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January 23, 2013

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

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2011 to December 31, 2011. 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, 2011 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, 2011 AND 2010

CPAs / ADVISORS



MEMORIAL HOSPITAL OF LOGANSPORT

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Memorial Hospital of Logansport
Logansport, Indiana

We have audited the accompanying combined balance sheets of Memorial Hospital of Logansport (the Hospital), as of December 31, 2011 and 2010, 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined balance sheets of the Hospital as of December 31, 2011 and 2010, and its results of 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.

Board of Trustees
Memorial Hospital of Logansport
Logansport, Indiana

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

Blue & Co., LLC

April 19, 2012

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

This section of Memorial Hospital of Logansport's (the Hospital) annual combined financial statements presents background information and Management's Discussion and Analysis (MD&A) of the Hospital's financial performance during the year ended December 31, 2011. 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., and Health Professional Resources, Inc.

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 related to the Operational and Financial Performance for 2011.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

FINANCIAL HIGHLIGHTS

Overall, net assets increased by approximately \$1,457,000 during 2011 while operating income was approximately \$1,738,000. These changes were vast improvements from 2010 where there was a decrease in net assets of approximately \$1,390,000 and an operating loss of approximately \$491,000.

Capital assets decreased by approximately \$1,401,000 compared to the prior year as depreciation exceeded capital acquisitions. Debt decreased by approximately \$564,000 as payments exceeded borrowings.

Some of the factors that caused an increase in net revenues over expenses in 2011 are detailed below:

- Volume increases in key areas including deliveries, surgeries (new orthopedic program) and office encounters. An increase in inpatient acuity (CMI) over 2010.
- Rate increase of 6%.
- Assessment, renegotiation and addition of contracts with insurance companies.
- Controlling labor costs and a significant reduction in health claims expenses

The Hospital experienced a margin on operating revenue for 2011 equal to 3% compared to (1%) for 2010. 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 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 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.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

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.

THE HOSPITAL'S BALANCE SHEET

Table 1: A summary of the Hospital and component units Balance Sheet as of December 31, 2011, 2010 and 2009 is presented below (in thousands):

	2011	2010	Change 2011 - 2010	2009	Change 2010 - 2009
Assets					
Current assets	\$ 14,989	\$ 13,765	\$ 1,224	\$ 15,170	\$ (1,405)
Assets limited to use (funded depreciation, escrow funds, contributions)	11,873	11,608	265	11,276	332
Capital assets	40,126	41,527	(1,401)	43,204	(1,677)
Other assets	804	762	42	788	(26)
Total assets	<u>\$ 67,792</u>	<u>\$ 67,662</u>	<u>\$ 130</u>	<u>\$ 70,438</u>	<u>\$ (2,776)</u>
Liabilities					
Current liabilities	\$ 6,556	\$ 7,020	\$ (464)	\$ 7,335	\$ (315)
Capital leases	62	164	(102)	271	(107)
Long-term debt	17,435	18,103	(668)	18,833	(730)
Derivative liability	-0-	93	(93)	327	(234)
Total liabilities	<u>24,053</u>	<u>25,380</u>	<u>(1,327)</u>	<u>26,766</u>	<u>(1,386)</u>
Net Assets					
Invested in capital assets - net of related debt	21,054	21,890	(836)	22,729	(839)
Restricted	757	1,234	(477)	1,154	80
Unrestricted	21,928	19,158	2,770	19,789	(631)
Total net assets	<u>43,739</u>	<u>42,282</u>	<u>1,457</u>	<u>43,672</u>	<u>(1,390)</u>
Total liabilities and net assets	<u>\$ 67,792</u>	<u>\$ 67,662</u>	<u>\$ 130</u>	<u>\$70,438</u>	<u>\$ (2,776)</u>

The significant changes in the Hospital's assets included an increase in current assets of approximately \$1,224,000 primarily due to the collection of patient accounts receivable and a gain from operations. Capital assets decreased approximately \$1,401,000 as depreciation outpaced additions.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

Assets limited to use increased \$265,000 and debt decreased by \$564,000. The derivative liability decreased \$93,000 as it expired during the year and current liabilities increased \$691,000. Net assets increased by \$1,457,000 consisting of a gain on operations and efforts to control expenses.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

Table 2: A summary of the Hospital and component units Statement of Operations and Changes in Net Assets for 2011, 2010 and 2009 is presented below (in thousands):

	2011	2010	Change 2011 - 2010	2009	Change 2010 to 2009
Operating revenues					
Net patient service revenue	\$ 54,613	\$ 51,878	\$ 2,735	\$ 53,022	\$ (1,144)
Other revenue	2,631	2,246	385	2,284	(38)
Total operating revenues	<u>57,244</u>	<u>54,124</u>	<u>3,120</u>	<u>55,306</u>	<u>(1,182)</u>
Operating expenses					
Salaries and benefits	33,892	33,996	(104)	32,108	1,888
Supplies and other	18,212	17,327	885	18,506	(1,179)
Depreciation and amortization	3,402	3,292	110	3,214	78
Total expenses	<u>55,506</u>	<u>54,615</u>	<u>891</u>	<u>53,828</u>	<u>787</u>
Operating income (loss)	1,738	(491)	2,229	1,478	(1,969)
Total non-operating revenue (expense)	<u>(281)</u>	<u>(899)</u>	<u>618</u>	<u>(483)</u>	<u>(416)</u>
Change in net assets	1,457	(1,390)	2,847	995	(2,385)
Net assets beginning of year	<u>42,282</u>	<u>43,672</u>	<u>(1,390)</u>	<u>42,677</u>	<u>995</u>
Net assets end of year	<u>\$ 43,739</u>	<u>\$ 42,282</u>	<u>\$ 1,457</u>	<u>\$ 43,672</u>	<u>\$ (1,390)</u>

OPERATING AND FINANCIAL PERFORMANCE

Revenue

Net patient revenue in the current year increased by approximately \$2,735,000 as compared to 2010 and the 2010 net patient revenue decreased by approximately \$1,144,000 compared to 2009.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

Volumes

The Hospital experienced 6% growth in office encounters, almost 2% growth in ER visits, 6% growth in surgeries and 6% growth in deliveries, which translated into revenue growth.

The Hospital's admissions decreased 6% from 2010 to 2011, however patient days increased during this timeframe. Since case mix increased by 0.158 year over year the Hospital experienced better overall reimbursement.

Expenses

The increase in operating expenses of approximately \$891,000 in 2011 was mainly attributable to additional supplies and drugs needed to support volume increases.

Salaries and benefits were very consistent from 2010 to 2011 at the same time the Hospital experienced additional volume. Health insurance claims decreased from 2010 to 2011.

Non-operating expenses experienced a net decrease of \$618,000 from 2010 to 2011, partially due to the land donation of \$480,000 from the Foundation to the County during 2010.

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 an increase in net assets during 2011. HPR successfully enrolled in a 340b governmental plan during 2011, which significantly decreased the cost of the drugs that HPR purchases in both 2010 and 2011.

For the year ended 2011, the change in net assets was an increase of approximately \$1.4 million compared to a decrease of approximately \$1.4 million in 2010. The Hospital achieved growth in key volumes and changes to the charge and reimbursement structure while incurring a favorable decrease in health benefits expenses related to employees during 2011.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

SOURCES OF REVENUE

During 2011, 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 56% of the Hospital's gross revenue in 2011 but only 34% of the Hospital's net patient service revenues. This compares to 2010 where revenues from Medicare and Medicaid represented 54% of the Hospital's gross revenue and only 31% of its net patient service revenue.

Following is a table of major sources of gross patient revenues for 2011, 2010 and 2009.

Payor Mix	2011	2010	2009
Medicare	38%	37%	37%
Medicaid	17%	17%	15%
Commercial insurance	19%	18%	21%
Blue Cross/Anthem	20%	22%	21%
Self pay	6%	6%	6%
Total	100%	100%	100%

THE HOSPITAL'S STATEMENT OF CASH FLOWS

Table 3: A summary of the Hospital and component units Statement of Cash Flows for 2011, 2010 and 2009 is presented below (in thousands):

	2011	2010	Change 2011 - 2010	2009	Change 2010 - 2009
Cash flow from activities					
Operating activities	\$ 4,908	\$ 2,244	\$ 2,664	\$ 5,401	\$ (3,157)
Noncapital financing activities	168	142	26	146	(4)
Capital and related financing activities	(3,175)	(3,880)	705	(4,730)	850
Investing activities	264	209	55	123	86
Net change in cash and cash equivalents	<u>\$ 2,165</u>	<u>\$ (1,285)</u>	<u>\$ 3,450</u>	<u>\$ 940</u>	<u>\$ (2,225)</u>

Changes in the Hospital's cash flows are primarily related to the increase in cash provided by operating activities and increased from 2011 to 2010 by approximately \$3.5 million.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

Operating activities cash flow increased with volume increases and changes to the charge capture and collection processes. The Hospital used approximately \$605,000 less cash for capital and related financing activities in 2011 than in 2010.

CAPITAL ASSETS

Including construction in progress the Hospital invested approximately \$1.8 million in capital assets in 2011 and \$1.5 million in 2010. 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):

	2011	2010	Change 2011 - 2010	2009	Change 2010 - 2009
Land and improvements	\$ 1,392	\$ 1,381	\$ 11	\$ 1,828	\$ (447)
Buildings	56,908	56,047	861	55,204	843
Equipment	27,929	26,342	1,587	25,276	1,066
Total capital assets	86,229	83,770	2,459	82,308	1,462
Less accumulated depreciation	(47,628)	(44,412)	(3,216)	(41,184)	(3,228)
Construction in progress	1,525	2,169	(644)	2,080	89
Net capital assets	<u>\$ 40,126</u>	<u>\$ 41,527</u>	<u>\$ (1,401)</u>	<u>\$ 43,204</u>	<u>\$ (1,677)</u>

LONG-TERM DEBT

The Hospital had approximately \$19.1 million in short and long term debt at year-end 2011, versus approximately \$19.6 million in 2010.

More detailed information about both capital assets and long-term debt is presented in the Notes to the 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 continued downward pressure on pricing and payments received for services provided, and inflationary pressures on drugs, supplies and the cost of technology. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

Key to LMH's sustainability as a community health provider is the ability to achieve market growth in our service area. This will be accomplished by expanding and improving our physician network, the services offered, and our wellness program offering. 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 benchmarking tools, and by implementing additional improvements in cash management.

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, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Current assets		
Cash and cash equivalents	\$ 5,553,767	\$ 3,604,760
Patient accounts receivable	7,906,318	8,607,191
Supplies and other current assets	1,528,788	1,553,058
Total current assets	<u>14,988,873</u>	<u>13,765,009</u>
Assets limited as to use		
Internally designated	11,116,289	10,374,454
Held by trustee	2,428	2,428
Restricted by contributors and grantors	754,999	1,231,255
Total assets limited as to use	<u>11,873,716</u>	<u>11,608,137</u>
Capital assets		
Land and construction in progress	2,334,601	2,978,767
Depreciable capital assets, net	37,791,341	38,548,038
Total capital assets	<u>40,125,942</u>	<u>41,526,805</u>
Other assets	803,530	762,233
Total assets	<u>\$ 67,792,061</u>	<u>\$ 67,662,184</u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
Current liabilities		
Current portion of long-term debt and capital leases	\$ 1,575,050	\$ 1,369,179
Accounts payable and accrued expenses	2,282,020	2,916,572
Accrued payroll and related liabilities	2,411,958	2,446,679
Estimated third-party payor settlements	287,065	287,065
Total current liabilities	<u>6,556,093</u>	<u>7,019,495</u>
Non current liabilities		
Capital leases, net of current portion	62,493	164,025
Long-term debt, net of current portion	17,434,564	18,103,359
Derivative liability	0	93,063
Total liabilities	<u>24,053,150</u>	<u>25,379,942</u>
Net assets		
Invested in capital assets, net of related debt	21,053,835	21,890,242
Restricted		
Held by trustee	2,428	2,428
Expendable for specific operating activities	418,323	1,017,994
Nonexpendable permanent endowments	336,676	213,261
Unrestricted	<u>21,927,649</u>	<u>19,158,317</u>
Total net assets	<u>43,738,911</u>	<u>42,282,242</u>
Total liabilities and net assets	<u>\$ 67,792,061</u>	<u>\$ 67,662,184</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, 2011 AND 2010

	2011	2010
Operating revenues		
Net patient revenue (net of provision for bad debt)	\$ 54,613,065	\$ 51,878,269
Other	2,630,904	2,246,003
Total operating revenues	57,243,969	54,124,272
Operating expenses		
Salaries and benefits	33,891,651	33,996,081
Medical and other professional fees	5,802,658	5,736,261
Medical supplies and drugs	6,772,950	5,911,176
Insurance	682,442	722,459
Rent and leases	956,843	939,968
Utilities	1,073,325	867,151
Other supplies	199,969	185,770
Depreciation and amortization	3,402,238	3,291,591
Other	2,724,214	2,964,746
Total operating expenses	55,506,290	54,615,203
Operating income (loss)	1,737,679	(490,931)
Nonoperating revenues (expenses)		
Investment income	288,290	385,873
Interest expense	(635,830)	(974,973)
Noncapital grants and contributions	168,523	142,296
Unrealized gain on derivative	93,063	233,467
Gain (loss) on sale of equipment	24,637	(1,763)
Other	(219,693)	(684,208)
Total nonoperating, net	(281,010)	(899,308)
Change in net assets	1,456,669	(1,390,239)
Net assets beginning of the year	42,282,242	43,672,481
Net assets end of year	\$ 43,738,911	\$ 42,282,242

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating activities		
Cash received from patients and third party payors	\$ 55,093,670	\$ 51,395,282
Cash paid to employees for salaries and benefits	(33,926,267)	(33,683,574)
Cash paid to vendors for goods and services	(19,315,870)	(17,782,588)
Other receipts and payments, net	3,056,699	2,314,758
Net cash flows from operating activities	4,908,232	2,243,878
Noncapital financing activities		
Noncapital grants and contributions and other	168,523	142,296
Capital and related financing activities		
Acquisition of capital assets	(1,979,173)	(2,069,357)
Proceeds from issuance of long-term debt	795,350	513,428
Principal paid on long-term debt	(1,359,806)	(1,351,702)
Interest paid on long-term debt	(635,830)	(974,973)
Gain on sale of equipment	(24,637)	1,763
Proceeds from sale of capital assets	29,000	-0-
Net cash flows from capital and related financing activities	(3,175,096)	(3,880,841)
Investing activities		
Investment income	288,290	385,873
Purchases of investments in assets whose use is limited	(3,003,676)	(6,426,358)
Proceeds from sale of investments in assets whose use is limited	2,979,000	6,250,000
Net cash flows from investing activities	263,614	209,515
Net change in cash and cash equivalents	2,165,273	(1,285,152)
Cash and cash equivalents at beginning of year	6,282,593	7,567,745
Cash and cash equivalents at end of year	\$ 8,447,866	\$ 6,282,593
Supplemental Disclosure Information		
Non cash land donation by Foundation to Parks Dept	\$ -0-	\$ 480,000
Reconciliation of cash and cash equivalents to the statement of net assets		
Cash and cash equivalents in current assets	\$ 5,553,767	\$ 3,604,760
Cash and cash equivalents in assets limited as to use	2,894,099	2,677,833
Total cash and cash equivalents	\$ 8,447,866	\$ 6,282,593

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of operating income (loss) to net cash flows from operating activities		
Operating income (loss)	\$ 1,737,679	\$ (490,931)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities		
Depreciation and amortization	3,402,238	3,291,591
Provision for bad debts	6,873,212	6,782,147
Changes in		
Patient accounts receivable	(6,172,339)	(7,282,061)
Supplies, other current assets and other assets	(263,390)	257,439
Accounts payable and accrued expenses	(634,552)	(25,829)
Accrued payroll and related liabilities	(34,616)	312,507
Estimated third-party payor settlements	-0-	(600,985)
Net cash flows from operating activities	<u>\$ 4,908,232</u>	<u>\$ 2,243,878</u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

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.

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.

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 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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

Health Professional Resources, Inc., (HPR) is a significant blended component unit of 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.

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 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

Pursuant to Governmental Accounting Standards Board (GASB) Statement Number 20, *Accounting and Financial Reporting For Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, 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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

Assets Limited as to Use

Assets whose use is limited are stated at fair value in the 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, and fixed income obligations. Investment income, to the extent not capitalized, is reported as nonoperating income in the combined statements of operations and changes in net assets.

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 assets.

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 \$500 and meet certain useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred. The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method. The 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

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NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

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 2011 and 2010.

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Amortization expense for 2011 and 2010 was \$26,566. Bond issue costs are included within other assets.

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.

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NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

These programs have audited the year-end cost report filed with the Medicare program through December 31, 2009, with differences reflected as deductions from revenue. Amounts for unresolved cost reports for 2010 through 2011 as well as other allowances are reflected in estimated third-party settlements on the 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.

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.

Of the Hospital's total expenses reported (approximately \$55,500,000 and \$54,600,000 during the years ended December 31, 2011 and 2010, respectively), an estimated \$1,300,000 and \$1,400,000 arose from providing services to charity patients during the years ended December 31, 2011 and 2010, 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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

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.

Restricted Net Assets

Temporarily restricted net assets, expendable for specific operating activities are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Charity care	\$ 270,200	\$ 533,583
Community trails	7,443	176,325
Fundraising	-0-	57,300
Other	140,680	250,786
Total	<u>\$ 418,323</u>	<u>\$ 1,017,994</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 assets as of December 31, 2011 and 2010 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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

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.

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 30th). 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.

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 2011 and 2010, the Hospital recognized approximately \$212,500 and \$-0-, 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 assets. 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.

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NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

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.

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, 2011 and 2010, 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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

Where applicable these entities have filed their federal and state income tax returns for periods through December 31, 2010. 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 \$244,367 and \$452,175 during 2011 and 2010, 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.

Other Revenue

Other revenue consists of pharmacy sales from one of the component units of approximately \$1.6 million and \$1.5 million for 2011 and 2010. 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 and other.

Reclassifications

Certain amounts from 2010 have been reclassified in order to conform to the current year presentation.

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 issued which is April 19, 2012.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

2. 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, 2011 AND 2010

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

	2011			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
US Government Securities	\$ 1,402,137	\$ 1,402,137	\$ -0-	\$ -0-
Mutual funds				
High yield bond	70,529	70,529	-0-	-0-
Intermediate-term bond	189,938	189,938	-0-	-0-
World bond	65,476	65,476	-0-	-0-
Large blend	58,381	58,381	-0-	-0-
Large value	377,365	377,365	-0-	-0-
Total mutual funds	761,688	761,688	0	0
	2,163,824	\$ 2,163,824	\$ -0-	\$ -0-
Cash and cash equivalents and accrued interest				
	2,978,343			
Certificates of deposit *	6,731,549			
	\$ 11,873,716			

* Certificates of deposit are reported at contract value

	2010			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
US Government Securities	\$ 2,058,580	\$ 2,058,580	\$ -0-	\$ -0-
Mutual funds				
High yield bond	74,329	74,329	-0-	-0-
Intermediate-term bond	152,353	152,353	-0-	-0-
World bond	65,316	65,316	-0-	-0-
Large blend	65,083	65,083	-0-	-0-
Large value	300,171	300,171	-0-	-0-
Total mutual funds	657,253	657,253	-0-	-0-
	2,715,833	\$ 2,715,833	\$ -0-	\$ -0-
Cash and cash equivalents and accrued interest				
	2,727,985			
Certificates of deposit *	6,164,319			
	\$ 11,608,137			
Liabilities				
Derivative liability	\$ 93,063	\$ -0-	\$ 93,063	\$ -0-

* Certificates of deposit are reported at contract value

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

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

Cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements: The carrying amount reported in the combined balance sheets for cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements approximate fair value based on short-term maturity.

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.

Derivative: The fair value of the interest rate swap approximates its carrying value based on interest yield curves and pricing models.

3. ASSETS LIMITED AS TO USE

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

	<u>2011</u>	<u>2010</u>
Internally designated		
Funded depreciation		
Cash and cash equivalents	\$ 2,894,099	\$ 2,677,833
Investments	8,137,946	7,646,469
Accrued interest receivable	84,244	50,152
Total funded depreciation	<u>11,116,289</u>	<u>10,374,454</u>
Held by trustee		
Investments	2,428	2,428
Restricted by contributors and grantors		
Investments	<u>754,999</u>	<u>1,231,255</u>
Total assets limited as to use	<u>\$ 11,873,716</u>	<u>\$ 11,608,137</u>

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

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.

As of December 31, 2011 and 2010, 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, 2011

	Carrying Amount	Investment Matures (in years)			
		Less than 1	1-5	6-10	More than 10
US Government Securities	\$ 1,402,137	\$ -0-	\$ 600,478	\$ -0-	\$ 801,659
Certificates of Deposit	6,731,549	2,081,549	4,650,000	-0-	-0-
Mutual Funds	761,688	761,688	-0-	-0-	-0-
	<u>\$ 8,895,373</u>	<u>\$ 2,843,237</u>	<u>\$ 5,250,478</u>	<u>\$ -0-</u>	<u>\$ 801,659</u>

December 31, 2010

	Carrying Amount	Investment Matures (in years)			
		Less than 1	1-5	6-10	More than 10
US Government Securities	\$ 2,058,580	\$ -0-	\$ 544,379	\$ 240,890	\$ 1,273,311
Certificates of Deposit	6,164,319	2,020,544	4,143,775	-0-	-0-
Mutual Funds	657,253	657,253	-0-	-0-	-0-
	<u>\$ 8,880,152</u>	<u>\$ 2,677,797</u>	<u>\$ 4,688,154</u>	<u>\$ 240,890</u>	<u>\$ 1,273,311</u>

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

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

Credit risk – Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Concentration of credit risk – The Hospital places no limit on the amount it may invest in any one issuer. The Hospital believes that it is not exposed to any significant credit risk on investments.

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

	<u>2011</u>	<u>2010</u>
Carrying amount		
Deposits	\$ 8,447,866	\$ 6,282,593
Accrued interest	84,244	50,152
Investments	8,895,373	8,880,152
	<u>\$ 17,427,483</u>	<u>\$ 15,212,897</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 5,553,767	\$ 3,604,760
Internally designated	11,116,289	10,374,454
Held by trustee for debt service	2,428	2,428
Restricted by contributors and grantors	754,999	1,231,255
	<u>\$ 17,427,483</u>	<u>\$ 15,212,897</u>

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 13,505,758	\$ 14,050,937
Receivable from Medicare	4,855,248	3,895,064
Receivable from Medicaid	1,713,435	1,350,257
Total patient accounts receivable	<u>20,074,441</u>	<u>19,296,258</u>
Less allowance for contractual agreements	(8,625,285)	(7,396,272)
Less allowance for doubtful accounts	(3,542,838)	(3,292,795)
Patient accounts receivable, net	<u>\$ 7,906,318</u>	<u>\$ 8,607,191</u>
Accounts payable and accrued expenses		
Payable to suppliers	\$ 2,282,020	\$ 2,916,572
Payable to employees (including payroll taxes and benefits)	2,411,958	2,446,679
Total accounts payable and accrued expenses	<u>\$ 4,693,978</u>	<u>\$ 5,363,251</u>

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

6. CAPITAL ASSETS

A summary of capital assets at December 31, 2011 and 2010 follows:

	Balance December 31, 2010	Additions	Retirements	Transfers	Balance December 31, 2011
Land	\$ 810,026	\$ -0-	\$ -0-	\$ -0-	\$ 810,026
Land improvements	570,775	-0-	-0-	11,382	582,157
Building and improvements	56,046,853	-0-	(40,824)	902,373	56,908,402
Equipment	26,342,223	254,336	(123,444)	1,455,250	27,928,365
Construction in progress	2,168,743	1,724,837	-0-	(2,369,005)	1,524,575
Total capital assets	85,938,620	1,979,173	(164,268)	-0-	87,753,525
Less accumulated depreciation					
Land improvements	(200,144)	(40,801)	-0-	-0-	(240,945)
Building and improvements	(23,484,554)	(1,808,320)	38,135	-0-	(25,254,739)
Equipment	(20,727,117)	(1,526,552)	121,770	-0-	(22,131,899)
Total accumulated depreciation	(44,411,815)	(3,375,673)	159,905	-0-	(47,627,583)
Capital assets, net	\$ 41,526,805	\$ (1,396,500)	\$ (4,363)	\$ -0-	\$ 40,125,942
	Balance December 31, 2009	Additions	Retirements	Transfers	Balance December 31, 2010
Land	\$ 1,290,026	\$ -0-	\$ (480,000)	\$ -0-	\$ 810,026
Land improvements	538,879	31,896	-0-	-0-	570,775
Building and improvements	55,203,612	139,724	-0-	703,517	56,046,853
Equipment	25,276,140	355,348	(39,259)	749,994	26,342,223
Construction in progress	2,079,865	1,542,389	-0-	(1,453,511)	2,168,743
Total capital assets	84,388,522	2,069,357	(519,259)	-0-	85,938,620
Less accumulated depreciation					
Land improvements	(162,239)	(37,905)	-0-	-0-	(200,144)
Building and improvements	(21,723,487)	(1,761,067)	-0-	-0-	(23,484,554)
Equipment	(19,298,564)	(1,466,049)	37,496	-0-	(20,727,117)
Total accumulated depreciation	(41,184,290)	(3,265,021)	37,496	-0-	(44,411,815)
Capital assets, net	\$ 43,204,232	\$ (1,195,664)	\$ (481,763)	\$ -0-	\$ 41,526,805

The following is an analysis of the leased assets included in capital assets as of December 31, 2011 and 2010:

	2011	2010
Equipment	\$ 570,240	\$ 570,240
Less: accumulated depreciation	206,655	130,757
	\$ 363,585	\$ 439,483

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

7. LONG-TERM DEBT

The terms and due dates of the Hospital's long-term debt, including capital lease obligations, at December 31, 2011 and 2010 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 .33% at December 31, 2011, principal maturing at varying annual amounts ranging from approximately \$929,000 to \$1,565,000, due May 1, 2024, collateralized by a pledge of the Hospital's assets and gross receipts. See also footnote 8 Derivative Financial Instrument.
- b. 2001 loan payable, fixed interest rate of 3.2%, monthly payments including interest, at \$23,900, due April 13, 2017, collateralized by certain Hospital assets.
- c. 2009 equipment loan payable, interest rate of 3.4%, monthly payments including interest at \$8,058, due November 1, 2012, collateralized by certain Hospital assets.
- d. Software loan, interest rate of 7.01%, monthly payments, including interest, at \$2,679, due April 20, 2011, collateralized by software. This was paid off in full during the year.
- e. 2010 equipment multiple advance loan payable with a maximum draw amount of \$1,500,000, interest rate of 3.4%, with monthly principal and interest payments totaling \$43,919, due June 1, 2015, collateralized by certain Hospital assets.
- f. Capital lease obligations with collective monthly payments of \$9,703, at varying rates of imputed interest, collateralized by leased equipment.

	Balance at December 31, 2010	Additional borrowings	Payments	Balance at December 31, 2011	Current portion	Long-term portion
2001 Loan payable	\$ 1,578,600	\$ -0-	\$ 221,715	\$ 1,356,885	\$ 202,121	\$ 1,154,764
2004 Revenue bonds	17,075,000	-0-	930,000	16,145,000	965,000	15,180,000
Software loan	10,076	-0-	10,076	-0-	-0-	-0-
2009 Equipment loan	179,096	-0-	91,970	87,126	87,126	-0-
2010 Equipment loan	513,428	795,350	-0-	1,308,778	208,978	1,099,800
Capital leases	280,363	-0-	106,045	174,318	111,825	62,493
	<u>\$ 19,636,563</u>	<u>\$ 795,350</u>	<u>\$ 1,359,806</u>	<u>\$ 19,072,107</u>	<u>\$ 1,575,050</u>	<u>\$ 17,497,057</u>

	Balance at December 31, 2009	Additional borrowings	Payments	Balance at December 31, 2010	Current portion	Long-term portion
2001 Loan payable	\$ 1,789,523	\$ -0-	\$ 210,923	\$ 1,578,600	\$ 220,795	\$ 1,357,805
2004 Revenue bonds	17,965,000	-0-	890,000	17,075,000	930,000	16,145,000
Software loan	40,362	-0-	30,286	10,076	10,076	-0-
2009 Equipment loan	267,954	-0-	88,858	179,096	91,970	87,126
2010 Equipment loan	-0-	513,428	-0-	513,428	-0-	513,428
Capital leases	411,998	-0-	131,635	280,363	116,338	164,025
	<u>\$ 20,474,837</u>	<u>\$ 513,428</u>	<u>\$ 1,351,702</u>	<u>\$ 19,636,563</u>	<u>\$ 1,369,179</u>	<u>\$ 18,267,384</u>

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

Scheduled principal and interest payments on long-term debt at December 31, 2011 are as follows:

Years Ending December 31,	Long-term debt		Capital leases	
	Principal	Interest	Principal	Interest
2012	\$ 1,463,225	\$ 123,838	\$ 111,825	\$ 7,974
2013	1,665,303	95,293	48,970	1,859
2014	1,749,176	72,961	13,523	95
2015	1,586,691	48,236	-0-	-0-
2016	1,408,036	34,585	-0-	-0-
2017-2021	6,520,358	87,825	-0-	-0-
2022-2025	4,505,000	11,936	-0-	-0-
	<u>\$ 18,897,789</u>	<u>\$ 474,674</u>	<u>\$ 174,318</u>	<u>\$ 9,928</u>

In May of 2010, the Hospital took out a multiple advance equipment loan with a maximum draw amount of \$1,500,000 due June 1, 2015. From July 1, 2010 until July 1, 2012, only interest payments are required to be made on the loan. Starting on July 1, 2012 and continuing until June 1, 2015, principal and interest are required to be paid on a monthly basis disclosed above. The loan carries an interest rate of 3.4% and is secured by property.

The Hospital acquired a letter of credit to provide credit enhancement and liquidity support for the Hospital's Series 2004 Revenue Bonds. The current term of the letter is three years expiring May 2013, with interest payable monthly at LIBOR plus 225 basis points. There are certain covenants associated with the letter of credit. Management believes they are either in compliance for 2011 and 2010 except for one financial covenant in 2010 for which management received a waiver from the bank.

The repayment terms for a liquidity advance as defined shall be in accordance with the dates of the redemptions required under the original terms as scheduled in Appendix II of the Reimbursement Agreement, with payment in full to occur on the earlier of (i) the termination date, or (ii) the date which is 367 days following the date of the liquidity advance.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

8. DERIVATIVE LIABILITY

Contracts

The Hospital had an interest rate swap agreement in effect related to a portion of the Variable Rate Demand Revenue Bonds, Series 2004 (2004 Bonds).

Objectives and Strategies for Using Derivatives

As a means to manage the risk associated with the variable interest rate on its 2004 Bonds, the Hospital entered into an interest rate swap agreement. The intention of the swap agreement was to effectively change the Hospital's variable interest rate on the 2004 Bonds to fixed rate of 3.89%.

Terms, Fair Values and Credit Risk

The swap agreement had an original notional amount of \$10,000,000 and expired May 2, 2011. The terms and fair values of the outstanding swap as of December 31, 2011 are as follows:

<u>Original Notional Amount</u>	<u>Current Notional Amount</u>	<u>Effective Date</u>	<u>Fixed Rate</u>	<u>Variable Rate</u>	<u>Fair Value</u>	<u>Termination Date</u>
\$10,000,000	\$ -0-	4/1/2005	3.89%	0.23%	\$ -0-	5/2/2011

Swap Payments and Associated Debt

The Hospital has determined the swap to be an ineffective hedge. Accordingly, the fair value of the swap has been recorded and changes in fair value were recorded in the combined balance sheets with the offsetting entry recorded under nonoperating revenues (expenses) in the combined statements of revenues and expenses.

Following is an analysis of the recording of the interest rate swap agreement:

	<u>2011</u>	<u>2010</u>
Nonoperating revenues (expenses)		
Unrealized gain on interest rate swap	\$ 93,063	\$ 233,467
Other long term liabilities		
Interest rate swap	<u>\$ -0-</u>	<u>\$ (93,063)</u>

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

Management determined that the effects of Governmental Accounting Standards Board Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments* did not have a material impact on these financial statements.

See the Fair Value Measurements and Long Term Debt footnotes for additional information.

9. NET PATIENT REVENUE

Net patient revenue consists of the following at December 31:

	<u>2011</u>	<u>2010</u>
Inpatient revenue	\$ 34,235,796	\$ 30,289,696
Outpatient revenue	113,787,202	101,710,232
Gross patient revenue	<u>148,022,998</u>	<u>131,999,928</u>
Contractual allowances	(83,036,546)	(69,895,410)
Charity care	(3,500,175)	(3,444,102)
Bad debt expense	(6,873,212)	(6,782,147)
Deductions from revenue	<u>(93,409,933)</u>	<u>(80,121,659)</u>
Net patient revenue	<u>\$ 54,613,065</u>	<u>\$ 51,878,269</u>

10. 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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

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

	2011	2010
Unpaid claims, beginning of year	\$ 596,538	\$ 456,583
Incurred claims, costs, and changes in estimates	3,023,778	4,371,943
Claim payments	(3,101,329)	(4,231,988)
Unpaid claims, end of year	\$ 518,987	\$ 596,538

11. 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 \$738,062 and \$730,263 for 2011 and 2010, respectively.

12. 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	
	2011	2010	2011	2010
Medicare	28%	24%	38%	37%
Medicaid	10%	8%	17%	17%
Blue Cross/Anthem	14%	13%	20%	22%
Commercial	17%	15%	19%	18%
Self-pay	31%	40%	6%	6%
	100%	100%	100%	100%

MEMORIAL HOSPITAL OF LOGANSPOUR

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

13. 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 of operations or cash flows.

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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through December 2013.

The following is a schedule by year of future minimum lease payments under non-cancelable operating leases as of December 31, 2011, that have initial or remaining lease terms in excess of one year.

Year Ending December 31,	
2012	\$ 279,406
2013	252,375
2014	155,448
2015	155,448
2016	103,632
	<u>\$ 946,309</u>

14. INVESTMENT IN AFFILIATED COMPANY

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

Summarized financial information as of December 31, 2011 and 2010, and for the years then ended from the audited financial statements of the Affiliated Company follows:

	2011	2010
Current assets	\$ 391,936	\$ 340,805
Noncurrent assets	782,277	844,708
Current liabilities	63,477	71,925
Noncurrent liabilities	60,956	94,700
Stockholder's equity	1,049,780	1,018,888
Revenue	1,296,324	1,275,795
Net change in equity	30,892	34,561

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2011 AND 2010

The investment balance at December 31, 2011 and 2010 was \$339,629 and \$339,629, respectively, which relates to 33 1/3% of the stockholders equity balance and is included in Other Assets.

The Hospital paid \$196,515 and \$185,779 for services to the affiliated company for 2011 and 2010, respectively.

15. LOGANSPORT MEMORIAL HOSPITAL FOUNDATION – COMPASS SQUARE STOCK

During 1998, the Board of Directors of the Logansport Memorial Hospital Foundation authorized the formation of a corporation to be known as Compass Square Development Corporation (CSDC). CSDC 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.

16. SUBSEQUENT EVENT

Loan Refinancing

In April 2012, the Hospital refinanced a loan payable with a balance due of \$1,357,000 and original maturity date of April 2012, into a 3.2% fixed interest rate loan amounting to approximately \$1,322,000 with a new maturity date of April of 2017.