



**COMBINED FINANCIAL STATEMENTS**

**DECEMBER 31, 2014 AND 2013**

*CPAs / ADVISORS*



# HANCOCK REGIONAL HOSPITAL

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Hancock Regional Hospital  
Greenfield, Indiana

### Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Hancock Regional Hospital and component units (the "Hospital"), which comprise the combined balance sheets as of December 31, 2014 and 2013, 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, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 21, 2015

**REQUIRED SUPPLEMENTARY INFORMATION**

# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

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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, 2014 and 2013. Please read it in conjunction with the Hospital's combined financial statements, which begin on page 3. Unless otherwise indicated, amounts are in thousands and are approximates.

### FINANCIAL HIGHLIGHTS

- The Hospital reported an increase in net position of approximately \$24,546 or 20% for the year ended 2014.
- The Hospital retired its long-term debt during 2014.
- Operating income in 2014 compared to 2013 increased by \$12,047 or 106%.
- Nonoperating income decreased from 2014 to 2013 by \$3,058 or 56%.

### USING THIS ANNUAL REPORT

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

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

Our analysis of the Hospital finances begins on page ii. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Operations and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

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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 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 2014 by \$24,546 (20%) as you can see from Table 1.

**Table 1: Assets, Liabilities, and Net Position**

	<u>2014</u>	<u>2013</u>	<u>2014 - 2013</u> <u>\$ Change</u>	<u>2012</u>
<b>Assets</b>				
Current assets	\$ 78,492	\$ 66,694	\$ 11,798	\$ 37,376
Capital assets, net	65,752	58,857	6,895	61,722
Restricted and limited use assets	48,473	55,468	(6,995)	48,692
Other noncurrent assets	4,304	4,157	147	4,140
Total assets	<u>197,021</u>	<u>185,176</u>	<u>11,845</u>	<u>151,930</u>
<b>Liabilities</b>				
Current liabilities	49,437	34,933	14,504	16,350
Long - term debt outstanding	-0-	27,205	(27,205)	28,245
Total liabilities	<u>49,437</u>	<u>62,138</u>	<u>(12,701)</u>	<u>44,595</u>
<b>Net Position</b>				
Net investment in capital assets	65,752	30,612	35,140	32,477
Restricted by trustee for debt service	-0-	4,194	(4,194)	3,961
Donor restricted - expendable	2,413	2,112	301	1,211
Restricted nonexpendable	2,346	2,663	(317)	2,802
Unrestricted	<u>77,073</u>	<u>83,457</u>	<u>(6,384)</u>	<u>66,884</u>
Total net position	147,584	123,038	24,546	107,335
Total liabilities and net position	<u>\$ 197,021</u>	<u>\$ 185,176</u>	<u>\$ 11,845</u>	<u>\$ 151,930</u>

# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

A significant component in the Hospital's assets is the increase in current assets. Current assets increased significantly by \$11,798 or 18% due primarily to cash and cash equivalents, inventories and other current assets related to long-term care facilities. Capital assets increase is attributable to the construction of an oncology center and wellness facility. The decrease in restricted and limited use assets is attributable to the retirement of long-term debt.

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

In 2014, the Hospital's change in net position increased by \$24,546 compared to 2013 as shown in Table 2.

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

	<b>2014</b>	<b>2013</b>	<b>2014 - 2013 \$ Change</b>	<b>2012</b>
<b>Operating Revenue</b>				
Net patient service revenue	\$ 316,843	\$ 186,301	\$ 130,542	\$ 114,376
Other	9,570	7,621	1,949	9,770
Total operating revenue	<u>326,413</u>	<u>193,922</u>	<u>132,491</u>	<u>124,146</u>
<b>Operating expenses</b>				
Salaries and benefits	49,711	51,572	(1,861)	52,541
Medical supplies and drugs	14,673	12,053	2,620	10,867
Purchased services and medical fees	218,933	98,788	120,145	32,715
Depreciation and amortization	8,127	7,787	340	8,221
Hospital assessment fee	3,574	4,907	(1,333)	5,748
Other operating expense	8,003	7,470	533	7,235
Total operating expense	<u>303,021</u>	<u>182,577</u>	<u>120,444</u>	<u>117,327</u>
Operating income	<u>23,392</u>	<u>11,345</u>	<u>12,047</u>	<u>6,819</u>
<b>Nonoperating income (expense)</b>				
Noncapital contributions	923	1,349	(426)	1,071
Other nonoperating expense	(747)	(445)	(302)	(1,032)
Interest expense	(1,363)	(1,495)	132	(1,618)
Investment income	3,624	6,086	(2,462)	4,864
Total nonoperating income (expense)	<u>2,437</u>	<u>5,495</u>	<u>(3,058)</u>	<u>3,285</u>
Change in net position before capital distributions	25,829	16,840	8,989	10,104
<b>Capital distributions</b>	<u>(1,283)</u>	<u>(1,137)</u>	<u>(146)</u>	<u>(1,067)</u>
Change in net position	24,546	15,703	8,843	9,037
<b>Net position</b>				
Beginning of year	123,038	107,335	15,703	98,298
End of year	<u>\$ 147,584</u>	<u>\$ 123,038</u>	<u>\$ 24,546</u>	<u>\$ 107,335</u>

# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

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### SOURCES OF REVENUE

During 2014, 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.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Medicare	47%	47%	46%
Medicaid	9%	9%	9%
Commercial	35%	34%	36%
Self-Pay	6%	7%	7%
Other	3%	3%	2%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Hospital provides care to patients under payment arrangement with Medicare, Medicaid, and various managed care programs. Services provided under those arrangements are paid at predetermined rates and /or reimbursable costs as defined. Provisions have been made in the financial statements for contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payment. Net patient service revenue increased \$130,542 or 70% in 2014 compared to 2013. This increase was primarily the result of an increase in the number of long-term care facilities operated. It was noted that the payer mix in 2014 remained relatively consistent across all payors. Disproportionate Share Hospital Payment (DSH for years 2014 and 2013 were \$1,141 and \$3,169, respectively. The Hospital recognized Electronic Health Record Incentive revenue in 2014 of \$1,807 by meeting Meaningful Use requirements. This revenue is included in other operating revenue. The Hospital did not recognize Electronic Health Record Incentive revenue in 2013.

### OPERATING INCOME

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

# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

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The increase in the Hospital's total operating income in 2014 of \$12,047 or 106% from 2013 was the result of a rate increase and long-term care operations. The Hospital increased gross charge rates by 5% for both years ended December 31, 2014 and 2013, respectively. More importantly, as noted previously, the Hospital increased their services through long-term care operations. Total operating expenses increased \$120,444 or 66% in 2014 compared to 2013. The increase in operating expenses was the result of long-term care operations as well as increases in purchased services, supplies and drugs. Purchased services, supplies and drugs increased due to an increase in pharmaceutical costs as well as services provided for oncology and orthopedics.

The Hospital experienced statistical changes in the following areas:

<b>Statistical Growth</b>	<b>2014</b>	<b>2013</b>	<b>2014 - 2013 % Increase / &lt;Decrease&gt;</b>	<b>2012</b>
Patient Days	14,712	15,443	-4.73%	15,683
Diagnostic Imaging Procedures	57,137	58,198	-1.82%	58,452
Laboratory Procedures	312,016	316,865	-1.53%	334,278
Pharmaceutical Medication Units	413,698	439,542	-5.88%	502,315
Rehab Procedures	61,915	65,472	-5.43%	69,995
Home Health Units of Service	24,228	25,007	-3.12%	29,162
Outpatient Clinic Procedures	7,600	6,141	23.76%	15,673

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 \$15,706 were waived during 2014. 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 decreased due to market conditions and retirement of long-term debt during 2014. The Hospital's nonoperating income and expenses decreased in 2014 by \$3,058 from 2013. Interest expense decreased \$132 in 2014 compared to 2013 which was the result of a reduction in debt throughout the year which was ultimately retired during 2014 and there were no additional borrowings in 2014.

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# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

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### GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives operating grants from various state and federal agencies for specific programs. Operating grants received in 2014 totaled \$923 compared to \$1,349 in 2013.

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
- Critical Needs Expansion – From Hancock Regional Hospital Foundation
- Women’s Health Center
- New Cancer Center Service line – 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**

	2014	2013	Change	2012
<b>Net cash flows from</b>				
Operating activities	\$ 37,101	\$ 18,431	\$ 18,670	\$ 16,901
Noncapital financing activities	176	903	(727)	40
Capital and related financing	(44,878)	(8,380)	(36,499)	(8,883)
Investing	6,441	(381)	6,822	(81)
Change in cash and cash equivalents	<u>\$ (1,159)</u>	<u>\$ 10,573</u>	<u>\$ (11,733)</u>	<u>\$ 7,977</u>

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### CAPITAL ASSETS

During 2014, the Hospital’s net capital assets increased by approximately \$6,895. This compares to a decrease of approximately \$2,865 for 2013 compared to 2012.

# HANCOCK REGIONAL HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

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

	2014	2013	Change	2012
Land	\$ 1,241	\$ 270	\$ -0-	\$ 270
Land improvements	5,776	5,535	241	5,490
Buildings and fixed equipment	107,425	102,735	4,690	100,819
Major movable equipment	65,505	59,876	5,629	56,661
Construction in progress	3,102	1	3,101	501
Total capital assets	<u>183,049</u>	<u>168,417</u>	<u>14,632</u>	<u>163,741</u>
Less accumulated depreciation	<u>117,297</u>	<u>109,560</u>	<u>7,737</u>	<u>102,019</u>
Capital assets, net	<u>\$ 65,752</u>	<u>\$ 58,857</u>	<u>\$ 6,895</u>	<u>\$ 61,722</u>

Capital assets, net increased as additions exceeded depreciation.

### DEBT

At December 31, 2014, the Hospital had retired its revenue notes, mortgage loans, and capital lease obligations outstanding.

Debt 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, 2014 AND 2013

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### ASSETS

	<u>2014</u>	<u>2013</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 32,075,196	\$ 30,378,718
Investments	3,154,339	3,015,862
Patient accounts receivable, net	33,901,333	22,811,087
Inventories and other current assets	<u>9,360,633</u>	<u>10,488,782</u>
Total current assets	78,491,501	66,694,449
<b>Assets whose use is limited</b>		
Board designated funds	46,060,312	49,162,018
Trustee held funds for debt service	-0-	4,193,616
Donor restricted funds	<u>2,412,943</u>	<u>2,112,043</u>
Total assets whose use is limited	48,473,255	55,467,677
<b>Capital assets</b>		
Land and land improvements	7,017,120	5,804,710
Buildings and fixed equipment	107,425,114	102,735,326
Major movable equipment	65,504,760	59,876,431
Construction in progress	<u>3,101,947</u>	<u>915</u>
Total capital assets	183,048,941	168,417,382
Less accumulated depreciation	<u>117,296,580</u>	<u>109,560,028</u>
Capital assets, net	65,752,361	58,857,354
<b>Other assets</b>	<u>4,304,167</u>	<u>4,156,819</u>
Total assets	<u>\$ 197,021,284</u>	<u>\$ 185,176,299</u>

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See accompanying notes to combined financial statements

# HANCOCK REGIONAL HOSPITAL

## COMBINED BALANCE SHEETS DECEMBER 31, 2014 AND 2013

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### LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
<b>Current liabilities</b>		
Current portion of long-term debt	\$ -0-	\$ 1,040,000
Accounts payable and other liabilities	41,091,433	23,907,582
Accrued salaries and related liabilities	5,500,843	5,550,389
Estimated third-party settlements	2,845,168	4,435,825
Total current liabilities	<u>49,437,444</u>	<u>34,933,796</u>
<b>Long-term debt, less current portion</b>	-0-	27,205,000
Total liabilities	<u>49,437,444</u>	<u>62,138,796</u>
<b>Net position</b>		
Net investment in capital assets	65,752,361	30,612,354
Restricted by trustee for debt service	-0-	4,193,616
Donor restricted expendable	2,412,943	2,112,043
Restricted nonexpendable	2,346,142	2,662,532
Unrestricted	<u>77,072,394</u>	<u>83,456,958</u>
Total net position	<u>147,583,840</u>	<u>123,037,503</u>
Total liabilities and net position	<u>\$ 197,021,284</u>	<u>\$ 185,176,299</u>

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See accompanying notes to combined financial statements

# HANCOCK REGIONAL HOSPITAL

## COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
<b>Operating revenue</b>		
Net patient service revenue	\$ 316,843,453	\$ 186,301,532
Other operating revenue	9,569,509	7,620,925
Total operating revenue	<u>326,412,962</u>	<u>193,922,457</u>
<b>Operating expenses</b>		
Salaries and wages	38,772,278	40,085,622
Employee benefits	10,939,429	11,485,828
Professional medical fees	2,698,440	1,598,666
Supplies and drugs	14,673,125	12,053,113
Purchased services	216,234,643	97,189,280
Utilities and insurance	3,137,097	2,899,347
Depreciation and amortization	8,127,351	7,786,900
Hospital assessment fee	3,573,884	4,906,537
Other	4,864,380	4,571,705
Total operating expenses	<u>303,020,627</u>	<u>182,576,998</u>
Operating income	23,392,335	11,345,459
<b>Nonoperating income (expense), net</b>		
Noncapital contributions	922,949	1,348,695
Other nonoperating expense	(746,673)	(445,592)
Interest expense	(1,363,189)	(1,494,533)
Investment income	3,623,746	6,085,598
Total non-operating income (expense), net	<u>2,436,833</u>	<u>5,494,168</u>
Change in net position before capital distributions	25,829,168	16,839,627
<b>Capital distributions - noncontrolling interest</b>	<u>(1,282,831)</u>	<u>(1,137,038)</u>
Change in net position	24,546,337	15,702,589
<b>Net position</b>		
Beginning of year	123,037,503	107,334,914
End of year	<u>\$ 147,583,840</u>	<u>\$ 123,037,503</u>

See accompanying notes to combined financial statements

# HANCOCK REGIONAL HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
<b>Operating activities</b>		
Cash received from patients and third party payors	\$ 304,162,550	\$ 173,032,770
Cash paid to employees for wages and benefits	(49,761,253)	(52,432,229)
Cash paid to vendors for goods and services	(226,869,569)	(109,790,510)
Other operating receipts	9,569,509	7,620,925
Net cash from operating activities	<u>37,101,237</u>	<u>18,430,956</u>
<b>Noncapital financing activities</b>		
Noncapital contributions	922,949	1,348,695
Other nonoperating	(746,673)	(445,592)
Net cash from noncapital financing activities	<u>176,276</u>	<u>903,103</u>
<b>Capital and related financing activities</b>		
Acquisition and construction of capital assets	(14,008,751)	(4,760,738)
Loss on disposal of capital assets	21,391	12,486
Capital distributions - noncontrolling interest	(1,282,831)	(1,137,038)
Interest paid on long-term debt	(1,363,189)	(1,494,533)
Principal payments on long-term debt	(28,245,000)	(1,000,000)
Net cash from capital and related financing activities	<u>(44,878,380)</u>	<u>(8,379,823)</u>
<b>Investing activities</b>		
Other assets	(3,852,348)	(3,176,217)
Capital contributions	3,705,000	3,159,000
Investment income	3,623,746	6,085,598
Other changes in assets whose use is limited, net	2,965,006	(6,449,304)
Net cash from investing activities	<u>6,441,404</u>	<u>(380,923)</u>
Net change in cash and cash equivalents	(1,159,463)	10,573,313
<b>Cash and cash equivalents</b>		
Beginning of year	34,839,070	24,265,757
End of year	<u>\$ 33,679,607</u>	<u>\$ 34,839,070</u>

See accompanying notes to combined financial statements

# HANCOCK REGIONAL HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of operating income to net cash from operating activities</b>		
Operating income	\$ 23,392,335	\$ 11,345,459
Adjustment to reconcile operating income to net cash from operating activities		
Depreciation and amortization	8,127,351	7,786,900
Bad debts	10,897,496	10,604,631
Changes in assets and liabilities		
Patient accounts receivable	(21,987,742)	(23,554,744)
Other current assets	1,128,149	(6,294,944)
Accounts payable and other liabilities	17,183,851	19,723,082
Accrued salaries and related liabilities	(49,546)	(860,779)
Estimated third-party settlements	(1,590,657)	(318,649)
Net cash from operating activities	<u>\$ 37,101,237</u>	<u>\$ 18,430,956</u>
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>		
Cash and cash equivalents:		
In current assets	\$ 32,075,196	\$ 30,378,718
In investments and assets whose use is limited	1,604,411	4,460,352
Total cash and cash equivalents	<u>\$ 33,679,607</u>	<u>\$ 34,839,070</u>
<b>Supplementary disclosure of cash flows information</b>		
Land transferred from other assets to capital assets	\$ 970,909	\$ -0-

See accompanying notes to combined financial statements

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 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.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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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 100%.

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.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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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.

### Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid assets with maturity dates of 90 days or less when purchased. 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).

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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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, 2011 with differences reflected as deductions from revenue in 2014. There were no significant differences reflected as deductions from revenue during 2014 and 2013. Amounts for unresolved cost reports for 2012 through 2014 are reflected in estimated third-party settlements on the combined balance sheets.

During 2012, the Indiana Hospital Assessment Fee (HAF) Program for the period July 1, 2011 through June 30, 2013 was approved by Centers for Medicare & Medicaid Services retroactive to July 1, 2011. The HAF Program was approved for extension through June 30, 2017. 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 2014 and 2013, HRH recognized HAF Program expense of approximately \$3,574,000 and \$4,907,000, 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 79 percent of the Hospital's net patient revenue for the year ended 2014, and 71 percent of the Hospital's net patient revenue, for the year ended 2013. 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 \$1,141,000 and \$3,169,000 for the years ended December 31, 2014 and 2013, 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.

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# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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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 \$2,000,000 and \$2,200,000 arose from providing services to charity patients during 2014 and 2013, 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, money market funds and mutual funds that are reported at fair value. Assets whose use is limited and investments also consist of 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.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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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. No amounts were capitalized as of December 31, 2014 and 2013.

### 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.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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Management has analyzed the tax positions taken by the Hospital and has concluded that as of December 31, 2014 and 2013, 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 \$784,000 and \$656,000 for 2014 and 2013, 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.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 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 2014 and 2013, HRH recognized approximately \$1,807,000 and \$-0-, respectively, in EHR incentive revenue. Under the ratable recognition method, HRH recognizes revenue ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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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.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 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 available to be issued which is April 21, 2015.

## 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 were utilized to provide for debt service, and continued construction projects.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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The following represents assets whose use is limited and investments as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Board designated funds	\$ 46,060,312	\$ 49,162,018
Donor restricted funds	2,412,943	2,112,043
Trustee held assets for debt service	<u>-0-</u>	<u>4,193,616</u>
Total assets whose use is limited	48,473,255	55,467,677
Investments	<u>3,154,339</u>	<u>3,015,862</u>
	<u><u>\$ 51,627,594</u></u>	<u><u>\$ 58,483,539</u></u>
	<u>2014</u>	<u>2013</u>
Mutual funds - equities	\$ 33,096,602	\$ 33,808,963
Mutual funds - fixed income	16,756,182	17,532,756
Certificates of deposit	170,399	169,429
Money market funds	1,604,411	4,460,352
U.S. Government securities	<u>-0-</u>	<u>2,512,039</u>
	<u><u>\$ 51,627,594</u></u>	<u><u>\$ 58,483,539</u></u>

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 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, 2014 and 2013, 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, 2014					
Carrying Amount	Investment Maturities (in years)				More than 10
	Less than 1	1-5	6-10		
Money market funds	\$ 1,604,411	\$ 1,604,411	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	170,399	170,399	-0-	-0-	-0-
Mutual funds - equities	33,096,602	33,096,602	-0-	-0-	-0-
Mutual funds - fixed income	16,756,182	16,756,182	-0-	-0-	-0-
	<u>\$ 51,627,594</u>	<u>\$ 51,627,594</u>	<u>\$ -0-</u>	<u>-0-</u>	<u>\$ -0-</u>

December 31, 2013					
Carrying Amount	Investment Maturities (in years)				More than 10
	Less than 1	1-5	6-10		
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
	<u>\$ 58,483,539</u>	<u>\$ 55,971,500</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,512,039</u>

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

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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*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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Carrying amount		
Deposits	\$ 32,075,196	\$ 30,378,718
Investments	51,627,594	58,483,539
	<u>\$ 83,702,790</u>	<u>\$ 88,862,257</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 32,075,196	\$ 30,378,718
Investments	3,154,339	3,015,862
Board designated funds	46,060,312	49,162,018
Trustee held funds	-0-	4,193,616
Donor restricted funds	2,412,943	2,112,043
	<u>\$ 83,702,790</u>	<u>\$ 88,862,257</u>

#### 4. FAIR VALUE MEASUREMENTS

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

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

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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- 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 2014 and 2013.

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, 2014 and 2013.

- *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.
- *Money market funds*: Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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, 2014 and 2013.

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments and assets whose use is limited				
Mutual funds - equities				
Large blend	\$ 14,336,547	\$ 14,336,547	\$ -0-	\$ -0-
Large growth	6,718,279	6,718,279	-0-	-0-
Large value	4,668,075	4,668,075	-0-	-0-
Medium blend	213,159	213,159	-0-	-0-
Medium growth	3,101,197	3,101,197	-0-	-0-
Small blend	1,251,571	1,251,571	-0-	-0-
Other (global, commodities, and index)	2,807,774	2,807,774	-0-	-0-
Total mutual funds - equities	33,096,602	33,096,602	-0-	-0-
Mutual funds - fixed income				
Intermediate term bond	6,200,027	6,200,027	-0-	-0-
Short-term bond	7,102,979	7,102,979	-0-	-0-
World bond	3,453,176	3,453,176	-0-	-0-
Total mutual funds - fixed income	16,756,182	16,756,182	-0-	-0-
Money market funds	1,604,411	-0-	1,604,411	-0-
		<u>\$ 49,852,784</u>	<u>\$ 1,604,411</u>	<u>\$ -0-</u>
Certificate of deposit	170,399			
	<u>\$ 51,627,594</u>			
	December 31, 2013			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
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	-0-	-0-
Total mutual funds - fixed income	17,532,756	17,532,756	-0-	-0-
Money market fund	4,460,352	-0-	4,460,352	-0-
U.S. Government securities	2,512,039	-0-	2,512,039	-0-
		<u>\$ 51,341,719</u>	<u>\$ 6,972,391</u>	<u>\$ -0-</u>
Certificate of deposit	169,429			
	<u>\$ 58,483,539</u>			

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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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.

### 5. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities as of December 31, 2014 and 2013 is as follows:

	2014	2013
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 24,072,466	\$ 19,462,689
Receivable from Medicare	13,058,896	10,087,807
Receivable from Medicaid	3,726,404	1,894,101
Receivable from long-term care operations	21,724,961	13,124,956
Total patient accounts receivable	62,582,727	44,569,553
Less contractual allowances	(18,093,048)	(12,528,594)
Less allowance for uncollectible amounts	(10,588,346)	(9,229,872)
Patient accounts receivable, net	<u>\$ 33,901,333</u>	<u>\$ 22,811,087</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	\$ 5,500,843	\$ 5,550,389
Payable to suppliers and other accrued expenses	41,091,433	23,907,582
Total accounts payable and accrued expenses	<u>\$ 46,592,276</u>	<u>\$ 29,457,971</u>

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 6. INVESTMENTS IN AFFILIATES

HRH owns 50% of Hancock Physician Network, LLC (Network) and has recorded the investment on the equity method of accounting in the amount of \$1,350,641 and \$916,159 as of December 31, 2014 and 2013, respectively. This investment is included within other assets in the combined financial statements. HRH paid the Network approximately \$2,909,000 and \$2,810,000 during 2014 and 2013, respectively for management and other operating expenses. HRH received approximately \$938,000 and \$894,000 for 2014 and 2013, respectively from the Network for rental and housecleaning income. HRH contributed capital of approximately \$3,705,000 and \$3,159,000 to the Network during 2014 and 2013, respectively.

HRH has a receivable from the Network of approximately \$314,000 and \$478,000 as of December 31, 2014 and 2013, respectively. The Hospital has a payable to the Network of approximately \$536,000 and \$541,000 as of December 31, 2014 and 2013, 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), 50% of Suburban Home Health (SHH) 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.

### 7. CAPITAL ASSETS

Capital assets consist of the following as of December 31, 2014 and 2013:

	Balance December 31, 2013				Balance December 31, 2014
		Additions	Retirements	Transfers	
Land	\$ 270,285	\$ 970,909	\$ -0-	\$ -0-	\$ 1,241,194
Land improvements	5,534,425	241,501	-0-	-0-	5,775,926
Buildings and fixed equipment	102,735,326	4,977,279	(287,491)	-0-	107,425,114
Major movable equipment	59,876,431	5,688,939	(60,610)	-0-	65,504,760
Construction in progress	915	3,101,032	-0-	-0-	3,101,947
Total capital assets	<u>168,417,382</u>	<u>14,979,660</u>	<u>(348,101)</u>	<u>-0-</u>	<u>183,048,941</u>
Less accumulated depreciation					
Land improvements	(4,140,222)	(226,903)	-0-	-0-	(4,367,125)
Buildings and fixed equipment	(61,056,769)	(4,183,429)	224,044	-0-	(65,016,154)
Major movable equipment	(44,363,037)	(3,652,930)	102,666	-0-	(47,913,301)
Total accumulated depreciation	<u>(109,560,028)</u>	<u>(8,063,262)</u>	<u>326,710</u>	<u>-0-</u>	<u>(117,296,580)</u>
Capital assets, net	<u>\$ 58,857,354</u>	<u>\$ 6,916,398</u>	<u>\$ (21,391)</u>	<u>\$ -0-</u>	<u>\$ 65,752,361</u>

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

	Balance December 31, 2012				Balance December 31, 2013	
		Additions	Retirements	Transfers		
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	<u>\$ 61,722,422</u>	<u>\$ (2,852,582)</u>	<u>\$ (12,486)</u>	<u>\$ -0-</u>	<u>\$ 58,857,354</u>	

At December 31, 2014, HRH has a remaining commitment of approximately \$16,000,000 primarily for the construction of an oncology building and wellness center.

### 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 was the obligor to the bondholders. The bonds were 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 included a new Emergency Department, Intensive Care and Cardiac Care Center and expansion of space for future hospital and healthcare needs.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

The Board of Trustees of the Hospital and Hancock County, Indiana, acting through its Board of Commissioners were lessees (collectively, the "Lessee") under the 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 had 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 full lease rental payments were paid from the Hospital revenues.

The Series 2004 C Obligations and the Lease had 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 had certain compliance requirements for which management believed it was in compliance. The lease rental revenues were pledged to secure the Series 2004 C obligations. The Series 2004 C Obligations were paid in full during 2014.

Long-term debt as of December 31, 2014 and 2013 includes the following:

	Balance December 31, 2013	Additions	Reductions	Balance December 31, 2014	Current Portion	Long-Term Portion
The Series 2004 C Obligations Capital Lease	\$ 28,245,000	\$ -0-	\$ (28,245,000)	\$ -0-	\$ -0-	\$ -0-
	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

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 9. PATIENT SERVICE REVENUE

Patient service revenue for 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</u>
Inpatient	\$ 174,302,209	\$ 134,405,367
Outpatient	289,470,991	174,461,475
Transitional Care/Inpatient Rehabilitation	814,393	2,813,950
Geriatric Psychiatric	4,325,365	4,337,798
Gross patient service revenue	<u>468,912,958</u>	<u>316,018,590</u>
Contractual allowance	136,478,930	114,347,801
Bad debts	10,897,496	10,604,631
Charity care	4,693,079	4,764,626
Deductions from revenue	<u>152,069,505</u>	<u>129,717,058</u>
Net patient service revenue	<u>\$ 316,843,453</u>	<u>\$ 186,301,532</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 approximately \$ 1,284,000 and \$1,111,000 in 2014 and 2013, 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:

	<u>Receivables</u>		<u>Revenue</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Medicare	33%	34%	51%	47%
Medicaid	9%	6%	8%	9%
Commercial	34%	29%	35%	34%
Self pay and other	24%	31%	6%	10%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 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, 2014 and 2013:

	Controlling interest	Noncontrolling interest	Total
Net position			
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	<u>15,841,915</u>	<u>(139,326)</u>	<u>15,702,589</u>
December 31, 2013	120,374,971	2,662,532	123,037,503
Change in net position before capital distributions	24,862,727	966,441	25,829,168
Capital distributions	-0-	(1,282,831)	(1,282,831)
Change in net position	<u>24,862,727</u>	<u>(316,390)</u>	<u>24,546,337</u>
December 31, 2014	<u>\$ 145,237,698</u>	<u>\$ 2,346,142</u>	<u>\$ 147,583,840</u>

### 13. SELF-INSURED HEALTH CLAIMS

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 generally over \$300,000. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$7,322,000 and \$8,426,000 for 2014 and 2013, 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 2014 and 2013 are as follows:

	2014	2013
Unpaid claims estimate, beginning of year	\$ 769,200	\$ 795,906
Incurred claims and changes in estimates	7,322,310	8,426,157
Claims payments	<u>(7,472,452)</u>	<u>(8,452,863)</u>
Unpaid claims estimate, end of year	<u>\$ 619,058</u>	<u>\$ 769,200</u>

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 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 individual 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 individual (\$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 individual (\$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.

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 15. BLENDED COMPONENT UNITS

Below is condensed, combining financial information of the blended component units.

	2014			
	Foundation	HRSC	O3PureMed	Total
<b>Assets</b>				
Current assets	\$ 3,199,202	\$ 4,817,107	\$ 21,956	\$ 8,038,265
Capital assets	13,715	1,032,868	1,697,550	2,744,133
Assets whose use is limited	2,412,943	-0-	-0-	2,412,943
Total assets	<u>\$ 5,625,860</u>	<u>\$ 5,849,975</u>	<u>\$ 1,719,506</u>	<u>\$ 13,195,341</u>
<b>Liabilities</b>				
Accounts payable and other liabilities	68,661	698,083	6,045	772,789
Total liabilities	<u>68,661</u>	<u>698,083</u>	<u>6,045</u>	<u>772,789</u>
<b>Net position</b>				
Unrestricted	3,130,541	4,119,024	15,911	7,265,476
Net investment in capital assets	13,715	1,032,868	1,697,550	2,744,133
Donor restricted-expendable	2,412,943	-0-	-0-	2,412,943
Total net position	<u>5,557,199</u>	<u>5,151,892</u>	<u>1,713,461</u>	<u>12,422,552</u>
Total liabilities and net position	<u>\$ 5,625,860</u>	<u>\$ 5,849,975</u>	<u>\$ 1,719,506</u>	<u>\$ 13,195,341</u>
Operating revenues (patient and other)	\$ -0-	\$ 11,444,977	\$ -0-	\$ 11,444,977
<b>Expenses</b>				
Depreciation	-0-	294,785	48,243	343,028
Other expenses	-0-	9,084,213	388,636	9,472,849
Total expenses	<u>-0-</u>	<u>9,378,998</u>	<u>436,879</u>	<u>9,815,877</u>
Operating income (loss)	-0-	2,065,979	(436,879)	1,629,100
Nonoperating revenues, net	450,542	1,100	2,644,729	3,096,371
Capital distributions	<u>-0-</u>	<u>(3,000,000)</u>	<u>-0-</u>	<u>(3,000,000)</u>
Change in net position	450,542	(932,921)	2,207,850	1,725,471
Net position, beginning of year	5,106,657	6,084,813	(494,389)	10,697,081
Net position, end of year	<u>\$ 5,557,199</u>	<u>\$ 5,151,892</u>	<u>\$ 1,713,461</u>	<u>\$ 12,422,552</u>
<b>Net cash flows from</b>				
Operating activities	\$ -0-	\$ 2,360,764	\$ (388,636)	\$ 1,972,128
Noncapital financing activities	259,216	-0-	-0-	259,216
Capital and related financing activities	-0-	(2,708,622)	326,705	(2,381,917)
Investing activities	(1,193,199)	1,100	-0-	(1,192,099)
Total	<u>(933,983)</u>	<u>(346,758)</u>	<u>(61,931)</u>	<u>(1,342,672)</u>
<b>Cash and cash equivalents:</b>				
Beginning of year	3,075,514	3,422,272	79,048	6,576,834
End of year	<u>\$ 2,141,531</u>	<u>\$ 3,075,514</u>	<u>\$ 17,117</u>	<u>\$ 5,234,162</u>

# HANCOCK REGIONAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

	2013			
	Foundation	HRSC	O3PureMed	Total
<b>Assets</b>				
Current assets	\$ 3,015,963	\$ 5,527,577	\$ 79,048	\$ 8,622,588
Capital assets	15,825	1,146,016	1,346,429	2,508,270
Assets whose use is limited	2,112,043	-0-	-0-	2,112,043
Total assets	<u>\$ 5,143,831</u>	<u>\$ 6,673,593</u>	<u>\$ 1,425,477</u>	<u>\$ 13,242,901</u>
<b>Liabilities</b>				
Accounts payable and other liabilities	37,174	588,780	197,168	823,122
Long-term debt	-0-	-0-	1,722,698	1,722,698
Total liabilities	<u>37,174</u>	<u>588,780</u>	<u>1,919,866</u>	<u>2,545,820</u>
<b>Net position</b>				
Unrestricted	2,978,789	4,938,797	(118,120)	7,799,466
Net investment in capital assets	15,825	1,146,016	(376,269)	785,572
Donor restricted-expendable	2,112,043	-0-	-0-	2,112,043
Total net position	<u>5,106,657</u>	<u>6,084,813</u>	<u>(494,389)</u>	<u>10,697,081</u>
Total liabilities and net position	<u>\$ 5,143,831</u>	<u>\$ 6,673,593</u>	<u>\$ 1,425,477</u>	<u>\$ 13,242,901</u>
Operating revenues (patient and other)	\$ -0-	\$ 11,808,100	\$ -0-	\$ 11,808,100
<b>Expenses</b>				
Depreciation	-0-	384,244	35,714	419,958
Other expenses	-0-	9,126,871	191,650	9,318,521
Total expenses	<u>-0-</u>	<u>9,511,115</u>	<u>227,364</u>	<u>9,738,479</u>
Operating income (loss)	-0-	2,296,985	(227,364)	2,069,621
Nonoperating revenues, net	1,465,458	608	(114,344)	1,351,722
Capital distributions	-0-	(2,186,421)	-0-	(2,186,421)
Change in net position	1,465,458	111,172	(341,708)	1,234,922
Net position, beginning of year	3,641,199	5,973,641	(152,681)	9,462,159
Net position, end of year	<u>\$ 5,106,657</u>	<u>\$ 6,084,813</u>	<u>\$ (494,389)</u>	<u>\$ 10,697,081</u>
<b>Net cash flows from</b>				
Operating activities	\$ -0-	\$ 2,681,229	\$ (191,650)	\$ 2,489,579
Noncapital financing activities	1,053,975	-0-	-0-	1,053,975
Capital and related financing activities	-0-	(2,350,766)	270,698	(2,080,068)
Investing activities	(466,780)	608	-0-	(466,172)
Total	<u>587,195</u>	<u>331,071</u>	<u>79,048</u>	<u>997,314</u>
<b>Cash and cash equivalents:</b>				
Beginning of year	699,157	3,091,201	-0-	3,790,358
End of year	<u>\$ 1,286,352</u>	<u>\$ 3,422,272</u>	<u>\$ 79,048</u>	<u>\$ 4,787,672</u>