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*Paul D. Joyce*



# **MEMORIAL HOSPITAL OF LOGANSPORT**

**COMBINED FINANCIAL STATEMENTS**

**AND**

**REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2013 AND 2012**

*CPAs / ADVISORS*



# MEMORIAL HOSPITAL OF LOGANSPORT

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Memorial Hospital of Logansport  
Logansport, Indiana

### Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Memorial Hospital of Logansport (the Hospital), a component unit of Cass County, which comprise the combined balance sheets as of December 31, 2013 and 2012, and the related combined statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

### Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

Board of Trustees  
Memorial Hospital of Logansport  
Logansport, Indiana

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2013 and 2012, and the results of its operations, changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Report on Required Supplementary Information

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

**Blue & Co., LLC**

Indianapolis, Indiana  
April 28, 2014

# MEMORIAL HOSPITAL OF LOGANSPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013 AND 2012

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Management's discussion and analysis of Memorial Hospital of Logansport's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the year ended December 31, 2013 with comparable information for 2012 and 2011. Please read it in conjunction with the Hospital's combined financial statements and accompanying notes to the combined financial statements included in this report.

### Using This Annual Report

This annual report consists of two parts—*management's discussion and analysis*, and the *basic combined financial statements*.

- In the "*management's discussion and analysis*" section of this report, management discusses various components of the annual report and provides an analysis of the current financial statement information.
- The "*basic combined financial statements*" section of this report includes a series of combined financial statements, which provide information about the activities of the Hospital as a whole. The combined balance sheets reveal the assets, liabilities and net position of the Hospital on December 31, 2013 and 2012 while the Combined Statements of Operations and Changes in Net Position summarize the revenues and expenses, including nonoperating items for the years then ended. The Combined Statements of Cash Flows summarize the change in cash and cash equivalents as a result of operating, investing and financing activities during the year. The Notes to the Combined Financial Statements disclose additional information addressed within the body of the Combined Financial Statements.

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, family birth centers and physician clinics. 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.

# MEMORIAL HOSPITAL OF LOGANSPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013 AND 2012

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The Mission of Memorial Hospital of Logansport is “Your Health...Our Passion”. The Hospital’s vision is that it “will exceed the needs and desires of our community – as an employer, as a provider, and as a health advocate. Logansport Memorial Hospital lives this mission and vision by continually striving to improve the delivery of care and the overall health of the community, by creating and fostering strong partnerships both within the Hospital campus and the surrounding communities, as well as focusing on improving internal processes to better the patient, physician, employee and visitor experience while providing excellent care. The Hospital carries out its mission by focusing on its values as follows:

- Human Dignity
- Integrity
- Justice
- Service Excellence
- Stewardship

Each year, the Board of Trustees of the Hospital meets with the current Medical Executive Staff of physicians and Hospital Executive Leaders to evaluate environment and operations, and set strategic initiatives for the year. Action plans are developed and measurable objectives are used to achieve success. Quarterly progress reports are presented to the Board of Trustees, and intermittent reports to other stakeholders. This MD&A will include some of the highlights related to the Operational and Financial Performance for 2013.

### FINANCIAL HIGHLIGHTS

Overall, net position increased by approximately \$4.9 million during 2013 while operating income was approximately \$5.5 million compared to 2012 where the net position increased approximately \$8.3 million while operating income was approximately \$8.7 million. A significant contributing factor of the difference between years relates to the Hospital assessment fee program which was instituted during 2012 retroactive to July 1, 2011 and thus 18 months of net impact was incorporated. In 2013 there was only 12 months of related net impact from this program.

Capital assets increased by approximately \$614,000 compared to the prior year as acquisitions outpaced depreciation. Debt increased by approximately \$6 million as a result of refinancing the 2004 bond issuance and additional borrowing with the 2013 bond issue.

Some of the factors that contributed to the increase in net position is detailed below:

- Leadership commitment to controlling labor costs and finding cost savings opportunities.

# MEMORIAL HOSPITAL OF LOGANSPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013 AND 2012

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- Impact of Meaningful Use dollars from both Medicare and Medicaid for the Hospital and Provider attestations of approximately \$1.5 million.
- The Hospital received hospital upper payment limit reimbursement of approximately \$2.2 million.

The Hospital's operating margin for 2013 was equal to 7.6% compared to 12.1% for 2012. The factors impacting this are noted above and will be discussed in greater detail here in.

### USING THIS ANNUAL REPORT

The following pages will highlight certain combined financial statements of the Hospital and include a brief analysis. The combined financial statements of the Hospital explain the results of operations. The combined statement of operations and changes in net position summarizes the effect of the year's activities, while the combined balance sheet summarizes the Hospital's net resources at the beginning and end of the year. The combined 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 combined statement of operations and changes in net position 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, 2013 AND 2012

### THE HOSPITAL'S COMBINED BALANCE SHEET

Table 1: A summary of the Hospital and component units combined balance sheet as of December 31, 2013, 2012 and 2011 is presented below (in thousands):

	2013	2012	Change 2013 - 2012	2011	Change 2012 - 2011
<b>Assets</b>					
Current assets	\$ 32,903	\$ 26,622	\$ 6,281	\$ 14,989	\$ 11,633
Assets limited to use (funded depreciation, escrow funds, contributions)	16,918	11,277	5,641	11,873	(597)
Capital assets	39,365	38,751	614	40,126	(1,375)
Other assets	717	476	241	476	-0-
<b>Total assets</b>	<b>\$ 89,903</b>	<b>\$ 77,126</b>	<b>\$ 12,777</b>	<b>\$ 67,464</b>	<b>\$ 9,662</b>
<b>Liabilities</b>					
Current liabilities	\$ 11,052	\$ 9,284	\$ 1,768	\$ 6,556	\$ 2,728
Capital leases	42	378	(336)	62	316
Long-term debt	22,210	15,786	6,424	17,435	(1,649)
<b>Total liabilities</b>	<b>33,304</b>	<b>25,448</b>	<b>7,856</b>	<b>24,053</b>	<b>1,395</b>
<b>Net position</b>					
Invested in capital assets - net of related debt	15,008	20,744	(5,736)	21,054	(310)
Restricted	6,228	763	5,465	757	6
Unrestricted	35,363	30,171	5,192	21,600	8,571
<b>Total net position</b>	<b>56,599</b>	<b>51,678</b>	<b>4,921</b>	<b>43,411</b>	<b>8,267</b>
<b>Total liabilities and net position</b>	<b>\$ 89,903</b>	<b>\$ 77,126</b>	<b>\$ 12,777</b>	<b>\$67,464</b>	<b>\$ 9,662</b>

The significant changes in the Hospital's assets included an increase in current assets of approximately \$6.3 million primarily due to an increase in cash from current year net income. Current liabilities increased approximately \$1.8 million due primarily to an increase in the amount of estimated third party settlements, along with an increase in current portion of long-term debt on new financings in 2013.

Net position increased by approximately \$5 million consisting of a gain on operations and efforts to control associated expenses.

# MEMORIAL HOSPITAL OF LOGANSPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013 AND 2012

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

Table 2: A summary of the Hospital and component units combined statement of operations and changes in net position for 2013, 2012 and 2011 is presented below (in thousands):

	2013	2012	Change 2013- 2012	2011	Change 2012 - 2011
Operating revenues					
Net patient service revenue	\$ 68,286	\$ 66,691	\$ 1,595	\$ 54,592	\$ 12,099
Other revenue	4,179	4,786	(607)	2,666	2,120
Total operating revenues	<u>72,465</u>	<u>71,477</u>	<u>988</u>	<u>57,258</u>	<u>14,219</u>
Operating expenses					
Salaries and benefits	33,849	33,491	358	33,710	(219)
Supplies and other	29,213	25,772	3,441	18,428	7,344
Depreciation and amortization	3,891	3,535	356	3,399	136
Total expenses	<u>66,953</u>	<u>62,798</u>	<u>4,155</u>	<u>55,537</u>	<u>7,261</u>
Operating income (loss)	5,512	8,679	(3,167)	1,721	6,958
Total non-operating revenue (expense)	<u>(261)</u>	<u>(412)</u>	<u>151</u>	<u>(261)</u>	<u>(151)</u>
Change in net position before debt issuance costs	5,251	8,267	(3,016)	1,460	6,807
Debt issuance costs	<u>(330)</u>	<u>-0-</u>	<u>(330)</u>	<u>-0-</u>	<u>-0-</u>
Change in net position	4,921	8,267	(3,346)	1,460	6,807
Net assets beginning of year	<u>51,678</u>	<u>43,411</u>	<u>8,267</u>	<u>41,951</u>	<u>1,460</u>
Net assets end of year	<u>\$ 56,599</u>	<u>\$ 51,678</u>	<u>\$ 4,921</u>	<u>\$ 43,411</u>	<u>\$ 8,267</u>

### OPERATING AND FINANCIAL PERFORMANCE

#### Revenue

Net patient revenue in the current year increased by approximately \$1.6 million as compared to 2012 and the 2012 net patient revenue increased by approximately \$12 million compared to 2011.

# MEMORIAL HOSPITAL OF LOGANSPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013 AND 2012

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### Volumes

Hospitals across the country experienced decreases in admissions during 2013. The Hospital experienced a 15% decrease in admits in 2013 from 2012, a 15% decrease in deliveries, and a 3.5% decrease in ER visits. The Hospital experienced 1% growth in surgeries. The Hospital did experience an increase overall in net patient service revenue from 2011 to 2012 and from 2012 to 2013 primarily due to the advent of the long-term care service line which was initiated during 2012.

### Expenses

The increase in operating expenses of approximately \$4.2 million in 2013 was primarily attributable to the increase in purchased services and rent and leases from the full year impact of the Hospital's expansion into long-term care. Similarly, the increase in 2012 was due to the partial year of long-term care.

Salaries and benefits increased approximately 1% from 2012 to 2013. Health insurance expenses increased approximately \$600,000 from 2012 to 2013.

### Overall Results

The Hospital, Foundation (one of the Hospital's blended component units), and Health Professional Resources (HPR) (also a blended component unit of the Hospital) all experienced a positive result during 2013.

For the year ended 2013, the change in net position was an increase of approximately \$5 million compared to an increase of approximately \$8.3 million in 2012. The Hospital's team had many accomplishments that will enhance our success in the future. Key accomplishments included: obtaining debt financing at very low interest rates, investing in the facility through installation of new parallel Generators, the implementation of a patient advisory council to advise and assist us with patient satisfaction improvements, and achieving a strong readiness position for the ICD-10 conversion. Additionally, we ranked in the Top 5 in the state for quality core measures. We established community health needs using a collaborative community-wide process. We engaged in the formation of the National Rural Accountable Care Organization, and began designing a medical home model in our primary care practices.

# MEMORIAL HOSPITAL OF LOGANSPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013 AND 2012

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### SOURCES OF REVENUE

During 2013, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 57% of the Hospital's gross revenue in 2013 but only 36% of the Hospital's net patient service revenues. This compares to 2012 where revenues from Medicare and Medicaid represented 58% of the Hospital's gross revenue and only 37% of its net patient service revenue.

Following is a table of major sources of gross patient revenues for 2013, 2012 and 2011.

<u>Payor Mix</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Medicare	40%	41%	38%
Medicaid	17%	17%	17%
Commercial insurance	19%	17%	19%
Blue Cross/Anthem	19%	19%	20%
Self pay	5%	6%	6%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

### THE HOSPITAL'S STATEMENT OF CASH FLOWS

Table 3: A summary of the Hospital and component units Statement of Cash Flows for 2013, 2012 and 2011 is presented below (in thousands):

	<u>2013</u>	<u>2012</u>	<u>Change 2013 - 2012</u>	<u>2011</u>	<u>Change 2012 - 2011</u>
Cash flow from activities					
Operating activities	\$ 10,935	\$ 10,733	\$ 202	\$ 4,908	\$ 5,825
Noncapital financing activities	437	154	283	169	(15)
Capital and related financing activities	849	(3,764)	4,613	(3,175)	(589)
Investing activities	243	742	(499)	263	479
Net change in cash and cash equivalents	<u>\$ 12,464</u>	<u>\$ 7,865</u>	<u>\$ 4,599</u>	<u>\$ 2,165</u>	<u>\$ 5,700</u>

The Hospital has experienced positive cash follow from operating activities for all three years presented with 2013 and 2012 being in excess of \$10.5 million. Other changes in the Hospital's cash flows are primarily related to capital and related financing activities where the Hospital has refinanced the debt structure and added capital assets.

# MEMORIAL HOSPITAL OF LOGANSPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013 AND 2012

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### CAPITAL ASSETS

Including construction in progress, the Hospital invested approximately \$4 million in capital assets in 2013 and \$2 million in 2012. The majority of the acquisitions were attributable to clinical equipment and software upgrades and construction related to the Hospital facility. The change in capital assets is outlined in the following table (in thousands):

	2013	2012	Change 2013 - 2012	2011	Change 2012 - 2011
Land and improvements	\$ 1,460	\$ 1,460	\$ -0-	\$ 1,392	\$ 68
Buildings	57,861	57,456	405	56,908	548
Equipment	31,745	30,448	1,297	27,929	2,519
Total capital assets	91,066	89,364	1,702	86,229	3,135
Less accumulated depreciation	(54,527)	(51,102)	(3,425)	(47,628)	(3,474)
Construction in progress	2,826	489	2,337	1,525	(1,036)
Net capital assets	<u>\$ 39,365</u>	<u>\$ 38,751</u>	<u>\$ 614</u>	<u>\$ 40,126</u>	<u>\$ (1,375)</u>

### LONG-TERM DEBT

The Hospital had approximately \$24.3 million in short and long term debt at year-end 2013, versus approximately \$18.0 million in 2012.

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

### ECONOMIC OUTLOOK

Management believes that the healthcare industry's and the Hospital's operating margins will continue to be under pressure as a result of the impacts of the new health care law, reimbursement reductions, the current proposed plan to expand the Healthy Indiana Plan, continuing Recovery Audit Contractor activity, managed care payer pressure on pricing and payments received for services provided, inflation on drugs, and supplies, and the increasing cost of technology. Another factor that poses a challenge to management is the increasingly competitive market for the delivery of healthcare services.

# MEMORIAL HOSPITAL OF LOGANSPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2013 AND 2012

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The key to the Hospital's sustainability as a community health provider is the ability to achieve market growth in our service areas. This will be accomplished by expanding and improving our physician network, the services we offer, and expanding our wellness program offering. To this end, during 2013 we planned and initiated efforts on establishing a clinic in Peru, which is opening in early 2014. The bar for delivering quality care and satisfying experiences is continually rising. Management believes that exceeding expectations through a passion for excellence is the right way to achieve this growth. The Hospital will continue to be faced with the challenge of providing exceptional services and patient/family/physician experiences, while effectively managing costs using lean processes and benchmarking tools.

### 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 Chief Financial Officer, at Memorial Hospital of Logansport, 1101 Michigan Avenue, Logansport IN, 46947.

# MEMORIAL HOSPITAL OF LOGANSPORT

## COMBINED BALANCE SHEETS DECEMBER 31, 2013 AND 2012

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### ASSETS

	<u>2013</u>	<u>2012</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 20,218,517	\$ 13,437,406
Patient accounts receivable	7,776,383	8,723,646
Supplies and other current assets	4,908,277	4,460,562
Total current assets	<u>32,903,177</u>	<u>26,621,614</u>
<b>Assets limited as to use</b>		
Internally designated	10,688,971	10,515,236
Held by trustee	5,473,288	2,428
Restricted by contributors and grantors	755,413	760,615
Total assets limited as to use	<u>16,917,672</u>	<u>11,278,279</u>
<b>Capital assets</b>		
Land and construction in progress	3,703,427	1,367,431
Depreciable capital assets, net	35,660,820	37,383,092
Total capital assets	<u>39,364,247</u>	<u>38,750,523</u>
<b>Other assets</b>	717,425	475,879
Total assets	<u><u>\$ 89,902,521</u></u>	<u><u>\$ 77,126,295</u></u>

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See accompanying notes to combined financial statements.

# MEMORIAL HOSPITAL OF LOGANSPORT

## COMBINED BALANCE SHEETS DECEMBER 31, 2013 AND 2012

### LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>
<b>Current liabilities</b>		
Current portion of long-term debt and capital leases	\$ 2,104,809	\$ 1,842,091
Accounts payable and accrued expenses	3,895,091	3,553,587
Accrued payroll and related liabilities	2,635,460	2,531,409
Estimated third-party payor settlements	<u>2,416,260</u>	<u>1,356,618</u>
Total current liabilities	11,051,620	9,283,705
<b>Non current liabilities</b>		
Capital leases, net of current portion	41,828	377,899
Long-term debt, net of current portion	<u>22,209,658</u>	<u>15,786,333</u>
Total liabilities	33,303,106	25,447,937
<b>Net position</b>		
Invested in capital assets, net of related debt	15,007,952	20,744,200
Restricted		
Held by trustee	5,473,288	2,428
Expendable for specific operating activities	418,737	423,939
Nonexpendable permanent endowments	336,676	336,676
Unrestricted	<u>35,362,762</u>	<u>30,171,115</u>
Total net position	<u>56,599,415</u>	<u>51,678,358</u>
Total liabilities and net position	<u>\$ 89,902,521</u>	<u>\$ 77,126,295</u>

See accompanying notes to combined financial statements.



# MEMORIAL HOSPITAL OF LOGANSPORT

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

	2013	2012
<b>Operating revenues</b>		
Net patient revenue (net of provision for bad debt)	\$ 68,286,316	\$ 66,690,724
Other	4,179,392	4,786,257
Total operating revenues	72,465,708	71,476,981
<b>Operating expenses</b>		
Salaries and benefits	33,849,021	33,490,924
Medical and other professional fees	3,427,934	3,449,536
Medical supplies and drugs	5,810,330	5,389,821
Other supplies	1,779,397	1,852,912
Depreciation and amortization	3,890,648	3,534,959
Rent and leases	1,397,724	803,530
Utilities and postage	1,514,014	1,324,751
Maintenance and repairs	509,499	621,811
Insurance	983,743	687,931
Hospital assessment fee	1,759,865	2,203,391
Purchased services and other	12,030,994	9,438,775
Total operating expenses	66,953,169	62,798,341
Operating income	5,512,539	8,678,640
<b>Nonoperating revenues (expenses)</b>		
Investment income	172,818	205,012
Interest expense	(646,252)	(538,710)
Noncapital grants and contributions	219,756	168,997
Gain (loss) on sale of equipment	29,614	(39,480)
Other	(36,818)	(207,361)
Total nonoperating, net	(260,882)	(411,542)
Change in net position before debt issuance costs	5,251,657	8,267,098
Debt issuance costs	(330,600)	-0-
Change in net position	4,921,057	8,267,098
<b>Net position beginning of the year</b>	51,678,358	43,411,260
<b>Net position end of year</b>	\$ 56,599,415	\$ 51,678,358

See accompanying notes to combined financial statements.

# MEMORIAL HOSPITAL OF LOGANSPORT

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

	2013	2012
<b>Operating activities</b>		
Cash received from patients and third party payors	\$ 68,931,078	\$ 66,072,519
Cash paid to employees for salaries and benefits	(33,744,970)	(33,283,157)
Cash paid to vendors for goods and services	(28,711,837)	(26,955,094)
Other receipts and payments, net	4,461,175	4,898,441
Net cash flows from operating activities	10,935,446	10,732,709
<b>Noncapital financing activities</b>		
Noncapital grants and contributions and other	437,147	153,997
<b>Capital and related financing activities</b>		
Acquisition of capital assets	(4,605,302)	(1,832,975)
Principal paid on long-term debt	(18,178,028)	(2,939,134)
Bond issuance costs	(350,686)	-0-
Proceeds from issuance of long-term debt	24,528,000	1,453,400
Interest paid on long-term debt	(646,252)	(538,710)
(Gain) loss on sale of equipment	(29,614)	39,480
Proceeds from sale of capital assets	130,545	53,903
Net cash flows from capital and related financing activities	848,663	(3,764,036)
<b>Investing activities</b>		
Investment income	172,818	205,012
Purchases of investments in assets whose use is limited	(2,941,657)	(2,474,295)
Proceeds from sale of investments in assets whose use is limited	3,012,000	3,012,000
Net cash flows from investing activities	243,161	742,717
Net change in cash and cash equivalents	12,464,417	7,865,387
<b>Cash and cash equivalents at beginning of year</b>	16,313,253	8,447,866
<b>Cash and cash equivalents at end of year</b>	\$ 28,777,670	\$ 16,313,253
<b>Reconciliation of cash and cash equivalents to the statement of net position</b>		
Cash and cash equivalents in current assets	\$ 20,218,517	\$ 13,437,406
Cash and cash equivalents in assets limited as to use	8,559,153	2,875,847
Total cash and cash equivalents	\$ 28,777,670	\$ 16,313,253

See accompanying notes to combined financial statements.

# MEMORIAL HOSPITAL OF LOGANSPORT

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

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	<u>2013</u>	<u>2012</u>
<b>Reconciliation of operating income to net cash flows from operating activities</b>		
Operating income	\$ 5,512,539	\$ 8,652,073
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	3,890,648	3,534,959
Provision for bad debts	7,109,466	6,834,274
Changes in		
Patient accounts receivable	(6,162,203)	(7,651,602)
Supplies, other current assets and other assets	(920,201)	(3,097,566)
Accounts payable and accrued expenses	341,504	1,183,251
Accrued payroll and related liabilities	104,051	207,767
Estimated third-party payor settlements	1,059,642	1,069,553
Net cash flows from operating activities	<u>\$ 10,935,446</u>	<u>\$ 10,732,709</u>
<b>Supplemental cash flows information</b>		
Property acquired through capital lease obligation	\$ -0-	\$ 419,950

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See accompanying notes to combined financial statements.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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### 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 acute care including inpatient, outpatient and emergency care as well as long-term 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 discrete component unit of Cass County.

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, which is included in the Hospital, 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 Association is a component unit which has no assets, no liabilities and conducts no operating activities.

Pursuant to the provision of long-term care beginning in 2012, the Hospital owns the operations of two long term care facilities by way of an arrangement with the manager of the facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the managers shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

Related thereto, the Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Manager. Concurrently, the Hospital entered into agreements with the Manager to manage the above leased facilities. As part of the agreements, the Hospital will pay the Manager a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements expire on July 1, 2014. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 120 days written notice.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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Other current assets and liabilities related to long-term care include certain reimbursement receivables, accrued fees and expenses, and working capital balances related to the long-term care facilities.

The accompanying combined 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.

The combined financial statements of the Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of Cass County attributable to the transactions of the Hospital and its blended component units. They do not purport to, and do not, present fairly the financial position of Cass County as of December 31, 2013 and 2012, the changes in its financial position or its cash flows for the years then ended.

### 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 purpose of the Foundation is to assist in raising contributions from the community in order to enhance the ability of the Hospital to service the health needs of the patients it serves. 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 wholly owned by the Hospital. HPR operates a community pharmacy and provides food service for a local county mental health organization. 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.

All significant intercompany transactions have been eliminated in the combined financial statements.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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### Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined 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 utilizes the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis of accounting. Substantially all revenues and expenses are subject to accrual.

### Accounting Standards

The Hospital adopted GASB 65, *Items Previously Reported as Assets and Liabilities*, which primarily resulted in the write-off of prior and current debt issuance costs. Accordingly the 2012 financial statements have been retroactively restated including a decrease in net position of approximately \$328,000 as of January 1, 2012 and an increase in the change in net assets of \$27,000 for the year ended December 31, 2012. The 2013 financial statements include a charge of approximately \$331,000 for debt issuance costs incurred during the year ended December 31, 2013. The effects of the implementation are immaterial to the financial statements taken as whole for further disclosure.

### Recent GASB Pronouncements

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

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

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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

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

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

### 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.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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### Assets Limited as to Use

Assets whose use is limited are stated at fair value in the combined financial statements. These assets include investments designated by the Hospital's Board for internal purposes and investments held by trustees for debt service and capital improvements. These investments consist primarily of cash and cash equivalents, certificates of deposit, mutual funds, and government securities. Amounts restricted by contributors or grantors consist of amounts designated to be restricted for a particular purpose in accordance with donor or grantor agency stipulations. Investment income, to the extent not capitalized, is reported as nonoperating income in the combined statements of operations and changes in net position.

### 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.

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

Investment income, including changes in the fair value of investments, is reported as non-operating revenues in the combined statements of operations and changes in net position.

### Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added which exceed \$1,000 and meet certain useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred. The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method.



# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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The range of useful lives in computing depreciation is as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land improvements	\$1,000	Straight-line	20 years
Buildings	\$1,000	Straight-line	30 years
Equipment	\$1,000	Straight-line	3-15 years

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

### Costs of Borrowing

Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds, as well as interest earned on those funds, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no capitalized interest in 2013 and 2012.

### Patient Accounts Receivable and Revenues

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed and are reported based on gross charges net of certain deductions from those charges. 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.

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

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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These programs have audited the year-end cost report filed with the Medicare program through December 31, 2010, with differences reflected as deductions from revenue. Amounts for unresolved cost reports for 2011 through 2013 as well as other allowances are reflected in estimated third-party settlements on the combined balance sheets. Differences from the prior year estimates related to the cost report settlements have been deemed immaterial by management for financial statement disclosure.

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. Patient charges under these programs, on which no interim payments have been received, are included in patient accounts receivable at the estimated net realizable value of such charges.

### Hospital Assessment Fee Program

During 2012, Hospital Assessment Fee (HAF) Program for the period July 1, 2011 through June 30, 2013 was approved by Centers for Medicare & Medicaid Services (CMS) retroactive to July 1, 2011. Subsequently, the program has been extended and approved for a multi-year period. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the Hospital assessment fee expense reported in the statement of operations and changes in net position.

Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. During 2013 and 2012, the Hospital recognized Hospital assessment fee expense of approximately \$1,760,000 and \$2,203,000, respectively, which resulted in increased Medicaid reimbursement.

### 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.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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Of the Hospital's total expenses reported (approximately \$66,950,000 and \$62,800,000 during the years ended December 31, 2013 and 2012, respectively), an estimated \$1,368,000 and \$1,047,000 arose from providing services to charity patients during the years ended December 31, 2013 and 2012, respectively.

The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue.

### Net Position

Net position of the Hospital is classified in various components. Net position - net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position includes 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 note indentures. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

### 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.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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### Restricted Net Position

Expendable net position restricted for specific operating activities are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Charity care	\$ 266,770	\$ 268,192
Community trails	4,749	8,177
Other	147,218	147,570
Total	<u>\$ 418,737</u>	<u>\$ 423,939</u>

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 position as of December 31, 2013 and 2012 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.

### Operating Revenues and Expenses

The Hospital's combined statement of operations and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services — 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.

### Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30<sup>th</sup>). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as other operating income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2013 and 2012, the Hospital recognized approximately \$1,510,000 and \$2,081,000 respectively, in EHR incentive payments using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income is included in other operating revenue in the combined statement of operations and changes in net position. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the programs, subject to future audits and may be subject to repayment upon a determination of noncompliance.

### Compensated Absences

#### *Short-term disability*

The Hospital utilizes a short-term disability benefit program. The Hospital self-funds their short-term disability program on a pay as you go basis.

#### *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, 2013 AND 2012

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### 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 also a 501(c)(3) not-for-profit organization. Health Professional Resources, Inc. is an Indiana corporation. Income taxes for HPR for those that are currently due and for deferred taxes have been deemed immaterial by management for separate disclosure within these combined financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital (and its component units) and recognize a tax liability if the Hospital or its component units have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities.

Management has analyzed the tax positions taken and has concluded that as of December 31, 2013 and 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying combined financial statements. The Hospital and its component units are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Where applicable these entities have filed their federal and state income tax returns for periods through December 31, 2012. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

### Advertising

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 \$404,000 and \$368,000 during 2013 and 2012, 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.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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### Other Revenue

Other revenue consists of pharmacy sales from one of the component units of approximately \$1,700,000 and \$1,500,000 for 2013 and 2012. The remainder of other revenue is generated by the Hospital and consists of cafeteria sales, revenue associated with renting and cleaning the medical office buildings, electronic health record incentive payments, and other.

### Reclassifications

Certain amounts from 2012 have been reclassified in order to conform to the current year presentation. There is no effect on the combined change in net position as a result of these reclassifications.

### Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the combined balance sheet date for recognition and disclosure in the accompanying combined financial statements through the date the combined financial statements are issued which is April 28, 2014.

## 2. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Hospital's investments are reported at fair value in the accompanying combined balance sheets. Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction, which requires an entity to maximize the use of observable inputs when measuring fair value.

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

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

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2013 and 2012. The Hospital does not have any level 3 assets or liabilities.

- *U.S. government securities*: Valued using pricing models maximizing the use of observable inputs for similar securities.
- *Money market mutual funds*: Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.
- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.
- *Interest rate swap agreements*: Valued using pricing models that are derived principally from observable market data based on discounted cash flows and interest rate yield curves at quoted intervals for the full term of the swap.



# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 and 2012 are as follows:

	2013			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Assets whose use is limited				
US Government Securities	\$ 477,894	\$ -0-	\$ 477,894	\$ -0-
Money market funds	5,473,288	-0-	5,473,288	-0-
Mutual funds				
High yield bond	83,681	83,681	-0-	-0-
Intermediate-term bond	204,728	204,728	-0-	-0-
World bond	73,724	73,724	-0-	-0-
Large blend	87,349	87,349	-0-	-0-
Large value	565,368	565,368	-0-	-0-
Total mutual funds	1,014,850	1,014,850	-0-	-0-
	6,966,032	1,014,850	5,951,182	\$ -0-
Cash and cash equivalents and accrued interest				
	3,108,103			
Certificates of deposit *	6,843,537			
	\$ 16,917,672			
Interest rate swap agreements				
	\$ 301,977	\$ -0-	\$ 301,977	\$ -0-
2012				
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Assets whose use is limited				
US Government Securities	\$ 699,230	\$ -0-	\$ 699,230	\$ -0-
Money market funds	2,428	-0-	2,428	-0-
Mutual funds				
High yield bond	75,160	75,160	-0-	-0-
Intermediate-term bond	195,992	195,992	-0-	-0-
World bond	68,707	68,707	-0-	-0-
Large blend	67,346	67,346	-0-	-0-
Large value	412,457	412,457	-0-	-0-
Total mutual funds	819,662	819,662	-0-	-0-
	1,521,320	819,662	701,658	\$ -0-
Cash and cash equivalents and accrued interest				
	2,938,450			
Certificates of deposit *	6,818,509			
	\$ 11,278,279			

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. The Hospital did not have any transfers between levels as of December 31, 2013 or 2012.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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Realized gains and losses and interest income are reported in the combined statements of operations and changes in net position as a component of investment income. Net realized gains and losses and interest income approximated \$138,000 and \$153,000 during 2013 and 2012 respectively.

The unrealized gains are included in earnings for the period attributable to the change in unrealized gains relating to assets held as of December 31, 2013 and 2012. During 2013 and 2012, the Hospital recognized an unrealized gain of approximately \$35,000 and \$52,000, respectively, which is included in the combined statement of operations and changes in net position as a component of investment income.

The Hospital holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying combined financial statements.

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Long-term debt: Fair value of the Hospital's variable rate revenue bonds is based on current traded value. The carrying value of the remaining debt obligations approximates fair value based on incremental borrowing rates of similarly rated entities.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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### 3. ASSETS LIMITED AS TO USE

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

	<u>2013</u>	<u>2012</u>
Internally designated		
Funded depreciation		
Cash and cash equivalents	\$ 3,085,865	\$ 2,875,847
Investments	7,580,868	7,574,358
Accrued interest receivable	<u>22,238</u>	<u>65,031</u>
Total funded depreciation	10,688,971	10,515,236
Held by trustee		
Money market funds	5,473,288	2,428
Restricted by contributors and grantors		
Investments	<u>755,413</u>	<u>760,615</u>
Total assets limited as to use	<u><u>\$ 16,917,672</u></u>	<u><u>\$ 11,278,279</u></u>

### 4. DEPOSITS AND INVESTMENTS

#### Deposits and Investments

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Investments are carried generally 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, certificates of deposits, and U.S. Government securities.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

As of December 31, 2013 and 2012, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

December 31, 2013

	Carrying Amount	Investment Matures (in years)			
		Less than 1	1-5	6-10	More than 10
US government securities	\$ 477,894	\$ -0-	\$ -0-	\$ 239,114	\$ 238,780
Certificates of deposit	6,843,537	2,396,337	4,447,200	-0-	-0-
Mutual funds	1,014,850	1,014,850	-0-	-0-	-0-
	<u>\$ 8,336,281</u>	<u>\$ 3,411,187</u>	<u>\$ 4,447,200</u>	<u>\$ 239,114</u>	<u>\$ 238,780</u>

December 31, 2012

	Carrying Amount	Investment Matures (in years)			
		Less than 1	1-5	6-10	More than 10
US government securities	\$ 699,230	\$ -0-	\$ 699,230	\$ -0-	\$ -0-
Certificates of deposit	6,818,509	2,826,364	3,992,145	-0-	-0-
Mutual funds	819,662	819,662	-0-	-0-	-0-
	<u>\$ 8,337,401</u>	<u>\$ 3,646,026</u>	<u>\$ 4,691,375</u>	<u>\$ -0-</u>	<u>\$ -0-</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, 2013 AND 2012

Deposits and investments consist of the following as of December 31:

	2013	2012
Carrying amount		
Deposits	\$ 28,777,670	\$ 16,313,253
Accrued interest	22,238	65,031
Investments	8,336,281	8,337,401
	\$ 37,136,189	\$ 24,715,685
Included in the balance sheet captions		
Cash and cash equivalents	\$ 20,218,517	\$ 13,437,406
Internally designated	10,688,971	10,515,236
Held by trustee for debt service	5,473,288	2,428
Restricted by contributors and grantors	755,413	760,615
	\$ 37,136,189	\$ 24,715,685

### 5. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year-end consisted of these amounts as of December 31, 2013 and 2012:

	2013	2012
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 12,977,865	\$ 15,330,693
Receivable from Medicare	4,050,359	3,772,312
Receivable from Medicaid	1,887,716	2,029,175
Total patient accounts receivable	18,915,940	21,132,180
Less allowance for contractual agreements	(6,841,438)	(7,457,196)
Less allowance for doubtful accounts	(4,298,119)	(4,951,338)
Patient accounts receivable, net	\$ 7,776,383	\$ 8,723,646
Accounts payable and accrued expenses		
Payable to suppliers	\$ 3,895,091	\$ 3,553,587
Payable to employees (including payroll taxes and benefits)	2,635,460	2,531,409
Total accounts payable and accrued expenses	\$ 6,530,551	\$ 6,084,996

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

### 6. CAPITAL ASSETS

A summary of capital assets at December 31, 2013 and 2012 follows:

	Balance December 31, 2012	Additions	Retirements	Transfers	Balance December 31, 2013
Land	\$ 878,247	\$ -0-	\$ -0-	\$ -0-	\$ 878,247
Land improvements	582,157	-0-	-0-	-0-	582,157
Building and improvements	57,456,160	-0-	(160,669)	565,246	57,860,737
Equipment	30,446,730	1,671,607	(406,002)	32,454	31,744,789
Construction in progress	489,185	2,933,695	-0-	(597,700)	2,825,180
Total capital assets	<u>89,852,479</u>	<u>4,605,302</u>	<u>(566,671)</u>	<u>-0-</u>	<u>93,891,110</u>
Less accumulated depreciation					
Land improvements	(281,746)	(38,773)	-0-	844	(319,675)
Building and improvements	(27,076,881)	(1,846,572)	117,240	(844)	(28,807,057)
Equipment	(23,743,329)	(2,005,303)	348,501	-0-	(25,400,131)
Total accumulated depreciation	<u>(51,101,956)</u>	<u>(3,890,648)</u>	<u>465,741</u>	<u>-0-</u>	<u>(54,526,863)</u>
Capital assets, net	<u>\$ 38,750,523</u>	<u>\$ 714,654</u>	<u>\$ (100,930)</u>	<u>\$ -0-</u>	<u>\$ 39,364,247</u>
	Balance December 31, 2011	Additions	Retirements	Transfers	Balance December 31, 2012
Land	\$ 810,026	\$ 68,221	\$ -0-	\$ -0-	\$ 878,247
Land improvements	582,157	-0-	-0-	-0-	582,157
Building and improvements	56,908,402	341,405	(100,053)	306,406	57,456,160
Equipment	27,928,365	1,308,782	(53,917)	1,263,500	30,446,730
Construction in progress	1,524,575	534,516	-0-	(1,569,906)	489,185
Total capital assets	<u>87,753,525</u>	<u>2,252,924</u>	<u>(153,970)</u>	<u>-0-</u>	<u>89,852,479</u>
Less accumulated depreciation					
Land improvements	(240,945)	(40,801)	-0-	-0-	(281,746)
Building and improvements	(25,254,739)	(1,828,812)	6,670	-0-	(27,076,881)
Equipment	(22,131,899)	(1,665,347)	53,917	-0-	(23,743,329)
Total accumulated depreciation	<u>(47,627,583)</u>	<u>(3,534,960)</u>	<u>60,587</u>	<u>-0-</u>	<u>(51,101,956)</u>
Capital assets, net	<u>\$ 40,125,942</u>	<u>\$ (1,282,036)</u>	<u>\$ (93,383)</u>	<u>\$ -0-</u>	<u>\$ 38,750,523</u>

The following is an analysis of the leased assets included in capital assets as of December 31, 2013 and 2012:

	2013	2012
Equipment	\$ 729,441	\$ 930,190
Less: accumulated depreciation	258,871	299,077
	<u>\$ 470,570</u>	<u>\$ 631,113</u>

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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### 7. LONG-TERM DEBT

The terms and due dates of the Hospital's long-term debt, including capital lease obligations, at December 31, 2013 and 2012 are as follows:

- a. 2004 revenue bonds collateralized by a letter of credit in the amount of \$17,285,514 expiring May 15, 2013, with a variable interest rate of .15% at December 31, 2013, principal maturing at varying annual amounts ranging from approximately \$1,005,000 to \$1,565,000, due May 1, 2024, collateralized by a pledge of the Hospital's assets and gross receipts. These bonds were paid in full during 2013.
- b. 2010 equipment loan payable, interest rate of 3.4%, with monthly principal and interest payments totaling \$43,919, due June 1, 2015, collateralized by certain Hospital assets with an approximate net book value of \$720,000.
- c. 2012 loan payable, interest rate of 3.2%, with monthly principal and interest payments totaling \$23,900, due April 13, 2017, collateralized by certain Hospital assets with an approximate net book value of \$2,209,000. This loan payable was paid in full during 2013.
- d. 2013A tax-exempt revenue bonds, principal maturing in varying amounts due May 1, 2038, collateralized by net revenues of the Hospital. Interest rate is variable at 1.40% as of December 31, 2013. An associated interest rate swap has fixed rate of 2.77% with an asset fair value of approximately \$134,000 as of December 31, 2013, which is included in the combined balance sheets.
- e. 2013B tax-exempt revenue bonds, principal maturing in varying amounts due May 1, 2024, collateralized by net revenues of the Hospital. Interest rate is variable at 1.27% as of December 31, 2013. An associated interest rate swap has fixed rate of 2.39% with an asset fair value of approximately \$167,000 as of December 31, 2013, which is included in the combined balance sheets
- f. Capital lease obligations with collective monthly payments of \$9,703, at varying rates of imputed interest, collateralized by leased equipment.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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The Hospital and the Indiana Financing Authority (the Authority) entered into an agreement with Huntington Public Capital Corporation (Huntington) whereby Huntington purchased from the Authority all of the Series 2013A and 2013B tax-exempt revenue bonds (2013 Bonds) in a private placement. The agreement provided that Huntington would hold the Series 2013 Bonds during the Initial Mode Period which runs through May 2023. During the Initial Mode Period, the Series 2013 Bonds would bear interest at the Initial Rate Mode (Libor plus 32 basis points plus the applicable spread of 150 basis points) for 120 months with principal and interest payments determined using a 25-year amortization schedule for the 2013A Series revenue bonds and a 20-year amortization schedule for the 2013B Series revenue bonds. At the end of the Initial Mode Period, the Series 2013 bonds may be converted to another interest rate mode and remarketed to another bondholder or holders or renewed for another term period with Huntington. The Series 2013 Bonds could be converted to another interest rate mode to accommodate market conditions at that time. If the Series 2013 Bonds could not be remarketed at the end of the Initial Mode Period, the Hospital would be subject to payment of the remaining principal of approximately \$7,800,000 at the end of the Initial Mode Period.

Under the terms of the revenue bond indenture, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with restricted cash and investments in the combined balance sheet. The revenue bond indenture also places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performances as long as the notes are outstanding. The Hospital is also required to meet certain financial covenants. The Hospital believes it is in compliance with all covenants as of December 31, 2013 and 2012.



# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

A summary of long-term debt as of December 31, 2013 and 2012 includes the following:

	Balance at December 31, 2012	Additional borrowings	Payments	Balance at December 31, 2013	Current portion	Long-term portion
2004 Revenue bonds	\$ 15,180,000	\$ -0-	\$ 15,180,000	\$ -0-	\$ -0-	\$ -0-
2010 Equipment loan	1,199,798	-0-	493,430	706,368	510,710	195,658
2012 Loan payable	1,157,946	-0-	1,157,946	-0-	-0-	-0-
2013A Bond	-0-	9,055,000	162,000	8,893,000	271,000	8,622,000
2013B Bond	-0-	15,473,000	785,000	14,688,000	1,296,000	13,392,000
Capital leases	468,579	-0-	399,652	68,927	27,099	41,828
	<u>\$ 18,006,323</u>	<u>\$ 24,528,000</u>	<u>\$ 18,178,028</u>	<u>\$ 24,356,295</u>	<u>\$ 2,104,809</u>	<u>\$ 22,251,486</u>

  

	Balance at December 31, 2011	Additional borrowings	Payments	Balance at December 31, 2012	Current portion	Long-term portion
2001 Loan payable	\$ 1,356,885	\$ -0-	\$ 1,356,885	\$ -0-	\$ -0-	\$ -0-
2004 Revenue bonds	16,145,000	-0-	965,000	15,180,000	1,005,000	14,175,000
2010 Equipment loan	1,308,778	131,369	240,349	1,199,798	493,430	706,368
2012 Loan payable	-0-	1,322,031	164,085	1,157,946	252,981	904,965
2009 Equipment loan	87,126	-0-	87,126	-0-	-0-	-0-
Capital leases	174,318	419,950	125,689	468,579	90,680	377,899
	<u>\$ 19,072,107</u>	<u>\$ 1,873,350</u>	<u>\$ 2,939,134</u>	<u>\$ 18,006,323</u>	<u>\$ 1,842,091</u>	<u>\$ 16,164,232</u>

Scheduled principal and interest payments on long-term debt at December 31, 2013 are as follows:

Years Ending December 31,	Long-term debt		Capital leases	
	Principal	Interest	Principal	Interest
2014	\$ 2,077,710	\$ 606,657	\$ 27,099	\$ 2,696
2015	1,753,659	541,334	14,074	1,825
2016	1,591,000	767,582	14,816	1,083
2017	1,632,000	681,812	12,937	307
2018	1,680,000	420,921	-0-	-0-
2019-2023	8,979,000	1,457,820	-0-	-0-
Thereafter	6,574,000	1,273,596	-0-	-0-
	<u>\$ 24,287,369</u>	<u>\$ 5,749,722</u>	<u>\$ 68,926</u>	<u>\$ 5,911</u>

The future maturities related to the 2013 bonds are based upon two interest rate swap agreements, the effects of which are immaterial to the financial statements.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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### 8. NET PATIENT REVENUE

Net patient revenue consists of the following at December 31:

	<u>2013</u>	<u>2012</u>
Inpatient revenue	\$ 31,284,932	\$ 37,561,500
Outpatient revenue	116,226,251	118,632,089
Long term care	<u>10,853,082</u>	<u>5,460,061</u>
Gross patient revenue	158,364,265	161,653,650
Contractual allowances	(79,955,447)	(80,064,830)
Charity care	(3,013,036)	(2,603,761)
Bad debt expense	<u>(7,109,466)</u>	<u>(6,834,274)</u>
Deductions from revenue	<u>(90,077,949)</u>	<u>(89,502,865)</u>
Net patient revenue	<u>\$ 68,286,316</u>	<u>\$ 66,690,724</u>

### 9. EMPLOYEE HEALTH PLAN

The Hospital is self-insured for employee health claims. A third party administrator processes the claims for the Hospital. The plan has annual reinsurance coverage starting at a specific level of \$100,000 per individual with a specific lifetime maximum reimbursement per covered person of \$1,000,000. 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.

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>2013</u>	<u>2012</u>
Unpaid claims, beginning of year	\$ 603,014	\$ 518,987
Incurred claims, costs, and changes in estimates	3,956,161	3,389,500
Claim payments	<u>(3,943,647)</u>	<u>(3,305,473)</u>
Unpaid claims, end of year	<u>\$ 615,528</u>	<u>\$ 603,014</u>

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# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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### 10. 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 \$764,886 and \$705,169 for 2013 and 2012, respectively.

### 11. 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 were as follows at December 31 and for the year then ended:

	Receivables		Revenues	
	2013	2012	2013	2012
Medicare	25%	21%	40%	41%
Medicaid	8%	12%	17%	17%
Blue Cross/Anthem	12%	11%	19%	19%
Commercial	17%	15%	19%	17%
Self-pay	38%	41%	5%	6%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

### 12. 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, results of operations or cash flows.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

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### Malpractice Insurance

The Indiana Medical Malpractice Act, IC 34-18 (Act) provides a maximum recovery of \$1,250,000 for an occurrence of malpractice. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$250,000 per occurrence and \$7,500,000 in the annual aggregate. The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

The Hospital purchases premium insurance to cover its exposure of \$250,000 per event and \$7,500,000 aggregate liability for Hospital operations and Health Professional Resources.

### Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through December 2013. Operating lease expense was approximately \$278,000 and \$185,000 during 2013 and 2012, respectively.

The following is a schedule by year of future minimum lease payments under non-cancelable operating leases as of December 31, 2013, that have initial or remaining lease terms in excess of one year.

Year Ending December 31,	
2014	\$ 155,448
2015	155,448
2016	<u>103,632</u>
	<u>\$ 414,528</u>

# MEMORIAL HOSPITAL OF LOGANSPOUR

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

### 13. BLENDED COMPONENT UNITS

The Hospital's combined financial statements include the accounts of its blended component units.

Below is condensed financial information related to HPR:

	2013	2012
Cash and cash equivalents	\$ 686,864	\$ 364,635
Patient accounts receivable, net	81,281	61,892
Supplies and other current assets	247,129	265,882
Total current assets	1,015,274	692,409
Capital assets	25,766	4,825
Total assets	\$ 1,041,040	\$ 697,234
Accounts payable and accrued expenses	\$ 158,202	\$ 44,741
Related party payables	350,627	51,326
Total current liabilities	508,829	96,067
Net position	532,211	601,167
Total liabilities and net position	\$ 1,041,040	\$ 697,234
Total operating revenue	\$ 1,709,774	\$ 1,524,664
Total non-operating loss	(178,349)	(48,586)
Total revenue	1,531,425	1,476,078
Salaries and benefits	266,312	252,762
Other professional fees	9,980	8,350
Medical supplies and drugs	869,628	934,039
Depreciation	5,697	2,145
Rent and leases	24,282	24,282
Purchased services and other	124,482	127,014
Total expenses	1,300,381	1,348,592
Distributions to shareholders	300,000	-0-
Change in net position	\$ (68,956)	\$ 127,486
Cash flows from activities		
Operating	\$ 527,321	\$ (99,326)
Noncapital financing	(179,549)	(49,311)
Capital and related financing	(26,638)	-0-
Investing	1,095	620
Net change in cash and cash equivalents	\$ 322,229	\$ (148,017)

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2013 AND 2012

Below is condensed financial information related to the Foundation:

	2013	2012
Cash and cash equivalents	\$ 237,712	\$ 107,147
Supplies and other current assets	49,295	-0-
Total current assets	<u>287,007</u>	<u>107,147</u>
Internally designated	520,248	383,671
Restricted by contributors and grantors	755,413	760,615
Total assets limited as to use	<u>1,275,661</u>	<u>1,144,286</u>
Capital assets	720,183	836,723
Other assets	250	250
Total assets	<u>\$ 2,283,101</u>	<u>\$ 2,088,406</u>
Current liabilities	\$ 4,166	\$ 1,478
Net position	2,278,935	2,086,928
Total liabilities and net position	<u>\$ 2,283,101</u>	<u>\$ 2,088,406</u>
Total non-operating income	\$ 215,052	\$ 93,891
Other professional fees	7,080	918
Depreciation	15,965	18,505
Total expenses	<u>23,045</u>	<u>19,423</u>
Change in net position	<u>\$ 192,007</u>	<u>\$ 74,468</u>
Cash flows from activities		
Operating	\$ (53,688)	\$ 26,329
Noncapital financing	83,675	10,843
Capital and related financing	100,576	-0-
Investing	2	(171)
Net change in cash and cash equivalents	<u>\$ 130,565</u>	<u>\$ 37,001</u>