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302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

March 25, 2010

Board of Directors
Memorial Hospital of Logansport
1101 Michigan Avenue
Logansport, Indiana 46947

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Memorial Hospital of Logansport, as of December 31, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

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MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2008 AND 2007

CPAs / ADVISORS



MEMORIAL HOSPITAL OF LOGANSPORT

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Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
MEMORIAL HOSPITAL OF LOGANSPOUR
Logansport, Indiana

We have audited the accompanying combined balance sheets of Memorial Hospital of Logansport (the Hospital), as of December 31, 2008 and 2007, 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. For 2007 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 as of December 31, 2007, and total revenues of approximately \$336,000 for the year then ended. For 2007 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 as of December 31, 2007, and total revenues of approximately \$1.9 million for the year then ended. For 2007 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 as of December 31, 2007, and total revenues of approximately \$804,000 for the year then ended. For 2007 those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the 2007 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, 2008 and 2007 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

June 12, 2009

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

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, 2008. This MD&A includes a discussion and analysis of the activities and results of the Hospital combined financial statements. Those combined financial statements include The Memorial Hospital of Logansport Foundation, Inc., Health Professional Resources, Inc., and Northcentral Orthopedics.

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 2008 and goals for 2009, as well as the required explanation of Operational and Financial Performance for 2008.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

Financial Highlights

Overall, net assets increased by \$2,022,371 in 2008, which included net operating income of \$2,462,742.

Total net income increased dramatically in 2008, due to several factors, including:

- An increase in operating revenue of 13.9% over 2007, with an increase in expense of 7.0%.
- Several operational changes, which resulted in increased revenues and decreased expenses.
- Focus and achievement of several 2008 Strategic Initiatives, which focused on quality care and operational efficiencies to reduce costs of care.

The Hospital experienced a margin on operating revenue for 2008 equal to 4.6%, compared to -1.5% for 2007. 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, 2008 AND 2007

A summary of the Hospital and component units Balance Sheet as of December 31, 2008 and 2007 is presented below (in thousands):

| | 2008 | 2007 | \$ Change | % Change |
|--------------------------------------------------------------------------|-------------------------|-------------------------|------------------------|------------------|
| Current assets | <u>\$ 15,416</u> | <u>\$ 13,585</u> | <u>\$ 1,831</u> | <u>13% (1)</u> |
| Assets limited to use (funded depreciation, escrow funds, contributions) | 10,866 | 10,620 | 246 | 2% |
| Capital assets | 43,635 | 43,625 | 10 | 0% |
| Other assets | 906 | 834 | 72 | 9% |
| Total assets | <u><u>\$ 70,823</u></u> | <u><u>\$ 68,664</u></u> | <u><u>\$ 2,159</u></u> | <u><u>3%</u></u> |
| Current & other liabilities | <u>\$ 7,503</u> | <u>\$ 6,648</u> | <u>\$ 855</u> | <u>13%</u> |
| Capital leases | 391 | 201 | 190 | 95% |
| Long-term debt | 19,796 | 20,878 | (1,081) | -5% (2) |
| Derivative liability | 456 | 281 | 175 | 62% |
| Total liabilities | <u>28,146</u> | <u>28,008</u> | <u>139</u> | <u>0%</u> |
| Invested in capital assets - net of related debt | 22,129 | 21,296 | 833 | 4% |
| Restricted | 1,404 | 1,645 | (241) | -15% |
| Unrestricted | 19,144 | 17,714 | 1,430 | 8% |
| Total net assets | <u>42,677</u> | <u>40,655</u> | <u>2,022</u> | <u>5%</u> |
| Total liabilities and net assets | <u><u>\$ 70,823</u></u> | <u><u>\$ 68,664</u></u> | <u><u>\$ 2,161</u></u> | <u><u>3%</u></u> |

Note 1: Increase in cash of \$1,758,550 in 2008. Increase in accounts receivable of \$67,900 in 2008. Increase in supplies and other current assets of \$101,620 in 2008.

Note 2: Decrease in long-term debt, net of current portion of \$1,082,210 in 2008.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

A summary of the Hospital and component units Statement of Operations and Changes in Net Assets for 2008 and 2007 is presented below (in thousands):

| | 2008 | 2007 | \$ Change | % Change |
|-----------------------------------------------------------------------|------------------|------------------|-----------------|----------------|
| Net patient service revenue | \$ 50,940 | \$ 43,966 | \$ 6,974 | 16% |
| Other revenue | 2,383 | 2,859 | (476) | -17% |
| Total revenue | <u>53,323</u> | <u>46,825</u> | <u>6,498</u> | <u>14% (1)</u> |
| Salaries and benefits | 30,050 | 26,239 | 3,811 | 15% (2) |
| Supplies and other | 17,670 | 18,114 | (444) | -2% (3) |
| Depreciation and amortization | 3,140 | 3,171 | (31) | -1% |
| Total expenses | <u>50,860</u> | <u>47,524</u> | <u>3,336</u> | <u>7% (1)</u> |
| Operating income (loss) from continuing operations | 2,463 | (699) | 3,162 | -452% |
| Non-operating income (expense) | (441) | (718) | 277 | -39% |
| Excess of revenue over expenses before discontinued operations | <u>2,022</u> | <u>(1,417)</u> | <u>3,439</u> | <u>-243%</u> |
| Loss from operations of discontinued component | <u>-</u> | <u>(185)</u> | <u>185</u> | <u>-100%</u> |
| Change in net assets | 2,022 | (1,602) | 3,624 | -226% |
| Total net assets - beginning of year | <u>40,655</u> | <u>42,257</u> | <u>(1,602)</u> | <u>-4%</u> |
| Total net assets - end of year | <u>\$ 42,677</u> | <u>\$ 40,655</u> | <u>\$ 2,022</u> | <u>5%</u> |

Notes:

- (1) Overall net revenue increased by more than \$6.4 million in 2008. Expenses increased by only \$3.3 million in 2008 from 2007. The Hospital received a low-volume adjustment settlement from Medicare in 2008, which dated back to factors, which qualified the Hospital for payment in 2005.
- (2) Salaries and wages increased at a slower rate than net patient service revenue.
- (3) Medical and other professional services decreased by 9.3% from 2007. This was accomplished by recruiting and retaining additional physicians and providers in the community, thus reducing the need for contracted physician coverage. Supplies and drug costs decreased by 5.5% in 2008, despite the 13.9% increase in operating revenue. This was accomplished through joining purchasing alliances, which provide volume discounts. This was also accomplished through more selective buying and standardization of products utilized throughout the Hospital and the clinics to improve costs and quality.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

Sources of Revenue

During 2008, 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 2008 and 2007. Management is concerned however with the trend toward high-deductible plans and increasing numbers of uninsured and underinsured patients.

| <u>Payor Mix</u> | <u>2008</u> | <u>2007</u> |
|----------------------|-------------|-------------|
| Medicare | 38% | 42% |
| Medicaid | 12% | 13% |
| Commercial insurance | 21% | 21% |
| Blue Cross/Anthem | 18% | 17% |
| Private pay | 5% | 4% |
| Other | 6% | 3% |
| Total | <u>100%</u> | <u>100%</u> |

Operating and Financial Performance Volume

The Hospital experienced a profit in 2008, both as a component unit and on a combined basis. Revenue and volume numbers indicate a large growth trend in outpatient operations, and a decreasing trend in inpatient operations. The Hospital experienced an increase in net revenue, while cost increases primarily due to Salaries and Wages were held in check.

- Adjusted patient discharges increased from 9,025 in 2007 to 9,213 in 2008.
- Inpatient activity decreased in discharges by (7.2)%.
- Outpatient visits, combined, increased by 13.3% in 2008.

Management expects this continued decline in inpatient volume due to the ongoing shift toward outpatient care delivery in the United States as well as our nation's focus on more efficient and effective ways to care for patients in non-traditional healthcare settings. The outpatient increase is a function of the continual shift seen in healthcare to performing procedures on an outpatient setting and also that physicians are making greater use of diagnostic testing to determine care delivery. The Hospital experienced a decrease in ER visits of 2.4% in 2008, which was due to the opening of the ExpressMed walk-in clinic in January of 2008. This clinic was opened in response to the yearly increases in ER visits experienced in Cass County and across the United States, which represented an increase of 7.9% from 2006 to 2007. This walk-in clinic provides primary care services at a much lower cost to the patient than they would experience in the ER.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

Community (Charity) Care

The Hospital further enhanced its Community Care policies in 2008 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 (the underinsured). The Hospital employed three full-time financial counselors in 2008 to administer the Community Care Policies. 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 \$2,198,321 was provided in 2008.

Expenses

Total operating expenses increased by \$3,336,672 in 2008, mainly attributable as discussed previously to direct costs such as salaries, benefits, utilities, and "Other" (typically physician recruitment related).

Non-Operating Revenue

The Hospital maintains restricted funds as well as operating cash balances, and invests these funds in accordance with the Board of Trustees-approved Investment Policy. In general, the Hospital takes a conservative and relatively short-term position on its investments. In 2008, interest rates and the stock market fell dramatically and cash balances were down slightly early in the year, leading to a decrease in non-operating revenue from 2007.

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 2008 review is shown here. (Hospital Results Only)

| | Actual | Budget | \$ Change | % Change |
|------------------------------------|-----------------|-----------------|-----------------|----------------|
| Net patient service revenue | \$ 50,940 | \$ 48,546 | \$ 2,394 | 5% (1) |
| Other revenue | 2,383 | 1,353 | 1030 | 76% |
| Total revenue | <u>53,323</u> | <u>49,899</u> | <u>3424</u> | <u>7%</u> |
| Salaries and benefits | 30,050 | 28,533 | 1517 | 5% (2) |
| Supplies and other | 17,670 | 16,843 | 827 | 5% |
| Depreciation and amortization | 3,140 | 3,144 | -4 | 0% |
| Total expenses | <u>50,860</u> | <u>48,520</u> | <u>2340</u> | <u>5%</u> (2) |
| Operating income | <u>\$ 2,463</u> | <u>\$ 1,379</u> | <u>\$ 1,084</u> | <u>79%</u> (3) |

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

Notes:

- (1) The Hospital was on budget for outpatient revenue and activity, but unfortunately did not anticipate the size of the decline in inpatient volumes. This shift in the delivery of care is a national trend.
- (2) Employment expenses were slightly higher than the budget for 2008, due mainly to the additional recruitment and retention of healthcare providers.
- (3) In total, the other operating expenses were 5% over budget, which was much less than the increase of 7% in net revenues over budget.

Capital Assets

The Hospital invested \$3.2 million in capital assets in 2008. The majority of this was attributable to the ExpressMed Clinic, physician office acquisitions, clinical equipment upgrades, and information technology upgrades. The remainder of the money was spent on physical plant upgrades in accordance with the facility master plan.

| | 2008 | 2007 | \$ Change | % Change |
|--------------------------------------|------------------|------------------|--------------|-----------|
| Land and improvements | \$ 1,729 | \$ 1,218 | \$ 511 | 42% |
| Buildings | 54,778 | 54,114 | 664 | 1% |
| Equipment | 24,743 | 22,646 | 2,097 | 9% |
| Total capital assets | 81,250 | 77,978 | 3,272 | 4% |
| Less accumulated depreciation | (38,152) | (35,096) | (3,056) | 9% |
| Construction in progress | 538 | 743 | (205) | -28% |
| Net capital assets | <u>\$ 43,636</u> | <u>\$ 43,625</u> | <u>\$ 11</u> | <u>0%</u> |

Long Term Debt

The Hospital had \$21.5 million in short and long term debt at year-end 2008, versus \$22.3 million in 2007.

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, 2008 AND 2007

ASSETS

| | <u>2008</u> | <u>2007</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| Current assets | | |
| Cash and cash equivalents | \$ 4,659,419 | \$ 2,900,865 |
| Patient accounts receivable, net of allowance for doubtful accounts of \$2,817,383 and \$2,133,852 as of December 31, 2008 and 2007, respectively | 9,067,715 | 8,999,810 |
| Estimated third-party payor settlements | -0- | 97,427 |
| Supplies and other current assets | <u>1,688,588</u> | <u>1,586,965</u> |
| Total current assets | 15,415,722 | 13,585,067 |
| Assets limited as to use | | |
| Internally designated | 10,129,317 | 9,699,826 |
| Held by trustee | 2,427 | 2,387 |
| Restricted by contributors and grantors | <u>733,713</u> | <u>917,248</u> |
| Total assets limited as to use | 10,865,457 | 10,619,461 |
| Capital assets | | |
| Land and construction in progress | 1,827,680 | 1,548,732 |
| Depreciable capital assets, net | <u>41,807,526</u> | <u>42,076,396</u> |
| Total capital assets | 43,635,206 | 43,625,128 |
| Other assets | 906,440 | 833,663 |
| Total assets | <u><u>\$ 70,822,825</u></u> | <u><u>\$ 68,663,319</u></u> |

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

LIABILITIES AND NET ASSETS

| | <u>2008</u> | <u>2007</u> |
|------------------------------------------------------|----------------------|----------------------|
| Current liabilities | | |
| Current portion of long-term debt and capital leases | \$ 1,318,998 | \$ 1,249,941 |
| Accounts payable and accrued expenses | 2,181,132 | 2,709,878 |
| Accrued payroll and related liabilities | 2,834,917 | 2,688,171 |
| Estimated third-party payor settlements | 1,168,038 | -0- |
| Total current liabilities | <u>7,503,085</u> | <u>6,647,990</u> |
| Non current liabilities | | |
| Capital leases, net of current portion | 391,002 | 201,705 |
| Long-term debt, net of current portion | 19,795,716 | 20,877,923 |
| Derivative liability | 455,649 | 280,699 |
| Total liabilities | <u>28,145,452</u> | <u>28,008,317</u> |
| Net assets | | |
| Invested in capital assets, net of related debt | 22,129,490 | 21,295,559 |
| Restricted | | |
| Held by trustee | 2,427 | 2,387 |
| Expendable for capital acquisitions | 281,023 | 281,023 |
| Expendable for specific operating activities | 924,822 | 1,114,169 |
| Nonexpendable permanent endowments | 195,820 | 247,843 |
| Unrestricted | 19,143,791 | 17,714,021 |
| Total net assets | <u>42,677,373</u> | <u>40,655,002</u> |
| Total liabilities and net assets | <u>\$ 70,822,825</u> | <u>\$ 68,663,319</u> |

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2008 AND 2007

| | 2008 | 2007 |
|-----------------------------------------------------------------|---------------|---------------|
| Operating revenues | | |
| Net patient revenue (net of provision for bad debt) | \$ 50,939,633 | \$ 43,965,294 |
| Other | 2,383,411 | 2,859,003 |
| Total operating revenues | 53,323,044 | 46,824,297 |
| Operating expenses | | |
| Salaries and benefits | 30,049,477 | 26,239,075 |
| Medical and other professional fees | 5,025,337 | 5,540,377 |
| Medical supplies and drugs | 6,566,380 | 6,944,548 |
| Insurance | 812,454 | 691,183 |
| Rent and leases | 937,938 | 951,675 |
| Utilities | 1,050,648 | 939,221 |
| Other supplies | 470,186 | 359,241 |
| Depreciation and amortization | 3,140,121 | 3,170,634 |
| Other | 2,807,761 | 2,687,676 |
| Total operating expenses | 50,860,302 | 47,523,630 |
| Operating income (loss) from continuing operations | 2,462,742 | (699,333) |
| Nonoperating revenues (expenses) | | |
| Investment income | 92,167 | 608,690 |
| Interest expense | (792,008) | (895,022) |
| Noncapital grants and contributions | 571,011 | 257,338 |
| Unrealized loss on derivative | (174,950) | (151,968) |
| Other | (136,591) | (537,478) |
| Total nonoperating expenses | (440,371) | (718,440) |
| Excess of revenues over expenses before discontinued operations | 2,022,371 | (1,417,773) |
| Loss from operations of discontinued component | -0- | (185,044) |
| Change in net assets | 2,022,371 | (1,602,817) |
| Net assets beginning of the year | 40,655,002 | 42,257,819 |
| Net assets end of year | \$ 42,677,373 | \$ 40,655,002 |

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007

| | 2008 | 2007 |
|-----------------------------------------------------------------------------------|---------------|---------------|
| Operating activities | | |
| Cash received from patients and third party payors | \$ 50,905,007 | \$ 44,480,058 |
| Cash paid to employees for salaries and benefits | (29,902,731) | (26,834,385) |
| Cash paid to vendors for goods and services | (17,241,128) | (18,108,062) |
| Other receipts and payments, net | 2,485,508 | 3,045,171 |
| Net cash flows from operating activities | 6,246,656 | 2,582,782 |
| Noncapital financing activities | | |
| Noncapital grants and contributions and other | 259,470 | (432,108) |
| Capital and related financing activities | | |
| Acquisition of capital assets | (2,675,367) | (1,825,159) |
| Proceeds from issuance of long-term debt | -0- | 105,747 |
| Principal paid on long-term debt | (1,304,344) | (1,173,272) |
| Interest paid on long-term debt | (792,008) | (895,022) |
| Proceeds from sale of capital assets | -0- | 1,235 |
| Net cash flows from capital and related financing activities | (4,771,719) | (3,786,471) |
| Investing activities | | |
| Investment income | 92,167 | 608,690 |
| Change in investments and assets limited as to use | 227,716 | (652,201) |
| Net cash flows from investing activities | 319,883 | (43,511) |
| Net change in cash and cash equivalents | 2,054,290 | (1,679,308) |
| Cash and cash equivalents at beginning of year | 4,573,801 | 6,253,109 |
| Cash and cash equivalents at end of year | \$ 6,628,091 | \$ 4,573,801 |
| Supplemental Disclosure Information | | |
| Liabilities assumed and assets acquired in the amount of \$480,491 during 2008 | | |
| Reconciliation of cash and cash equivalents to the statement of net assets | | |
| Cash and cash equivalents in current assets | \$ 4,659,419 | \$ 2,900,865 |
| Cash and cash equivalents in assets limited as to use | 1,968,672 | 1,672,936 |
| Total cash and cash equivalents | \$ 6,628,091 | \$ 4,573,801 |

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007

| | <u>2008</u> | <u>2007</u> |
|----------------------------------------------------------------------------------------------|---------------------|---------------------|
| Reconciliation of operating income (loss) to net cash flows from operating activities | | |
| Operating income (loss) | \$ 2,462,742 | \$ (699,333) |
| Adjustments to reconcile operating income (loss) to net cash flows from operating activities | | |
| Depreciation and amortization | 3,140,121 | 3,170,634 |
| Provision for bad debts | 4,455,004 | 3,724,005 |
| Loss on disposal of capital assets | 29,200 | 77,124 |
| Results from discontinued operations | -0- | (185,044) |
| Changes in | | |
| Patient accounts receivable | (4,522,909) | (4,382,108) |
| Supplies, other current assets and other assets | (200,967) | (170,190) |
| Accounts payable and accrued expenses | (528,746) | 681,592 |
| Accrued payroll and related liabilities | 146,746 | (20,795) |
| Estimated third-party payor settlements | 1,265,465 | 386,897 |
| Net cash flows from operating activities | <u>\$ 6,246,656</u> | <u>\$ 2,582,782</u> |

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

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 to Cass County and other surrounding counties.

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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

Northcentral Orthopedics is a significant blended component unit of the Hospital. The primary government appoints a voting majority of Northcentral Orthopedics' 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. During 2008, management began the process of closing Northcentral Orthopedics and all remaining assets and liabilities will transfer to the Hospital.

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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

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, 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.

The Hospital holds Level 1 investments, in which fair market values are readily determinable using quoted prices in active markets for identical assets as determined by FAS 157: *Fair Value Measurements*. The Hospital also holds Level 2 investments in which fair market values are determined by significant other observable inputs.

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:

| | <u>Capitalization Threshold</u> | <u>Depreciation Method</u> | <u>Estimated Useful Life</u> |
|-------------------|-------------------------------------|--------------------------------|----------------------------------|
| Land improvements | \$500 | Straight-line | 20 years |
| Buildings | \$500 | Straight-line | 30 years |
| Equipment | \$500 | Straight-line | 3-15 years |

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

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 2008 and 2007.

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, 2006, with differences reflected as deductions from revenue. Amounts for unresolved cost reports for 2007 through 2008 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 30 percent and 3 percent, respectively, of the Hospital's net patient revenue for 2008, and 29 percent and 3 percent, respectively, of the Hospital's net patient revenue for 2007.

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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

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. Non-exchange 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, 2008 and 2007, no deferred taxes were recorded for Health Professional Resources, Inc and Northcentral Orthopedics.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

Accounting for Uncertainty in Income Taxes

The Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), which clarifies generally acceptable accounting principles for recognition, measurement, presentation and disclosure relating to uncertain tax positions. FIN 48 applies to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. As permitted by FIN 48 (as amended), the Hospital elected to defer the application of FIN 48 until issuance of its December 31, 2009 financial statements. For financial statements covering periods prior to calendar 2009, the Hospital evaluates uncertain tax positions in accordance with existing generally accepted accounting principles and makes such accruals and disclosures as might be required there under.

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 \$585,455 and \$523,825 during 2008 and 2007, 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.

Minimum Revenue Guarantees

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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

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, 2008, 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 effect on the accompanying financial statements.

Reclassifications

Certain amounts from 2007 have been reclassified in order to conform to the current year presentation.

2. CHARITY CARE

Charges excluded from patient service revenue under the Hospital's charity care policy were \$2,198,321 and \$1,738,282 during 2008 and 2007, respectively.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement on Financial Accounting Standards No. 157, Fair Value Measurements (as amended), requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by the Hospital impacted by this pronouncement include the Hospital's investments and assets whose use is limited, which are measured using quoted prices in active markets and other significant other observable inputs.

The Hospital partially adopted the provisions of FAS 157 for fiscal year 2008, but will delay adoption of non-financial assets and non-financial liabilities covered by FASB Staff Position No. FAS 157-2. This Staff Position permits companies to partially defer the effective date of FAS 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal year 2009.

When fully adopted, the Hospital will apply the provisions of FAS 157-2 to certain non-financial assets and liabilities and is currently evaluating the impact of the full adoption of this statement on the changes in net assets and financial position.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

Fair values of financial instruments as of December 31, 2008 are as follows:

| | Total | Quoted market prices for identical assets Level 1 | Significant other observable inputs Level 2 | Significant unobservable inputs Level 3 |
|-----------------------------|---------------------|------------------------------------------------------------|------------------------------------------------------|--------------------------------------------------|
| Assets whose use is limited | | | | |
| US Government Securities | \$ 2,350,000 | -0- | \$ 2,350,000 | \$ -0- |
| Mutual funds | 823,056 | 823,056 | -0- | -0- |
| Certificates of deposit | 5,518,679 | -0- | 5,518,679 | -0- |
| | <u>\$ 8,691,735</u> | <u>\$ 823,056</u> | <u>7,868,679</u> | <u>\$ -0-</u> |

In addition to quoted market prices in active markets, valuation techniques included:

- Level 2-estimates on similar investments and the use of a third party service
- Level 3-management's estimate of the present value of future cash flows arising from the arrangement

4. ASSETS LIMITED AS TO USE

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

| | 2008 | 2007 |
|-----------------------------------------|----------------------|----------------------|
| Internally designated | | |
| Funded depreciation | | |
| Cash and cash equivalents | \$ 1,968,672 | \$ 1,672,936 |
| Investments | 7,955,595 | 7,829,680 |
| Accrued interest receivable | 205,050 | 197,210 |
| Total funded depreciation | <u>10,129,317</u> | <u>9,699,826</u> |
| Held by trustee | | |
| Investments | 2,427 | 2,387 |
| Restricted by contributors and grantors | | |
| Investments | <u>733,713</u> | <u>917,248</u> |
| Total assets limited as to use | <u>\$ 10,865,457</u> | <u>\$ 10,619,461</u> |

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

5. 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, 2008 and 2007.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2008 and 2007, 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, 2008

| | Carrying Amount | Investment Maturities (in years) | | | |
|--------------------------|---------------------|----------------------------------|---------------------|---------------------|---------------------|
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| US Government Securities | \$ 2,350,000 | \$ 100,000 | \$ 250,000 | \$ 850,000 | \$ 1,150,000 |
| Certificates of Deposit | 5,518,679 | 2,388,679 | 2,837,000 | 293,000 | -0- |
| Mutual Funds | 823,056 | 823,056 | -0- | -0- | -0- |
| | <u>\$ 8,691,735</u> | <u>\$ 3,311,735</u> | <u>\$ 3,087,000</u> | <u>\$ 1,143,000</u> | <u>\$ 1,150,000</u> |

December 31, 2007

| | Carrying Amount | Investment Maturities (in years) | | | |
|--------------------------|---------------------|----------------------------------|---------------------|---------------------|-------------------|
| | | 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- |
| | <u>\$ 8,749,315</u> | <u>\$ 3,420,561</u> | <u>\$ 3,481,000</u> | <u>\$ 1,647,754</u> | <u>\$ 200,000</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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

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, 2008 and 2007:

| | <u>2008</u> | <u>2007</u> |
|-----------------------------------------|----------------------|----------------------|
| Carrying amount | | |
| Deposits | \$ 6,833,141 | \$ 4,771,011 |
| Investments | <u>8,691,735</u> | <u>8,749,315</u> |
| | <u>\$ 15,524,876</u> | <u>\$ 13,520,326</u> |
| Included in the balance sheet captions | | |
| Cash and cash equivalents | \$ 4,659,419 | \$ 2,900,865 |
| Internally designated | 10,129,317 | 9,699,826 |
| Held by trustee for debt service | 2,427 | 2,387 |
| Restricted by contributors and grantors | <u>733,713</u> | <u>917,248</u> |
| | <u>\$ 15,524,876</u> | <u>\$ 13,520,326</u> |

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

6. 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, 2008 and 2007:

| | <u>2008</u> | <u>2007</u> |
|---------------------------------------------------------------------|----------------------------|----------------------------|
| <u>Patient accounts receivable</u> | | |
| Receivable from patients and their insurance carriers | \$ 13,653,922 | \$ 12,328,696 |
| Receivable from Medicare | 3,592,271 | 3,427,061 |
| Receivable from Medicaid | 1,392,175 | 890,917 |
| Total patient accounts receivable | <u>18,638,368</u> | <u>16,646,674</u> |
| Less allowance for contractual agreements and uncollectible amounts | <u>(9,570,653)</u> | <u>(7,646,864)</u> |
| Patient accounts receivable, net | <u><u>\$ 9,067,715</u></u> | <u><u>\$ 8,999,810</u></u> |
| <u>Accounts payable and accrued expenses</u> | | |
| Payable to suppliers | \$ 2,181,132 | \$ 2,709,878 |
| Payable to employees (including payroll taxes and benefits) | 2,834,917 | 2,688,171 |
| Total accounts payable and accrued expenses | <u><u>\$ 5,016,049</u></u> | <u><u>\$ 5,398,049</u></u> |

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

7. CAPITAL ASSETS

A summary of capital assets at December 31, 2008 and 2007 follows:

| | Balance December 31, 2007 | Additions | Retirements | Transfers | Balance December 31, 2008 |
|--------------------------------|---------------------------------|----------------|-------------|-----------|---------------------------------|
| Land | \$ 805,873 | \$ 484,153 | \$ -0- | \$ -0- | \$ 1,290,026 |
| Land improvements | 412,214 | 26,774 | -0- | -0- | 438,988 |
| Building and improvements | 54,114,162 | 597,601 | -0- | 65,791 | 54,777,554 |
| Equipment | 22,645,535 | 1,808,557 | (89,716) | 378,187 | 24,742,563 |
| Construction in progress | 742,861 | 238,773 | -0- | (443,978) | 537,656 |
| Total capital assets | 78,720,645 | 3,155,858 | (89,716) | -0- | 81,786,787 |
| Less accumulated depreciation | | | | | |
| Land improvements | (107,111) | (25,039) | -0- | -0- | (132,150) |
| Building and improvements | (18,316,495) | (1,683,958) | -0- | -0- | (20,000,453) |
| Equipment | (16,671,911) | (1,405,158) | 58,091 | -0- | (18,018,978) |
| Total accumulated depreciation | (35,095,517) | (3,114,155) | 58,091 | -0- | (38,151,581) |
| Capital assets, net | \$ 43,625,128 | \$ 41,703 | \$ (31,625) | \$ -0- | \$ 43,635,206 |
| | | | | | |
| | 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) | - | 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 |

The following is an analysis of the leased assets included in capital assets as of December 31, 2008 and 2007:

| | 2008 | 2007 |
|--------------------------------|--------------|--------------|
| Equipment | \$ 1,871,796 | \$ 1,404,605 |
| Less: accumulated depreciation | 825,735 | 677,904 |
| | \$ 1,046,061 | \$ 726,701 |

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

8. 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, 2008) and the financial institution pays a variable interest rate (.90% at December 31, 2008) 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, 2008 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 \$455,649 and \$280,699 as of December 31, 2008 and 2007, respectively. The derivative liability is payable should the Hospital terminate the agreement.

The total interest rate swap unrealized loss recognized on the financial statements was \$174,950 and \$151,968 for the years ended 2008 and 2007, respectively.

9. LONG-TERM DEBT

The terms and due dates of the Hospital’s long-term debt, including capital lease obligations, at December 31, 2008 and 2007 are as follows:

- a. 2004 revenue bonds totaling \$21,880,000, collateralized by a letter of credit in the amount of \$19,056,455 expiring May 15, 2010, with a variable interest rate of 1.26% at December 31, 2008, 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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

| | Balance at December 31, 2007 | Additional borrowings | Payments | Balance at December 31, 2008 | Current portion | Long-term portion |
|--------------------|------------------------------------|--------------------------|---------------------|------------------------------------|---------------------|----------------------|
| 2001 Loan payable | \$ 2,181,071 | \$ -0- | \$ 190,891 | \$ 1,990,180 | \$ 199,825 | \$ 1,790,355 |
| 2004 Revenue bonds | 19,645,000 | -0- | 820,000 | 18,825,000 | 860,000 | 17,965,000 |
| Software loan | 99,130 | -0- | 30,527 | 68,603 | 28,242 | 40,361 |
| Capital leases | 404,368 | 480,491 | 262,926 | 621,933 | 230,931 | 391,002 |
| | <u>\$ 22,329,569</u> | <u>\$ 480,491</u> | <u>\$ 1,304,344</u> | <u>\$ 21,505,716</u> | <u>\$ 1,318,998</u> | <u>\$ 20,186,718</u> |

| | 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 |
| | <u>\$ 23,397,094</u> | <u>\$ 105,747</u> | <u>\$ 1,173,272</u> | <u>\$ 22,329,569</u> | <u>\$ 1,249,941</u> | <u>\$ 21,079,628</u> |

Scheduled principal and interest payments on long-term debt at December 31, 2008 are as follows:

| <u>Years Ending December 31,</u> | <u>Long-term debt</u> | | <u>Capital leases</u> | |
|----------------------------------|-----------------------|---------------------|-----------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2009 | \$ 1,088,067 | \$ 476,674 | \$ 230,931 | \$ 25,610 |
| 2010 | 1,131,210 | 446,147 | 126,288 | 17,292 |
| 2011 | 1,161,790 | 414,657 | 102,582 | 11,342 |
| 2012 | 2,322,716 | 345,831 | 103,862 | 5,513 |
| 2013 | 1,005,000 | 300,357 | 48,970 | 1,226 |
| 2013-2017 | 5,675,000 | 1,163,375 | 9,300 | 95 |
| 2018-2022 | 6,935,000 | 495,725 | -0- | -0- |
| 2023-2026 | 1,565,000 | 4,499 | -0- | -0- |
| | <u>\$ 20,883,783</u> | <u>\$ 3,647,265</u> | <u>\$ 621,933</u> | <u>\$ 61,078</u> |

10. 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 current term of the letter is five years expiring May 15, 2010, 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, 2008 and 2007.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

11. NET PATIENT REVENUE

Net patient revenue for 2008 and 2007 consists of the following:

| | <u>2008</u> | <u>2007</u> |
|-------------------------|----------------------|----------------------|
| Inpatient revenue | \$ 29,392,203 | \$ 33,076,773 |
| Outpatient revenue | <u>87,595,299</u> | <u>74,885,431</u> |
| Gross patient revenue | 116,987,502 | 107,962,204 |
| Contractual allowances | (59,394,544) | (58,534,623) |
| Charity care | (2,198,321) | (1,738,282) |
| Bad debt expense | <u>(4,455,004)</u> | <u>(3,724,005)</u> |
| Deductions from revenue | <u>(66,047,869)</u> | <u>(63,996,910)</u> |
| Net patient revenue | <u>\$ 50,939,633</u> | <u>\$ 43,965,294</u> |

12. 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 \$2,178,922 and \$1,802,381 for 2008 and 2007, 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:

| | <u>2008</u> | <u>2007</u> |
|------------------------------------------|--------------------|--------------------|
| Unpaid claims, beginning of year | \$ 552,859 | 612,525 |
| Incurred claims and changes in estimates | 2,739,505 | 2,309,238 |
| Claim payments | <u>(2,790,781)</u> | <u>(2,368,904)</u> |
| Unpaid claims, end of year | <u>\$ 501,583</u> | <u>\$ 552,859</u> |

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

13. 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 \$481,756 and \$602,978 for 2008 and 2007, respectively.

14. 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:

| | <u>2008</u> | <u>2007</u> |
|-----------------------------|-------------|-------------|
| Medicare and Medicaid | 32% | 32% |
| Commercial and other payors | 30% | 31% |
| Self-pay | 38% | 37% |
| | <u>100%</u> | <u>100%</u> |

15. 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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

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 October 2012.

The following is a schedule by year of future minimum lease payments under non-cancelable operating leases as of December 31, 2008, that have initial or remaining lease terms in excess of one year.

| Year Ending December 31, | | |
|-----------------------------|----|---------|
| 2009 | \$ | 675,375 |
| 2010 | | 660,123 |
| 2011 | | 626,615 |
| 2012 | | 146,807 |

16. 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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2008 AND 2007

Summarized financial information as of December 31, 2008 and 2007, and for the years then ended from the audited financial statements of the Affiliated Company follows:

| | <u>2008</u> | <u>2007</u> |
|------------------------|-------------|-------------|
| Current assets | \$ 301,180 | \$ 337,210 |
| Noncurrent assets | 819,937 | 778,785 |
| Current liabilities | 73,272 | 210,492 |
| Noncurrent liabilities | 91,300 | 50,900 |
| Stockholder's equity | 956,545 | 854,603 |
| Revenue | 1,556,440 | 1,603,060 |
| Net change in equity | 101,851 | 90,322 |

The investment balance at December 31, 2008 and 2007 was \$318,816 and \$282,018, respectively which relates to 33 1/3% of the stockholders equity balance and is included in Other Assets.

The Hospital paid \$225,337 and \$234,359 for services to the affiliated company for 2008 and 2007, respectively.

17. 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.

18. 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 for 2007. Net patient revenue for the discontinued component was \$618,017 for 2007.