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September 20, 2011

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

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2010 to December 31, 2010. 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, 2010 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, 2010 AND 2009

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, 2010 and 2009, 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 financial position of the Hospital as of December 31, 2010 and 2009, 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

June 20, 2011

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 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, 2010 and 2009. This MD&A includes a discussion and analysis of the activities and results of the Hospital combined financial statements. Those combined financial statements include The Memorial Hospital of Logansport Foundation, Inc., 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 2010.

MEMORIAL HOSPITAL OF LOGANSPOUT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2010 AND 2009

FINANCIAL HIGHLIGHTS

Overall, net assets decreased by approximately \$1,390,000 during 2010 and operating income was a loss of approximately \$491,000.

Capital assets decreased by approximately \$1,677,000 compared to the prior year as depreciation exceeded capital acquisitions. Debt decreased by approximately \$837,000 as payments exceeded borrowings.

Some of the factors that caused a decrease in net revenues over expenses in 2010 are detailed below:

- Charity care increased 3.4%.
- A 33.1% increase in Bad Debts.
- Shifts in payor mix from Commercial to Medicaid and Self-pay.

The Hospital experienced a margin on operating revenue for 2010 equal to (.9%), compared to 2.7% for 2009. 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. 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 DECEMBER 31, 2010 AND 2009

THE HOSPITAL'S BALANCE SHEET

Table 1: A summary of the Hospital and component units Balance Sheet as of December 31, 2010, 2009 and 2008 is presented below (in thousands):

	2010	2009	Change 2010 - 2009	2008	Change 2009 - 2008
Assets					
Current assets	\$ 13,765	\$ 15,170	\$ (1,405)	\$ 15,416	\$ (246)
Assets limited to use (funded depreciation, escrow funds, contributions)	11,608	11,276	332	10,866	410
Capital assets	41,527	43,204	(1,677)	43,635	(431)
Other assets	762	788	(26)	906	(118)
Total assets	<u>\$ 67,662</u>	<u>\$ 70,438</u>	<u>\$ (2,776)</u>	<u>\$ 70,823</u>	<u>\$ (385)</u>
Liabilities					
Current liabilities	\$ 7,020	\$ 7,335	\$ (315)	\$ 7,503	\$ (168)
Capital leases	164	271	(107)	391	(120)
Long-term debt	18,103	18,833	(730)	19,796	(963)
Derivative liability	93	327	(234)	456	(129)
Total liabilities	<u>25,380</u>	<u>26,766</u>	<u>(1,386)</u>	<u>28,146</u>	<u>(1,380)</u>
Net Assets					
Invested in capital assets - net of related debt	21,890	22,729	(839)	22,129	600
Restricted	1,162	1,154	8	1,404	(250)
Unrestricted	19,230	19,789	(559)	19,144	645
Total net assets	<u>42,282</u>	<u>43,672</u>	<u>(1,390)</u>	<u>42,677</u>	<u>995</u>
Total liabilities and net assets	<u>\$ 67,662</u>	<u>\$ 70,438</u>	<u>\$ (2,776)</u>	<u>\$70,823</u>	<u>\$ (385)</u>

The significant changes in the Hospital's assets were a decrease in current assets of approximately \$1,405,000 primarily due to payments on debt and a loss on operations. Capital assets decreased approximately \$1,677,000 as depreciation outpaced additions. Assets limited to use increased \$332,000 and debt decreased by \$837,000. The derivative liability decreased \$234,000 and current liabilities decreased \$315,000. Net assets decreased by \$1,390,000 consisting of a loss on operations and a \$480,000 land donation by the Foundation to the County.

The approximate changes related to current assets from 2008 to 2009 were an increase in cash of \$592,000 a decrease in accounts receivable of \$960,000 and an increase in supplies and other current assets of \$122,000.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2010 AND 2009

Investments increase approximately \$410,000 and capital assets decreased \$431,000 during 2009. Current liabilities decreased by approximately \$168,000 and debt decreased by \$1,083,000 as payments exceeded borrowings on debt. Net assets increased by approximately \$995,000 during 2009.

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 2010, 2009 and 2008 is presented below (in thousands):

	2010	2009	Change 2010 - 2009	2008	Change 2009 to 2008
Operating revenues					
Net patient service revenue	\$ 51,878	\$ 53,022	\$ (1,144)	\$ 50,940	\$ 2,082
Other revenue	2,246	2,284	(38)	2,383	(99)
Total operating revenues	54,124	55,306	(1,182)	53,323	1,983
Operating expenses					
Salaries and benefits	33,997	32,108	1,889	30,050	2,058
Supplies and other	17,326	18,506	(1,180)	17,494	1,012
Depreciation and amortization	3,292	3,214	78	3,140	74
Total expenses	54,615	53,828	787	50,684	3,144
Operating income (loss)	(491)	1,478	(1,969)	2,639	(1,161)
Total non-operating revenue (expense)	(899)	(483)	(416)	(617)	134
Change in net assets	(1,390)	995	(2,385)	2,022	(1,027)
Net assets beginning of year	43,672	42,677	995	40,655	2,022
Net assets end of year	<u>\$ 42,282</u>	<u>\$ 43,672</u>	<u>\$ (1,390)</u>	<u>\$ 42,677</u>	<u>\$ 995</u>

OPERATING AND FINANCIAL PERFORMANCE

Revenue

Net patient revenue in the current year decreased by approximately \$1,144,000 as compared to 2009 and the 2009 net patient revenue increased by approximately \$2,082,000 compared to 2008.

Volumes

Revenue and volume numbers indicate an increasing growth trend in outpatient operations, and a decreasing trend in inpatient operations.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2010 AND 2009

The Hospital's acute discharges were consistent from 2009 to 2010, however the acute days decreased by 9% during this timeframe. Surgical cases were up during the year and case mix was down 4%.

Calendar year 2009 reflected a decrease of 6.6% for inpatient discharges and outpatient visits increased by 14.2% over 2008. The Hospital experienced an increase in ER visits of 2.7% in 2009, which is well below the State and National averages and was due to the opening of the ExpressMed walk-in clinic in January of 2008 as well as the addition of several mid-level providers to enhance the accessibility of primary care. The availability and accessibility of affordable primary care remains an important strategic initiative of the Hospital.

Expenses

The increase in operating expenses of approximately \$787,000 in 2010 was mainly attributable to salaries and benefits.

Salaries and benefits increased by 5.9% or approximately \$1,889,000 from 2009 to 2010. Salaries and benefits increased by approximately \$2,058,000 or 6.9% from 2008 to 2009.

Non-operating expenses, net increased by \$416,000 from 2009 to 2010, partially due to the land donation of \$480,000 from the Foundation to the County. Non-operating expenses, net decreased by \$134,000 from 2008 to 2009.

Overall Results

The Hospital and Foundation (one of the Hospital's blended component units) experienced a decrease in net assets during 2010 and Health Professional Resources (HPR) (also a blended component unit of the Hospital) experienced an increase in net assets. The Hospital and its blended component units on a combined basis experienced a decrease in net assets for 2010. HPR successfully enrolled in a 340b governmental plan during 2010, which significantly decreased the cost of the drugs that HPR purchases.

For the year ended 2010, the change in net assets was a decrease of approximately (\$1,390,000) compared to an increase of approximately \$995,000 in 2009 and an increase of \$2,022,000 in 2008. Generally expenses have outpaced revenues, particularly in the area of salaries and benefits.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2010 AND 2009

SOURCES OF REVENUE

During 2010, 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 51% of the Hospital's gross revenue in 2010 but only 31% of the Hospital's net patient service revenues. This compares to 2009 where revenues from Medicare and Medicaid represented 50% of the Hospital's gross revenue and only 30% of its net patient service revenue. The increase in Medicaid from 12% in 2008 to 15% in 2010 has negatively impacted profitability.

Following is a table of major sources of gross patient revenues for 2010, 2009 and 2008.

Payor Mix	2010	2009	2008
Medicare	36%	36%	38%
Medicaid	15%	14%	12%
Commercial insurance	16%	19%	21%
Blue Cross/Anthem	20%	20%	18%
Self pay	5%	5%	5%
Other	8%	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 2010, 2009 and 2008 is presented below (in thousands):

	2010	2009	Change 2010 - 2009	2008	Change 2009 - 2008
Cash flow from activities					
Operating activities	\$ 2,246	\$ 5,401	\$ (3,155)	\$ 6,422	\$ (1,021)
Noncapital financing activities	142	146	(4)	571	(425)
Capital and related financing activities	(3,782)	(4,730)	948	(4,948)	218
Investing activities	109	123	(14)	8	115
Net change in cash and cash equivalents	<u>\$ (1,285)</u>	<u>\$ 940</u>	<u>\$ (2,225)</u>	<u>\$ 2,053</u>	<u>\$ (1,113)</u>

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2010 AND 2009

Changes in the Hospital's cash flows are primarily related to the decrease in cash provided by operating activities and decreased from 2009 to 2010 by approximately \$3,155,000. The Hospital used approximately \$948,000 less cash for capital and related financing activities. Cash flows generated during 2009 from operating activities were approximately \$1,021,000 less than 2008. Capital and related financing activities used approximately \$218,000 less cash than 2008.

CAPITAL ASSETS

The Hospital invested approximately \$2.0 million in capital assets in 2010, as opposed to \$2.7 million in 2009. 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):

	2010	2009	Change 2010 - 2009	2008	Change 2009 - 2008
Land and improvements	\$ 1,381	\$ 1,828	\$ (447)	\$ 1,728	\$ 100
Buildings	56,047	55,204	843	54,778	426
Equipment	26,342	25,276	1,066	24,743	533
Total capital assets	83,770	82,308	1,462	81,249	1,059
Less accumulated depreciation	(44,412)	(41,184)	(3,228)	(38,152)	(3,032)
Construction in progress	2,169	2,080	89	538	1,542
Net capital assets	<u>\$ 41,527</u>	<u>\$ 43,204</u>	<u>\$ (1,677)</u>	<u>\$ 43,635</u>	<u>\$ (431)</u>

LONG-TERM DEBT

The Hospital had approximately \$19.6 million in short and long term debt at year-end 2010, versus approximately \$20.5 million in 2009.

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 changes in payer mix and growth in established payments received for services provided. 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 DECEMBER 31, 2010 AND 2009

This competitive market challenge will potentially be offset by achieving growth in our service area by expanding and improving our physician network, the services offered, and our wellness program offering in a manner that exceeds patient/customer expectations and quality benchmarks. The Hospital will continue to be faced with the challenge of providing quality services, while managing costs through continually improving cost effectiveness, and by implementing improvements in cash management. The Hospital will be affected by the increases in labor costs due to the competition for health care workers. The Hospital is also affected by the current economic downturn and federal healthcare reform.

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, 2010 AND 2009

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,604,760	\$ 5,251,342
Patient accounts receivable	8,607,191	8,107,277
Supplies and other current assets	1,553,058	1,811,313
Total current assets	13,765,009	15,169,932
Assets limited as to use		
Internally designated	10,445,882	10,122,382
Held by trustee	2,428	2,428
Restricted by contributors and grantors	1,159,827	1,151,406
Total assets limited as to use	11,608,137	11,276,216
Capital assets		
Land and construction in progress	2,978,767	3,369,889
Depreciable capital assets, net	38,548,038	39,834,343
Total capital assets	41,526,805	43,204,232
Other assets	762,233	787,986
Total assets	<u>\$ 67,662,184</u>	<u>\$ 70,438,366</u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED BALANCE SHEETS DECEMBER 31, 2010 AND 2009

LIABILITIES AND NET ASSETS

	2010	2009
Current liabilities		
Current portion of long-term debt and capital leases	\$ 1,369,179	\$ 1,370,419
Accounts payable and accrued expenses	2,916,572	2,942,401
Accrued payroll and related liabilities	2,446,679	2,134,067
Estimated third-party payor settlements	287,065	888,050
Total current liabilities	7,019,495	7,334,937
Non current liabilities		
Capital leases, net of current portion	164,025	270,847
Long-term debt, net of current portion	18,103,359	18,833,571
Derivative liability	93,063	326,530
Total liabilities	25,379,942	26,765,885
Net assets		
Invested in capital assets, net of related debt	21,890,242	22,729,395
Restricted		
Held by trustee	2,428	2,428
Expendable for specific operating activities	946,566	946,566
Nonexpendable permanent endowments	213,261	204,840
Unrestricted	19,229,745	19,789,252
Total net assets	42,282,242	43,672,481
Total liabilities and net assets	\$ 67,662,184	\$ 70,438,366

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Operating revenues		
Net patient revenue (net of provision for bad debt)	\$ 51,878,269	\$ 53,021,987
Other	2,246,003	2,284,500
Total operating revenues	54,124,272	55,306,487
Operating expenses		
Salaries and benefits	33,996,081	32,108,277
Medical and other professional fees	5,736,261	5,326,343
Medical supplies and drugs	5,911,176	6,759,280
Insurance	722,459	761,993
Rent and leases	939,968	981,990
Utilities	867,151	1,248,887
Other supplies	185,770	248,474
Depreciation and amortization	3,291,591	3,214,384
Other	2,964,746	3,178,423
Total operating expenses	54,615,203	53,828,051
Operating income (loss)	(490,931)	1,478,436
Nonoperating revenues (expenses)		
Investment income	385,873	382,880
Interest expense	(974,973)	(941,695)
Noncapital grants and contributions	142,296	146,134
Unrealized gain on derivative	233,467	129,119
Other	(685,971)	(199,766)
Total nonoperating expenses	(899,308)	(483,328)
Change in net assets	(1,390,239)	995,108
Net assets beginning of the year	43,672,481	42,677,373
Net assets end of year	<u>\$ 42,282,242</u>	<u>\$ 43,672,481</u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Operating activities		
Cash received from patients and third party payors	\$ 51,395,282	\$ 53,917,551
Cash paid to employees for salaries and benefits	(33,683,574)	(32,599,582)
Cash paid to vendors for goods and services	(17,782,588)	(18,288,227)
Other receipts and payments, net	2,316,521	2,371,116
Net cash flows from operating activities	2,245,641	5,400,858
Noncapital financing activities		
Noncapital grants and contributions and other	142,296	146,134
Capital and related financing activities		
Acquisition of capital assets	(1,969,305)	(2,762,541)
Proceeds from issuance of long-term debt	513,428	275,000
Principal paid on long-term debt	(1,351,702)	(1,354,029)
Interest paid on long-term debt	(974,973)	(941,695)
Proceeds from sale of capital assets	-0-	53,133
Net cash flows from capital and related financing activities	(3,782,552)	(4,730,132)
Investing activities		
Investment income	385,873	382,880
Change in assets limited as to use	(276,410)	(260,086)
Net cash flows from investing activities	109,463	122,794
Net change in cash and cash equivalents	(1,285,152)	939,654
Cash and cash equivalents at beginning of year	7,567,745	6,628,091
Cash and cash equivalents at end of year	\$ 6,282,593	\$ 7,567,745
Supplemental Disclosure Information		
Property acquired through capital lease obligation	\$ -0-	\$ 48,150
Non cash land donation by Foundation to Parks Dept	\$ 480,000	\$ -0-
Reconciliation of cash and cash equivalents to the statement of net assets		
Cash and cash equivalents in current assets	\$ 3,604,760	\$ 5,251,342
Cash and cash equivalents in assets limited as to use	2,677,833	2,316,403
Total cash and cash equivalents	\$ 6,282,593	\$ 7,567,745

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ (490,931)	\$ 1,478,436
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	3,291,591	3,214,384
Provision for bad debts	6,782,147	5,095,164
(Gain) loss on disposal of capital assets	1,763	(455)
Changes in		
Patient accounts receivable	(7,282,061)	(4,175,054)
Supplies, other current assets and other assets	257,439	658
Accounts payable and accrued expenses	(25,829)	559,018
Accrued payroll and related liabilities	312,507	(491,305)
Estimated third-party payor settlements	(600,985)	(279,988)
Net cash flows from operating activities	<u>\$ 2,245,641</u>	<u>\$ 5,400,858</u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPOORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

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 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 LOGANSPOORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

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.

Northcentral Orthopedics was a significant blended component unit of the Hospital. The primary government appointed a voting majority of Northcentral Orthopedics' Board and was able to impose its will. Although it was legally separate from the Hospital, Northcentral Orthopedics was reported as if it were a part of the Hospital because the two boards are substantively the same. During 2008, management began the process of closing Northcentral Orthopedics and all remaining assets and liabilities were transferred to the Hospital during 2009.

Use of Estimates

The preparation of 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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity of three months or less. The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Assets Limited as to Use

Assets whose use is limited are stated at fair value in the financial statements. These assets include investments designated by the Hospital 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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

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:

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

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

Costs of Borrowing

Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds, as well as interest earned on those funds, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no capitalized interest in 2010 and 2009.

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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

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.

These programs have audited the year-end cost report filed with the Medicare program through December 31, 2007, with differences reflected as deductions from revenue. Amounts for unresolved cost reports for 2008 through 2010 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.

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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

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:

	2010	2009
Charity care	\$520,742	\$520,742
Community trails	163,910	163,910
Fundraising	37,536	37,536
Other	224,378	224,378
Total	<u>\$946,566</u>	<u>\$946,566</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, 2010 and 2009 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 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.

MEMORIAL HOSPITAL OF LOGANSPOBT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

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.

Where applicable these entities have filed their federal and state income tax returns for periods through December 31, 2009. 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 \$452,000 and \$740,000 during 2010 and 2009, respectively.

MEMORIAL HOSPITAL OF LOGANSPOUT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

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 \$1.5 million for both 2010 and 2009. 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 2009 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 June 20, 2011.

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.

MEMORIAL HOSPITAL OF LOGANSPOUT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

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.

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

	2010			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
US Government Securities	\$ 2,058,580	\$ -0-	\$ 2,058,580	\$ -0-
Mutual funds	657,253	657,253	-0-	-0-
	<u>2,715,833</u>	<u>\$ 657,253</u>	<u>\$ 2,058,580</u>	<u>\$ -0-</u>
Cash and cash equivalents and accrued interest	2,727,985			
Certificates of deposit *	6,164,319			
	<u>\$ 11,608,137</u>			
Liabilities				
Derivative liability	\$ 93,063	\$ -0-	\$ 93,063	\$ -0-

* Certificates of deposit are reported at cost

	2009			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
US Government Securities	\$ 3,088,750	\$ -0-	\$ 3,088,750	\$ -0-
Mutual funds	594,114	594,114	-0-	-0-
	<u>3,682,864</u>	<u>\$ 594,114</u>	<u>\$ 3,088,750</u>	<u>\$ -0-</u>
Cash and cash equivalents and accrued interest	2,372,784			
Certificates of deposit *	5,220,568			
	<u>\$ 11,276,216</u>			
Liabilities				
Derivative liability	\$ 326,530	\$ -0-	\$ 326,530	\$ -0-

* Certificates of deposit are reported at cost

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

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:

	2010	2009
Internally designated		
Funded depreciation		
Cash and cash equivalents	\$ 2,677,833	\$ 2,316,403
Investments	7,717,897	7,749,598
Accrued interest receivable	50,152	56,381
Total funded depreciation	10,445,882	10,122,382
Held by trustee		
Investments	2,428	2,428
Restricted by contributors and grantors		
Investments	1,159,827	1,151,406
Total assets limited as to use	<u>\$ 11,608,137</u>	<u>\$ 11,276,216</u>

MEMORIAL HOSPITAL OF LOGANSPOORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

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 Depositary 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, 2010 and 2009, 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, 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>

December 31, 2009

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

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 LOGANSPOUT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

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>2010</u>	<u>2009</u>
Carrying amount		
Deposits	\$ 6,282,593	\$ 7,567,745
Accrued Interest	50,152	56,381
Investments	<u>8,880,152</u>	<u>8,903,432</u>
	<u>\$ 15,212,897</u>	<u>\$ 16,527,558</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 3,604,760	\$ 5,251,342
Internally designated	10,445,882	10,122,382
Held by trustee for debt service	2,428	2,428
Restricted by contributors and grantors	<u>1,159,827</u>	<u>1,151,406</u>
	<u>\$ 15,212,897</u>	<u>\$ 16,527,558</u>

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

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, 2010 and 2009:

	2010	2009
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 14,050,937	\$ 12,066,747
Receivable from Medicare	3,895,064	3,825,329
Receivable from Medicaid	1,350,257	1,101,896
Total patient accounts receivable	19,296,258	16,993,972
Less allowance for contractual agreements	(7,396,272)	(6,532,260)
Less allowance for doubtful accounts	(3,292,795)	(2,354,435)
Patient accounts receivable, net	<u>\$ 8,607,191</u>	<u>\$ 8,107,277</u>
Accounts payable and accrued expenses		
Payable to suppliers	\$ 2,916,572	\$ 2,942,401
Payable to employees (including payroll taxes and benefits)	2,446,679	2,134,067
Total accounts payable and accrued expenses	<u>\$ 5,363,251</u>	<u>\$ 5,076,468</u>

MEMORIAL HOSPITAL OF LOGANSPOUT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

6. CAPITAL ASSETS

A summary of capital assets at December 31, 2010 and 2009 follows:

	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

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

The following is an analysis of the leased assets included in capital assets as of December 31, 2010 and 2009:

	2010	2009
Equipment	\$ 570,240	\$ 1,443,182
Less: accumulated depreciation	130,757	656,874
	<u>\$ 439,483</u>	<u>\$ 786,308</u>

MEMORIAL HOSPITAL OF LOGANSPOUT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

7. LONG-TERM DEBT

The terms and due dates of the Hospital's long-term debt, including capital lease obligations, at December 31, 2010 and 2009 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, 2010, principal maturing at varying annual amounts, due May 1, 2024, collateralized by a pledge of the Hospital's assets and gross receipts. See also footnote 9 Derivative Financial Instrument.
- b. 2001 loan payable, interest rate of 5%, payments including interest, at \$24,634, due April 15, 2012, collateralized by certain Hospital assets.
- c. 2009 equipment loan payable, interest rate of 3.4%, payments including interest, at \$8,058, due November 1, 2012, collateralized by certain Hospital assets.
- d. Software loan, interest rate of 7.01%, payments, including interest, at \$2,679, due April 20, 2011, collateralized by software.
- e. 2010 equipment multiple advance loan payable with a maximum draw amount of \$1,500,000, interest rate of 3.4%, with principal maturing at varying monthly amounts, due June 1, 2015, collateralized by certain Hospital assets.
- f. Capital lease obligations, at varying rates of imputed interest, collateralized by leased equipment.

	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>

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

MEMORIAL HOSPITAL OF LOGANSPOUT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

Scheduled principal and interest payments on long-term debt at December 31, 2010 are as follows:

Years Ending December 31,	Long-term debt		Capital leases	
	Principal	Interest	Principal	Interest
2011	\$ 1,252,841	\$ 150,524	\$ 116,338	\$ 16,672
2012	1,355,822	94,493	101,727	7,974
2013	2,309,288	59,947	48,970	1,859
2014	1,219,006	50,735	13,328	95
2015	1,179,243	41,818	-0-	-0-
2015-2019	6,150,000	146,190	-0-	-0-
2020-2024	5,890,000	33,612	-0-	-0-
	<u>\$ 19,356,200</u>	<u>\$ 577,319</u>	<u>\$ 280,363</u>	<u>\$ 26,600</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 straight-line amortization basis based on the outstanding balance as of June 30, 2012. 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 with and/or have received a waiver from the bank for any noncompliance related to the covenants.

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 LOGANSPOUT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

8. DERIVATIVE LIABILITY

Contracts

The Hospital has 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, 2010 are as follows:

Original Notional Amount	Current Notional Amount	Effective Date	Fixed Rate	Variable Rate	Fair Value	Termination Date
\$10,000,000	\$ 7,980,000	4/1/2005	3.89%	0.33%	(93,063)	5/2/2011

As of December 31, 2010, the negative fair value of the agreement may be countered by reductions in total interest payments under the swap agreement should the variable rate on the 2004 Series bonds increase.

Basis Risk

The swap's variable rate is pegged to USD Bond Market Association Swap Municipal Index. The Series 2004 Bond's variable rate is determined through remarketing. Therefore, basis risk relating to the swaps could be significant.

MEMORIAL HOSPITAL OF LOGANSPOUT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

Termination Risk

The Hospital or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination, the swap has a negative fair value, the Hospital would be liable to the counterparty for a payment equal to the swap's fair value as would then be determined in accordance with the contract.

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 subsequent changes in fair value are 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>2010</u>	<u>2009</u>
Nonoperating revenues (expenses)		
Unrealized gain (loss) on interest rate swap	<u>\$ 233,467</u>	<u>\$ 129,119</u>
Other long term liabilities		
Interest rate swap	<u>\$ (93,063)</u>	<u>\$ (326,530)</u>

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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

9. NET PATIENT REVENUE

Net patient revenue consists of the following at December 31:

	2010	2009
Inpatient revenue	\$ 30,289,696	\$ 27,981,521
Outpatient revenue	101,710,232	99,820,447
Gross patient revenue	131,999,928	127,801,968
Contractual allowances	(69,895,410)	(66,355,245)
Charity care	(3,444,102)	(3,329,572)
Bad debt expense	(6,782,147)	(5,095,164)
Deductions from revenue	(80,121,659)	(74,779,981)
Net patient revenue	\$ 51,878,269	\$ 53,021,987

10. EMPLOYEE HEALTH PLAN

The Hospital is self-insured for employee health claims. A third party administrator processes the claims for the Hospital. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. The Hospital maintains reinsurance including a stop loss for specific incident claims over a stipulated amount per year. Substantially all employees are covered for major medical benefits. The total health claims expense was \$3,528,088 and \$2,408,283 for 2010 and 2009, respectively.

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

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

	2010	2009
Unpaid claims, beginning of year	\$ 456,583	\$ 501,583
Incurred claims and changes in estimates	4,371,943	3,112,920
Claim payments	(4,231,988)	(3,157,920)
Unpaid claims, end of year	\$ 596,538	\$ 456,583

MEMORIAL HOSPITAL OF LOGANSPOORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

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 \$730,263 and \$706,667 for 2010 and 2009, 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:

	<u>Receivables</u>		<u>Revenues</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Medicare	24%	27%	36%	36%
Medicaid	8%	8%	15%	14%
Blue Cross/Anthem	13%	11%	20%	20%
Commercial and other	15%	18%	24%	25%
Self-pay	40%	36%	5%	5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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 from operations.

MEMORIAL HOSPITAL OF LOGANSPOUT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

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.

The following is a schedule by year of future minimum lease payments under non-cancelable operating leases as of December 31, 2010, that have initial or remaining lease terms in excess of one year.

Year Ending December 31,	
2011	\$ 559,873
2012	463,784
2013	96,927
	<u>\$ 1,120,584</u>

MEMORIAL HOSPITAL OF LOGANSPOUR

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2010 AND 2009

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, 2010 and 2009, and for the years then ended from the audited financial statements of the Affiliated Company follows:

	2010	2009
Current assets	\$ 340,805	\$ 301,180
Noncurrent assets	844,708	819,937
Current liabilities	71,925	73,272
Noncurrent liabilities	94,700	91,300
Stockholder's equity	1,018,888	956,545
Revenue	1,275,795	1,556,440
Net change in equity	34,561	101,851

The investment balance at December 31, 2010 and 2009 was \$339,629 and \$318,816, respectively, which relates to 33 1/3% of the stockholders equity balance and is included in Other Assets.

The Hospital paid \$185,779 and \$204,271 for services to the affiliated company for 2010 and 2009, respectively.

15. LOGANSPOUR 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.