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August 5, 2020

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

We have reviewed the audit report of the Memorial Hospital of Logansport, which was opined upon by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2019 to December 31, 2019. Per the *Report of Independent Auditors*, the financial statements included in the report present fairly the financial condition of the Memorial Hospital of Logansport as of December 31, 2019, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts.

The audit report is filed with this letter in our office as a matter of public record.


Paul D. Joyce, CPA
State Examiner



MEMORIAL HOSPITAL OF LOGANSPORT

CONSOLIDATED FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019 AND 2018

CPAs / ADVISORS



MEMORIAL HOSPITAL OF LOGANSPOUT

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Memorial Hospital of Logansport
Logansport, Indiana

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Memorial Hospital of Logansport (the Hospital), a component unit of Cass County, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements. We have also audited the Hospital's consolidated statement of fiduciary net position as of December 31, 2019 and the related consolidated statement of changes in fiduciary net position for the year then ended and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent 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 consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2019 and 2018, and the results of its operations, changes in its net position and its cash flows for the years then ended and the Hospital's consolidated statement of fiduciary net position as of December 31, 2019 and the results of its consolidated changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

DISCLAIMER OF OPINION ON THE 2018 FIDUCIARY FINANCIAL STATEMENTS

Because we were not engaged to audit the 2018 fiduciary financial statements, which comprise of the consolidated statement of fiduciary net position as of December 31, 2018, and the related consolidated statement of changes in fiduciary net position for the year then ended, we did not extend our auditing procedures to enable us to express an opinion on the consolidated statement of fiduciary net position as of December 31, 2018 and the consolidated statement of changes in fiduciary net position for the year ended December 31, 2018. Accordingly, we express no opinion on the 2018 consolidated fiduciary financial statements.

CHANGE IN ACCOUNTING PRINCIPLES

As described in Note 2 to the consolidated financial statements, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 84 – *Fiduciary Activities* and GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Our opinion and disclaimer of opinion are not modified with respect to these matters.

Board of Trustees
Memorial Hospital of Logansport
Logansport, Indiana

REPORT ON REQUIRED SUPPLEMENTARY INFORMATION

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the consolidated 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 consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Blue & Co., LLC

Indianapolis, Indiana
April 27, 2020

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018 (WITH COMPARATIVE TOTALS FOR 2017)

Management's discussion and analysis of Memorial Hospital of Logansport's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the year ended December 31, 2019 with comparable information for 2018 and 2017. Please read it in conjunction with the Hospital's consolidated financial statements and accompanying notes to the consolidated financial statements included in this report.

USING THIS ANNUAL REPORT

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

- In the "*management's discussion and analysis*" section of this report, management discusses various components of the annual report and provides an analysis of the current financial statement information.
- The "*basic consolidated financial statements*" section of this report includes a series of consolidated financial statements, which provide information about the activities of the Hospital as a whole. The Consolidated Balance Sheets reveal the assets, liabilities and net position of the Hospital on December 31, 2019 and 2018 while the Consolidated Statements of Operations and Changes in Net Position summarize the revenues and expenses, including nonoperating items for the years then ended. The Consolidated Statements of Cash Flows summarize the change in cash and cash equivalents as a result of operating, investing and financing activities during the years. The Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position summarize the assets, net position, additions, and deductions of the Hospital's fiduciary activities. The Notes to the Consolidated Financial Statements disclose additional information addressed within the body of the consolidated financial statements.

The Hospital is a not-for-profit acute care hospital, established in 1925. It is a county-owned facility and operates under the Indiana County Hospital Law. Operations include a state-licensed, 83 bed acute care medical center offering a full range of inpatient and outpatient medical services including 24-hour emergency care, surgical, specialty, medical imaging, cancer, family birth centers and physician clinics. The Cass County Commissioners appoints the Board of Trustees of the Hospital. Although the Hospital is a governmental entity, the Hospital does not receive taxpayer support for operations.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018 (WITH COMPARATIVE TOTALS FOR 2017)

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

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

This management's discussion and analysis will include some of the highlights related to the operational and financial performance for 2019.

FINANCIAL HIGHLIGHTS

- Overall, net position increased by approximately \$7.3 million during 2019 while operating income was approximately \$7.8 million compared to 2018 where the net position increased approximately \$2.6 million while operating income was approximately \$2.9 million. Operations improved from a positive 2018 year as the Hospital began Cancer Care Center operations in early 2018, which resulted in additional revenue generating service lines such as Wound Care and Oncology.
- Assets limited to use increased by approximately \$11.7 million in 2019 and \$100,000 in 2018. Long-term debt increased by approximately \$10.2 million in 2019 and decreased by approximately \$2.0 million in 2018. The Hospital issued bonds in 2019 to primarily purchase a new electronic medical records and billing system. As of December 31, 2019, approximately \$10.7 of the 2019 bond proceeds were included in assets limited as to use as the funds had not been yet expended.
- Net capital assets increased by approximately \$2.0 million in 2019 and \$900,000 in 2018. The Hospital purchased some of their new electronic medical records and billing system in 2019 and opened the Cancer Care Center in 2018.
- Total operating revenues increased by \$12.3 million in 2019 and \$13.4 million in 2018. The Hospital's operating margin for 2019 was equal to 7.2% compared to 3.0% for 2018. The factors impacting this will be discussed in greater detail herein.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018 (WITH COMPARATIVE TOTALS FOR 2017)

USING THIS ANNUAL REPORT

The following pages will highlight certain consolidated financial statements of the Hospital and include a brief analysis. The consolidated financial statements of the Hospital explain the results of operations. The consolidated statement of operations and changes in net position summarizes the effect of the year's activities, while the consolidated balance sheet summarizes the Hospital's net resources at the beginning and end of the year. The consolidated 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 consolidated statement of operations and changes in net position includes all the current year's revenue and expenses. The next 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 CONSOLIDATED BALANCE SHEET

Table 1: A summary of the Hospital and component units consolidated balance sheet as of December 31, 2019, 2018 and 2017 is presented below (in thousands):

	2019	2018	Change 2019 - 2018	2017	Change 2018 - 2017
Assets					
Current assets	\$ 51,152	\$ 46,683	\$ 4,469	\$ 45,485	\$ 1,198
Assets limited to use (funded depreciation, escrow funds, contributions)	24,461	12,716	11,745	12,638	77
Capital assets	46,705	44,662	2,043	43,775	887
Pledges receivable	100	251	(151)	447	(196)
Other assets	145	861	(716)	753	108
Total assets	\$ 122,563	\$ 105,173	\$ 17,390	\$ 103,098	\$ 2,075
Liabilities					
Current liabilities	\$ 14,730	\$ 14,863	\$ (133)	\$ 13,382	\$ 1,481
Long-term debt	24,585	14,368	10,217	16,384	(2,016)
Total liabilities	39,315	29,231	10,084	29,766	(535)
Net position					
Net investment in capital assets	19,339	28,277	(8,938)	25,417	2,860
Restricted	11,669	1,256	10,413	1,604	(348)
Unrestricted	52,240	46,409	5,831	46,311	98
Total net position	83,248	75,942	7,306	73,332	2,610
Total liabilities and net position	\$ 122,563	\$ 105,173	\$ 17,390	\$ 103,098	\$ 2,075

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018 (WITH COMPARATIVE TOTALS FOR 2017)

Overall, total assets increased by approximately \$17.4 million in 2019 and \$2.1 million in 2018, primarily due to the issuance of the new bonds in 2019 and a positive change in net position during both years.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

Table 2: A summary of the Hospital and component units consolidated statement of operations and changes in net position for 2019, 2018, and 2017 is presented below (in thousands):

	2019	2018	Change 2019 - 2018	2017	Change 2018 - 2017
Operating revenues					
Net patient service revenue	\$ 106,314	\$ 93,599	\$ 12,715	\$ 80,608	\$ 12,991
Other revenue	2,960	3,414	(454)	3,017	397
Total operating revenues	109,274	97,013	12,261	83,625	13,388
Operating expenses					
Salaries and benefits	45,543	43,450	2,093	39,607	3,843
Supplies and other	51,175	45,818	5,357	37,445	8,373
Depreciation and amortization	4,726	4,813	(87)	4,148	665
Total expenses	101,444	94,081	7,363	81,200	12,881
Operating income	7,830	2,932	4,898	2,425	507
Total non-operating revenue (expense)	(524)	(322)	(202)	1,246	(1,568)
Change in net position	7,306	2,610	4,696	3,671	(1,061)
Net position, beginning of year	75,942	73,332	2,610	69,661	3,671
Net position, end of year	\$ 83,248	\$ 75,942	\$ 7,306	\$ 73,332	\$ 2,610

OPERATING AND FINANCIAL PERFORMANCE

Revenue

Net patient revenue in the current year increased by approximately \$12.7 million as compared to 2018 and the 2018 net patient revenue increased by approximately \$13.0 million compared to 2017.

Volumes

The Hospital overall experienced significant growth in outpatient volumes and visits during the current year as the Cancer Care Center began operations in 2018, while inpatient days stayed flat at approximately 5,500 from 2018 to 2019.

MEMORIAL HOSPITAL OF LOGANSPOUT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018 (WITH COMPARATIVE TOTALS FOR 2017)

Expenses

The increase in operating expenses of approximately \$7.4 million in 2019 was primarily attributable to the increase in staffing and costs for employees, and increases in the cost of supplies and drugs related to the Cancer Care Center from 2018 to 2019.

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 positive results during 2019 and 2018.

For the year ended 2019, the change in net position was approximately \$7.3 million compared to approximately \$2.6 million in 2018.

SOURCES OF REVENUE

During 2019, 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 61%, 63%, and 61% of the Hospital's gross revenue in 2019, 2018, and 2017.

Following is a table of major sources of gross patient revenues for 2019, 2018 and 2017.

Payor Mix	2019	2018	2017
Medicare	40%	41%	40%
Medicaid	21%	22%	21%
Commercial insurance	20%	17%	18%
Blue Cross/Anthem	16%	17%	18%
Self pay	3%	3%	3%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018 (WITH COMPARATIVE TOTALS FOR 2017)

THE HOSPITAL'S STATEMENT OF CASH FLOWS

Table 3: A summary of the Hospital and component units consolidated statement of cash flows for 2019, 2018 and 2017 is presented below (in thousands):

	2019	2018	Change 2019 - 2018	2017	Change 2018 - 2017
Cash flow from activities					
Operating activities	\$ 9,987	\$ 4,993	\$ 4,994	\$ 5,894	\$ (901)
Noncapital financing activities	196	318	(122)	(3)	321
Capital and related financing activities	2,879	(7,009)	9,888	(8,632)	1,623
Investing activities	52	197	(145)	(2,079)	2,276
Net change in cash and cash equivalents	<u>\$ 13,114</u>	<u>\$ (1,501)</u>	<u>\$ 14,615</u>	<u>\$ (4,820)</u>	<u>\$ 3,319</u>

The Hospital has experienced positive cash flow from operating activities for all three years presented, totaling approximately \$20.9 million from 2017 to 2019.

CAPITAL ASSETS

Net capital assets increased by approximately \$2.0 million in 2019 and \$900,000 in 2018. The majority of the acquisitions were attributable to the new electronic medical records and billing system and Cancer Care Center construction. The change in capital assets is outlined in the following table (in thousands):

	2019	2018	Change 2019 - 2018	2017	Change 2018 - 2017
Land and improvements	\$ 1,856	\$ 1,887	\$ (31)	\$ 1,710	\$ 177
Buildings	65,009	66,939	(1,930)	61,068	5,871
Equipment	40,184	47,446	(7,262)	43,399	4,047
Total capital assets	107,049	116,272	(9,223)	106,177	10,095
Less accumulated depreciation	(68,090)	(73,272)	5,182	(68,463)	(4,809)
Construction in progress	7,746	1,662	6,084	6,061	(4,399)
Net capital assets	<u>\$ 46,705</u>	<u>\$ 44,662</u>	<u>\$ 2,043</u>	<u>\$ 43,775</u>	<u>\$ 887</u>

LONG-TERM DEBT

The Hospital had approximately \$27.4 million in short and long term debt at year-end 2019, versus approximately \$16.4 million in 2018.

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

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018 (WITH COMPARATIVE TOTALS FOR 2017)

FIDUCIARY FUNDS

As described in Note 2 to the financial statements, the Hospital adopted Governmental Accounting Standards Board Statement No. 84 – *Fiduciary Activities* in 2019. Fiduciary funds are used to account for resources held for the benefit of individuals or units outside of the Hospital. The Hospital is the trustee or fiduciary responsible for assets, which can be used only for the trust beneficiaries per trust arrangements. The Hospital is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All the Hospital's fiduciary activities are reported in separate statements of fiduciary net position and statements of changes in fiduciary net position. The accounting for fiduciary funds is much like that used for proprietary funds. The Hospital's 403(b) Retirement Plan is reported under the fiduciary funds. Since the resources of these funds are not available to support the Hospital's own programs, they are not reflected in the government-wide financial statements. The statements of fiduciary net position and the statements of changes in fiduciary net position can be found on pages 9 and 10, respectively, of this report.

ECONOMIC OUTLOOK

Subsequent to year end, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of health care personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue and investment portfolio declines. Management believes that the health care industry and the Hospital's operating margins will continue to be under pressure as a result of COVID-19, the changes in payor mix and growth in operating expenses, that exceed any increases in contractually arranged and legally 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. This competitive market challenge will potentially be offset by the expected growth in our service area. The Hospital will still be faced with the challenge of providing quality services in an increasingly competitive environment, while at the same time managing costs. 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 uncertainty of federal healthcare reform, especially with the new federal administration in Washington, D.C.

CONCLUSION AND CONTACT INFORMATION

Memorial Hospital of Logansport intends to operate in a fashion that meets its community, operational, and financial obligations. This report is designed to provide a general overview of the Hospital and its finances to our stakeholders. Please address questions or requests regarding this financial report to the Chief Financial Officer, at Memorial Hospital of Logansport, 1101 Michigan Avenue, Logansport IN, 46947.

MEMORIAL HOSPITAL OF LOGANSPORT

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 AND 2018

ASSETS			
		2019	2018
Current assets			
Cash and cash equivalents	\$	31,434,657	\$ 29,142,572
Patient accounts receivable		15,753,636	13,214,599
Current portion of pledges receivable		210,952	298,292
Supplies and other current assets		3,752,858	4,027,362
Total current assets		51,152,103	46,682,825
Assets limited as to use			
Internally designated		12,791,945	11,459,759
Held by trustee		10,658,729	-0-
Restricted by contributors and grantors		1,010,272	1,255,815
Total assets limited as to use		24,460,946	12,715,574
Capital assets			
Land and construction in progress		8,624,674	2,540,264
Depreciable capital assets, net		38,080,656	42,122,014
Total capital assets		46,705,330	44,662,278
Pledges receivable		100,000	250,570
Other assets		145,166	860,748
Total assets	\$	122,563,545	\$ 105,171,995

See accompanying notes to consolidated financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 AND 2018

LIABILITIES AND NET POSITION

	2019	2018
Current liabilities		
Current portion of long-term debt and capital leases	\$ 2,780,643	\$ 2,018,134
Accounts payable and accrued expenses	8,267,599	7,684,000
Accrued payroll and related liabilities	2,496,861	3,601,472
Estimated third-party payor settlements	1,184,740	1,559,190
Total current liabilities	14,729,843	14,862,796
Non current liabilities		
Long-term debt, net of current portion	24,586,169	14,366,812
Total liabilities	39,316,012	29,229,608
Net position		
Net investment in capital assets	19,338,518	28,277,332
Restricted		
Held by trustee	10,658,729	-0-
Expendable for specific operating activities	673,596	919,139
Nonexpendable permanent endowments	336,676	336,676
Unrestricted	52,240,014	46,409,240
Total net position	83,247,533	75,942,387
Total liabilities and net position	\$ 122,563,545	\$ 105,171,995

See accompanying notes to consolidated financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Operating revenues		
Net patient revenue (net of provisions for bad debt)	\$ 106,313,930	\$ 93,598,628
Other	2,959,584	3,413,733
Total operating revenues	109,273,514	97,012,361
Operating expenses		
Salaries and benefits	45,542,575	43,450,400
Medical and other professional fees	9,410,336	9,458,040
Medical supplies and drugs	15,500,587	11,610,869
Other supplies	1,765,191	1,879,360
Depreciation and amortization	4,726,252	4,813,346
Rent and leases	1,021,733	980,830
Utilities and postage	1,404,863	1,585,934
Maintenance and repairs	598,686	567,157
Insurance	890,251	860,861
Hospital assessment fee	2,877,468	2,210,042
Purchased services and other	17,706,167	16,662,925
Total operating expenses	101,444,109	94,079,764
Operating income	7,829,405	2,932,597
Nonoperating revenues (expenses)		
Investment income	1,191,348	1,405
Interest expense	(823,262)	(467,480)
Noncapital grants and contributions	285,657	239,926
Gain (loss) on sale of equipment	(769,139)	1,475
Other expenses	(408,863)	(97,614)
Total nonoperating revenues (expenses)	(524,259)	(322,288)
Change in net position	7,305,146	2,610,309
Net position beginning of the year	75,942,387	73,332,078
Net position end of year	\$ 83,247,533	\$ 75,942,387

See accompanying notes to consolidated financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Operating activities		
Cash received from patients and third party payors	\$ 103,769,446	\$ 92,214,675
Cash paid to employees for salaries and benefits	(46,647,186)	(42,587,796)
Cash paid to vendors for goods and services	(49,594,474)	(48,047,615)
Other operating receipts	2,459,584	3,413,733
Net cash flows from operating activities	9,987,370	4,992,997
Noncapital financing activities		
Noncapital grants, contributions, and other	196,145	318,376
Net cash flows from noncapital financing activities	196,145	318,376
Capital and related financing activities		
Capital grants and contributions	237,910	212,519
Acquisition of capital assets	(7,521,165)	(4,782,808)
Principal paid on long-term debt	(2,018,134)	(1,972,936)
Proceeds from the issuance of long-term debt	13,000,000	-0-
Interest paid on long-term debt	(823,262)	(467,480)
Proceeds from sale of capital assets	3,402	1,475
Net cash flows from capital and related financing activities	2,878,751	(7,009,230)
Investing activities		
Investment income	1,191,348	1,405
Purchases of investments in assets whose use is limited	(1,545,504)	(1,639,495)
Proceeds from sale of investments in assets whose use is limited	405,842	1,835,058
Net cash flows from investing activities	51,686	196,968
Net change in cash and cash equivalents	13,113,952	(1,500,889)
Cash and cash equivalents at beginning of year	30,690,210	32,191,099
Cash and cash equivalents at end of year	<u>\$ 43,804,162</u>	<u>\$ 30,690,210</u>
Reconciliation of cash and cash equivalents to the statement of net position		
Cash and cash equivalents in current assets	\$ 31,434,657	\$ 29,142,572
Cash and cash equivalents in assets limited as to use	12,369,505	1,547,638
Total cash and cash equivalents	<u>\$ 43,804,162</u>	<u>\$ 30,690,210</u>

See accompanying notes to consolidated financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 7,829,405	\$ 2,932,597
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	4,726,252	4,813,346
Provision for bad debts	11,142,679	10,192,240
Changes in:		
Patient accounts receivable	(13,681,716)	(11,661,281)
Supplies, other current assets and other assets	886,892	(1,801,692)
Accounts payable and accrued expenses	562,919	(216,003)
Accrued payroll and related liabilities	(1,104,611)	862,604
Estimated third-party payor settlements	(374,450)	(128,814)
Net cash flows from operating activities	<u>\$ 9,987,370</u>	<u>\$ 4,992,997</u>
Noncash financing activities		
Property additions included in accounts payable	\$ 20,680	\$ 917,648

See accompanying notes to consolidated financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

STATEMENTS OF FIDUCIARY NET POSITION DECEMBER 31, 2019 AND 2018 (UNAUDITED)

	2019	Unaudited 2018
	Pension trust funds	Pension trust funds
Assets		
Investments		
Mutual funds at fair value	\$ 22,537,360	\$ 18,294,668
Funds held in insurance company general account at contract value	6,495,991	6,618,548
Notes receivable from participants	570,822	453,298
Total assets	<u>29,604,173</u>	<u>25,366,514</u>
Net position		
Restricted for		
Pension	29,604,173	25,366,514
Total net position	<u>\$ 29,604,173</u>	<u>\$ 25,366,514</u>

See accompanying notes to consolidated financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION YEARS ENDED DECEMBER 31, 2019 AND 2018 (UNAUDITED)

	2019	Unaudited 2018
	Pension trust funds	Pension trust funds
Additions		
Contributions		
Employee	\$ 1,555,977	\$ 1,446,161
Employer	305,120	267,427
Rollover	514,722	934,139
Total contributions	2,375,819	2,647,727
Investment Income		
Net change in fair value of investments	3,229,723	(1,810,775)
Interest and dividends	938,693	950,649
Total investment return	4,168,416	(860,126)
Interest income on notes receivable	26,891	17,185
Total additions	6,571,126	1,804,786
Deductions		
Benefits paid to participants	2,282,396	2,243,032
Administrative expenses	51,071	2,507
Total deductions	2,333,467	2,245,539
Net change	4,237,659	(440,753)
Net position		
Beginning of year	25,366,514	25,807,267
End of year	<u>\$ 29,604,173</u>	<u>\$ 25,366,514</u>

See accompanying notes to consolidated financial statements.

MEMORIAL HOSPITAL OF LOGANSFORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Memorial Hospital of Logansport (the Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides acute care including inpatient, outpatient and emergency care as well as long-term care to Cass County and other surrounding counties.

The Board of County Commissioners of Cass County appoints the Governing Board of the Hospital (Board) and a financial benefit/burden relationship exists between Cass County (the County) and the Hospital. For these reasons, the Hospital is considered a discrete component unit of the 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). The Association, which is included in the Hospital, was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital. The Association is a component unit which has no assets, no liabilities and conducts no operating activities.

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

Related thereto, the Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the manager. Concurrently, the Hospital entered into agreements with the manager to manage the above- leased facilities. As part of the agreements, the Hospital will pay the manager a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements expire on July 1, 2020. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 120 days written notice.

MEMORIAL HOSPITAL OF LOGANSPOORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

The accompanying consolidated 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 consolidated with data of the primary government.

The consolidated financial statements of the Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of Cass County attributable to the transactions of the Hospital and its blended component units. They do not purport to, and do not, present fairly the financial position of Cass County as of December 31, 2019 and 2018, the changes in its financial position or its cash flows for the years then ended.

Blended Component Units

Memorial Hospital Foundation of Cass County, Inc. d/b/a Memorial Hospital Foundation (the Foundation), is a significant blended component unit of the Hospital. The purpose of the Foundation is to assist in raising contributions from the community in order to enhance the ability of the Hospital to service the health needs of the patients it serves. The Hospital appoints a voting majority of the Foundation's Board and a financial benefit/burden relationship exists between the Hospital and the Foundation. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it is substantively the same.

Health Professional Resources, Inc., (HPR) is a significant blended component unit wholly owned by the Hospital. HPR operates a community pharmacy and provides food service for a local county mental health organization. The primary government appoints a voting majority of HPR's Board and is able to impose its will. Although it is legally separate from the Hospital, HPR is reported as if it were a part of the Hospital because the two boards are substantively the same.

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

Complete financial statements for these components can be requested from Hospital administration located at Memorial Hospital of Logansport, 1101 Michigan Avenue, Logansport IN, 46947.

MEMORIAL HOSPITAL OF LOGANSPOUR

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Use of Estimates

The preparation of consolidated 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 consolidated 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.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and investments in 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 consolidated 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, money market deposit accounts, mutual funds, and government securities. Amounts restricted by contributors or grantors consist of amounts designated to be restricted for a particular purpose in accordance with donor or grantor agency stipulations. Investment income, to the extent not capitalized, is reported as nonoperating revenue in the consolidated statements of operations and changes in net position.

Investments: Debt and Equity Securities and Other Investments

Debt and equity securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury, fully insured, or guaranteed by the United States or any United States government agency.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

MEMORIAL HOSPITAL OF LOGANSPOORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 consolidated statements of operations and changes in net position.

Capital Assets and Depreciation

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

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

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

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

Costs of Borrowing

Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds, as well as interest earned on those funds, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no capitalized interest in 2019 and 2018.

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.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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. 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 consolidated financial statements.

These programs have audited the year-end cost report filed with the Medicare program through December 31, 2016, with differences reflected as deductions from revenue. Amounts for unresolved cost reports for 2016 through 2019 as well as other allowances are reflected in estimated third-party settlements on the consolidated balance sheets. Differences from the prior year estimates related to the cost report settlements have been deemed immaterial by management for financial statement disclosure.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. Patient charges under these programs, on which no interim payments have been received, are included in patient accounts receivable at the estimated net realizable value of such charges.

Hospital Assessment Fee (HAF) Program

The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share payments for Indiana hospitals as reflected in the Hospital assessment fee expense reported in the consolidated statements of operations and changes in net position.

MEMORIAL HOSPITAL OF LOGANSPOORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. During 2019 and 2018, the Hospital recognized hospital assessment fee expense of approximately \$2,877,000 and \$2,210,000, respectively, which resulted in increased Medicaid reimbursement.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts deemed to be charity care are reported as deductions from revenues.

Of the Hospital's total expenses reported, an estimated \$691,000 and \$813,000 arose from providing services to charity patients during the years ended December 31, 2019 and 2018, respectively.

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

Net Position

Net position of the Hospital is classified in various components. Net position – net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted expendable net position includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue note indentures. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Restricted Net Position

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

	2019	2018
Charity care	\$ 281,397	\$ 284,760
Community education	7,846	11,745
Capital campaign	308,331	548,187
Capital projects fund	46,964	46,659
Other	29,058	27,788
Total	<u>\$ 673,596</u>	<u>\$ 919,139</u>

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Restricted nonexpendable net position as of December 31, 2019 and 2018 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 consolidated statements of operations and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services — the Hospital's principal activity. Non-exchange revenues including grants, and contributions received for purposes other than capital asset acquisition are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

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 either for 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.

MEMORIAL HOSPITAL OF LOGANSPOORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Pledges Receivable

The Foundation records unconditional promises to give (pledges) at fair value at the date the promise is received. Management has determined that the allowance for uncollectible pledges and the allowance to net present value the pledges to their estimated net realizable value are not material. These allowances have not been recorded in the accompanying consolidated financial statements.

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 2019 and 2018, the Hospital recognized approximately \$42,000 and \$146,000, respectively, in EHR incentive payments using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

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

MEMORIAL HOSPITAL OF LOGANSPOORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Compensated Absences

Short-Term Disability

The Hospital utilizes a short-term disability benefit program. The Hospital self-funds their short-term disability program as expenses are incurred.

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 22, of the Indiana statutes. The Internal Revenue Service recognizes the Hospital as exempt from federal income tax as a charitable, educational, and scientific organization as described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. 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 consolidated 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, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Hospital and its component units are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Where applicable, these entities have filed their federal and state income tax returns for periods through December 31, 2018. 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).

MEMORIAL HOSPITAL OF LOGANSPOUT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Advertising

The Hospital uses advertising for recruiting and 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 \$1,003,000 and \$1,105,000 during 2019 and 2018, respectively, and are included within purchased services and other in the consolidated statements of operations and changes in net position.

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 \$1,904,000 and \$2,045,000 for 2019 and 2018 after intercompany eliminations. The remainder of other revenue is generated by the Hospital and consists of cafeteria sales, revenue associated with renting and cleaning the medical office buildings, electronic health record incentive payments, and other.

Reclassifications

Certain amounts from 2018 have been reclassified in order to conform to the 2019 presentation. There were no changes to net position as a result of these reclassifications, as previously reported.

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued which is April 27, 2020.

MEMORIAL HOSPITAL OF LOGANSPOORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Recently Issued Accounting Standards

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*, which will be effective for periods beginning after December 15, 2019. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Hospital is presently evaluating the impact of this standard.

In June of 2018, GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for periods beginning after December 15, 2019. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The Hospital is presently evaluating the impact of this standard.

2. CHANGE IN ACCOUNTING PRINCIPLES

In 2019, the Hospital adopted GASB Statement No. 84 – *Fiduciary Activities*. Generally, this statement requires governmental entities, who control assets of a fiduciary activity in which a fiduciary relationship exists with beneficiaries, to include those activities in two separate, interrelated financial statements, the statement of fiduciary net position and the statement of changes in fiduciary net position. Prior to the adoption of this Statement, the assets, net position and activity related the Hospital's 403(b) Plan were not included in the Hospital's consolidated financial statements. The Hospital's fiduciary activities related to its 403(b) Plan have been presented in the pension trust funds column of the newly added statements of fiduciary net position and accompanying statements of changes in fiduciary net position. The changes adopted to conform to the provisions of this Statement were applied retroactively by restating the consolidated financial statements for 2018.

In 2019, the Hospital adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. Footnote 9 in the consolidated financial statements has been amended to conform with the new requirements of this standard.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

3. FAIR VALUE MEASUREMENTS

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

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018. The Hospital does not have any level 3 assets or liabilities.

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.
- *Equities*: Valued at the closing price reported on the active market on which the individual securities are traded.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

- *Interest rate swap agreements:* Valued using pricing models that are derived principally from observable market data based on discounted cash flows and interest rate yield curves at quoted intervals for the full term of the swap.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018 are as follows:

	2019			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Mutual funds				
Intermediate-term bond	\$ 1,823,788	\$ 1,823,788	\$ -0-	\$ -0-
Large value	2,424,653	2,424,653	-0-	-0-
Total mutual funds	<u>\$ 4,248,441</u>	<u>\$ 4,248,441</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Equities				
Basic materials	\$ 42,504	\$ 42,504	\$ -0-	\$ -0-
Communication services	94,613	94,613	-0-	-0-
Consumer defensive	173,459	173,459	-0-	-0-
Energy	60,791	60,791	-0-	-0-
Financial services	118,199	118,199	-0-	-0-
Healthcare	102,348	102,348	-0-	-0-
Industrials	48,768	48,768	-0-	-0-
Real estate	81,553	81,553	-0-	-0-
Technology	186,007	186,007	-0-	-0-
Utilities	110,290	110,290	-0-	-0-
Total equities	<u>\$ 1,018,532</u>	<u>\$ 1,018,532</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Money market deposit accounts	12,369,505			
Accrued interest	41,503			
Certificates of deposit *	<u>6,782,965</u>			
Total assets whose use is limited	<u>\$ 24,460,946</u>			
Liabilities				
Interest rate swap agreements	<u>\$ 134,032</u>	<u>\$ -0-</u>	<u>\$ 134,032</u>	<u>\$ -0-</u>

* Certificates of deposit are reported at contract value

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

	2018			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Mutual funds				
Intermediate-term bond	\$ 1,718,270	\$ 1,718,270	\$ -0-	\$ -0-
Large value	1,975,818	1,975,818	-0-	-0-
Total mutual funds	<u>\$ 3,694,088</u>	<u>\$ 3,694,088</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Equities				
Basic materials	\$ 25,064	\$ 25,064	\$ -0-	\$ -0-
Communication services	70,331	70,331	-0-	-0-
Consumer defensive	145,450	145,450	-0-	-0-
Energy	47,921	47,921	-0-	-0-
Financial services	138,450	138,450	-0-	-0-
Healthcare	91,640	91,640	-0-	-0-
Industrials	36,546	36,546	-0-	-0-
Real estate	55,335	55,335	-0-	-0-
Technology	143,148	143,148	-0-	-0-
Utilities	52,897	52,897	-0-	-0-
Total equities	<u>\$ 806,782</u>	<u>\$ 806,782</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Money market deposit accounts	1,547,638			
Accrued interest	46,224			
Certificates of deposit *	6,620,842			
Total assets whose use is limited	<u>\$ 12,715,574</u>			
Assets				
Interest rate swap agreements	<u>\$ 108,050</u>	<u>\$ -0-</u>	<u>\$ 108,050</u>	<u>\$ -0-</u>

* Certificates of deposit are reported at contract value

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Assets measured at fair value on a recurring basis as of December 31, 2019 and 2018 for the Hospital's fiduciary activities are as follows:

Pension Trust Funds	2019			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Small growth	\$ 201,285	\$ 201,285	\$ -0-	\$ -0-
Mid-cap growth	22,396	22,396	-0-	-0-
Mid-cap blend	194,645	194,645	-0-	-0-
Large growth	919,586	919,586	-0-	-0-
Large value	755,874	755,874	-0-	-0-
Large blend	18,815,684	18,815,684	-0-	-0-
Fixed income	1,602,899	1,602,899	-0-	-0-
Other	24,991	24,991	-0-	-0-
Total mutual funds	<u>\$ 22,537,360</u>	<u>\$ 22,537,360</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Funds held in insurance company general account *	6,495,991			
Total investments	<u>\$ 29,033,351</u>			

Pension Trust Funds	2018 (Unaudited)			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Small growth	\$ 82,823	82,823	\$ -0-	\$ -0-
Small blend	89,917	89,917	-0-	-0-
Mid-cap growth	315,110	315,110	-0-	-0-
Mid-cap value	60,150	60,150	-0-	-0-
Mid-cap blend	48,850	48,850	-0-	-0-
Large growth	755,642	755,642	-0-	-0-
Large blend	11,826,916	11,826,916	-0-	-0-
Fixed income	5,105,172	5,105,172	-0-	-0-
Other	10,088	10,088	-0-	-0-
Total mutual funds	<u>\$ 18,294,668</u>	<u>\$ 18,294,668</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Funds held in insurance company general account *	6,618,548			
Total assets whose use is limited	<u>\$ 24,913,216</u>			

* Reported at contract value

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. The Hospital did not have any transfers between levels as of December 31, 2019 and 2018.

Realized gains and losses and interest and dividend income are reported in the consolidated statements of operations and changes in net position as a component of investment income. Net realized gains and losses and interest and dividend income approximated \$360,000 and \$230,000 during 2019 and 2018, respectively.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

The unrealized gains and losses are included in earnings for the period attributable to the change in unrealized gains and losses relating to assets held as of December 31, 2019 and 2018. During 2019 and 2018, the Hospital recognized an unrealized gain of approximately \$831,000 and an unrealized loss of approximately \$229,000, respectively, which is included in the consolidated statement of operations and changes in net position as a component of investment income.

During 2019 and 2018, the Hospital recognized realized gains and unrealized gains (losses) for fiduciary activities of approximately \$3,230,000 and (\$1,811,000), respectively, which is included in the consolidated statements of changes in fiduciary net position as a component of the net change in fair value of investments.

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

4. ASSETS LIMITED AS TO USE

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

	2019	2018
Internally designated		
Funded depreciation		
Money market deposit accounts	\$ 1,710,776	\$ 1,547,638
Investments	11,039,666	9,865,897
Accrued interest receivable	41,503	46,224
Total funded depreciation	12,791,945	11,459,759
Held by trustee		
Money market deposit accounts	10,658,729	-0-
Restricted by contributors and grantors		
Investments	1,010,272	1,255,815
Total assets limited as to use	<u>\$ 24,460,946</u>	<u>\$ 12,715,574</u>

MEMORIAL HOSPITAL OF LOGANSPOORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

5. DEPOSITS AND INVESTMENTS

Deposits and Investments

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

Investments are carried 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 certificates of deposits, mutual funds, and equities.

As of December 31, 2019 and 2018, 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, 2019

	Carrying Amount	Investment Matures (in years)			
		Less than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 6,782,965	\$ 2,674,336	\$ 4,108,629	\$ -0-	\$ -0-
Mutual funds	4,248,441	4,248,441	-0-	-0-	-0-
Equities	1,018,532	1,018,532	-0-	-0-	-0-
	<u>\$ 12,049,938</u>	<u>\$ 7,941,309</u>	<u>\$ 4,108,629</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

December 31, 2018

	Carrying Amount	Investment Matures (in years)			
		Less than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 6,620,842	\$ 1,832,668	\$ 4,788,174	\$ -0-	\$ -0-
Mutual funds	3,694,088	3,694,088	-0-	-0-	-0-
Equities	806,782	806,782	-0-	-0-	-0-
	<u>\$ 11,121,712</u>	<u>\$ 6,333,538</u>	<u>\$ 4,788,174</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

MEMORIAL HOSPITAL OF LOGANSPOUT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

As of December 31, 2019 and 2018, the Hospital had the following investments and maturities for fiduciary activities, all of which were held in a trust capacity for the various associates.

December 31, 2019					
	Carrying Amount	Investment Matures (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 22,537,360	\$ 22,537,360	\$ -0-	\$ -0-	\$ -0-
Funds held in insurance company general account at contract value	6,495,991	6,495,991	-0-	-0-	-0-
	<u>\$ 29,033,351</u>	<u>\$ 29,033,351</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
December 31, 2018 (Unaudited)					
	Carrying Amount	Investment Matures (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 18,294,668	\$ 18,294,668	\$ -0-	\$ -0-	\$ -0-
Funds held in insurance company general account at contract value	6,618,548	6,618,548	-0-	-0-	-0-
	<u>\$ 24,913,216</u>	<u>\$ 24,913,216</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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

Credit risk – Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market funds, 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. It is the Hospital's policy to invest only in securities that meet the ratings requirements set by state statute.

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

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

	2019	2018
Carrying amount		
Deposits	\$ 43,804,162	\$ 30,690,210
Accrued interest	41,503	46,224
Investments	12,049,938	11,121,712
	<u>\$ 55,895,603</u>	<u>\$ 41,858,146</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 31,434,657	\$ 29,142,572
Internally designated	12,791,945	11,459,759
Held by trustee for debt service	10,658,729	-0-
Restricted by contributors and grantors	1,010,272	1,255,815
	<u>\$ 55,895,603</u>	<u>\$ 41,858,146</u>

6. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year-end consisted of these amounts as of December 31, 2019 and 2018:

	2019	2018
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 25,275,377	\$ 20,144,873
Receivable from Medicare	11,266,995	8,532,383
Receivable from Medicaid	11,978,897	12,241,243
Total patient accounts receivable	48,521,269	40,918,499
Less allowance for contractual agreements	(21,121,381)	(18,441,285)
Less allowance for doubtful accounts	(11,646,252)	(9,262,615)
Patient accounts receivable, net	<u>\$ 15,753,636</u>	<u>\$ 13,214,599</u>
Accounts payable and accrued expenses		
Payable to suppliers	\$ 8,267,599	\$ 7,684,000
Payable to employees (including payroll taxes and benefits)	2,496,861	3,601,472
Total accounts payable and accrued expenses	<u>\$ 10,764,460</u>	<u>\$ 11,285,472</u>

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

7. CAPITAL ASSETS

A summary of capital assets at December 31, 2019 and 2018 follows:

	Balance December 31, 2018	Additions	Retirements	Transfers	Balance December 31, 2019
Land	\$ 878,337	\$ -0-	\$ -0-	\$ -0-	\$ 878,337
Land improvements	1,008,763	-0-	(31,182)	-0-	977,581
Building and improvements	66,939,293	604,430	(2,558,961)	24,249	65,009,011
Equipment	47,446,106	652,729	(8,090,885)	176,027	40,183,977
Construction in progress	1,661,927	6,284,686	-0-	(200,276)	7,746,337
Total capital assets	117,934,426	7,541,845	(10,681,028)	-0-	114,795,243
Less accumulated depreciation					
Land improvements	(523,656)	(56,284)	23,514	-0-	(556,426)
Building and improvements	(38,665,301)	(2,079,228)	1,846,647	-0-	(38,897,882)
Equipment	(34,083,191)	(2,590,740)	8,038,326	-0-	(28,635,605)
Total accumulated depreciation	(73,272,148)	(4,726,252)	9,908,487	-0-	(68,089,913)
Capital assets, net	\$ 44,662,278	\$ 2,815,593	\$ (772,541)	\$ -0-	\$ 46,705,330

	Balance December 31, 2017	Additions	Retirements	Transfers	Balance December 31, 2018
Land	\$ 878,337	\$ -0-	\$ -0-	\$ -0-	\$ 878,337
Land improvements	831,434	143,494	-0-	33,835	1,008,763
Building and improvements	61,067,599	16,856	-0-	5,854,838	66,939,293
Equipment	43,398,556	910,557	(4,400)	3,141,393	47,446,106
Construction in progress	6,062,444	4,629,549	-0-	(9,030,066)	1,661,927
Total capital assets	112,238,370	5,700,456	(4,400)	-0-	117,934,426
Less accumulated depreciation					
Land improvements	(473,417)	(50,239)	-0-	-0-	(523,656)
Building and improvements	(36,559,657)	(2,105,644)	-0-	-0-	(38,665,301)
Equipment	(31,430,128)	(2,657,463)	4,400	-0-	(34,083,191)
Total accumulated depreciation	(68,463,202)	(4,813,346)	4,400	-0-	(73,272,148)
Capital assets, net	\$ 43,775,168	\$ 887,110	\$ -0-	\$ -0-	\$ 44,662,278

The estimated cost to complete outstanding construction projects is approximately \$14,000,000 at December 31, 2019, primarily related to the adoption of the Hospital's new electronic medical records and billing system and renovation of the Hospital's Obstetrics and Gynecology department. This will be funded through the cash held by the trustee from the 2019 bond issuance along with the Hospital's other cash reserves.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

8. PLEDGES RECEIVABLE

In 2017, the Foundation began a capital campaign to solicit funds in support of the Cancer Care Center project completed by the Hospital. Pledges receivable represent unconditional amounts committed by donors that have not been received by the Foundation. Pledges receivable at December 31, 2019 are expected to be realized in the following periods:

	2019	2018
Receivable in less than one year	\$ 210,952	\$ 298,292
Receivable in one to three years	100,000	250,570
Total unconditional promises to give	<u>\$ 310,952</u>	<u>\$ 548,862</u>

9. LONG-TERM DEBT

The terms and due dates of the Hospital's long-term debt at December 31, 2019 and 2018 are as follows:

- a. 2013A tax-exempt revenue bonds, principal maturing in varying amounts due May 1, 2038, collateralized by property and equipment with a net book value of approximately \$30,372,000 and \$33,023,000 at December 31, 2019 and 2018. Interest rate is variable at 2.40% as of December 31, 2019. An associated interest rate swap has fixed rate of 2.77% with an asset (liability) fair value of approximately (\$30,000) and \$78,000 as of December 31, 2019 and 2018, respectively, the effects of which are immaterial to the financial statements as a whole.
- b. 2013B tax-exempt revenue bonds, principal maturing in varying amounts due May 1, 2024, collateralized by property and equipment with a net book value of approximately \$30,372,000 and \$33,023,000 at December 31, 2019 and 2018. Interest rate is variable at 2.27% as of December 31, 2019. An associated interest rate swap has fixed rate of 2.39% with an asset (liability) fair value of approximately (\$104,000) and \$30,000 as of December 31, 2019 and 2018, respectively, the effects of which are immaterial to the financial statements as a whole.
- c. 2019A tax exempt revenue bonds, principal maturing in varying amounts due March 1, 2034, collateralized by property and equipment with a net book value of approximately \$30,372,000 and \$33,023,000 at December 31, 2019 and 2018, in addition to the assets held by Trustee of approximately \$10,659,000. Interest rate is fixed at 3.0%.
- d. 2016 equipment loan payable, fixed interest rate of 3.4%, with monthly principal and interest payments totaling \$27,241, due August 2, 2021, collateralized by certain Hospital assets with an approximate net book value of \$600,000 and \$900,000 at December 31, 2019 and 2018.

MEMORIAL HOSPITAL OF LOGANSPOUR

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

The Hospital and the Indiana Financing Authority (the Authority) entered into an agreement with Huntington Public Capital Corporation (Huntington) whereby Huntington purchased from the Authority all the Series 2013A and 2013B tax-exempt revenue bonds (2013 Bonds) in a private placement. The agreement provided that Huntington would hold the Series 2013 Bonds during the Initial Mode Period which runs through May 2023. During the Initial Mode Period, the Series 2013 Bonds would bear interest at the Initial Rate Mode (LIBOR plus 32 basis points plus the applicable spread of 150 basis points for the 2013A Bonds and LIBOR plus 32 basis points plus the applicable spread of 130 basis points for the 2013B Bonds) for 120 months with principal and interest payments determined using a 25-year amortization schedule for the 2013A Series revenue bonds and a 20-year amortization schedule for the 2013B Series revenue bonds.

At the end of the Initial Mode Period, the Series 2013 bonds may be converted to another interest rate mode and remarketed to another bondholder or holders or renewed for another term period with Huntington. The Series 2013 Bonds could be converted to another interest rate mode to accommodate market conditions at that time. If the Series 2013 Bonds could not be remarketed at the end of the Initial Mode Period, the Hospital would be subject to payment of the remaining principal of approximately \$7,800,000.

The Hospital and the Authority entered into an agreement with Siemens Public, Inc. (Siemens) whereby Siemens purchased from the Authority all the Series 2019 tax-exempt revenue bonds (2019 Bonds) in a private placement. The agreement provided that Siemens would hold the Series 2019 Bonds during the Initial Mode Period which runs through March 2034.

Under the terms of the revenue bond indenture, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with restricted cash and investments in the consolidated balance sheet. The revenue bond indenture also places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performances as long as the bonds are outstanding. The Hospital is also required to meet certain financial covenants. The Hospital believes it is in compliance with all covenants as of December 31, 2019 and 2018. If the Hospital was to be in default under the Series 2013 or Series 2019 Bonds, the interest rate on the Bonds could be increased by an additional 3%.

The 2013 and 2019 Series Bonds can be optionally redeemed early by the Hospital. If they are redeemed early, the Hospital must pay a premium from between 100.5% and 102% of the outstanding balance on the 2013 and 2019 Series Bonds, dependent on the amount of time outstanding until maturity.

MEMORIAL HOSPITAL OF LOGANSPOUT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

A summary of long-term debt as of December 31, 2019 and 2018 includes the following:

	Balance at December 31, 2018	Additional borrowings	Payments	Balance at December 31, 2019	Current portion	Long-term portion
2016 Equipment loan - direct borrowing	\$ 831,946	\$ -0-	\$ 303,134	\$ 528,812	313,643	\$ 215,169
2013A Bonds - direct placement	7,521,000	-0-	289,000	7,232,000	306,000	6,926,000
2013B Bonds - direct placement	8,032,000	-0-	1,426,000	6,606,000	1,462,000	5,144,000
2019 Bonds - direct placement	-0-	13,000,000	-0-	13,000,000	699,000	12,301,000
	<u>\$ 16,384,946</u>	<u>\$ 13,000,000</u>	<u>\$ 2,018,134</u>	<u>\$ 27,366,812</u>	<u>\$ 2,780,643</u>	<u>\$ 24,586,169</u>

	Balance at December 31, 2017	Additional borrowings	Payments	Balance at December 31, 2018	Current portion	Long-term portion
2016 Equipment loan - direct borrowing	\$ 1,124,882	\$ -0-	\$ 292,936	\$ 831,946	\$ 303,134	\$ 528,812
2013A Bonds - direct placement	7,810,000	-0-	289,000	7,521,000	289,000	7,232,000
2013B Bonds - direct placement	9,423,000	-0-	1,391,000	8,032,000	1,426,000	6,606,000
	<u>\$ 18,357,882</u>	<u>\$ -0-</u>	<u>\$ 1,972,936</u>	<u>\$ 16,384,946</u>	<u>\$ 2,018,134</u>	<u>\$ 14,366,812</u>

Scheduled principal and interest payments on long-term debt at December 31, 2019 are as follows:

Years Ending December 31,	2016 Equipment Loan - Direct					
	Bonds - Direct Placements		Borrowing		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 2,467,000	\$ 736,697	\$ 313,643	\$ 12,366	\$ 2,780,643	\$ 749,063
2021	2,531,000	669,407	215,169	2,153	2,746,169	671,560
2022	2,609,000	601,383	-0-	-0-	2,609,000	601,383
2023	2,582,000	532,103	-0-	-0-	2,582,000	532,103
2024	1,740,000	468,468	-0-	-0-	1,740,000	468,468
2025-2029	6,164,000	1,783,221	-0-	-0-	6,164,000	1,783,221
Thereafter	8,745,000	856,752	-0-	-0-	8,745,000	856,752
	<u>\$ 26,838,000</u>	<u>\$ 5,648,031</u>	<u>\$ 528,812</u>	<u>\$ 14,519</u>	<u>\$ 27,366,812</u>	<u>\$ 5,662,550</u>

The future interest payments related to the 2013 bonds are based upon two interest rate swap agreements, the effects of which are immaterial to the financial statements. The Hospital did not have a line of credit available as of December 31, 2019.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

10. NET PATIENT REVENUE

Net patient revenue consists of the following at December 31:

	2019	2018
Inpatient revenue	\$ 33,236,266	\$ 33,006,310
Outpatient revenue	206,780,166	184,464,225
Long term care	12,411,421	12,059,779
Gross patient revenue	252,427,853	229,530,314
Contractual allowances	(133,335,779)	(123,860,862)
Charity care	(1,635,465)	(1,878,584)
Bad debt expense	(11,142,679)	(10,192,240)
Deductions from revenue	(146,113,923)	(135,931,686)
Net patient revenue	\$ 106,313,930	\$ 93,598,628

11. 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 \$150,000 per individual with no lifetime maximum reimbursement per covered person. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. The Hospital maintains reinsurance including a stop loss for specific incident claims over a stipulated amount per year. Substantially all employees are covered for major medical benefits.

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

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

	2019	2018
Unpaid claims, beginning of year	\$ 1,298,012	\$ 499,145
Incurred claims and costs	6,815,195	7,348,305
Claim payments	(7,218,191)	(6,549,438)
Unpaid claims, end of year	\$ 895,016	\$ 1,298,012

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

12. PENSION PLAN

Plan Description

The Hospital has a defined contribution pension plan, the Memorial Hospital of Logansport 403(b) Matching Plan (403(b) Plan), as authorized by Indiana Code 16-22-3-11, which is administered by the Hospital. The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and ING National Trust, ING Financial Advisors, LLC, and ING Life Insurance and Annuity Company, as the plan administrators. 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. The 403(b) Plan is included in separate financial statements for fiduciary funds following the Hospital's consolidated financial statements. Hospital contributions to the plan was approximately \$305,000 and \$267,000 for 2019 and 2018, respectively, and reflected as salaries and benefits in the consolidated statements of operations and changes in net position.

13. 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. Gross 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	
	2019	2018	2019	2018
Medicare	23%	21%	40%	41%
Medicaid	26%	30%	21%	22%
Blue Cross/Anthem	12%	10%	20%	17%
Commercial	14%	15%	16%	17%
Self-pay	25%	24%	3%	3%
	100%	100%	100%	100%

14. COMMITMENTS AND CONTINGENCIES

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position, results of operations or cash flows.

MEMORIAL HOSPITAL OF LOGANSPOUT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Malpractice Insurance

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,650,000 for an occurrence of malpractice until June 30, 2019, and \$1,800,000 thereafter. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$400,000 per occurrence (\$8,000,000 in the annual aggregate) until June 30, 2019. Starting July 1, 2019, the Act will require the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 in the annual aggregate). The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (the 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.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, there is no related accrual recorded as of December 31, 2019 and 2018. It is reasonably possible that this estimate could change materially in the near term.

The Hospital purchases premium insurance to cover its exposure of \$400,000 per event and \$8,000,000 aggregate liability for Hospital and HPR operations.

Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through June 2024. Cancelable and non-cancelable operating lease expense was approximately \$1,022,000 and \$981,000 during 2019 and 2018, respectively. The following is a schedule by year of future minimum lease payments under non-cancelable operating leases as of December 31, 2019, that have initial or remaining lease terms in excess of one year.

Year Ending December 31,	
2020	\$ 400,460
2021	288,180
2022	278,580
2023	278,580
2024	139,290
	<u>\$ 1,385,090</u>

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

15. BLENDED COMPONENT UNITS

The Hospital's consolidated financial statements include the accounts of its blended component units. Separate financial statements related to these component units may be obtained by contacting Hospital management. Below is condensed financial information related to HPR and the Foundation as of and for the year ended December 31, 2019:

	2019		
	HPR	Foundation	Total
Cash and cash equivalents	\$ 415,570	\$ 180,515	\$ 596,085
Patient accounts receivable, net	124,382	-0-	124,382
Supplies and other current assets	247,740	210,952	458,692
Total current assets	787,692	391,467	1,179,159
Assets limited as to use	-0-	2,072,810	2,072,810
Pledges receivable	-0-	100,000	100,000
Capital assets	62,420	735,711	798,131
Total assets	\$ 850,112	\$ 3,299,988	\$ 4,150,100
Accounts payable and accrued expenses	\$ 11,982	\$ -0-	\$ 11,982
Due to Hospital	44,545	-0-	44,545
Total current liabilities	56,527	-0-	56,527
Net position	793,585	3,299,988	4,093,573
Total liabilities and net position	\$ 850,112	\$ 3,299,988	\$ 4,150,100
Total operating revenue	\$ 1,904,214	\$ -0-	\$ 1,904,214
Total non-operating income (loss)	(25,897)	144,010	118,113
Total revenue	1,878,317	144,010	2,022,327
Salaries and benefits	293,395	-0-	293,395
Other professional fees	10,019	5,430	15,449
Medical supplies and drugs	1,288,198	-0-	1,288,198
Depreciation	6,564	10,711	17,275
Rent and leases	30,400	-0-	30,400
Purchased services and other	146,547	-0-	146,547
Total expenses	1,775,123	16,141	1,791,264
Distributions to shareholders	500,000	-0-	500,000
Change in net position	\$ (396,806)	\$ 127,869	\$ (268,937)
Cash flows from activities			
Operating	\$ 31,983	\$ (22,123)	\$ 9,860
Noncapital financing	(532,627)	(145,641)	(678,268)
Capital and related financing activities	(58,222)	237,910	179,688
Investing	6,730	5,043	11,773
Net change in cash and cash equivalents	\$ (552,136)	\$ 75,189	\$ (476,947)

MEMORIAL HOSPITAL OF LOGANSPOORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Below is condensed financial information related to HPR and the Foundation as of and for the year ended December 31, 2018:

	2018		
	HPR	Foundation	Total
Cash and cash equivalents	\$ 967,706	\$ 105,326	\$ 1,073,032
Patient accounts receivable, net	162,250	-0-	162,250
Supplies and other current assets	241,894	298,292	540,186
Total current assets	1,371,850	403,618	1,775,468
Assets limited as to use	-0-	1,788,202	1,788,202
Pledges receivable	-0-	250,570	250,570
Capital assets	10,762	746,422	757,184
Total assets	\$ 1,382,612	\$ 3,188,812	\$ 4,571,424
Accounts payable and accrued expenses	\$ 123,675	\$ 16,693	\$ 140,368
Due to Hospital	68,546	-0-	68,546
Total current liabilities	192,221	16,693	208,914
Net position	1,190,391	3,172,119	4,362,510
Total liabilities and net position	\$ 1,382,612	\$ 3,188,812	\$ 4,571,424
Total operating revenue	\$ 2,045,348	\$ -0-	\$ 2,045,348
Total non-operating income (loss)	(92,923)	(165,550)	(258,473)
Total revenue	1,952,425	(165,550)	1,786,875
Salaries and benefits	265,808	-0-	265,808
Other professional fees	10,480	5,263	15,743
Medical supplies and drugs	1,168,327	-0-	1,168,327
Depreciation	2,498	10,939	13,437
Rent and leases	30,400	-0-	30,400
Purchased services and other	183,712	-0-	183,712
Total expenses	1,661,225	16,202	1,677,427
Change in net position	\$ 291,200	\$ (181,752)	\$ 109,448
Cash flows from activities			
Operating	\$ 410,047	\$ 5,000	\$ 415,047
Noncapital financing	(99,754)	(138,258)	(238,012)
Capital and related financing activities	(8,491)	212,519	204,028
Investing	6,831	(49,783)	(42,952)
Net change in cash and cash equivalents	\$ 308,633	\$ 29,478	\$ 338,111

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

16. SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of health care personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue and investment portfolio declines. Management believes the Hospital is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at the date the financial statements were available to be issued.