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January 14, 2015

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

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2013 to December 31, 2013. 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, 2013 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.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

HANCOCK REGIONAL HOSPITAL

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DECEMBER 31, 2013 AND 2012

CPAS / ADVISORS

blue

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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, 2013 and 2012, 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, 2013 and 2012, 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.

Change in Accounting Principle

As discussed in Note 1 to the combined financial statements, in 2013, the Hospital adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14. Our opinion is not modified with respect to this matter.

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 audits 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 22, 2014

REQUIRED SUPPLEMENTARY INFORMATION

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, 2013 and 2012. 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 $15,703 or 15% for the year ended 2013.
- Operating income in 2013 compared to 2012 increased by $4,526 or 66%.
- Nonoperating income increased from 2013 to 2012 by $2,210 or 67%.

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.

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 2013 by $15,703 *(15%)* as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Position

	2013	2012	2013 - 2012 $ Change	2011
Assets				
Current assets	$ 66,694	$ 37,376	$ 29,318	$ 31,563
Capital assets, net	58,857	61,722	(2,865)	64,536
Restricted and limited use assets	55,468	48,692	6,776	43,730
Other noncurrent assets	4,157	4,140	17	4,670
Total assets	185,176	151,930	33,246	144,499
Liabilities				
Current liabilities	34,933	16,350	18,583	16,956
Long - term debt outstanding	27,205	28,245	(1,040)	29,245
Total liabilities	62,138	44,595	17,543	46,201
Net Position				
Net investment in capital assets	30,612	32,477	(1,865)	34,331
Restricted by trustee for debt service	4,194	3,961	233	3,798
Donor restricted - expendable	2,112	1,211	901	805
Restricted nonexpendable	2,663	2,802	(139)	2,870
Unrestricted	83,457	66,884	16,573	56,494
Total net position	123,038	107,335	15,703	98,298
Total liabilities and net position	$ 185,176	$ 151,930	$ 33,246	$ 144,499

A significant component in the Hospital's assets is the increase in current assets. Current assets increased significantly by $29,318 or 78% due primarily to cash and cash equivalents, inventories and other current assets related to long-term care facilities. 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 2013, the Hospital's change in net position increased by $15,703 compared to 2012 as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

Operating Revenue	**2013**	**2012**	**2013 - 2012 $ Change**	**2011**
Net patient service revenue	$ 186,301	$ 114,376	$ 71,925	$ 89,363
Other	7,621	9,770	(2,149)	7,498
Total operating revenue	193,922	124,146	69,776	96,861
Operating expenses				
Salaries and benefits	51,572	52,541	(969)	50,930
Medical supplies and drugs	12,053	10,867	1,186	11,308
Purchased services and medical fees	98,795	32,715	66,080	16,105
Depreciation and amortization	7,780	8,221	(441)	8,205
Hospital assessment fee	4,907	5,748	(841)	-0-
Other operating expense	7,470	7,235	235	7,189
Total operating expense	182,577	117,327	65,250	93,737
Operating income	11,345	6,819	4,526	3,124
Nonoperating income (expense)				
Noncapital contributions	1,349	1,071	278	989
Other nonoperating expense	(445)	(1,032)	587	(992)
Interest expense	(1,495)	(1,618)	123	(1,663)
Investment income	6,086	4,864	1,222	(842)
Total nonoperating income (expense)	5,495	3,285	2,210	(2,508)
Change in net position before capital distributions	16,840	10,104	6,736	616
Capital distributions	(1,137)	(1,067)	(70)	(735)
Change in net position	15,703	9,037	6,666	(119)
Net position				
Beginning of year	107,335	98,298	9,037	98,417
End of year	$ 123,038	$ 107,335	$ 15,703	$ 98,298

SOURCES OF REVENUE

During 2013, 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 Hospital's acute care operations.

	2013	2012	2011
Medicare	47%	46%	49%
Medicaid	9%	9%	8%
Commercial	34%	36%	34%
Self-Pay	7%	7%	7%
Other	3%	2%	2%
	100%	100%	100%

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 2013 remained relatively consistent across all payors. Disproportionate Share Hospital Payment (DSH for years 2013 and 2012 were $3,169 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. The Hospital did not recognize Electronic Health Record Incentive revenue in 2013.

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.

The increase in the Hospital's total operating income in 2013 of $4,526 or 66% from 2012 is the result of a rate increase, DSH, and long-term care operations. The Hospital increased gross charge rates by 5% for both years ended December 31, 2013 and 2012, respectively. More importantly, the Hospital increased their services through long-term care operations.

The Hospital experienced statistical changes in the following areas:

Statistical Growth	**2013**	**2012**	**2013-2012 % Increase / <Decrease>**	**2011**
Patient Days	15,443	15,683	-1.53%	16,210
Diagnostic Imaging Procedures	58,198	58,452	-0.43%	60,272
Laboratory Procedures	316,865	334,278	-5.21%	310,832
Pharmaceutical Medication Units	439,542	502,315	-12.50%	494,915
Rehab Procedures	65,472	69,995	-6.46%	75,195
Home Health Units of Service	25,007	29,162	-14.25%	42,496
Clinic Procedures	6,141	15,673	-60.82%	14,944

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 $15,370 were waived during 2013. 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.

NONOPERATING INCOME AND EXPENSES

Nonoperating 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 2013. The Hospital's nonoperating income and expenses increased in 2013 by $2,210 from 2012.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives operating grants from various state and federal agencies for specific programs. Operating grants received in 2013 totaled $1,349 compared to $1,071 in 2012.

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 nonoperating income and expenses as discussed earlier. The following is a summary of cash flows:

Table 3: Statements of Cash Flow

	2013	2012	Change	2011
Net cash flows from				
Operating activities	$ 18,424	$ 16,901	$ 1,523	$ 8,450
Noncapital financing activities	903	40	863	(3)
Capital and related financing	(8,380)	(8,883)	503	(8,823)
Investing	(374)	(81)	(293)	(4,495)
Change in cash and cash equivalents	$ 10,573	$ 7,977	$ 2,597	$ (4,871)

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

During 2013, the Hospital's net capital assets decreased by approximately $2,865. This compares to a decrease of approximately $2,814 for 2012 compared to 2011.

The change in capital assets is outlined in the following table:

	2013	2012	Change	2011
Land	$ 270	$ 270	$ -0-	$ 270
Land improvements	5,535	5,490	45	5,490
Buildings and fixed equipment	102,735	100,819	1,916	100,059
Major movable equipment	59,876	56,661	3,215	53,042
Construction in progress	1	501	(500)	1
Total capital assets	168,417	163,741	4,676	158,862
Less accumulated depreciation	109,560	102,019	7,541	94,326
Capital assets, net	$ 58,857	$ 61,722	$ (2,865)	$ 64,536

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

DEBT

At December 31, 2013, the Hospital had $28.2 million in revenue notes, mortgage loans, and capital lease obligations outstanding. The Indiana Bond Bank issued 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 furthered 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, 2013 AND 2012

ASSETS

	2013	2012
Current assets		
Cash and cash equivalents	$ 30,378,718	$ 20,880,465
Investments	3,015,862	2,440,693
Patient accounts receivable, net	22,811,087	9,860,974
Inventories and other current assets	10,488,782	4,193,838
Total current assets	66,694,449	37,375,970
Assets whose use is limited		
Board designated funds	49,162,018	43,520,822
Trustee held funds for debt service	4,193,616	3,960,721
Donor restricted funds	2,112,043	1,210,519
Total assets whose use is limited	55,467,677	48,692,062
Capital assets		
Land and land improvements	5,804,710	5,760,136
Buildings and fixed equipment	102,735,326	100,818,272
Major movable equipment	59,876,431	56,661,287
Construction in progress	915	500,915
Total capital assets	168,417,382	163,740,610
Less accumulated depreciation	109,560,028	102,018,188
Capital assets, net	58,857,354	61,722,422
Other assets	4,156,819	4,139,602
Total assets	$ 185,176,299	$ 151,930,056

HANCOCK REGIONAL HOSPITAL

COMBINED BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

LIABILITIES AND NET POSITION

	2013	2012
Current liabilities		
Current portion of long-term debt	$ 1,040,000	$ 1,000,000
Accounts payable and other liabilities	23,907,582	4,184,500
Accrued salaries and related liabilities	5,550,389	6,411,168
Estimated third-party settlements	4,435,825	4,754,474
Total current liabilities	34,933,796	16,350,142
Long-term debt, less current portion	27,205,000	28,245,000
Total liabilities	62,138,796	44,595,142
Net position		
Net investment in capital assets	30,612,354	32,477,422
Restricted by trustee for debt service	4,193,616	3,960,721
Donor restricted expendable	2,112,043	1,210,519
Restricted nonexpendable	2,662,532	2,801,858
Unrestricted	83,456,958	66,884,394
Total net position	123,037,503	107,334,914
Total liabilities and net position	$ 185,176,299	$ 151,930,056

HANCOCK REGIONAL HOSPITAL

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Operating revenue		
Net patient service revenue	$ 186,301,532	$ 114,375,626
Other operating revenue	7,620,925	9,770,024
Total operating revenue	193,922,457	124,145,650
Operating expenses		
Salaries and wages	40,085,622	40,020,612
Employee benefits	11,485,828	12,520,126
Professional medical fees	1,598,666	1,502,135
Supplies and drugs	12,053,113	10,867,261
Purchased services	97,195,978	31,212,523
Utilities and insurance	2,899,347	2,563,466
Depreciation and amortization	7,780,202	8,220,836
Hospital assessment fee	4,906,537	5,747,849
Other	4,571,705	4,671,890
Total operating expenses	182,576,998	117,326,698
Operating income	11,345,459	6,818,952
Nonoperating income (expense), net		
Noncapital contributions	1,348,695	1,071,226
Other nonoperating expense	(445,592)	(1,031,502)
Interest expense	(1,494,533)	(1,542,787)
Investment income	6,085,598	4,788,445
Total non-operating income (expense), net	5,494,168	3,285,382
Change in net position before capital distributions	16,839,627	10,104,334
Capital distributions	(1,137,038)	(1,067,159)
Change in net position	15,702,589	9,037,175
Net position		
Beginning of year	107,334,914	98,297,739
End of year	$ 123,037,503	$ 107,334,914

See accompanying notes to combined financial statements

HANCOCK REGIONAL HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Operating activities		
Cash received from patients and third party payors	$ 173,032,770	$ 117,618,211
Cash paid to employees for wages and benefits	(52,432,229)	(52,561,058)
Cash paid to vendors for goods and services	(109,797,208)	(57,925,703)
Other operating receipts, net	7,620,925	9,770,024
Net cash from operating activities	18,424,258	16,901,474
Noncapital financing activities		
Noncapital contributions	1,348,695	1,071,226
Other nonoperating	(445,592)	(1,031,502)
Net cash from noncapital financing activities	903,103	39,724
Capital and related financing activities		
Acquisition and construction of capital assets	(4,760,738)	(5,302,346)
(Gain) loss on disposal of capital assets	12,486	(10,995)
Capital distributions	(1,137,038)	(1,067,159)
Interest paid on long-term debt	(1,494,533)	(1,542,787)
Principal payments on long-term debt	(1,000,000)	(960,000)
Net cash from capital and related financing activities	(8,379,823)	(8,883,287)
Investing activities		
Other assets	(17,217)	526,225
Investment income	6,085,598	4,788,445
Other changes in assets whose use is limited, net	(6,442,606)	(5,395,845)
Net cash from investing activities	(374,225)	(81,175)
Net change in cash and cash equivalents	10,573,313	7,976,736
Cash and cash equivalents		
Beginning of year	24,265,757	16,289,021
End of year	$ 34,839,070	$ 24,265,757

See accompanying notes to combined financial statements

HANCOCK REGIONAL HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Reconciliation of operating income to net cash from operating activities		
Operating income	$ 11,345,459	$ 6,818,952
Adjustment to reconcile operating income to net cash from operating activities		
Depreciation and amortization	7,780,202	8,220,836
Bad debts	10,604,631	9,855,324
Changes in assets and liabilities		
Patient accounts receivable	(23,554,744)	(6,919,534)
Other current assets	(6,294,944)	(427,806)
Accounts payable and other liabilities	19,723,082	(932,773)
Accrued salaries and related liabilities	(860,779)	(20,320)
Estimated third-party settlements	(318,649)	306,795
Net cash from operating activities	$ 18,424,258	$ 16,901,474
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents:		
In current assets	$ 30,378,718	$ 20,880,465
In investments and assets whose use is limited	4,460,352	3,385,292
Total cash and cash equivalents	$ 34,839,070	$ 24,265,757

See accompanying notes to combined financial statements

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 several long-term care facilities by way of an arrangement with the managers of the facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operations of the long-term care facilities 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 managers shall be on behalf of HRH and HRH retains the authority and legal responsibility for the operations of the facilities.

Specifically, HRH entered into lease agreements with the long-term care facilities to lease the facilities managed by the managers. Concurrently, HRH entered into agreements with the managers to manage the leased facilities. As part of the agreements, HRH will pay the managers a management fee to continue managing the facilities on behalf of HRH in accordance with the terms of the agreements. The agreements expire at various times and are generally automatically extended for successive terms unless appropriately terminated. All parties involved can terminate the agreement without cause with a written notice.

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 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".

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

In 2013, the Hospital adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

GASB Statement No. 61 requires that minority equity interests, which represents 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, to be presented as restricted net position – non-expendable. Accordingly, the 2012 combined financial statements have been restated to reclassify the previously reported noncontrolling interest totaling approximately $2,800,000 at December 31, 2012 to be included in restricted non-expendable net position. This amount was previously reported as unrestricted – non-controlling interest.

During 2013, the Hospital implemented GASB Statement No. 65, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of GASB Statement No. 65 did not have a material impact on previously reported net position or change in net position

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. At HRH's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients.

These programs have audited the year-end cost report filed with the Medicare program through December 31, 2009 with differences reflected as deductions from revenue in 2013. Amounts for unresolved cost reports for 2010 through 2013 are reflected in estimated third-party settlements on the combined balance sheets. HRH did not recognize any change in net position in 2013 and 2012, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying combined financial statements.

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. Subsequently, the program has been extended and approved for a multi-year period. 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's share was funded by governmental entities through intergovernmental transfers.

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 2013 and 2012, HRH recognized HAF Program expense of approximately $4,910,000 and $5,748,000, respectively. The Medicaid rate increases under the HAF Program are included in patient service revenue in the combined statements of operations and changes in net position.

Net revenue from the Medicare and Medicaid programs accounted for approximately 71 percent of the Hospital's net patient revenue for the year ended 2013, and 48 percent of the Hospital's net patient revenue, for the year ended 2012. 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 $3,169,000 and $560,000 for the years ended December 31, 2013 and 2012, respectively. These amounts are reimbursements for providing care to the uninsured and underinsured and are included in net patient service revenue within the combined statements of operations and changes in net position.

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 (excluding subsidiaries and long-term care operations) reported within the combined statements of operations and changes in net position, an estimated $2,200,000 and $2,300,000 arose from providing services to charity patients during 2013 and 2012, 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.

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:

Description	Range of Useful Lives
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. No amounts were capitalized as of December 31, 2013 and 2012.

Income Taxes

HRH is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986. As such, HRH is exempt from federal income tax as a unit of local government. No income tax filings are required of the Hospital as it is a governmental instrumentality.

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, 2013 and 2012, 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).

Advertising and Community Relations

The Hospital records advertising and promotion expense in the period incurred. Total expense for advertising and promotion was approximately $656,000 and $570,000 for 2013 and 2012, 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 four 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. Restricted nonexpendable net position includes the noncontrolling interests owned by external investors. 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.

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 2013 and 2012, HRH recognized approximately $-0- and $1,482,000, 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.

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 Noncontrolling Interest

The Hospital has classified the noncontrolling interest as a component of restricted nonexpendable net position in the combined balance sheets. Noncontrolling 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 22, 2014.

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, 2013 and 2012:

	2013	2012
Board designated funds	$ 49,162,018	$ 43,520,822
Donor restricted funds	2,112,043	1,210,519
Trustee held assets for debt service	4,193,616	3,960,721
Total assets whose use is limited	55,467,677	48,692,062
Investments	3,015,862	2,440,693
	$ 58,483,539	$ 51,132,755

	2013	2012
Mutual funds - equities	$ 33,808,963	$ 29,062,803
Mutual funds - fixed income	17,532,756	16,005,677
Certificates of deposit	169,429	166,944
Money market funds	4,460,352	3,385,292
U.S. Government securities	2,512,039	2,512,039
	$ 58,483,539	$ 51,132,755

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, 2013 and 2012, 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, 2013

		Investment Maturities (in years)			
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Money market funds	$ 4,460,352	$ 4,460,352	$ -0-	$ -0-	$ -0-
Certificates of deposit	169,429	169,429	-0-	-0-	-0-
Mutual funds - equities	33,808,963	33,808,963	-0-	-0-	-0-
Mutual funds - fixed income	17,532,756	17,532,756	-0-	-0-	-0-
U.S. Government securities	2,512,039	-0-	-0-	-0-	2,512,039
	$ 58,483,539	$ 55,971,500	$ -0-	-0-	$ 2,512,039

December 31, 2012

		Investment Maturities (in years)			
	Carrying Amount	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
	$ 51,132,755	$ 48,589,552	$ 31,164	$ -0-	$ 2,512,039

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.

Deposits and investments consist of the following as of December 31, 2013 and 2012:

	2013	2012
Carrying amount		
Deposits	$ 30,378,718	$ 20,880,465
Investments	58,483,539	51,132,755
	$ 88,862,257	$ 72,013,220
Included in the balance sheet captions		
Cash and cash equivalents	$ 30,378,718	$ 20,880,465
Investments	3,015,862	2,440,693
Board designated funds	49,162,018	43,520,822
Trustee held funds, less current portion	4,193,616	3,960,721
Donor restricted funds	2,112,043	1,210,519
	$ 88,862,257	$ 72,013,220

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.

- 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 2013 and 2012.

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, 2013 and 2012.

- *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 are deemed to be actively traded.

- *U.S. Government securities:* Valued using pricing models maximizing the use of observable inputs for similar securities.

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, 2013 and 2012.

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Assets				
Investments and assets whose use is limited				
Mutual funds - equities				
Large blend	$ 13,751,930	$ 13,751,930	$ -0-	$ -0-
Large growth	12,653,542	12,653,542	-0-	-0-
Large value	159,397	159,397	-0-	-0-
Medium blend	915,321	915,321	-0-	-0-
Medium growth	2,577,658	2,577,658	-0-	-0-
Small blend	1,404,158	1,404,158	-0-	-0-
Other (global, commodities, and index)	2,346,957	2,346,957	-0-	-0-
Total mutual funds - equities	33,808,963	33,808,963	-0-	-0-
Mutual funds - fixed income				
Intermediate term bond	6,742,243	6,742,243	-0-	-0-
Ultrashort bond	4,139,168	4,139,168	-0-	-0-
Short-term bond	3,100,016	3,100,016	-0-	-0-
World bond	3,551,329	3,551,329		
Total mutual funds - fixed income	17,532,756	17,532,756	-0-	-0-
U.S. Government securities	2,512,039	-0-	2,512,039	-0-
		$ 51,341,719	$ 2,512,039	$ -0-
Cash and equivalents	4,460,352			
Certificate of deposit	169,429			
	$ 58,483,539			

	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-
		$ 45,068,480	$ 2,512,039	$ -0-
Cash and equivalents	3,385,292			
Certificate of deposit	166,944			
	$ 51,132,755			

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, 2013 and 2012, the carrying value of the fixed rate long-term debt was $28,245,000 and $29,245,000, with a fair value of approximately $28,590,000 and $30,600,000, respectively.

5. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities as of December 31, 2013 and 2012 is as follows:

	2013	2012
Patient accounts receivable		
Receivable from patients and their insurance carriers	$ 19,462,689	$ 20,365,294
Receivable from Medicare	10,087,807	10,277,580
Receivable from Medicaid	1,894,101	2,055,566
Receivable from long-term care operations	13,124,956	-0-
Total patient accounts receivable	44,569,553	32,698,440
Less contractual allowances	(12,528,594)	(13,093,692)
Less allowance for uncollectible amounts	(9,229,872)	(9,743,774)
Patient accounts receivable, net	$ 22,811,087	$ 9,860,974
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	$ 5,550,389	$ 6,411,168
Payable to suppliers and other accrued expenses	23,907,582	4,184,500
Total accounts payable and accrued expenses	$ 29,457,971	$ 10,595,668

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 $916,159 and $870,723 as of December 31, 2013 and 2012, respectively. This investment is included within other assets in the combined financial statements. HRH paid the Network approximately $2,810,000 and $3,275,000 during 2013 and 2012, respectively for management and other operating expenses. HRH received approximately $894,000 and $904,000 for 2013 and 2012, respectively from the Network for rental and housecleaning income. HRH contributed capital of approximately $3,159,000 and $2,512,000 to the Network during 2013 and 2012, respectively.

HRH has a receivable from the Network of approximately $478,000 and $370,000 as of December 31, 2013 and 2012, respectively. The Hospital has a payable to the Network of approximately $541,000 and $945,000 as of December 31, 2013 and 2012, 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, 2013 and 2012:

	Balance December 31, 2012	Additions	Retirements	Transfers	Balance December 31, 2013
Land	$ 270,285	$ -0-	$ -0-	$ -0-	$ 270,285
Land improvements	5,489,851	44,574	-0-	-0-	5,534,425
Buildings and fixed equipment	100,818,272	2,000,304	(83,250)	-0-	102,735,326
Major movable equipment	56,661,287	2,715,860	(716)	500,000	59,876,431
Construction in progress	500,915	-0-	-0-	(500,000)	915
Total capital assets	163,740,610	4,760,738	(83,966)	-0-	168,417,382
Less accumulated depreciation					
Land improvements	(3,833,862)	(306,360)	-0-	-0-	(4,140,222)
Buildings and fixed equipment	(57,043,304)	(4,084,229)	70,764	-0-	(61,056,769)
Major movable equipment	(41,141,022)	(3,222,731)	716	-0-	(44,363,037)
Total accumulated depreciation	(102,018,188)	(7,613,320)	71,480	-0-	(109,560,028)
Capital assets, net	$ 61,722,422	$ (2,852,582)	$ (12,486)	$ -0-	$ 58,857,354

	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	158,861,225	5,302,346	(422,961)	-0-	163,740,610
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	(94,325,652)	(8,126,492)	433,956	-0-	(102,018,188)
Capital assets, net	$ 64,535,573	$ (2,824,146)	$ 10,995	$ -0-	$ 61,722,422

There were no significant outstanding commitments on capital assets as of December 31, 2013.

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.

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, 2013 and 2012 includes the following:

	Balance December 31, 2012	Additions	Reductions	Balance December 31, 2013	Current Portion	Long-Term Portion
The Series 2004 C Obligations Capital Lease	$ 29,245,000	$ -0-	$ (1,000,000)	$ 28,245,000	$ 1,040,000	$ 27,205,000

	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

Aggregate maturities of long-term debt are as follows:

Year Ending December 31,	Principal	Interest	Total
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	1,255,000	1,255,053	2,510,053
2019-2023	7,285,000	5,252,603	12,537,603
2024-2028	9,455,000	3,075,078	12,530,078
2029-2031	5,785,000	487,692	6,272,692
	$ 28,245,000	$ 15,637,402	$ 43,882,402

9. PATIENT SERVICE REVENUE

Patient service revenue for 2013 and 2012 consists of the following:

	2013	2012
Inpatient	$ 134,405,367	$ 63,848,478
Outpatient	174,461,475	168,196,159
Transitional Care/Inpatient Rehabilitation	2,813,950	3,219,803
Geriatric Psychiatric	4,337,798	4,462,951
Gross patient service revenue	316,018,590	239,727,391
Contractual allowance	114,347,801	110,738,702
Bad debts	10,604,631	9,855,324
Charity care	4,764,626	4,757,739
Deductions from revenue	129,717,058	125,351,765
Net patient service revenue	$ 186,301,532	$ 114,375,626

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 approximately $ 1,111,000 and $1,275,000 in 2013 and 2012, 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 acute care mix of gross patient accounts receivable and gross revenue from patients and third-party payors at December 31 was as follows:

	Receivables		Revenue	
	2013	2012	2013	2012
Medicare	34%	33%	47%	46%
Medicaid	6%	7%	9%	9%
Commercial	29%	30%	34%	36%
Self pay and other	31%	30%	10%	9%
	100%	100%	100%	100%

12. ACCOUNTING FOR NONCONTROLLING INTEREST

The following depicts the changes in combined net position attributable to the controlling financial interest of the Hospital and the noncontrolling interest as of December 31, 2013 and 2012:

	Controlling interest	Noncontrolling interest	Total
Net position			
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	9,105,590	(68,415)	9,037,175
December 31, 2012	104,533,056	2,801,858	107,334,914
Change in net position before capital distributions	15,841,915	997,712	16,839,627
Capital distributions	-0-	(1,137,038)	(1,137,038)
Change in net position	15,841,915	(139,326)	15,702,589
December 31, 2013	$ 120,374,971	$ 2,662,532	$ 123,037,503

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 approximately $8,426,000 and $9,198,000 for 2013 and 2012, 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 2013 and 2012 are as follows:

	2013	2012
Unpaid claims estimate, beginning of year	$ 795,906	$ 647,164
Incurred claims and changes in estimates	8,426,157	9,197,867
Claims payments	(8,452,863)	(9,049,125)
Unpaid claims estimate, end of year	$ 769,200	$ 795,906

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 61 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.

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. Retiree health coverage is only available to employees that retired prior to January 1, 2014. Employees that retire after January 1, 2014, are only eligible for COBRA coverage from the Hospital for 18 months.

As of December 31, 2013, the most recent actuarial valuation date, this plan was not funded. The Hospital provides funding for expenditures on a pay-as-you-go basis. The unfunded actuarial accrued liability for benefits was approximately $65,000 and $1,020,000 as of December 31, 2013 and 2012, respectively. These liabilities are included in the combined balance sheets within the accrued salaries and related liabilities. The contribution expense incurred by the Hospital for 2013 and 2012 approximated $248,000 and $400,000, respectively.

The covered payroll (annual payroll of active employees covered by the plan) was $-0-. The estimated annual required employer contribution and employer annual benefit approximate $248,000.

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.

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, 2013 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 2013 include a healthcare cost trend rate of 9%, a premium growth rate of 9%, a discount rate of 4.5% and average years to termination of benefits of 9 years. The plan does not issue a separate report.

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).

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	2013	2012
Assets		
Current assets	$ 3,015,963	$ 2,448,195
Capital assets	15,825	17,935
Other assets	2,112,043	1,210,519
Total assets	$ 5,143,831	$ 3,676,649
Liabilities		
Other liabilities	37,174	35,450
Total liabilities	37,174	35,450
Net position		
Unrestricted	2,978,789	2,412,745
Invested in capital assets, net of related debt	15,825	17,935
Donor restricted-expendable	2,112,043	1,210,519
Total net position	5,106,657	3,641,199
Total liabilities and net position	$ 5,143,831	$ 3,676,649
Revenues		
Contributions	$ 1,348,695	$ 1,071,226
Investment income (loss)	411,483	298,037
Total revenues	1,760,178	1,369,263
Expenses		
Depreciation	2,110	2,110
Other expenses	292,610	488,829
Total expenses	294,720	490,939
Operating income / change in net position	1,465,458	878,324
Net position, beginning of year	3,641,199	2,762,875
Net position, end of year	$ 5,106,657	$ 3,641,199
Net cash flows from		
Noncapital financing activities	1,053,975	580,287
Investing activities	(466,780)	(104,996)
Total	587,195	475,291
Cash and cash equivalents:		
Beginning of year	699,157	223,866
End of year	$ 1,286,352	$ 699,157

HRSC

	2013	2012
Assets		
Current assets	$ 5,527,577	$ 5,143,878
Capital assets	1,146,016	1,394,862
Total assets	$ 6,673,593	$ 6,538,740
Liabilities		
Other liabilities	588,780	565,099
Total liabilities	588,780	565,099
Net position		
Unrestricted	4,938,797	4,578,779
Invested in capital assets, net of related debt	1,146,016	1,394,862
Total net position	6,084,813	5,973,641
Total liabilities and net position	$ 6,673,593	$ 6,538,740
Operating revenues (patient and other)	$ 11,808,100	$ 12,122,346
Expenses		
Depreciation	384,244	795,548
Other expenses	9,126,871	9,138,443
Total expenses	9,511,115	9,933,991
Operating income	2,296,985	2,188,355
Nonoperating revenues, net	608	3,201
Capital distributions	(2,186,421)	(2,350,002)
Change in net position	111,172	(158,446)
Net position, beginning of year	5,973,641	6,132,087
Net position, end of year	$ 6,084,813	5,973,641
Net cash flows from		
Operating activities	$ 2,681,229	$ 2,983,903
Capital and related financing activities	(2,350,766)	(3,118,923)
Investing activities	608	3,201
Total	331,071	(131,819)
Cash and cash equivalents:		
Beginning of year	3,091,201	3,223,020
End of year	$ 3,422,272	$ 3,091,201

16. SUBSEQUENT EVENTS

Management Agreements

Subsequent to December 31, 2013, 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.

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. The overall impact of these agreements has not been assessed by management.

17. UPCOMING GASB PRONOUNCEMENTS

Management has not currently determined what effects, if any, the implementation of the following recently enacted statements may have on its future combined financial statements:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, issued June 2012, will be effective for periods beginning after June 15, 2014. This Statement establishes the accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to certain pensions. It will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013, will be effective for government combinations and disposals of government operations occurring in financial reporting periods for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations (mergers, acquisitions, and transfers of operations) and disposals of government operations. The disclosures required by this Statement will enable financial statement users to evaluate the nature and financial effects of those transactions.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued April 2013, will be effective for financial reporting periods beginning after June 15, 2013. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. Additional disclosures will be required by both governments that extend and receive financial guarantees.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*, issued November 2013, will be required to be applied simultaneously with provisions of GASB Statement No. 68 making it effective for periods beginning after June 15, 2014. This Statement amends previous guidance to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.