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August 7, 2018

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

We have reviewed the audit report opined on by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2017 to December 31, 2017. 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, 2017, 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
Paul D. Joyce, CPA
State Examiner



MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017 AND 2016

CPAs / ADVISORS



MEMORIAL HOSPITAL OF LOGANSPORT

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Memorial Hospital of Logansport
Logansport, Indiana

REPORT ON THE COMBINED FINANCIAL STATEMENTS

We have audited the accompanying combined financial statements of Memorial Hospital of Logansport (the Hospital), a component unit of Cass County, which comprise the combined balance sheets as of December 31, 2017 and 2016, and the related combined statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE COMBINED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *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 combined financial statements are free from material misstatement.

Board of Trustees
Memorial Hospital of Logansport
Logansport, Indiana

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

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

OPINION

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2017 and 2016, and the results of its operations, changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

REPORT ON REQUIRED SUPPLEMENTARY INFORMATION

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

Blue & Co., LLC

Indianapolis, Indiana
April 23, 2018

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016 (WITH COMPARATIVE TOTALS FOR 2015)

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, 2017 with comparable information for 2016 and 2015. Please read it in conjunction with the Hospital's combined financial statements and accompanying notes to the combined financial statements included in this report.

USING THIS ANNUAL REPORT

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

- In the "*management's discussion and analysis*" section of this report, management discusses various components of the annual report and provides an analysis of the current financial statement information.
- The "*basic combined financial statements*" section of this report includes a series of combined financial statements, which provide information about the activities of the Hospital as a whole. The Combined Balance Sheets reveal the assets, liabilities and net position of the Hospital on December 31, 2017 and 2016 while the Combined Statements of Operations and Changes in Net Position summarize the revenues and expenses, including nonoperating items for the years then ended. The Combined Statements of Cash Flows summarize the change in cash and cash equivalents as a result of operating, investing and financing activities during the years. The Notes to the Combined Financial Statements disclose additional information addressed within the body of the combined 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, 2017 AND 2016 (WITH COMPARATIVE TOTALS FOR 2015)

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 2017.

FINANCIAL HIGHLIGHTS

Overall, net position increased by approximately \$3.7 million during 2017 while operating income was approximately \$2.4 million compared to 2016 where the net position increased approximately \$2.6 million while operating income was approximately \$2.8 million. Operations improved from a positive 2016 year as the Hospital's health claims experience recovered and the related expenses decreased approximately \$1.2 million from 2016 in addition to a decrease in employed full-time equivalents.

Net capital assets increased by approximately \$3.4 million compared to the prior year as the Cancer Care Center opening was a welcomed addition to the community. Debt, including capital leases, decreased by approximately \$2.0 million as a result of current year principal payments.

The Hospital's operating margin for 2017 was equal to 2.9% compared to 3.3% for 2016. The factors impacting this will be discussed in greater detail herein.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016 (WITH COMPARATIVE TOTALS FOR 2015)

USING THIS ANNUAL REPORT

The following pages will highlight certain combined financial statements of the Hospital and include a brief analysis. The combined financial statements of the Hospital explain the results of operations. The combined statement of operations and changes in net position summarizes the effect of the year's activities, while the combined balance sheet summarizes the Hospital's net resources at the beginning and end of the year. The combined balance sheet includes all assets and liabilities of the Hospital, and provides information about the nature and amounts of investments in resources and obligations to its creditors. It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

The combined statement of operations and changes in net position includes all the current year's revenue and expenses. The final financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Hospital's cash flows from operating activities, capital and financing activities, and investing activities, as well as providing information of the sources and uses of cash during the year.

THE HOSPITAL'S COMBINED BALANCE SHEET

Table 1: A summary of the Hospital and component units combined balance sheet as of December 31, 2017, 2016 and 2015 is presented below (in thousands):

	2017	2016	2017 - 2016	2015	2016 - 2015
Assets					
Current assets	\$ 45,485	\$ 43,730	\$ 1,755	\$ 42,549	\$ 1,181
Assets limited to use (funded depreciation, escrow funds, contributions)	12,638	15,596	(2,958)	15,321	274
Capital assets	43,775	40,378	3,397	38,773	1,605
Pledges receivable	447	-0-	447	-0-	-0-
Other assets	754	596	158	114	482
Total assets	<u>\$ 103,099</u>	<u>\$ 100,300</u>	<u>\$ 2,799</u>	<u>\$ 96,757</u>	<u>\$ 3,543</u>
Liabilities					
Current liabilities	\$ 13,382	\$ 12,282	\$ 1,100	\$ 10,836	\$ 1,446
Long-term debt	16,385	18,357	(1,972)	18,877	(520)
Total liabilities	<u>29,767</u>	<u>30,639</u>	<u>(872)</u>	<u>29,713</u>	<u>926</u>
Net position					
Net investment in capital assets	25,417	20,092	5,325	18,289	1,803
Restricted	1,604	4,004	(2,400)	4,097	(93)
Unrestricted	46,311	45,565	746	44,658	907
Total net position	<u>73,332</u>	<u>69,661</u>	<u>3,671</u>	<u>67,044</u>	<u>2,617</u>
Total liabilities and net position	<u>\$ 103,099</u>	<u>\$ 100,300</u>	<u>\$ 2,799</u>	<u>\$ 96,757</u>	<u>\$ 3,543</u>

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016 (WITH COMPARATIVE TOTALS FOR 2015)

The significant changes in the Hospital's assets included an increase in current assets of approximately \$1.8 million primarily due to an increase in patient accounts receivable driven by an increase in revenues and payor mix changes. Current liabilities increased approximately \$1.1 million primarily due to an increase in third-party payor settlements.

Net position increased by approximately \$3.7 million consisting of efforts to control associated expenses, improved health insurance claims, and a capital campaign initiated during 2017.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

Table 2: A summary of the Hospital and component units combined statement of operations and changes in net position for 2017, 2016, and 2015 is presented below (in thousands):

	2017	2016	Change 2017 - 2016	2015	Change 2016 - 2015
Operating revenues					
Net patient service revenue	\$ 80,608	\$ 80,105	\$ 503	\$ 77,478	\$ 2,627
Other revenue	3,017	3,305	(288)	2,829	476
Total operating revenues	83,625	83,410	215	80,307	3,103
Operating expenses					
Salaries and benefits	39,607	40,277	(670)	37,308	2,969
Supplies and other	37,445	36,493	952	33,588	2,905
Depreciation and amortization	4,148	3,879	269	3,734	145
Total expenses	81,200	80,649	551	74,630	6,019
Operating income	2,425	2,761	(336)	5,677	(2,916)
Total non-operating revenue (expense)	(102)	(144)	42	(507)	363
Contributions of restricted assets	1,348	-0-	1,348	-0-	-0-
Change in net position	3,671	2,617	1,054	5,170	(2,553)
Net assets beginning of year	69,661	67,044	2,617	61,874	5,170
Net assets end of year	\$ 73,332	\$ 69,661	\$ 3,671	\$ 67,044	\$ 2,617

OPERATING AND FINANCIAL PERFORMANCE

Revenue

Net patient revenue in the current year increased by approximately \$500,000 as compared to 2016 and the 2016 net patient revenue increased by approximately \$2.6 million compared to 2015.

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016 (WITH COMPARATIVE TOTALS FOR 2015)

Volumes

The Hospital overall experienced marginal growth in outpatient volumes and visits during the current year, while inpatient days decreased approximately 3.7% from 2016 to 2017.

Expenses

The increase in operating expenses of approximately \$551,000 in 2017 was primarily attributable to the decrease in health insurance claims experience, an increase in the hospital assessment fee, along with increases in professional fees and purchased services and other expense from 2016 to 2017.

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 2017 and 2016.

For the year ended 2017, the change in net position was approximately \$3.7 million compared to approximately \$2.6 million in 2016.

SOURCES OF REVENUE

During 2017, 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% of the Hospital's gross revenue in 2017 but only 49% of the Hospital's net patient service revenues. This compares to 2016 where revenues from Medicare and Medicaid represented 61% of the Hospital's gross revenue and only 45% of its net patient service revenue

Following is a table of major sources of gross patient revenues for 2017, 2016 and 2015.

<u>Payor Mix</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Medicare	40%	36%	38%
Medicaid	21%	25%	21%
Commercial insurance	18%	19%	20%
Blue Cross/Anthem	18%	17%	17%
Self pay	3%	3%	4%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016 (WITH COMPARATIVE TOTALS FOR 2015)

THE HOSPITAL'S STATEMENT OF CASH FLOWS

Table 3: A summary of the Hospital and component units combined statement of cash flows for 2017, 2016 and 2015 is presented below (in thousands):

	2017	2016	Change 2017 - 2016	2015	Change 2016 - 2015
Cash flow from activities					
Operating activities	\$ 5,894	\$ 6,631	\$ (737)	\$ 8,564	\$ (1,933)
Noncapital financing activities	(3)	(17)	14	55	(72)
Capital and related financing activities	(8,632)	(6,186)	(2,446)	(5,933)	(253)
Investing activities	(2,079)	240	(2,319)	(303)	543
Net change in cash and cash equivalents	<u>\$ (4,820)</u>	<u>\$ 668</u>	<u>\$ (5,488)</u>	<u>\$ 2,383</u>	<u>\$ (1,715)</u>

The Hospital has experienced positive cash flow from operating activities for all three years presented. The change between 2017 and 2016 of approximately \$5.5 million reflected a usage of cash of approximately \$4.8 million related to the Cancer Care Center construction and purchase of investments.

CAPITAL ASSETS

Including construction in progress, the Hospital invested approximately \$6.9 million in capital assets in 2017 and \$5.5 million in 2016. The majority of the acquisitions were attributable to clinical equipment and Cancer Care Center construction. The change in capital assets is outlined in the following table (in thousands):

	2017	2016	Change 2017 - 2016	2015	Change 2016 - 2015
Land and improvements	\$ 1,710	\$ 1,584	\$ 126	\$ 1,460	\$ 124
Buildings	61,068	60,615	453	59,002	1,613
Equipment	43,399	39,956	3,443	37,061	2,895
Total capital assets	<u>106,177</u>	<u>102,155</u>	<u>4,022</u>	<u>97,523</u>	<u>4,632</u>
Less accumulated depreciation	(68,463)	(64,397)	(4,066)	(60,536)	(3,861)
Construction in progress	6,061	2,620	3,441	1,786	834
Net capital assets	<u>\$ 43,775</u>	<u>\$ 40,378</u>	<u>\$ 3,397</u>	<u>\$ 38,773</u>	<u>\$ 1,605</u>

MEMORIAL HOSPITAL OF LOGANSPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 AND 2016 (WITH COMPARATIVE TOTALS FOR 2015)

LONG-TERM DEBT

The Hospital had approximately \$18.4 million in short and long term debt at year-end 2017, versus approximately \$20.3 million in 2016.

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

ECONOMIC OUTLOOK

Management believes that the healthcare industry's and the Hospital's operating margins will continue to be under pressure as a result of the 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

COMBINED BALANCE SHEETS DECEMBER 31, 2017 AND 2016

	2017	2016
Current assets		
Cash and cash equivalents	\$ 30,855,031	\$ 30,132,034
Patient accounts receivable	11,745,558	9,744,585
Current portion of pledges receivable	260,257	-0-
Supplies and other current assets	2,624,381	3,854,546
Total current assets	<u>45,485,227</u>	<u>43,731,165</u>
Assets limited as to use		
Internally designated	11,034,277	11,591,501
Held by trustee	99,536	3,290,317
Restricted by contributors and grantors	1,504,505	713,783
Total assets limited as to use	<u>12,638,318</u>	<u>15,595,601</u>
Capital assets		
Land and construction in progress	6,940,781	3,498,418
Depreciable capital assets, net	36,834,387	36,879,499
Total capital assets	<u>43,775,168</u>	<u>40,377,917</u>
Pledges receivable	447,237	-0-
Other assets	753,237	595,544
Total assets	<u>\$ 103,099,187</u>	<u>\$ 100,300,227</u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED BALANCE SHEETS DECEMBER 31, 2017 AND 2016

LIABILITIES AND NET POSITION

	2017	2016
Current liabilities		
Current portion of long-term debt and capital leases	\$ 1,972,936	\$ 1,928,018
Accounts payable and accrued expenses	6,982,355	6,740,979
Accrued payroll and related liabilities	2,738,868	3,033,887
Estimated third-party payor settlements	1,688,004	578,727
Total current liabilities	<u>13,382,163</u>	<u>12,281,611</u>
Non current liabilities		
Long-term debt, net of current portion	<u>16,384,946</u>	<u>18,357,881</u>
Total liabilities	29,767,109	30,639,492
Net position		
Net investment in capital assets	25,417,286	20,092,018
Restricted		
Held by trustee	99,536	3,290,317
Expendable for specific operating activities	1,167,829	377,107
Nonexpendable permanent endowments	336,676	336,676
Unrestricted	<u>46,310,751</u>	<u>45,564,617</u>
Total net position	<u>73,332,078</u>	<u>69,660,735</u>
Total liabilities and net position	<u>\$ 103,099,187</u>	<u>\$ 100,300,227</u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Operating revenues		
Net patient revenue (net of provisions for bad debt)	\$ 80,607,931	\$ 80,105,447
Other	3,017,394	3,304,878
Total operating revenues	83,625,325	83,410,325
Operating expenses		
Salaries and benefits	39,606,973	40,276,630
Medical and other professional fees	8,824,345	8,286,046
Medical supplies and drugs	5,977,415	6,590,985
Other supplies	1,941,488	2,085,175
Depreciation and amortization	4,147,567	3,878,858
Rent and leases	990,557	1,328,068
Utilities and postage	1,575,756	1,427,132
Maintenance and repairs	708,213	670,877
Insurance	794,302	824,252
Hospital assessment fee	1,793,176	1,089,762
Purchased services and other	14,840,549	14,191,373
Total operating expenses	81,200,341	80,649,158
Operating income	2,424,984	2,761,167
Nonoperating revenues (expenses)		
Investment income	348,341	267,186
Interest expense	(508,046)	(524,786)
Noncapital grants and contributions	146,713	164,097
Gain (loss) on sale of equipment	(15,875)	21,322
Other expenses	(73,106)	(72,254)
Total nonoperating revenues (expenses)	(101,973)	(144,435)
Contributions of restricted assets	1,348,332	-0-
Change in net position	3,671,343	2,616,732
Net position beginning of the year	69,660,735	67,044,003
Net position end of year	\$ 73,332,078	\$ 69,660,735

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Operating activities		
Cash received from patients and third party payors	\$ 78,632,827	\$ 79,589,733
Cash paid to employees for salaries and benefits	(39,901,992)	(39,750,349)
Cash paid to vendors for goods and services	(35,854,268)	(36,513,006)
Other operating receipts	3,017,394	3,304,878
Net cash flows from operating activities	5,893,961	6,631,256
Noncapital financing activities		
Noncapital grants and contributions	146,713	164,097
Other noncapital financing payments	(149,701)	(181,546)
Net cash flows from noncapital financing activities	(2,988)	(17,449)
Capital and related financing activities		
Capital grants and contributions	640,838	-0-
Acquisition of capital assets	(6,878,468)	(5,487,833)
Principal paid on long-term debt	(1,928,017)	(1,697,854)
Proceeds from the issuance of long-term debt	-0-	1,500,000
Interest paid on long-term debt	(508,046)	(524,786)
Proceeds from sale of capital assets	42,400	25,203
Net cash flows from capital and related financing activities	(8,631,293)	(6,185,270)
Investing activities		
Investment income	348,341	267,186
Purchases of investments in assets whose use is limited	(4,085,693)	(1,507,504)
Proceeds from sale of investments in assets whose use is limited	1,658,000	1,480,000
Net cash flows from investing activities	(2,079,352)	239,682
Net change in cash and cash equivalents	(4,819,672)	668,219
Cash and cash equivalents at beginning of year	37,010,771	36,342,552
Cash and cash equivalents at end of year	\$ 32,191,099	\$ 37,010,771
Reconciliation of cash and cash equivalents to the statement of net position		
Cash and cash equivalents in current assets	\$ 30,855,031	\$ 30,132,034
Cash and cash equivalents in assets limited as to use	1,336,068	6,878,737
Total cash and cash equivalents	\$ 32,191,099	\$ 37,010,771

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPORT

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
	<u> </u>	<u> </u>
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 2,424,984	\$ 2,761,167
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	4,147,567	3,878,858
Provision for bad debts	7,903,370	7,336,667
Changes in		
Patient accounts receivable	(9,904,343)	(7,795,297)
Supplies, other current assets and other assets	991,374	(674,020)
Accounts payable and accrued expenses	(483,249)	1,411,810
Accrued payroll and related liabilities	(295,019)	526,281
Estimated third-party payor settlements	1,109,277	(814,210)
Net cash flows from operating activities	<u>\$ 5,893,961</u>	<u>\$ 6,631,256</u>
Noncash financing activities		
Property additions included in accounts payable	\$ 724,625	\$ -0-

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF LOGANSPOORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The Board of County Commissioners of Cass County appoints the Governing Board of the Hospital (Board) and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a discrete component unit of Cass County.

The Board of County Commissioners of Cass County, upon written request of the Hospital Board of Trustees created the Memorial Hospital of Logansport Association. The Association, which is included in the Hospital, was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital. The Association is a component unit which has no assets, no liabilities and conducts no operating activities.

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

Related thereto, the Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the manager. Concurrently, the Hospital entered into agreements with the manager to manage the above leased facilities. As part of the agreements, the Hospital will pay the manager a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements expire on July 1, 2018. 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.

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

The accompanying combined financial statements present the activities of the Hospital (primary government) and its significant component units. The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. Blended component units, although legally separate entities are in substance part of the government's operations and exist solely to provide services for the government; data from these units is combined with data of the primary government.

The combined financial statements of the Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of Cass County attributable to the transactions of the Hospital and its blended component units. They do not purport to, and do not, present fairly the financial position of Cass County as of December 31, 2017 and 2016, 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 combined 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.

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Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise Fund Accounting

The Hospital utilizes the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis of accounting. Substantially all revenues and expenses are subject to accrual.

Cash and Cash Equivalents

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

Assets Limited as to Use

Assets whose use is limited are stated at fair value in the combined financial statements. These assets include investments designated by the Hospital's Board for internal purposes and investments held by trustees for debt service and capital improvements. These investments consist primarily of cash and cash equivalents, certificates of deposit, 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 combined statements of operations and changes in net position.

Investments: Debt and Equity Securities and Other Investments

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

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

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

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

Capital Assets and Depreciation

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

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 2017 and 2016.

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.

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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 combined financial statements.

These programs have audited the year-end cost report filed with the Medicare program through December 31, 2014, with differences reflected as deductions from revenue. Amounts for unresolved cost reports for 2015 through 2017 as well as other allowances are reflected in estimated third-party settlements on the combined balance sheets. Differences from the prior year estimates related to the cost report settlements have been deemed immaterial by management for financial statement disclosure.

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

Hospital Assessment Fee (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 combined statements of operations and changes in net position.

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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 2017 and 2016, the Hospital recognized hospital assessment fee expense of approximately \$1,793,000 and \$1,090,000, 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 \$600,000 and \$766,000 arose from providing services to charity patients during the years ended December 31, 2017 and 2016, 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.

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Restricted Net Position

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

	2017	2016
Charity care	\$ 278,269	\$ 281,656
Community education	20,673	15,000
Capital campaign	781,750	-0-
Capital projects fund	45,524	39,082
Other	41,613	41,369
Total	<u>\$ 1,167,829</u>	<u>\$ 377,107</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, 2017 and 2016 represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the permanent endowments are expendable to support the activities of the Hospital.

Operating Revenues and Expenses

The Hospital's combined 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. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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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 combined 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 2017 and 2016, the Hospital recognized approximately \$340,000 and \$531,000, respectively, in EHR incentive payments using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

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

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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 combined financial statements.

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

Management has analyzed the tax positions taken and has concluded that as of December 31, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying combined financial statements. The Hospital and its component units are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Where applicable, these entities have filed their federal and state income tax returns for periods through December 31, 2016. 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).

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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 \$861,000 and \$938,000 during 2017 and 2016, respectively, and are included within purchased services and other in the combined 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 \$2,014,000 and \$1,810,000 for 2017 and 2016 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 2016 have been reclassified in order to conform to the 2017 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 combined balance sheet date for recognition and disclosure in the accompanying combined financial statements through the date the combined financial statements are available to be issued which is April 23, 2018.

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NOTES TO COMBINED STATEMENTS DECEMBER 31, 2017 AND 2016

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 June 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.

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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NOTES TO COMBINED STATEMENTS DECEMBER 31, 2017 AND 2016

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016. 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.
- *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. These are recognized within other assets on the combined balance sheets.

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NOTES TO COMBINED STATEMENTS DECEMBER 31, 2017 AND 2016

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016 are as follows:

	2017			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Mutual funds				
Intermediate-term bond	\$ 1,512,102	\$ 1,512,102	\$ -0-	\$ -0-
Large value	1,846,767	1,846,767	-0-	-0-
Total mutual funds	\$ 3,358,869	\$ 3,358,869	\$ -0-	\$ -0-
Equities				
Basic Materials	\$ 36,749	\$ 36,749	\$ -0-	\$ -0-
Communication Services	61,152	61,152	-0-	-0-
Consumer Defensive	108,606	108,606	-0-	-0-
Energy	48,256	48,256	-0-	-0-
Financial Services	94,111	94,111	-0-	-0-
Healthcare	104,489	104,489	-0-	-0-
Industrials	35,173	35,173	-0-	-0-
Real Estate	35,354	35,354	-0-	-0-
Technology	124,048	124,048	-0-	-0-
Utilities	45,531	45,531	-0-	-0-
Total equities	\$ 693,469	\$ 693,469	\$ -0-	\$ -0-
Money market deposit accounts	1,336,068			
Accrued interest	34,409			
Certificates of deposit *	7,215,503			
Total assets whose use is limited	\$ 12,638,318			
Assets				
Interest rate swap agreements	\$ 539	\$ -0-	\$ 539	\$ -0-

* Certificates of deposit are reported at contract value

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NOTES TO COMBINED STATEMENTS DECEMBER 31, 2017 AND 2016

	2016			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
Mutual funds				
Intermediate-term bond	\$ 309,065	\$ 309,065	\$ -0-	\$ -0-
Large blend	148,430	148,430	-0-	-0-
Large value	961,803	961,803	-0-	-0-
Total mutual funds	1,419,298	\$ 1,419,298	\$ -0-	\$ -0-
Money market deposit accounts	6,878,737			
Accrued interest	34,375			
Certificates of deposit *	7,263,191			
Total assets whose use is limited	\$ 15,595,601			
Liabilities				
Interest rate swap agreements	\$ 157,154	\$ -0-	\$ 157,154	\$ -0-

* Certificates of deposit are 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, 2017 and 2016.

Realized gains and losses and interest and dividend income are reported in the combined statements of operations and changes in net position as a component of investment income. Net realized gains and losses and interest and dividend income approximated \$251,000 and \$167,000 during 2017 and 2016, respectively.

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, 2017 and 2016. During 2017 and 2016, the Hospital recognized an unrealized gain of approximately \$97,000 and \$100,000, respectively, which is included in the combined statement of operations and changes in net position as a component of investment income.

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

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

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

3. ASSETS LIMITED AS TO USE

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

	2017	2016
Internally designated		
Funded depreciation		
Money market deposit accounts	\$ 1,236,532	\$ 3,588,420
Investments	9,763,336	7,968,706
Accrued interest receivable	34,409	34,375
Total funded depreciation	<u>11,034,277</u>	<u>11,591,501</u>
Held by trustee		
Money market deposit accounts	99,536	3,290,317
Restricted by contributors and grantors		
Investments	<u>1,504,505</u>	<u>713,783</u>
Total assets limited as to use	<u>\$ 12,638,318</u>	<u>\$ 15,595,601</u>

4. DEPOSITS AND INVESTMENTS

Deposits and Investments

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

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NOTES TO COMBINED STATEMENTS DECEMBER 31, 2017 AND 2016

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, 2017 and 2016, 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, 2017

	Carrying Amount	Investment Matures (in years)			
		Less than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 7,215,503	\$ 2,396,279	\$ 4,819,224	\$ -0-	\$ -0-
Mutual funds	3,358,869	3,358,869	-0-	-0-	-0-
Equities	693,469	693,469	-0-	-0-	-0-
	<u>\$ 11,267,841</u>	<u>\$ 6,448,617</u>	<u>\$ 4,819,224</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

December 31, 2016

	Carrying Amount	Investment Matures (in years)			
		Less than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 7,263,191	\$ 2,129,838	\$ 5,133,353	\$ -0-	\$ -0-
Mutual funds	1,419,298	1,419,298	-0-	-0-	-0-
	<u>\$ 8,682,489</u>	<u>\$ 3,549,136</u>	<u>\$ 5,133,353</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.

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

	2017	2016
Carrying amount		
Deposits	\$ 32,191,099	\$ 37,010,771
Accrued interest	34,409	34,375
Investments	11,267,841	8,682,489
	<u>\$ 43,493,349</u>	<u>\$ 45,727,635</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 30,855,031	\$ 30,132,034
Internally designated	11,034,277	11,591,501
Held by trustee for debt service	99,536	3,290,317
Restricted by contributors and grantors	1,504,505	713,783
	<u>\$ 43,493,349</u>	<u>\$ 45,727,635</u>

5. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year-end consisted of these amounts as of December 31, 2017 and 2016:

	2017	2016
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 15,968,778	\$ 15,667,667
Receivable from Medicare	6,969,366	6,735,765
Receivable from Medicaid	11,158,451	6,528,176
Total patient accounts receivable	<u>34,096,595</u>	<u>28,931,608</u>
Less allowance for contractual agreements	(14,095,372)	(12,076,780)
Less allowance for doubtful accounts	(8,255,665)	(7,110,243)
Patient accounts receivable, net	<u>\$ 11,745,558</u>	<u>\$ 9,744,585</u>
Accounts payable and accrued expenses		
Payable to suppliers	\$ 6,982,355	\$ 6,740,979
Payable to employees (including payroll taxes and benefits)	2,738,868	3,033,887
Total accounts payable and accrued expenses	<u>\$ 9,721,223</u>	<u>\$ 9,774,866</u>

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NOTES TO COMBINED STATEMENTS DECEMBER 31, 2017 AND 2016

6. CAPITAL ASSETS

A summary of capital assets at December 31, 2017 and 2016 follows:

	Balance December 31,				Balance December 31,
	2016	Additions	Retirements	Transfers	2017
Land	\$ 878,337	\$ -0-	\$ -0-	\$ -0-	\$ 878,337
Land improvements	705,304	126,130	-0-	-0-	831,434
Building and improvements	60,615,129	61,356	-0-	391,114	61,067,599
Equipment	39,955,882	1,946,057	(139,456)	1,636,073	43,398,556
Construction in progress	2,620,081	5,469,550	-0-	(2,027,187)	6,062,444
Total capital assets	104,774,733	7,603,093	(139,456)	-0-	112,238,370
Less accumulated depreciation					
Land improvements	(427,190)	(46,227)	-0-	-0-	(473,417)
Building and improvements	(34,459,018)	(2,100,639)	-0-	-0-	(36,559,657)
Equipment	(29,510,608)	(2,000,701)	81,181	-0-	(31,430,128)
Total accumulated depreciation	(64,396,816)	(4,147,567)	81,181	-0-	(68,463,202)
Capital assets, net	\$ 40,377,917	\$ 3,455,526	\$ (58,275)	\$ -0-	\$ 43,775,168

	Balance December 31,				Balance December 31,
	2015	Additions	Retirements	Transfers	2016
Land	\$ 878,337	\$ -0-	\$ -0-	\$ -0-	\$ 878,337
Land improvements	582,157	123,147	-0-	-0-	705,304
Building and improvements	59,002,244	630,061	-0-	982,824	60,615,129
Equipment	37,061,171	1,752,013	(22,346)	1,165,044	39,955,882
Construction in progress	1,785,337	2,982,612	-0-	(2,147,868)	2,620,081
Total capital assets	99,309,246	5,487,833	(22,346)	-0-	104,774,733
Less accumulated depreciation					
Land improvements	(389,103)	(38,087)	-0-	-0-	(427,190)
Building and improvements	(32,523,045)	(1,935,973)	-0-	-0-	(34,459,018)
Equipment	(27,624,275)	(1,904,798)	18,465	-0-	(29,510,608)
Total accumulated depreciation	(60,536,423)	(3,878,858)	18,465	-0-	(64,396,816)
Capital assets, net	\$ 38,772,823	\$ 1,608,975	\$ (3,881)	\$ -0-	\$ 40,377,917

The following is an analysis of the leased assets included in capital assets as of December 31, 2017 and 2016:

	2017	2016
Equipment	\$ 69,950	\$ 69,950
Less: accumulated depreciation	69,950	58,292
	\$ -0-	\$ 11,658

The estimated cost to complete outstanding construction projects is approximately \$2,400,000 at December 31, 2017, which is to be funded with internal reserves.

MEMORIAL HOSPITAL OF LOGANSPOUR

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2017 AND 2016

7. 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, 2017 are expected to be realized in the following periods:

	<u>2017</u>
Receivable in less than one year	\$ 260,257
Receivable in one to three years	<u>447,237</u>
Total unconditional promises to give	<u>\$ 707,494</u>

8. LONG-TERM DEBT

The terms and due dates of the Hospital's long-term debt, including capital lease obligations, at December 31, 2017 and 2016 are as follows:

- a. 2013A tax-exempt revenue bonds, principal maturing in varying amounts due May 1, 2038, collateralized by substantially all assets and net revenues of the Hospital excluding equipment and inventory. Interest rate is variable at 2.19% as of December 31, 2017. An associated interest rate swap has fixed rate of 2.77% with a liability fair value of approximately \$35,000 and \$113,000 as of December 31, 2017 and 2016, 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 substantially all assets and net revenues of the Hospital excluding equipment and inventory. Interest rate is variable at 2.06% as of December 31, 2017. An associated interest rate swap has fixed rate of 2.39% with an asset/(liability) fair value of approximately \$36,000 and (\$44,000) as of December 31, 2017 and 2016, respectively, the effects of which are immaterial to the financial statements as a whole.
- c. 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 \$1,200,000.
- d. Capital lease obligation with a monthly payment of \$1,325, with a fixed interest rate of 5.15%, collateralized by leased equipment. The capital lease matured and was paid in full during 2017.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2017 AND 2016

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

Under the terms of the revenue bond indenture, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with restricted cash and investments in the combined balance sheet. The revenue bond indenture also places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performances as long as the 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, 2017 and 2016.

A summary of long-term debt as of December 31, 2017 and 2016 includes the following:

	Balance at December 31, 2016	Additional borrowings	Payments	Balance at December 31, 2017	Current portion	Long-term portion
2016 Equipment loan	\$ 1,407,962	\$ -0-	\$ 283,080	\$ 1,124,882	292,936	\$ 831,946
2013A Bond	8,091,000	-0-	281,000	7,810,000	289,000	7,521,000
2013B Bond	10,774,000	-0-	1,351,000	9,423,000	1,391,000	8,032,000
Capital leases	12,937	-0-	12,937	-0-	-0-	-0-
	<u>\$ 20,285,899</u>	<u>\$ -0-</u>	<u>\$ 1,928,017</u>	<u>\$ 18,357,882</u>	<u>\$ 1,972,936</u>	<u>\$ 16,384,946</u>

	Balance at December 31, 2015	Additional borrowings	Payments	Balance at December 31, 2016	Current portion	Long-term portion
2010 Equipment loan	\$ -0-	\$ 1,500,000	\$ 92,038	\$ 1,407,962	\$ 283,081	\$ 1,124,881
2013A Bond	8,357,000	-0-	266,000	8,091,000	281,000	7,810,000
2013B Bond	12,099,000	-0-	1,325,000	10,774,000	1,351,000	9,423,000
Capital leases	27,753	-0-	14,816	12,937	12,937	-0-
	<u>\$ 20,483,753</u>	<u>\$ 1,500,000</u>	<u>\$ 1,697,854</u>	<u>\$ 20,285,899</u>	<u>\$ 1,928,018</u>	<u>\$ 18,357,881</u>

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2017 AND 2016

Scheduled principal and interest payments on long-term debt at December 31, 2017 are as follows:

Years Ending December 31,	Long-term debt	
	Principal	Interest
2018	\$ 1,972,936	\$ 458,989
2019	2,018,987	403,953
2020	2,082,527	350,703
2021	1,999,534	296,613
2022	1,867,000	249,389
2023-2027	3,856,000	792,092
Thereafter	4,560,898	687,048
	<u>\$ 18,357,882</u>	<u>\$ 3,238,787</u>

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

9. NET PATIENT REVENUE

Net patient revenue consists of the following at December 31:

	2017	2016
Inpatient revenue	\$ 32,289,416	\$ 33,600,229
Outpatient revenue	138,006,901	138,019,135
Long term care	11,030,284	10,916,483
Gross patient revenue	<u>181,326,601</u>	<u>182,535,847</u>
Contractual allowances	(91,386,408)	(93,462,841)
Charity care	(1,428,892)	(1,630,892)
Bad debt expense	(7,903,370)	(7,336,667)
Deductions from revenue	<u>(100,718,670)</u>	<u>(102,430,400)</u>
Net patient revenue	<u>\$ 80,607,931</u>	<u>\$ 80,105,447</u>

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2017 AND 2016

10. EMPLOYEE HEALTH PLAN

The Hospital is self-insured for employee health claims. A third party administrator processes the claims for the Hospital. The plan has annual reinsurance coverage starting at a specific level of \$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:

	2017	2016
Unpaid claims, beginning of year	\$ 989,990	\$ 617,298
Incurred claims, costs, and changes in estimates	4,503,260	5,691,010
Claim payments	(4,994,105)	(5,318,318)
Unpaid claims, end of year	<u>\$ 499,145</u>	<u>\$ 989,990</u>

11. PENSION PLAN

Plan Description

The Hospital has a defined contribution pension 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. Hospital contributions to the plans were approximately \$328,000 and \$302,000 for 2017 and 2016, respectively, and reflected as salaries and benefits in the combined statements of operations and changes in net position.

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2017 AND 2016

12. CONCENTRATIONS OF CREDIT RISK

The Hospital is located in Logansport, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. 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	
	2017	2016	2017	2016
Medicare	21%	24%	40%	36%
Medicaid	32%	22%	21%	25%
Blue Cross/Anthem	8%	11%	18%	19%
Commercial	12%	14%	18%	17%
Self-pay	27%	29%	3%	3%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

13. COMMITMENTS AND CONTINGENCIES

Litigation

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

Malpractice Insurance

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

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2017 AND 2016

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, 2017 and 2016. 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 October 2020. Cancelable and non-cancelable operating lease expense was approximately \$990,000 and \$1,330,000 during 2017 and 2016, respectively.

The following is a schedule by year of future minimum lease payments under non-cancelable operating leases as of December 31, 2017, that have initial or remaining lease terms in excess of one year.

Year Ending December 31,		
2018	\$	103,000
2019		59,000
2020		41,000
	\$	<u>203,000</u>

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2017 AND 2016

14. BLENDED COMPONENT UNITS

The Hospital's combined 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, 2017:

	2017		
	HPR	Foundation	Total
Cash and cash equivalents	\$ 659,073	\$ 75,848	\$ 734,921
Patient accounts receivable, net	147,902	-0-	147,902
Supplies and other current assets	162,339	260,257	422,596
Total current assets	<u>969,314</u>	<u>336,105</u>	<u>1,305,419</u>
Assets limited as to use	-0-	1,819,598	1,819,598
Pledges receivable	-0-	447,237	447,237
Capital assets	4,769	757,361	762,130
Total assets	<u>\$ 974,083</u>	<u>\$ 3,360,301</u>	<u>\$ 4,334,384</u>
Accounts payable and accrued expenses	\$ 45,219	\$ 6,430	\$ 51,649
Related party payables	29,673	-0-	29,673
Total current liabilities	<u>74,892</u>	<u>6,430</u>	<u>81,322</u>
Net position	<u>899,191</u>	<u>3,353,871</u>	<u>4,253,062</u>
Total liabilities and net position	<u>\$ 974,083</u>	<u>\$ 3,360,301</u>	<u>\$ 4,334,384</u>
Total operating revenue	\$ 2,010,191	\$ -0-	\$ 2,010,191
Total non-operating income (loss)	(24,331)	(422,248)	(446,579)
Contributions of restricted assets	-0-	1,348,332	1,348,332
Total revenue	<u>1,985,860</u>	<u>926,084</u>	<u>2,911,944</u>
Salaries and benefits	266,485	-0-	266,485
Other professional fees	26,949	5,550	32,499
Medical supplies and drugs	1,452,285	-0-	1,452,285
Depreciation	5,766	11,016	16,782
Rent and leases	30,400	-0-	30,400
Purchased services and other	122,877	-0-	122,877
Total expenses	<u>1,904,762</u>	<u>16,566</u>	<u>1,921,328</u>
Change in net position	<u>\$ 81,098</u>	<u>\$ 909,518</u>	<u>\$ 990,616</u>
Cash flows from activities			
Operating	\$ 228,813	\$ 18,544	\$ 247,357
Noncapital financing	(26,968)	(622,820)	(649,788)
Capital and related financing activities	-0-	640,838	640,838
Investing	2,637	2,366	5,003
Net change in cash and cash equivalents	<u>\$ 204,482</u>	<u>\$ 38,928</u>	<u>\$ 243,410</u>

MEMORIAL HOSPITAL OF LOGANSPORT

NOTES TO COMBINED STATEMENTS DECEMBER 31, 2017 AND 2016

Below is condensed financial information related to HPR and the Foundation as of and for the year ended December 31, 2016:

	2016		
	HPR	Foundation	Total
Cash and cash equivalents	\$ 454,591	\$ 36,920	\$ 491,511
Patient accounts receivable, net	175,603	-0-	175,603
Supplies and other current assets	245,310	25,962	271,272
Total current assets	<u>875,504</u>	<u>62,882</u>	<u>938,386</u>
Assets limited as to use	-0-	1,621,392	1,621,392
Capital assets	10,535	768,377	778,912
Total assets	<u>\$ 886,039</u>	<u>\$ 2,452,651</u>	<u>\$ 3,338,690</u>
Accounts payable and accrued expenses	\$ 39,015	\$ 8,298	\$ 47,313
Related party payables	28,931	-0-	28,931
Total current liabilities	<u>67,946</u>	<u>8,298</u>	<u>76,244</u>
Net position	<u>818,093</u>	<u>2,444,353</u>	<u>3,262,446</u>
Total liabilities and net position	<u>\$ 886,039</u>	<u>\$ 2,452,651</u>	<u>\$ 3,338,690</u>
Total operating revenue	\$ 1,811,137	\$ -0-	\$ 1,811,137
Total non-operating income (loss)	(2,665)	73,441	70,776
Total revenue	<u>1,808,472</u>	<u>73,441</u>	<u>1,881,913</u>
Salaries and benefits	261,468	-0-	261,468
Other professional fees	11,713	7,010	18,723
Medical supplies and drugs	1,369,345	-0-	1,369,345
Depreciation	5,859	9,288	15,147
Rent and leases	30,400	-0-	30,400
Purchased services and other	107,907	-0-	107,907
Total expenses	<u>1,786,692</u>	<u>16,298</u>	<u>1,802,990</u>
Change in net position	<u>\$ 21,780</u>	<u>\$ 57,143</u>	<u>\$ 78,923</u>
Cash flows from activities			
Operating	\$ (12,582)	\$ 3,172	\$ (9,410)
Noncapital financing	(4,184)	(47,699)	(51,883)
Investing	1,519	(14,924)	(13,405)
Net change in cash and cash equivalents	<u>\$ (15,247)</u>	<u>\$ (59,451)</u>	<u>\$ (74,698)</u>