000</u>	<u>\$ 140,000</u>	<u>\$ (850,000)</u>	<u>\$ 32,145,000</u>	<u>\$ 915,000</u>	<u>\$ 31,230,000</u>

Aggregate maturities of long-term debt are as follows:

Year Ending December 31,	Principal	Interest	Total
2011	\$ 920,000	\$ 1,590,294	\$ 2,510,294
2012	960,000	1,552,271	2,512,271
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
2016-2020	6,285,000	6,256,013	12,541,013
2021-2025	8,070,000	4,464,172	12,534,172
2026-2030	10,540,000	1,997,965	12,537,965
2031-2034	1,220,000	33,672	1,253,672
	<u>\$ 31,125,000</u>	<u>\$ 20,290,982</u>	<u>\$ 51,415,982</u>

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 9. PATIENT SERVICE REVENUE

Patient service revenue for 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Inpatient	\$ 57,746,447	\$ 57,150,325
Outpatient	118,771,274	122,288,905
Transitional Care/Inpatient Rehabilitation	5,211,934	4,995,519
Geriatric Psychiatric	4,478,910	4,555,822
Gross patient service revenue	<u>186,208,565</u>	<u>188,990,571</u>
Contractual allowance	84,315,782	85,596,096
Bad debts	10,155,216	8,484,833
Charity care	4,111,283	4,535,827
Deductions from revenue	<u>98,582,281</u>	<u>98,616,756</u>
Net patient service revenue	<u>\$ 87,626,284</u>	<u>\$ 90,373,815</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 \$1,230,173 and \$1,148,782 in 2010 and 2009, respectively.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 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 receivables and revenue from patients and third-party payors at December 31 was as follows:

	Receivables		Revenue	
	2010	2009	2010	2009
Medicare	35%	35%	47%	46%
Medicaid	10%	8%	8%	8%
Commercial	29%	28%	35%	37%
Self pay and other	26%	29%	10%	9%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

### 12. SELF INSURED HEALTH CLAIMS PROGRAM

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 \$150,000 and an employee lifetime maximum of \$1,000,000. Substantially all employees are covered for major medical benefits. The total health claims expense was \$6,368,712 and \$5,678,759 for 2010 and 2009, 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.

Changes in the accrual for unpaid claims for 2010 and 2009 are as follows:

	2010	2009
Unpaid claims estimate, beginning of year	\$ 541,543	\$ 534,214
Incurred claims and changes in estimates	6,368,712	5,678,759
Claims payments	<u>(6,251,004)</u>	<u>(5,671,430)</u>
Unpaid claims estimate, end of year	<u>\$ 659,251</u>	<u>\$ 541,543</u>

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# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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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 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 31<sup>st</sup> of that year. Beginning the following January 1<sup>st</sup> and all subsequent years of eligible retirement coverage the retiree is only eligible for the high deductible plan option. Coverage terminates generally at the date the retiree becomes Medicare eligible.

The retiree plan option is not funded. Projections of benefits for financial reporting purposes are based on the substantive plan benefits, as understood by the employer and covered employees, and generally include the types of benefits provided under the plan and incorporate the stipulated provisions for a sharing of benefit costs between the employer and covered employees.

The significant applicable assumptions utilized in calculating the estimated obligation under the retiree continuance of coverage provision for 2010 and 2009 include a healthcare cost trend rate of 6%, a premium growth rate of 10%, a discount rate of 6%, and the average years to termination of benefits of 7 years.

The estimated annual required employee contribution and employer annual benefit cost is \$40,000 and \$211,000, respectively. The Hospital's estimated obligation related to the eligible retiree continued health claims coverage, which is included within the accrued salaries and related liabilities is approximately \$1,419,000 and \$1,672,000 as of December 31, 2010 and 2009, respectively.

### 13. 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.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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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 condition. 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. 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.

Effective July 1, 2006, the Hospital became 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.