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December 28, 2010

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

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2009 to December 31, 2009. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Memorial Hospital of Logansport, as of December 31, 2009 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



MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2009 AND 2008

CPAs / ADVISORS



MEMORIAL HOSPITAL OF LOGANSPORT

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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, 2009 and 2008, 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 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.

In our opinion, based on our audits, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2009 and 2008 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

March 12, 2010

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

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, 2009. 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 2009 and goals for 2010, as well as the required explanation of Operational and Financial Performance for 2009.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

Financial Highlights

Overall, net assets increased by \$995,110 in 2009, which included net operating income of \$1,471,360.

Total net income decreased in 2009, due to a few factors, including:

- An increase in operating revenue of 3.7% over 2008, with an increase in expense of 6.2%.
- A 51.5% increase in Charity Care.
- A 14.3% increase in Bad Debt.
- \$1.2 million less was received in 2009 in UPL/DSH funds and Low-Volume adjustment payments than was received in 2008.

The Hospital experienced a margin on operating revenue for 2009 equal to 2.8%, compared to 4.9% for 2008. 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, 2009 AND 2008

A summary of the Hospital and component units Balance Sheet as of December 31, 2009 and 2008 is presented below (in thousands):

	2009	2008	\$ Change	% Change
Current assets	\$ 15,170	\$ 15,416	\$ (246)	-2% (1)
Assets limited to use (funded depreciation, escrow funds, contributions)	11,276	10,866	410	4%
Capital assets	43,204	43,635	(431)	-1%
Other assets	788	906	(118)	-13%
Total assets	<u>\$ 70,438</u>	<u>\$ 70,823</u>	<u>\$ (385)</u>	<u>3%</u>
Current and other liabilities	\$ 7,334	\$ 7,503	\$ (169)	-2%
Capital leases	271	391	(120)	-31%
Long-term debt	18,834	19,796	(961)	-5% (2)
Derivative liability	327	456	(129)	-28%
Total liabilities	<u>26,766</u>	<u>28,146</u>	<u>(1,379)</u>	<u>-5%</u>
Invested in capital assets - net of related debt	22,729	22,129	600	3%
Restricted	1,435	1,404	31	2%
Unrestricted	19,508	19,144	364	2%
Total net assets	<u>43,672</u>	<u>42,677</u>	<u>995</u>	<u>2%</u>
Total liabilities and net assets	<u>\$ 70,438</u>	<u>\$ 70,823</u>	<u>\$ (384)</u>	<u>-1%</u>

Note 1: Increase in cash of \$591,920 in 2009. Decrease in accounts receivable of \$960,440 in 2009. Increase in supplies and other current assets of \$122,730 in 2009.

Note 2: Decrease in long-term debt, net of current portion of \$962,145 in 2009.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

A summary of the Hospital and component units Statement of Operations and Changes in Net Assets for 2009 and 2008 is presented below (in thousands):

	2009	2008	\$ Change	% Change
Net patient service revenue	\$ 53,022	\$ 50,940	\$ 2,082	4%
Other revenue	2,277	2,383	(106)	-4%
Total revenue	<u>55,299</u>	<u>53,323</u>	<u>1,976</u>	<u>4% (1) & (2)</u>
Salaries and benefits	32,109	30,050	2,059	7% (3)
Supplies and other	18,505	17,494	1,011	6%
Depreciation and amortization	3,214	3,140	74	2%
Total expenses	<u>53,828</u>	<u>50,684</u>	<u>3,144</u>	<u>6%</u>
Operating income	1,471	2,639	(1,168)	-44%
Non-operating expense	<u>(476)</u>	<u>(617)</u>	<u>141</u>	<u>-23%</u>
Change in net assets	995	2,022	(1,027)	-51%
Total net assets - beginning of year	<u>42,677</u>	<u>40,655</u>	<u>2,022</u>	<u>5%</u>
Total net assets - end of year	<u><u>\$ 43,672</u></u>	<u><u>\$ 42,677</u></u>	<u><u>\$ 995</u></u>	<u><u>2%</u></u>

Notes:

- (1) Overall net revenue increased by \$2.0 million in 2009. Expenses increased by \$3.1 million in 2009 from 2008. The Hospital received a low-volume adjustment settlement from Medicare in 2009, which dated back to factors, which qualified the Hospital for payment in 2005.
- (2) The Hospital experienced a 51.5% increase in Charity Care in 2009 as well as a 14.3% increase in Bad Debt over 2008 levels. These reductions in net revenue were symptomatic of a struggling local, state, and national economy in 2009.
- (3) Salaries and Benefits increased by 6.9% and other expenses increased by 20.8% with the addition and expansion of several physician practices in 2009. This growth was consistent with the strategic direction of Memorial Hospital.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

Sources of Revenue

During 2009, 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 payer category remained roughly the same in 2009 and 2008. Management continues to be concerned with the trend toward high-deductible plans and increasing numbers of uninsured and underinsured patients in Cass and surrounding counties.

<u>Payor Mix</u>	<u>2009</u>	<u>2008</u>
Medicare	36%	38%
Medicaid	14%	12%
Commercial insurance	19%	21%
Blue Cross/Anthem	20%	18%
Private pay	5%	5%
Other	6%	6%
Total	<u>100%</u>	<u>100%</u>

Operating and Financial Performance Volume

The Hospital experienced a profit in 2009, both as a component unit and on a combined basis. Revenue and volume numbers indicate an increasing 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 the addition of physician practices were mostly held in check.

- Adjusted patient discharges increased from 9,213 in 2008 to 9,683 in 2009.
- Inpatient activity decreased in discharges by (6.6)%.
- Outpatient visits, combined, increased by 14.2% in 2009.

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 in an outpatient setting and also that physicians are making greater use of diagnostic testing to determine care delivery. The Hospital experienced an increase in ER visits of 2.7% in 2009, which is well below the State and National averages and was due to the opening of the ExpressMed walk-in clinic in January of 2008 as well as the addition of several mid-level providers to enhance the accessibility of primary care. The availability and accessibility of affordable primary care remains an important strategic initiative of Memorial Hospital.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

Community (Charity) Care

The Hospital further enhanced its Community Care policies in 2009 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 2009 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 \$3,329,572 was provided in 2009.

Expenses

Total operating expenses increased by \$3,143,580 in 2009, 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 2009, interest rates leveled off and normalized when compared to what happened in the markets at the end of 2008. Investment income increased \$290K in 2009; however is still roughly half of what it was in 2007 before the turmoil in the national economy.

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 2009 review is shown here. (Hospital Results Only)

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

	<u>Actual</u>	<u>Budget</u>	<u>\$ Change</u>	<u>% Change</u>
Net patient service revenue	\$ 53,022	\$ 52,538	\$ 484	1% (1) & (2)
Other revenue	2,277	1,298	979	75%
Total revenue	<u>55,299</u>	<u>53,836</u>	<u>1463</u>	<u>3%</u>
Salaries and benefits	32,109	30,255	1854	6% (3)
Supplies and other	18,505	18,730	-225	-1%
Depreciation and amortization	3,214	3,167	47	1%
Total expenses	<u>53,828</u>	<u>52,152</u>	<u>1676</u>	<u>3%</u>
Operating income	<u>\$ 1,471</u>	<u>\$ 1,684</u>	<u>\$ (213)</u>	<u>-13%</u>

Notes:

- (1) The Hospital was over 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) The largest variances to budget occurred in Charity Care and Bad Debt Expense in 2009. The effect of the local and state economic situation was much more dramatic than anticipated.
- (3) Employment expenses were slightly higher than the budget for 2009, due mainly to the addition of providers and practices.

In total, the other operating expenses were 3.9% over budget.

Capital Assets

The Hospital invested \$2.8 million in capital assets in 2009. The majority of this was attributable to the construction and remodeling of several physician offices, 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.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

	2009	2008	\$ Change	% Change
Land and improvements	\$ 1,829	\$ 1,729	\$ 100	6%
Buildings	55,204	54,778	426	1%
Equipment	25,276	24,743	533	2%
Total capital assets	<u>82,309</u>	<u>81,250</u>	<u>1,059</u>	<u>1%</u>
Less accumulated depreciation	(41,184)	(38,152)	(3,032)	8%
Construction in progress	2,080	538	1,542	287%
Net capital assets	<u>\$ 43,205</u>	<u>\$ 43,636</u>	<u>\$ (431)</u>	<u>-1%</u>

Long Term Debt

The Hospital had \$20.5 million in short and long term debt at year-end 2009, versus \$21.5 million in 2008.

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, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Current assets		
Cash and cash equivalents	\$ 5,251,342	\$ 4,659,419
Patient accounts receivable, net of allowance for doubtful accounts of \$2,354,435 and \$2,817,383 as of December 31, 2009 and 2008, respectively	8,107,277	9,067,715
Supplies and other current assets	<u>1,811,313</u>	<u>1,688,588</u>
Total current assets	15,169,932	15,415,722
Assets limited as to use		
Internally designated	10,512,748	10,129,317
Held by trustee	2,428	2,427
Restricted by contributors and grantors	<u>761,040</u>	<u>733,713</u>
Total assets limited as to use	11,276,216	10,865,457
Capital assets		
Land and construction in progress	3,369,889	1,827,680
Depreciable capital assets, net	<u>39,834,343</u>	<u>41,807,526</u>
Total capital assets	43,204,232	43,635,206
Other assets	787,986	906,440
Total assets	<u><u>\$ 70,438,366</u></u>	<u><u>\$ 70,822,825</u></u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
Current liabilities		
Current portion of long-term debt and capital leases	\$ 1,370,419	\$ 1,318,998
Accounts payable and accrued expenses	2,732,856	2,181,132
Accrued payroll and related liabilities	2,343,612	2,834,917
Estimated third-party payor settlements	<u>888,050</u>	<u>1,168,038</u>
Total current liabilities	7,334,937	7,503,085
Non current liabilities		
Capital leases, net of current portion	270,847	391,002
Long-term debt, net of current portion	18,833,571	19,795,716
Derivative liability	<u>326,530</u>	<u>455,649</u>
Total liabilities	26,765,885	28,145,452
Net assets		
Invested in capital assets, net of related debt	22,729,395	22,129,490
Restricted		
Held by trustee	2,428	2,427
Expendable for capital acquisitions	281,023	281,023
Expendable for specific operating activities	946,566	924,822
Nonexpendable permanent endowments	204,840	195,820
Unrestricted	<u>19,508,229</u>	<u>19,143,791</u>
Total net assets	<u>43,672,481</u>	<u>42,677,373</u>
Total liabilities and net assets	<u><u>\$ 70,438,366</u></u>	<u><u>\$ 70,822,825</u></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, 2009 AND 2008

	2009	2008
Operating revenues		
Net patient revenue (net of provision for bad debt)	\$ 53,021,987	\$ 50,939,633
Other	<u>2,277,428</u>	<u>2,383,411</u>
Total operating revenues	55,299,415	53,323,044
Operating expenses		
Salaries and benefits	32,108,277	30,049,477
Medical and other professional fees	5,326,343	5,025,337
Medical supplies and drugs	6,759,280	6,772,328
Insurance	761,993	812,454
Rent and leases	981,990	937,938
Utilities	1,248,887	1,050,648
Other supplies	248,474	264,238
Depreciation and amortization	3,214,384	3,140,121
Other	<u>3,178,423</u>	<u>2,631,934</u>
Total operating expenses	<u>53,828,051</u>	<u>50,684,475</u>
Operating income	1,471,364	2,638,569
Nonoperating revenues (expenses)		
Investment income	382,880	92,167
Interest expense	(941,695)	(967,835)
Noncapital grants and contributions	146,134	571,011
Unrealized gain (loss) on derivative	129,119	(174,950)
Other	<u>(192,694)</u>	<u>(136,591)</u>
Total nonoperating expenses	<u>(476,256)</u>	<u>(616,198)</u>
Change in net assets	995,108	2,022,371
Net assets beginning of the year	<u>42,677,373</u>	<u>40,655,002</u>
Net assets end of year	<u><u>\$ 43,672,481</u></u>	<u><u>\$ 42,677,373</u></u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Operating activities		
Cash received from patients and third party payors	\$ 53,917,551	\$ 50,905,007
Cash paid to employees for salaries and benefits	(32,599,582)	(29,902,731)
Cash paid to vendors for goods and services	(18,288,227)	(17,065,301)
Other receipts and payments, net	2,371,116	2,485,508
Net cash flows from operating activities	5,400,858	6,422,483
Noncapital financing activities		
Noncapital grants and contributions and other	146,134	571,011
Capital and related financing activities		
Acquisition of capital assets	(2,766,905)	(2,675,367)
Proceeds from issuance of long-term debt	275,000	-0-
Principal paid on long-term debt	(1,354,029)	(1,304,344)
Interest paid on long-term debt	(941,695)	(967,835)
Proceeds from sale of capital assets	53,133	-0-
Net cash flows from capital and related financing activities	(4,734,496)	(4,947,546)
Investing activities		
Investment income	382,880	92,167
Change in assets limited as to use	(255,722)	(83,825)
Net cash flows from investing activities	127,158	8,342
Net change in cash and cash equivalents	939,654	2,054,290
Cash and cash equivalents at beginning of year	6,628,091	4,573,801
Cash and cash equivalents at end of year	\$ 7,567,745	\$ 6,628,091
Supplemental Disclosure Information		
Property acquired through capital lease obligation	\$ 48,150	\$ 480,491
Reconciliation of cash and cash equivalents to the statement of net assets		
Cash and cash equivalents in current assets	\$ 5,251,342	\$ 4,659,419
Cash and cash equivalents in assets limited as to use	2,316,403	1,968,672
Total cash and cash equivalents	\$ 7,567,745	\$ 6,628,091

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 1,471,364	\$ 2,638,569
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	3,214,384	3,140,121
Provision for bad debts	5,095,164	4,455,004
(Gain) loss on disposal of capital assets	(455)	29,200
Changes in		
Patient accounts receivable	(4,175,054)	(4,522,909)
Supplies, other current assets and other assets	7,730	(200,967)
Accounts payable and accrued expenses	559,018	(528,746)
Accrued payroll and related liabilities	(491,305)	146,746
Estimated third-party payor settlements	(279,988)	1,265,465
Net cash flows from operating activities	<u>\$ 5,400,858</u>	<u>\$ 6,422,483</u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2009 AND 2008

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, 2009 AND 2008

Northcentral Orthopedics was a significant blended component unit of the Hospital. The primary government appointed a voting majority of Northcentral Orthopedics' Board and was able to impose its will. Although it was legally separate from the Hospital, Northcentral Orthopedics was 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 were transferred to the Hospital during 2009.

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, 2009 AND 2008

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.

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

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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2009 AND 2008

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 2009 and 2008.

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, 2007, with differences reflected as deductions from revenue. Amounts for unresolved cost reports for 2008 through 2009 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 24 percent and 5 percent, respectively, of the Hospital's net patient revenue for 2009, and 28 percent and 4 percent, respectively, of the Hospital's net patient revenue for 2008.

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, 2009 AND 2008

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 and Restricted Net Assets

Restricted, expendable net assets are available
for the following purposes:

	<u>2009</u>	<u>2008</u>
Charity care	\$520,742	\$508,635
Community trails	163,910	190,285
Capital acquisitions	281,023	281,023
Other charitable purposes	261,914	225,902
Total	<u>\$1,227,589</u>	<u>\$1,205,845</u>

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2009 AND 2008

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.

Restricted nonexpendable net assets as of December 31, 2009 and 2008 represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the permanent endowments are expendable to support the activities of the Hospital as established by the contributor.

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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2009 AND 2008

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, 2009 and 2008, no deferred taxes were recorded for Health Professional Resources, Inc and Northcentral Orthopedics.

Accounting for Uncertainty in Income Taxes

The Hospital and its component units evaluate uncertain tax positions in accordance with the Income Taxes Topic of FASB Accounting Standards Codification and makes such accruals and disclosures as might be required, if applicable.

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 approximately \$740,000 and \$550,000 during 2009 and 2008, 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.

Reclassifications

Certain amounts from 2008 have been reclassified in order to conform to the current year presentation.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2009 AND 2008

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued which is March 12, 2010.

2. CHARITY CARE

Charges excluded from patient service revenue under the Hospital's charity care policy were \$3,329,572 and \$2,198,321 during 2009 and 2008, respectively.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2009 AND 2008

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and 2008 are as follows:

	2009			
	Total	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets				
Assets whose use is limited				
US Government Securities	\$ 3,088,750	-0-	\$ 3,088,750	\$ -0-
Mutual funds	594,114	594,114	-0-	-0-
	<u>3,682,864</u>	<u>\$ 594,114</u>	<u>\$ 3,088,750</u>	<u>\$ -0-</u>
Cash and cash equivalents and accrued interest	2,372,784			
Certificates of deposit *	5,220,568			
	<u>\$ 11,276,216</u>			
Liabilities				
Derivative liability	<u>\$ 326,530</u>	<u>\$ -0-</u>	<u>\$ 326,530</u>	<u>\$ -0-</u>
	2008			
	Total	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets				
Assets whose use is limited				
US Government Securities	\$ 2,350,000	-0-	\$ 2,350,000	\$ -0-
Mutual funds	823,056	823,056	-0-	-0-
	<u>3,173,056</u>	<u>\$ 823,056</u>	<u>\$ 2,350,000</u>	<u>\$ -0-</u>
Cash and cash equivalents and accrued interest	2,173,722			
Certificates of deposit *	5,518,679			
	<u>\$ 10,865,457</u>			
Liabilities				
Derivative liability	<u>\$ 455,649</u>	<u>\$ -0-</u>	<u>\$ 455,649</u>	<u>\$ -0-</u>

* Certificates of deposit are reported at cost

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2009 AND 2008

4. ASSETS LIMITED AS TO USE

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

	<u>2009</u>	<u>2008</u>
Internally designated		
Funded depreciation		
Cash and cash equivalents	\$ 2,316,403	\$ 1,968,672
Investments	8,139,964	7,955,595
Accrued interest receivable	56,381	205,050
Total funded depreciation	<u>10,512,748</u>	<u>10,129,317</u>
Held by trustee		
Investments	2,428	2,427
Restricted by contributors and grantors		
Investments	<u>761,040</u>	<u>733,713</u>
Total assets limited as to use	<u><u>\$ 11,276,216</u></u>	<u><u>\$ 10,865,457</u></u>

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, 2009 and 2008.

The Hospital's investments generally are reported at fair value, as discussed in Note 1.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2009 AND 2008

As of December 31, 2009 and 2008, 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, 2009

	Carrying Amount	Investment Matures (in years)			
		Less than 1	1-5	6-10	More than 10
US Government Securities	\$ 3,088,750	\$ -0-	\$ 100,000	\$ 1,190,000	\$ 1,798,750
Certificates of Deposit	5,220,568	1,726,558	3,397,010	97,000	-0-
Mutual Funds	594,114	594,114	-0-	-0-	-0-
	<u>\$ 8,903,432</u>	<u>\$ 2,320,672</u>	<u>\$ 3,497,010</u>	<u>\$ 1,287,000</u>	<u>\$ 1,798,750</u>

December 31, 2008

	Carrying Amount	Investment Matures (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>

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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2009 AND 2008

Deposits and investments consist of the following as of December 31, 2009 and 2008:

	2009	2008
Carrying amount		
Deposits	\$ 7,624,126	\$ 6,833,141
Investments	8,903,432	8,691,735
	\$ 16,527,558	\$ 15,524,876
Included in the balance sheet captions		
Cash and cash equivalents	\$ 5,251,342	\$ 4,659,419
Internally designated	10,512,748	10,129,317
Held by trustee for debt service	2,428	2,427
Restricted by contributors and grantors	761,040	733,713
	\$ 16,527,558	\$ 15,524,876

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, 2009 and 2008:

	2009	2008
<u>Patient accounts receivable</u>		
Receivable from patients and their insurance carriers	\$ 12,066,747	\$ 13,653,922
Receivable from Medicare	3,825,329	3,592,271
Receivable from Medicaid	1,101,896	1,392,175
Total patient accounts receivable	16,993,972	18,638,368
Less allowance for contractual agreements and uncollectible amounts	(8,886,695)	(9,570,653)
Patient accounts receivable, net	\$ 8,107,277	\$ 9,067,715
<u>Accounts payable and accrued expenses</u>		
Payable to suppliers	\$ 2,732,856	\$ 2,181,132
Payable to employees (including payroll taxes and benefits)	2,343,612	2,834,917
Total accounts payable and accrued expenses	\$ 5,076,468	\$ 5,016,049

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2009 AND 2008

7. CAPITAL ASSETS

A summary of capital assets at December 31, 2009 and 2008 follows:

	Balance December 31, 2008	Additions	Retirements	Transfers	Balance December 31, 2009
Land	\$ 1,290,026	\$ -0-	\$ -0-	\$ -0-	\$ 1,290,026
Land improvements	438,988	99,891	-0-	-0-	538,879
Building and improvements	54,777,554	-0-	-0-	426,058	55,203,612
Equipment	24,742,563	474,060	(208,956)	268,473	25,276,140
Construction in progress	537,656	2,236,740	-0-	(694,531)	2,079,865
Total capital assets	<u>81,786,787</u>	<u>2,810,691</u>	<u>(208,956)</u>	<u>-0-</u>	<u>84,388,522</u>
Less accumulated depreciation					
Land improvements	(132,150)	(30,089)	-0-	-0-	(162,239)
Building and improvements	(20,000,453)	(1,723,034)	-0-	-0-	(21,723,487)
Equipment	(18,018,978)	(1,435,864)	156,278	-0-	(19,298,564)
Total accumulated depreciation	<u>(38,151,581)</u>	<u>(3,188,987)</u>	<u>156,278</u>	<u>-0-</u>	<u>(41,184,290)</u>
Capital assets, net	<u>\$ 43,635,206</u>	<u>\$ (378,296)</u>	<u>\$ (52,678)</u>	<u>\$ -0-</u>	<u>\$ 43,204,232</u>
	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	<u>78,720,645</u>	<u>3,155,858</u>	<u>(89,716)</u>	<u>-0-</u>	<u>81,786,787</u>
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	<u>(35,095,517)</u>	<u>(3,114,155)</u>	<u>58,091</u>	<u>-0-</u>	<u>(38,151,581)</u>
Capital assets, net	<u>\$ 43,625,128</u>	<u>\$ 41,703</u>	<u>\$ (31,625)</u>	<u>\$ -0-</u>	<u>\$ 43,635,206</u>

The following is an analysis of the leased assets included in capital assets as of December 31, 2009 and 2008:

	2009	2008
Equipment	<u>\$ 1,443,182</u>	<u>\$ 1,871,796</u>
Less: accumulated depreciation	<u>656,874</u>	<u>825,735</u>
	<u>\$ 786,308</u>	<u>\$ 1,046,061</u>

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2009 AND 2008

8. DERIVATIVE LIABILITY

The Hospital makes limited use of derivative financial instruments for the purpose of managing interest rate risk. In particular, interest rate swaps are used to manage the risk associated with interest rates on variable-rate borrowings and to lower its overall borrowing costs.

At December 31, 2009 and 2008 the Hospital had an outstanding interest rate swap agreement with a commercial bank, having a total principal amount of \$8,210,695 and \$8,603,748 respectively. The agreement effectively changes the Hospital's interest rate exposure on the principal amount of the swap on its \$21,880,000 floating rate notes due 2024 to a fixed 3.89%. The interest rate swap agreement matures at the time the related note matures. The Hospital is exposed to credit loss in the event of nonperformance by the other party to the interest rate swap agreement. However, the Hospital does not anticipate nonperformance by the counterparty.

The derivative is not designated as a hedging instrument, and is marked-to-market on the balance sheet. The related gains and loss are included in nonoperating revenues (expenses), for the reporting period. Cash flows from interest rate swap contracts are classified as a financing activity on the statement of cash flows.

The derivative is reported in the balance sheet as a derivative liability. At December 31, 2009, and 2008 the fair value of the derivative recorded in the balance sheet is \$326,530 and \$455,649 respectively.

During 2009 and 2008, the amount of gain or (loss) recognized in the income statement is \$129,116 and (\$174,950) respectively.

Additional information regarding fair value measurements of the interest rate swap agreements is disclosed in Note 3.

9. LONG-TERM DEBT

The terms and due dates of the Hospital's long-term debt, including capital lease obligations, at December 31, 2009 and 2008 are as follows:

- a. 2004 revenue bonds totaling \$21,880,000, collateralized by a letter of credit in the amount of \$18,185,852 expiring May 15, 2013, with a variable interest rate of .29% at December 31, 2009, principal maturing at varying annual amounts, due May 1, 2024, collateralized by a pledge of the Hospital's assets and gross receipts.
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MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2009 AND 2008

- 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. Software loan totaling \$105,747, interest rate of 7.01%, payments, including interest, at \$2,679, due April 20, 2011, collateralized by software
- d. Capital lease obligations, at varying rates of imputed interest, collateralized by leased equipment.

	Balance at December 31, 2008	Additional borrowings	Payments	Balance at December 31, 2009	Current portion	Long-term portion
2001 Loan payable	\$ 1,990,180	\$ -0-	\$ 200,657	\$ 1,789,523	\$ 210,048	\$ 1,579,475
2004 Revenue bonds	18,825,000	-0-	860,000	17,965,000	890,000	17,075,000
Software loan	68,603	-0-	28,241	40,362	40,362	-0-
Equipment loan	-0-	275,000	7,046	267,954	88,858	179,096
Capital leases	621,933	48,150	258,085	411,998	141,151	270,847
	<u>\$ 21,505,716</u>	<u>\$ 323,150</u>	<u>\$ 1,354,029</u>	<u>\$ 20,474,837</u>	<u>\$ 1,370,419</u>	<u>\$ 19,104,418</u>

	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>

Scheduled principal and interest payments on long-term debt at December 31, 2009 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>
2010	\$ 1,229,268	\$ 453,987	\$ 141,151	\$ 20,484
2011	1,243,685	419,385	112,869	11,911
2012	2,409,886	347,345	104,005	5,529
2013	1,005,000	300,357	48,970	1,226
2014	1,045,000	279,002	5,003	95
2015-2019	5,910,000	1,042,659	-0-	-0-
2020-2024	7,220,000	341,938	-0-	-0-
	<u>\$ 20,062,839</u>	<u>\$ 3,184,673</u>	<u>\$ 411,998</u>	<u>\$ 39,245</u>

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2009 AND 2008

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 three years expiring May 2013, with interest payable monthly at the bank's prime rate plus 2.75 basis points. There are certain covenants on the letter of credit. Management believes the Hospital is in compliance with all covenants as of December 31, 2009 and 2008.

11. NET PATIENT REVENUE

Net patient revenue for 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Inpatient revenue	\$ 27,981,521	\$ 29,392,203
Outpatient revenue	<u>99,820,447</u>	<u>87,595,299</u>
Gross patient revenue	127,801,968	116,987,502
Contractual allowances	(66,355,245)	(59,394,544)
Charity care	(3,329,572)	(2,198,321)
Bad debt expense	<u>(5,095,164)</u>	<u>(4,455,004)</u>
Deductions from revenue	<u>(74,779,981)</u>	<u>(66,047,869)</u>
Net patient revenue	<u>\$ 53,021,987</u>	<u>\$ 50,939,633</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 \$2,408,283 and \$2,178,922 for 2009 and 2008, respectively.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2009 AND 2008

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>2009</u>	<u>2008</u>
Unpaid claims, beginning of year	\$ 501,583	552,859
Incurred claims and changes in estimates	3,112,920	2,739,505
Claim payments	<u>(3,157,920)</u>	<u>(2,790,781)</u>
Unpaid claims, end of year	<u>\$ 456,583</u>	<u>\$ 501,583</u>

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 \$706,667 and \$481,756 for 2009 and 2008, respectively.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2009 AND 2008

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. Accounts receivable and revenues from self pay and third-party payors as of December 31, 2009 and 2008 were as follows:

	Receivables		Revenues	
	2009	2008	2009	2008
Medicare	27%	23%	36%	38%
Medicaid	8%	9%	14%	12%
Blue Cross/Anthem	11%	12%	20%	18%
Commercial and other	18%	18%	25%	27%
Self-pay	36%	38%	5%	5%
	<u>100%</u>	<u>100%</u>	<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.

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 December 2013.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2009 AND 2008

The following is a schedule by year of future minimum lease payments under non-cancelable operating leases as of December 31, 2009, that have initial or remaining lease terms in excess of one year.

<u>Year Ending December 31,</u>	
2010	\$ 560,293
2011	528,980
2012	116,448
2013	<u>92,715</u>
	<u>\$ 1,298,436</u>

16. INVESTMENT IN AFFILIATED COMPANY

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. The investment balance at December 31, 2009 and 2008 was approximately \$300,000 and is included in Other Assets. The Hospital paid \$204,271 and \$225,337 for services to the affiliated company for 2009 and 2008, 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.