MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2007 AND 2006

CPAS / ADVISORS

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MEMORIAL HOSPITAL OF LOGANSPORT

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
MEMORIAL HOSPITAL OF LOGANSPORT
Logansport, Indiana

We have audited the accompanying combined balance sheets of Memorial Hospital of Logansport (the Hospital), as of December 31, 2007 and 2006, and the related combined statements of operations, changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Memorial Hospital of Logansport Foundation (the Foundation); a blended component unit, which statements reflect total assets of approximately $2.3 million and $2.2 million as of December 31, 2007 and 2006, respectively, and total revenues of approximately $336,000 and $322,000 for the years then ended. We did not audit the financial statements of Health Professional Resources, Inc. (HPR), a blended component unit, which statements reflect total assets of approximately $521,000 and $723,000 as of December 31, 2007 and 2006, respectively, and total revenues of approximately $1.9 million and $2.2 million for the years then ended. We did not audit the financial statements of Northcentral Indiana Orthopedics, Inc (Northcentral), a blended component unit, which statements reflect total assets of approximately $243,000 and $199,000 as of December 31, 2007 and 2006, and total revenues of approximately $804,000 and $850,000 for the years then ended. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the combined financial statements, in so far as it relates to the amounts included for the Foundation, HPR, Inc., and Northcentral is based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

Board of Trustees
Memorial Hospital of Logansport
Logansport, Indiana

In our opinion, based on our audits and the reports of other auditors, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2007 and 2006 and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis, addressed in the accompanying table of contents, is not a required part of the basic combined financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Blue & Co., LLC

May 22, 2008

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2007 AND 2006

This section of Memorial Hospital of Logansport's (the Hospital) annual combined financial statements presents background information and management's discussion and analysis of the Hospital's financial performance during the year ended December 31, 2007. This MD&A includes a discussion and analysis of the activities and results of the Hospital financial statements. Those combined financial statements include The Memorial Hospital of Logansport Foundation, Inc., Health Professional Resources, Inc., and Northcentral Orthopedics. These entities are audited separately as well and their annual reports are available upon request.

Memorial Hospital of Logansport is a not-for-profit acute care hospital, established in 1925. It is a county-owned facility and operates under the Indiana County Hospital Law. Operations include a state-licensed, 83 bed acute care medical center offering a full range of inpatient and outpatient medical services including 24 hour emergency care, surgical, specialty, medical imaging, cancer, and family birth centers. The Cass County Commissioners appoints the Board of Trustees of the Hospital. Although the Hospital is a governmental entity, the Hospital does not receive taxpayer support for operations.

The Mission of Memorial Hospital of Logansport is "Your Community Resource for Optimal Health". The Hospital lives this mission by continually striving to improve its performance, the delivery of care, and the overall health of the community, through improvements and partnerships within both the Hospital and the surrounding communities. The Hospital carries out its mission by focusing on its values as follows:

- Quality Service Delivery
- Customer Service
- Enthusiastic, Compassionate, Positive Team Members
- Access to Quality Care
- Collaboration and Partnerships
- Stewardship
- Community Health and Wellness

Annually, the Board of Trustees of the Hospital meets with the current Medical Executive Staff of physicians and Hospital Executive Leaders to evaluate the year's progress toward meeting the Strategic Initiatives, and to develop Action Plans with measurable objectives toward meeting them in the year to come. This MD&A will include some of the highlights from the Strategic Initiative Action Plans for 2007 and goals for 2008, as well as the required explanation of Operational and Financial Performance for 2007.

Financial Highlights

Overall, net assets decreased by $1,602,817 in 2007, which included an operating loss of $699,333.

Total Operating income was a loss in 2007, due to several factors, including:

- An increase in bad debts and community assistance dollars of 6.6% over 2006, due to the high deductible health plans, underfunded health savings accounts, and an increase in uninsured patients.

- An increase of $2.3 million in Salaries and Benefits to stay competitive and due to the addition of more physicians, providers, and their practices.

- The increase in all other operational costs resulted in $427,000 of additional expense.

The Hospital experienced a margin on Operating Revenue of -1.6% for 2007, compared to .90% for 2006. The factors impacting this are noted above and will be discussed in greater detail as follows.

Operational Highlights and capital acquisitions will be discussed under their respective categories.

Financial Statements and Analysis

The following pages will highlight certain financial statements of the Hospital and include a brief analysis. The financial statements of the Hospital explain the results of operations. The Statement of Operations summarizes the effect of the year's activities, while the Balance Sheet summarizes the Hospital's net resources at the beginning and end of the year. The difference between those two periods is the impact shown in the Statement of Operations. The Balance Sheet includes all assets and liabilities of the Hospital, and provides information about the nature and amounts of investments in resources and obligations to its creditors. It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital. The Statement of Operations and Changes in Net Assets includes all the current year's revenue and expenses. The final financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash flows from operating activities, capital and financing activities, and investing activities, as well as providing information of the sources and uses of cash during the year.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2007 AND 2006

A summary of the Hospital and component units Balance Sheet as of December 31, 2007 and 2006 is presented below (in thousands)

	2007	2006	$ Change	% Change	
Current assets	$ 13,585	$ 13,957	$ (372)	-3%	(1)
Assets limited to use (funded depreciation, escrow funds, contributions)	10,620	10,533	87	1%	(3)
Capital assets	43,625	45,022	(1,397)	-3%	(3)
Other assets	834	1,009	(175)	-17%	
Total assets	$ 68,664	$ 70,521	$ (1,857)	-4%	
Current & other liabilities	$ 6,648	$ 5,903	$ 745	13%	(4)
Capital leases	201	404	(203)	-50%	
Long-term debt	20,878	21,827	(948)	-4%	
Derivative liability	281	129	152	118%	
Total liabilities	28,008	28,263	(254)	-1%	(3)
Invested in capital assets - net of related debt	21,296	21,625	(329)	-2%	(4)
Restricted	1,645	1,952	(307)	-16%	
Unrestricted	17,714	18,681	(967)	-5%	
Total net assets	40,655	42,258	(1,603)	-4%	
Total liabilities and net assets	$ 68,664	$ 70,521	$ (1,857)	-3%	

Notes:

(1) - Decrease in cash of $961,677 in 2007. Increase in accounts receivable of $658,103 in 2007.

(3) and (4) - Shows the impact and decline of funds held for construction and the increase in net assets as these are placed in service.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2007 AND 2006

A summary of the Hospital and component units Statement of Operations and Changes in Net Assets for 2007 and 2006 is presented below (in thousands):

	2007	2006	$ Change	% Change
Net patient service revenue	$ 43,966	$ 41,946	$ 2,020	5%
Other revenue	2,859	2,825	34	1%
Total revenue	46,825	44,771	2,054	5% (1)
Salaries and benefits	26,096	23,724	2,372	10% (2)
Supplies and other	18,257	17,560	697	4% (3)
Depreciation and amortization	3,171	3,083	88	3%
Total expenses	47,524	44,367	3,157	7% (1)
Operating income (loss) from continuing operations	(699)	404	(1,103)	-273%
Non-operating income (expense)	(718)	(281)	(437)	156% (4)
Excess of revenue over expenses	(1,417)	122	(1,540)	-1262%
Capital grants/contributions	-	662	(662)	-100% (5)
Change in net assets before discontinued operations	(1,417)	784	(2,202)	-281%
Loss from operations of discontinued components	(185)	(148)	(37)	25%
Change in net assets	(1,602)	636	(2,239)	-352%
Total net assets - beginning of year	42,257	41,621	636	2%
Total net assets - end of year	$ 40,655	$ 42,257	$ (1,603)	-4%

Notes:

(1) Encouragingly, overall revenue increased by more than $2 million in 2007. Unfortunately, expenses increased by more than 3.1 million.

(2) Salaries and wages increased by more than 2.3 million with the increase in physician practices.

(3) Supplies and other increased by $697,000 also due mainly to the increase in physician practices.

(4) Non-operating income decreased in 2007 as cash balances were depleted with the acquisition of several physician practices, which also decreased rent revenue as well.

(5) The Hospital received a final $500,000 contribution from Cass County in 2006 to go toward construction of the new Ambulance Garage and Emergency Department, which it did not receive in 2007.

Sources of Revenue

During 2007, the Hospital derived substantially all its revenue from patient service activities. Revenue sources include Medicare and Medicaid programs, patients, insurance companies, and other managed care programs, as shown below. Each payor category remained roughly the same in 2007 as 2006, with the exception of a slight increase in Medicaid and decrease in Commercial insurance. Management is concerned however with the trend toward high-deductible plans and increasing numbers of private pay patients:

Payor Mix	2007	2006
Medicare	45%	45%
Medicaid	14%	13%
Commercial insurance	18%	19%
Blue Cross/Anthem	17%	17%
Private pay	5%	5%
Other	1%	1%
Total	100%	100%

Operating and Financial Performance Volume

The Hospital experienced a loss in 2007, both as a component unit and on a combined basis. Revenue and volume numbers indicated a upward trend in inpatient admissions and patient days, and an increase in outpatient services, leading to an increase in net revenue, while cost increases primarily due to the Salaries and Benefits with the addition of physician practices led to the lack of additional profitability as compared to 2006.

- Adjusted patient discharges increased from 8,774 in 2006 to 9,213 in 2007.
- Inpatient activity increased in discharges by 2.3% and patient days decreased by 1.5%, indicating efficiency.
- Emergency and Outpatient visits, combined increased by 8.1% in 2007.

Management believes the increase in inpatient volume was due to the addition of providers and the hospitalist program, which was implemented in late 2006. The Outpatient increase is a function of the continual shift seen in healthcare to performing procedures on an outpatient setting and also the increase in physicians, which are making greater use of diagnostic testing to determine care delivery. Emergency volume increased 6.5% in 2007, this is believed to be a function of the shortage in the primary care physician market experienced in 2007, but is also a trend across the country.

Community (Charity) Care

The Hospital further enhanced its Community Care outreach efforts in 2007 to better meet the needs of the public more affected by the uninsured as well as large out of pocket expenses for their healthcare, even if insured. Charges for patient services written off for Community Care are excluded from Net patient revenue and are approved by the Board of Trustees. Based on established rates, Community Care of $1,738,282 was provided in 2007, which amounted to an increase of 74% over 2006.

Expenses

Total operating expenses increased by $3,157,023 in 2007, mainly attributable as discussed previously to the increase in physicians, providers, and all of the associated expenses with operating these practices.

Non-Operating Revenue

The Hospital maintains restricted funds as well as operating cash balances, and invests these funds in accordance with the Board-approved Investment Policy. In general, the Hospital takes a conservative and relatively short-term position on its investments. In 2007, the Hospital continued investing more aggressively, leading to an increase in non-operating revenue over 2006. Non-operating revenue was $866,028 in 2007, up from $772,742 in 2006.

Actual to Budget Performance

The Hospital's Board of Trustees approves the annual budget, which remains in effect the entire year. An actual to budget comparison and analysis is presented monthly in the interim financial statements, and a 2007 review is shown here.
(Hospital Results Only)

	Actual	Budget	$ Change	% Change	
Net patient service revenue	$ 43,966	$ 44,978	$ (1,012)	-2%	(1)
Other revenue	2,859	1,072	1787	167%	
Total revenue	46,825	46,050	775	2%	
Salaries and benefits	26,096	25,547	549	2%	(2)
Supplies and other	18,257	16,085	2172	14%	
Depreciation and amortization	3,171	3,028	143	5%	
Total expenses	47,524	44,660	2864	6%	(2)
Operating income	$ (699)	$ 1,390	$ (2,089)	-150%	(3)

Notes:

(1) The Hospital had modest expectations for patient volume growth in 2007. Memorial is still suffering from a bit of a primary care shortage, which was starting to get much better toward the end of 2007 with the addition of several physician and mid-level providers.

(2) Employment expenses were over budget for 2007, due mainly to the increase in physicians, providers, and their practices.

(3) The expenses associated with the increase in physicians overcame volume gains, leading to a shortfall to budgeted operating income.

Capital Assets

The Hospital invested nearly $1.2 million in capital assets in 2007. These funds were invested in information systems, automation, facilities renovation, clinical replacements, office moves, and physician practice expansion and acquisition. See the table below (in thousands).

	2007	2006	$ Change	% Change
Land and improvements	$ 1,218	$ 2,042	$ (824)	-40%
Buildings	54,114	57,266	(3,152)	-6%
Equipment	22,646	21,930	716	3%
Total capital assets	77,978	81,238	(3,260)	-4%
Less accumulated depreciation	(35,096)	(36,587)	1,491	-4%
Construction in progress	743	372	371	100%
Net capital assets	$ 43,625	$ 45,023	$ (1,398)	-3%

Long Term Debt

The Hospital had $22.3 million in short and long term debt at year-end 2007, versus $23.4 million in 2006.

More detailed information about both capital assets and long-term debt is presented in the Notes to the Financial Statements.

Conclusion and Contact Information

Memorial Hospital of Logansport intends to operate in a fashion that meets its community, operational, and financial obligations. This report is designed to provide a general overview of the Hospital and its finances to our stakeholders. Please address questions or requests regarding this financial report to the Director of Accounting, at Memorial Hospital of Logansport, 1101 Michigan Avenue, Logansport IN, 46947.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

ASSETS

	2007	2006
Current assets		
Cash and cash equivalents	$ 2,900,865	$ 3,862,542
Patient accounts receivable, net of allowance for doubtful accounts of $2,133,852 and $1,859,411 as of December 31, 2007 and 2006, respectively	8,999,810	8,341,707
Estimated third-party payor settlements	97,427	484,324
Supplies and other current assets	1,586,965	1,268,151
Total current assets	13,585,067	13,956,724
Assets limited as to use		
Internally designated	9,699,826	9,333,296
Held by trustee	2,387	320,679
Restricted by contributors and grantors	917,248	878,948
Total assets limited as to use	10,619,461	10,532,923
Capital assets		
Land and construction in progress	1,548,732	1,178,188
Depreciable capital assets, net	42,076,396	43,844,207
Total capital assets	43,625,128	45,022,395
Other assets	833,663	1,008,854
Total assets	$ 68,663,319	$ 70,520,896

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

LIABILITIES AND NET ASSETS

	2007	2006
Current liabilities		
Current portion of long-term debt and capital leases	$ 1,249,941	$ 1,165,859
Accounts payable and accrued expenses	2,709,878	2,028,286
Accrued payroll and related liabilities	2,688,171	2,708,966
Total current liabilities	6,647,990	5,903,111
Non current liabilities		
Capital leases, net of current portion	201,705	404,410
Long-term debt, net of current portion	20,877,923	21,826,825
Derivative liability	280,699	128,731
Total liabilities	28,008,317	28,263,077
Net assets		
Invested in capital assets, net of related debt	21,295,559	21,625,301
Restricted		
Held by trustee	2,387	320,679
Expendable for capital acquisitions	281,023	281,023
Expendable for specific operating activities	1,114,169	1,102,433
Nonexpendable permanent endowments	247,843	247,843
Unrestricted	17,714,021	18,680,540
Total net assets	40,655,002	42,257,819
Total liabilities and net assets	$ 68,663,319	$ 70,520,896

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Operating revenues		
Net patient revenue (net of provision for bad debt)	$ 43,965,294	$ 41,945,709
Other	2,859,003	2,824,724
Total operating revenues	46,824,297	44,770,433
Operating expenses		
Salaries and benefits	26,095,661	23,724,034
Medical and other professional fees	5,540,377	5,292,761
Medical supplies and drugs	6,944,548	7,268,073
Insurance	691,183	595,399
Rent and leases	951,675	978,980
Utilities	939,221	922,485
Other supplies	359,241	249,752
Depreciation and amortization	3,170,634	3,083,094
Other	2,831,090	2,252,029
Total operating expenses	47,523,630	44,366,607
Operating income (loss) from continuing operations	(699,333)	403,826
Nonoperating revenues (expenses)		
Investment income	608,690	543,796
Interest expense	(895,022)	(920,691)
Noncapital grants and contributions	257,338	228,946
Unrealized loss on derivative	(151,968)	(4,253)
Other	(537,478)	(129,059)
Total nonoperating revenues (expenses)	(718,440)	(281,261)
Excess of revenues over expenses before capital grants and contributions and discontinued operations	(1,417,773)	122,565
Capital grants and contributions	-0-	662,064
Change in net assets before discontinued operations	(1,417,773)	784,629
Loss from operations of discontinued component	(185,044)	(147,920)
Change in net assets	(1,602,817)	636,709
Net assets beginning of the year	42,257,819	41,621,110
Net assets end of year	$ 40,655,002	$ 42,257,819

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Operating activities		
Cash received from patients and third party payors	$ 44,480,058	$ 41,747,585
Cash paid to employees for salaries and benefits	(26,834,385)	(24,243,254)
Cash paid to vendors for goods and services	(18,108,062)	(18,281,683)
Other receipts and payments, net	3,045,171	3,210,794
Net cash flows from operating activities	2,582,782	2,433,442
Noncapital financing activities		
Noncapital grants and contributions and other	(280,140)	75,442
Capital and related financing activities		
Capital grants and contributions	-0-	662,064
Acquisition of capital assets	(1,825,159)	(1,835,524)
Payments on line of credit	-0-	(227,822)
Proceeds from issuance of long-term debt	105,747	-0-
Principal paid on long-term debt	(1,173,272)	(1,118,178)
Interest paid on long-term debt	(895,022)	(920,691)
Proceeds from sale of capital assets	1,235	1,649
Net cash flows from capital and related financing activities	(3,786,471)	(3,438,502)
Investing activities		
Investment income	608,690	543,796
Change in investments and assets limited as to use	(804,169)	1,627,696
Net cash flows from investing activities	(195,479)	2,171,492
Net change in cash and cash equivalents	(1,679,308)	1,241,874
Cash and cash equivalents at beginning of year	6,253,109	5,011,235
Cash and cash equivalents at end of year	$ 4,573,801	$ 6,253,109
Reconciliation of cash and cash equivalents to the statement of net assets		
Cash and cash equivalents in current assets	$ 2,900,865	$ 3,862,542
Cash and cash equivalents in assets limited as to use	1,672,936	2,390,567
Total cash and cash equivalents	$ 4,573,801	$ 6,253,109

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Reconciliation of operating income (loss) to net cash flows from operating activities		
Operating income (loss)	$ (699,333)	$ 403,826
Adjustments to reconcile operating income (loss) to net cash flows from operating activities		
Depreciation and amortization	3,170,634	3,083,094
Provision for bad debts	3,724,005	3,736,057
Loss on disposal of capital assets	77,124	-0-
Results from discontinued operations	(185,044)	(147,920)
Changes in		
Patient accounts receivable	(4,382,108)	(4,458,500)
Supplies, other current assets and other assets	(170,190)	(109,268)
Accounts payable and accrued expenses	681,592	(419,696)
Accrued payroll and related liabilities	(20,795)	248,318
Estimated third-party payor settlements	386,897	97,531
Net cash flows from operating activities	$ 2,582,782	$ 2,433,442

See accompanying notes to combined financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Memorial Hospital of Logansport (the Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Cass County appoints the Governing Board of the Hospital (Board) and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Cass County.

On February 22, 1977, the Board of County Commissioners of Cass County, upon written request of the Hospital Board of Trustees created the Memorial Hospital of Logansport Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

The accompanying financial statements present the activities of the Hospital (primary government) and its significant component units. The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. Blended component units, although legally separate entities are in substance part of the government's operations and exist solely to provide services for the government; data from these units is combined with data of the primary government.

Blended Component Units

Memorial Hospital Foundation of Cass County, Inc. d/b/a Memorial Hospital Foundation (the Foundation), is a significant blended component unit of the Hospital. The primary government appoints a voting majority of the Foundation's Board and a financial benefit/burden relationship exists between the Hospital and the Foundation. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it is substantively the same.

Health Professional Resources, Inc., (HPR) is a significant blended component unit of the Hospital. The primary government appoints a voting majority of HPR's Board and is able to impose its will. Although it is legally separate from the Hospital, HPR is reported as if it were a part of the Hospital because the two boards are substantively the same.

Northcentral Orthopedics is a significant blended component unit of the Hospital. The primary government appoints a voting majority of Northcentral Orthopedics's Board and is able to impose its will. Although it is legally separate from the Hospital, Northcentral Orthopedics is reported as if it were a part of the Hospital because the two boards are substantively the same.

Use of Estimates

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

Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity of three months or less. 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.

Assets Limited as to Use

These assets include investments designated by the Hospital Board for internal purposes, investments and other assets restricted by donors for a specific purpose and investments held by trustees.

Investments: Debt and Equity Securities and Other Investments

Debt and equity securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Investments in affiliated companies are reported using the equity method of accounting, or at cost, as applicable.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as non-operating revenues in the statement of revenues, expenses, and changes in net assets.

Capital Assets and Depreciation

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

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements	$500	Straight-line	20 years
Buildings	$500	Straight-line	30 years
Equipment	$500	Straight-line	3-15 years

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

Costs of Borrowing

Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds, as well as interest earned on those funds, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no capitalized interest in 2007 and 2006.

Patient Accounts Receivable and Revenues

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 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 the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2005, with differences reflected as deductions from revenue. Amounts for unresolved cost reports for 2006 through 2007 as well as other allowances are reflected in estimated third-party settlements on the balance sheets.

Revenue from Medicare and Medicaid programs accounted for approximately 31 percent and 4 percent, respectively, of the Hospital's net patient revenue for 2007, and 31 percent and 4 percent, respectively, of the Hospital's net patient revenue for 2006.

The Hospital recognized net revenue related to the Disproportionate Share Hospital and Medicaid Safety Net programs of approximately $1,121,000 and $1,400,000 for the years ended December 31, 2007 and 2006, respectively. These amounts are reimbursements for providing care to the uninsured and underinsured during periods prior to 2007 and 2006. This program is a Federal program administered by the state. There is currently a one year moratorium on a change in the regulation related to the eligibility to participate in the program, which if left unchanged would expire in May 2008. The ultimate outcome and potential impact of the change in the regulation is unknown.

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

organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts deemed to be charity care are reported as deductions from revenues.

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable and nonexpendable net assets are non-capital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Grants and Contributions

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

Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity and are classified as nonexpendable permanent endowments.

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.

Operating Revenues and Expenses

The Hospital's statement of operations and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services — the Hospital's principal activity. Nonexchange revenues including grants, and contributions received for purposes other than capital asset acquisition are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Compensated Absences

Sick Leave

Prior to January 1, 2004, Hospital employees accrued sick leave at varying rates and could accumulate unused leave to a maximum of 240 hours. Effective January 1, 2004, sick leave accrual ended and the Hospital initiated a short term disability benefit program. Employees were allowed to carry over from year to year any accrued unused sick leave as of January 1, 2004, to be used prior to applying for short-term disability benefits. The Hospital self-funds their short-term disability program on a pay as you go basis. Sick leave accumulated prior to January 1, 2004 is not paid to employees upon separation of employment.

Personal Leave

Hospital employees who work at least 32 hours per pay period earn personal leave at the rate of 72 to 144 hours per year based upon the number of years of service. Unused personal leave may be accumulated to a maximum of 240 hours. Accumulated personal leave is paid to employees through a lump sum cash payment upon separation of employment.

Personal leave is accrued when incurred and reported as a liability.

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section

501(c)(3). Memorial Hospital Foundation is a 501(c)(3) not-for-profit organization. Health Professional Resources, Inc. and Northcentral Orthopedics are Indiana corporations. Amounts for federal and state income taxes are based on earnings reported for financial statement purposes. As of December 31, 2007 and 2006, no deferred taxes were recorded for Health Professional Resources, Inc and Northcentral Orthopedics.

Advertising

The Hospital uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. The total amount of advertising expense was $523,825 and $309,852 during 2007 and 2006, respectively.

Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; job related illnesses or injuries to employees; medical benefits to employees and dependents. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims from these risks have not exceeded commercial insurance coverage for the past several years.

New Accounting Pronouncement

In November 2005, the FASB issued FASB Staff Position No. 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners" ("FIN 45-3"). It served as an amendment to FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others" ("FIN 45") by adding minimum revenue guarantees to the list of examples of contracts to which FIN 45 applies.

Under FIN 45, a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. One example cited in FIN 45-3 involves a guarantee provided by a healthcare entity to a non-employed physician in order to recruit such physician to move to the entity's geographical area and establish a private practice, which is the approach the Hospital uses in recruiting physicians to the community. FIN 45 is effective for new minimum revenue guarantees issued or modified on or after January 1, 2006.

The Hospital adopted this amendment to FIN 45 effective January 1, 2006. For periods ending before January 1, 2006, the Hospital did not report the fair value of its obligations under physician revenue guarantee agreements. However, under FIN 45 as amended, the Hospital is required to report the liability for these physician revenue guarantees on its balance sheets at fair value and amortize the related prepaid physician recruitment expense over the period of the physician's contractual commitment to practice in the

local community, which is typically three years. As of December 31, 2007, the Hospital had not entered or modified any physician revenue guarantee agreements on or after January 1, 2006; accordingly, the adoption of this amendment had no affect on the accompanying financial statements.

2. CHARITY CARE

Charges excluded from patient service revenue under the Hospital's charity care policy were $1,738,282 and $996,450 during 2007 and 2006, respectively.

3. ASSETS LIMITED AS TO USE

The composition of assets limited as to use includes the following as of December 31:

	2007	2006
Internally designated		
Funded depreciation		
Cash and cash equivalents	$ 1,672,936	$ 2,390,567
Investments	7,829,680	6,827,114
Accrued interest receivable	197,210	115,615
Total funded depreciation	9,699,826	9,333,296
Held by trustee		
Investments	2,387	320,679
Restricted by contributors and grantors		
Investments	917,248	878,948
Total assets limited as to use	$ 10,619,461	$ 10,532,923

4. DEPOSITS AND INVESTMENTS

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. Funded

depreciation investments consist of cash equivalents and U.S. Government securities. Market value approximated cost as of December 31, 2007 and 2006.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2007 and 2006, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

December 31, 2007

		Investment Maturies (in years)			
	Carrying Amount	Less than 1	1-5	6-10	More than 10
US Government Securities	$ 2,550,000	$ -0-	$ 800,000	$ 1,550,000	$ 200,000
Certificates of Deposit	5,027,754	2,249,000	2,681,000	97,754	-0-
Mutual Funds	1,171,561	1,171,561	-0-	-0-	-0-
	$ 8,749,315	$ 3,420,561	$ 3,481,000	$ 1,647,754	$ 200,000

December 31, 2006

		Investment Maturies (in years)			
	Carrying Amount	Less than 1	1-5	6-10	More than 10
US Government Securities	$ 2,629,730	$ 100,000	$ 1,129,730	$ 1,300,000	$ 100,000
Certificates of Deposit	4,427,000	2,957,000	1,470,000	-0-	-0-
Mutual Funds	970,011	970,011	-0-	-0-	-0-
	$ 8,026,741	$ 4,027,011	$ 2,599,730	$ 1,300,000	$ 100,000

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 believes that it is not exposed to any significant credit risk on investments.

Deposits and investments consist of the following as of December 31, 2007 and 2006:

	2007	2006
Carrying amount		
Deposits	$ 4,771,011	$ 6,368,724
Investments	8,749,315	8,026,741
	$ 13,520,326	$ 14,395,465
Included in the balance sheet captions		
Cash and cash equivalents	$ 2,900,865	$ 3,862,542
Internally designated	9,699,826	9,333,296
Held by trustee for debt service	2,387	320,679
Restricted by contributors and grantors	917,248	878,948
	$ 13,520,326	$ 14,395,465

5. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts as of December 31, 2007 and 2006:

	2007	2006
Patient accounts receivable		
Receivable from patients and their insurance carriers	$ 12,328,696	$ 9,950,631
Receivable from Medicare	3,427,061	3,945,318
Receivable from Medicaid	890,917	1,570,990
Total patient accounts receivable	16,646,674	15,466,939
Less allowance for contractual agreements and uncollectible amounts	(7,646,864)	(7,125,232)
Patient accounts receivable, net	$ 8,999,810	$ 8,341,707
Accounts payable and accrued expenses		
Payable to suppliers	$ 2,709,878	$ 2,028,286
Payable to employees (including payroll taxes and benefits)	2,688,171	2,708,966
Total accounts payable and accrued expenses	$ 5,398,049	$ 4,737,252

6. CAPITAL ASSETS

A summary of capital assets at December 31, 2007 and 2006, follows:

	Balance December 31, 2006	Additions	Retirements	Transfers	Balance December 31, 2007
Land	$ 805,873	$ -0-	$ -0-	$ -0-	$ 805,873
Land improvements	1,236,014	-0-	(823,800)	-0-	412,214
Building and improvements	57,265,562	142,675	(3,442,108)	148,033	54,114,162
Equipment	21,930,016	1,036,840	(448,386)	127,065	22,645,535
Construction in progress	372,315	645,644	-0-	(275,098)	742,861
Total capital assets	81,609,780	1,825,159	(4,714,294)	-0-	78,720,645
Less accumulated depreciation					
Land improvements	(903,837)	(23,374)	820,100	-0-	(107,111)
Building and improvements	(20,001,524)	(1,687,962)	3,372,991	-0-	(18,316,495)
Equipment	(15,682,024)	(1,432,731)	442,844	-0-	(16,671,911)
Total accumulated depreciation	(36,587,385)	(3,144,067)	4,635,935	-0-	(35,095,517)
Capital assets, net	$ 45,022,395	$ (1,318,908)	$ (78,359)	$ -0-	$ 43,625,128

	Balance December 31, 2005	Additions	Retirements	Transfers	Balance December 31, 2006
Land	$ 823,372	$ -0-	$ (17,499)	$ -0-	$ 805,873
Land improvements	1,195,089	21,125	-0-	19,800	1,236,014
Building and improvements	41,874,733	85,487	-0-	15,305,342	57,265,562
Equipment	21,155,132	668,200	(922,821)	1,029,505	21,930,016
Construction in progress	15,666,034	1,060,928	-0-	(16,354,647)	372,315
Total capital assets	80,714,360	1,835,740	(940,320)	-0-	81,609,780
Less accumulated depreciation					
Land improvements	(881,204)	(22,633)	-0-	-0-	(903,837)
Building and improvements	(18,449,999)	(1,551,525)	-0-	-0-	(20,001,524)
Equipment	(15,118,959)	(1,482,585)	919,520	-0-	(15,682,024)
Total accumulated depreciation	(34,450,162)	(3,056,743)	919,520	-0-	(36,587,385)
Capital assets, net	$ 46,264,198	$ (1,221,003)	$ (20,800)	$ -0-	$ 45,022,395

The following is an analysis of the leased assets included in capital assets as of December 31, 2007 and 2006:

	2007	2006
Equipment	$ 1,404,605	$ 1,404,605
Less: accumulated depreciation	677,904	516,771
	$ 726,701	$ 887,834

7. DERIVATIVE LIABILITY

During the year ended December 31, 2005, the Hospital entered into a "cash flow hedge interest rate swap" agreement with a financial institution. The Hospital pays a fixed interest rate (3.89% at December 31, 2007) and the financial institution pays a variable interest rate (3.24% at December 31, 2007) over the term of the agreement.

The Hospital's objective is to provide protection against market driven increases in variable interest rates. The fair value of the agreement was determined by the financial institution using the present value of the estimated projected cash flows. The Hospital is in a liability position as of December 31, 2007 due to the present value of its estimated projected cash flows being greater than the financial institution's present value of estimated projected cash flows.

The swap was effective on April 1, 2005 and matures on May 2, 2011. It contains an outstanding notional amount of $8,978,519 with a 3.89% fixed rate of interest and is a derivative liability for the Hospital with fair values of $280,699 and $128,731 as of December 31, 2007 and 2006, respectively. The derivative liability is payable should the Hospital terminate the agreement.

8. LONG-TERM DEBT

The terms and due dates of the Hospital's long-term debt, including capital lease obligations, at December 31, 2007 and 2006, are as follows:

a. 2004 revenue bonds totaling $21,880,000, collateralized by a letter of credit in the amount of $19,887,199 expiring May 15, 2009, with a variable interest rate of 3.47% at December 31, 2007, principal maturing at varying annual amounts, due May 1, 2024, collateralized by a pledge of the Hospital's assets and gross receipts.
b. 2001 loan payable totaling $3,100,000, interest rate of 5%, principal maturing at varying annual amounts, due April 15, 2012, collateralized by certain Hospital assets.
c. Capital lease obligations, at varying rates of imputed interest, collateralized by leased equipment.

	Balance at December 31, 2006	Additional borrowings	Payments	Balance at December 31, 2007	Current portion	Long-term portion
2001 Loan payable	$ 2,362,672	$ -0-	$ 181,601	$ 2,181,071	$ 190,099	$ 1,990,972
2004 Revenue bonds	20,435,000	-0-	790,000	19,645,000	820,000	18,825,000
Software loan	-0-	105,747	6,617	99,130	37,179	61,951
Capital leases	599,422	-0-	195,054	404,368	202,663	201,705
	$ 23,397,094	$ 105,747	$ 1,173,272	$ 22,329,569	$ 1,249,941	$ 21,079,628

	Balance at December 31, 2005	Additional borrowings	Payments	Balance at December 31, 2006	Current portion	Long-term portion
2001 Loan payable	$ 2,535,432	$ -0-	$ 172,760	$ 2,362,672	$ 180,847	$ 2,181,825
2004 Revenue bonds	21,195,000	-0-	760,000	20,435,000	790,000	19,645,000
Capital leases	784,840	-0-	185,418	599,422	195,012	404,410
	$ 24,515,272	$ -0-	$ 1,118,178	$ 23,397,094	$ 1,165,859	$ 22,231,235

Scheduled principal and interest payments on long-term debt at December 31, 2007 are as follows:

	Long-term debt		Capital leases	
Years Ending December 31,	Principal	Interest	Principal	Interest
2008	$ 1,047,278	$ 505,890	$ 202,663	$ 14,399
2009	1,088,899	476,674	165,157	4,051
2010	1,131,209	446,147	36,548	215
2011	1,155,138	414,657	-0-	-0-
2012	2,322,677	345,831	-0-	-0-
2013-2017	5,450,000	1,279,295	-0-	-0-
2018-2022	6,665,000	650,015	-0-	-0-
2023-2026	3,065,000	34,647	-0-	-0-
	$ 21,925,201	$ 4,153,156	$ 404,368	$ 18,665

The Foundation had a $1,000,000 unsecured line-of-credit at an interest rate of 7.0%. The line was due on December 20, 2007. There were no outstanding borrowings on the line was as of December 31, 2007 and 2006, respectively.

9. LETTER OF CREDIT

The Hospital acquired a letter of credit to provide credit enhancement and liquidity support for the Series 2004 Revenue Bonds. The letter of credit for the 2004 bond issue is maintained at an amount sufficient to cover the outstanding obligation. The term of the letter is five years with interest payable monthly at the bank's prime rate. There are certain covenants on the letter of credit. Management believes the Hospital is in compliance with all covenants as of December 31, 2007 and 2006.

10. NET PATIENT REVENUE

Net patient revenue for 2007 and 2006 consists of the following:

	2007	2006
Inpatient revenue	$ 33,076,773	$ 31,625,171
Outpatient revenue	74,885,431	69,065,236
Gross patient revenue	107,962,204	100,690,407
Contractual allowances	(58,534,623)	(54,012,191)
Charity care	(1,738,282)	(996,450)
Bad debt expense	(3,724,005)	(3,736,057)
Deductions from revenue	(63,996,910)	(58,744,698)
Net patient revenue	$ 43,965,294	$ 41,945,709

11. EMPLOYEE HEALTH PLAN

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 a stipulated amount per year. Substantially all employees are covered for major medical benefits. The total health claims expense was $1,802,381 and $2,129,613 for 2007 and 2006, respectively.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

Changes in the balance of claim liabilities during the past two years are as follows:

	2007	2006
Unpaid claims, beginning of year	$ 612,525	337,525
Incurred claims and changes in estimates	1,802,381	2,129,613
Claim payments	(1,862,047)	(1,854,613)
Unpaid claims, end of year	$ 552,859	$ 612,525

12. PENSION PLAN

Plan Description

The Hospital has a defined contribution pension plan. The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital will contribute 3% of an employee's gross wages into the 401(a) portion of the plan. If an employee chooses to participate in the 403(b) portion of the plan, the Hospital will match employee contributions up to 2% of gross wages. Hospital contributions to the plan were $602,978 and $510,098 for 2007 and 2006, respectively.

13. CONCENTRATIONS OF CREDIT RISK

The Hospital is located in Logansport, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements.

The mix of receivables from patients and third-party payors at December 31 was as follows:

	2007	2006
Medicare and Medicaid	32%	37%
Commercial and other payors	31%	36%
Self-pay	37%	27%
	100%	100%

14. COMMITMENTS AND CONTINGENCIES

Litigation

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

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.

Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through January 2010.

The following is a schedule by year of future minimum lease payments under non-cancelable operating leases as of December 31, 2007, that have initial or remaining lease terms in excess of one year.

Year Ending December 31,	
2008	$ 782,805
2009	664,743
2010	659,703
2011	659,703
2012	132,825

15. INVESTMENT IN AFFILIATED COMPANY

In 1991, the Hospital entered into an agreement with two unrelated hospitals to establish and operate a laundry and linen service. In accordance with this agreement, each hospital invested $1,000 for a 33 1/3% equity interest in the common stock of the laundry and linen service. The North Central Indiana Linen Service, Inc., began operation in 1992. The investment is recorded on the equity method. The Hospital's investment is included in the Other Assets category of the statement of net assets.

Summarized financial information as of December 31, 2007 and 2006, and for the years then ended from the audited financial statements of the Affiliated Company follows:

	2007	2006
Current assets	$ 337,210	$ 182,816
Noncurrent assets	778,785	1,080,302
Current liabilities	210,492	274,911
Noncurrent liabilities	50,900	223,925
Stockholder's equity	854,603	764,281
Revenue	1,603,060	1,594,695
Net change in equity	90,322	96,878

The investment balance at December 31, 2007 and 2006 was $282,018 and $253,427, respectively which relates to 33 1/3% of the stockholders equity balance and is included in Other Assets.

The Hospital paid $234,359 and $260,148 for services to the affiliated company for 2007 and 2006, respectively.

16. LOGANSPORT MEMORIAL HOSPITAL FOUNDATION – COMPASS SQUARE STOCK

During 1998, the Board of Directors of the Logansport Memorial Hospital Foundation authorized the formation of a subsidiary corporation to be known as Compass Square Development Corporation. The subsidiary authorized 1,000 common shares of which 100 are issued and outstanding. The Foundation owns twenty-five of those shares and seventy-five shares are owned by Four County Comprehensive Mental Health Center, Inc.

17. DISCONTINUED OPERATIONS

During 2007, the Hospital discontinued its transitional care unit (The Arbors). Operating results are included in the loss from operations of the discontinued component in the statement of operations of $185,044 and $147,920 for 2007 and 2006, respectively. Net patient revenue for the discontinued component was $618,017 and $699,001 for 2007 and 2006, respectively.