



**MEMORIAL HOSPITAL OF LOGANSPORT**

**COMBINED FINANCIAL STATEMENTS**

**AND**

**REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2012 AND 2011**



# 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 statements of financial position as of December 31, 2012 and 2011, and the related combined statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the combined financial statements.

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

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

### Auditor's Responsibility

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

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.

Board of Trustees  
Memorial Hospital of Logansport  
Logansport, Indiana

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, 2012 and 2011, and the results of its operations, changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Required Supplementary Information

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

*Blue & Co., LLC*

Indianapolis, Indiana  
May 17, 2013

# MEMORIAL HOSPITAL OF LOGANSPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

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Management's discussion and analysis of Memorial Hospital of Logansport's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the year ended December 31, 2012 with comparable information for 2011 and 2010. 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, 2012 and 2011 while the Combined Statements of Revenues, Expenses and Changes in Net Position summarize the revenues and expenses, including nonoperating items for the years then ended. The Combined Statements of Cash Flows summarize the change in cash and cash equivalents as a result of operating, investing and financing activities during the year. The Notes to the Combined Financial Statements disclose additional information addressed within the body of the Combined Financial Statements.

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

# MEMORIAL HOSPITAL OF LOGANSPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

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

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

Each year, the Board of Trustees of the Hospital meets with the current Medical Executive Staff of physicians and Hospital Executive Leaders to evaluate environment and operations, and set strategic initiatives for the year. Action plans are developed, along with measurable objectives, to measure success. Quarterly progress on achieving the Strategic Initiatives is presented to the Board of Trustees, and intermittently to other stakeholders. This MD&A will include some of the highlights related to the Operational and Financial Performance for 2012.

### FINANCIAL HIGHLIGHTS

Overall, net position increased by approximately \$8,240,000 during 2012 while operating income was approximately \$8,652,000. These changes were vast improvements from 2011 where there was an increase in net position of approximately \$1,457,000 and operating income of approximately \$1,718,000.

Capital assets decreased by approximately \$1,375,000 compared to the prior year as depreciation exceeded capital acquisitions. Debt decreased by approximately \$1,066,000 as payments exceeded borrowings.

Some of the factors that caused an increase in net revenues over expenses in 2012 are detailed below:

- Growth in several key volumes, including admits (up 2%), er visits (up almost 1%), scopes (up 21%) and pain management procedures (up 18%), while maintaining delivery volumes.

# MEMORIAL HOSPITAL OF LOGANSPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

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- Full year impact of the renegotiation and addition of contracts with insurance companies, the increased acuity of inpatients, and improved collections.
- Controlling labor costs and a significant reduction in health claims expenses.
- The Hospital assessment fee program was implemented which favorably impacted the Hospital's reimbursement structure by approximately \$3,000,000 during the year.
- Electronic health records incentive payments were received in the amount of approximately \$2,000,000 during the year.
- A retroactive hospital upper payment limit payment (applicable to 2010 & 2011) in the amount of approximately \$1,400,000.

The Hospital's operating margin for 2012 was equal to 12.7% compared to 2.9% for 2011. The factors impacting this are noted above and will be discussed in greater detail here in.

### USING THIS ANNUAL REPORT

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

The final financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash flows from operating activities, capital and financing activities, and investing activities, as well as providing information of the sources and uses of cash during the year.

# MEMORIAL HOSPITAL OF LOGANSPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

### THE HOSPITAL'S COMBINED BALANCE SHEET

Table 1: A summary of the Hospital and component units combined balance sheet as of December 31, 2012, 2011 and 2010 is presented below (in thousands):

	2012	2011	Change 2012 - 2011	2010	Change 2011 - 2010
<b>Assets</b>					
Current assets	\$ 26,622	\$ 14,989	\$ 11,633	\$ 13,765	\$ 1,224
Assets limited to use (funded depreciation, escrow funds, contributions)	11,277	11,873	(596)	11,608	264
Capital assets	38,751	40,126	(1,375)	41,527	(1,401)
Other assets	777	804	(27)	762	42
<b>Total assets</b>	<b>\$ 77,427</b>	<b>\$ 67,792</b>	<b>\$ 9,635</b>	<b>\$ 67,662</b>	<b>\$ 130</b>
<b>Liabilities</b>					
Current liabilities	\$ 9,284	\$ 6,556	\$ 2,728	\$ 7,020	\$ (464)
Capital leases	378	62	316	164	(102)
Long-term debt	15,786	17,435	(1,649)	18,103	(668)
Derivative liability	-0-	-0-	-0-	93	(93)
<b>Total liabilities</b>	<b>25,448</b>	<b>24,053</b>	<b>1,395</b>	<b>25,380</b>	<b>(1,327)</b>
<b>Net position</b>					
Invested in capital assets - net of related debt	20,744	21,054	(310)	21,890	(836)
Restricted	763	757	6	1,234	(477)
Unrestricted	30,472	21,928	8,544	19,158	2,770
<b>Total net position</b>	<b>51,979</b>	<b>43,739</b>	<b>8,240</b>	<b>42,282</b>	<b>1,457</b>
<b>Total liabilities and net position</b>	<b>\$ 77,427</b>	<b>\$ 67,792</b>	<b>\$ 9,635</b>	<b>\$67,662</b>	<b>\$ 130</b>

The significant changes in the Hospital's assets included an increase in current assets of approximately \$11,633,000 primarily due to an increase in cash from current year net income and additional accounts receivable from long-term care. Current liabilities increased approximately \$2,728,000 due primarily to an increase in the amount of estimated third party settlements, along with an increase in payables resulting from the expansion into long-term care.

Net position increased by approximately \$8,240,000 consisting of a gain on operations and efforts to control expenses.

# MEMORIAL HOSPITAL OF LOGANSPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

### 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 2012, 2011 and 2010 is presented below (in thousands):

	2012	2011	Change 2012 - 2011	2010	Change 2011 - 2010
Operating revenues					
Net patient service revenue	\$ 66,691	\$ 54,592	\$ 12,099	\$ 51,878	\$ 2,714
Other revenue	4,786	2,666	2,120	2,246	420
Total operating revenues	<u>71,477</u>	<u>57,258</u>	<u>14,219</u>	<u>54,124</u>	<u>3,134</u>
Operating expenses					
Salaries and benefits	33,491	33,710	(219)	33,996	(286)
Supplies and other	25,772	18,428	7,344	17,327	1,101
Depreciation and amortization	3,562	3,402	160	3,292	110
Total expenses	<u>62,825</u>	<u>55,540</u>	<u>7,285</u>	<u>54,615</u>	<u>925</u>
Operating income (loss)	8,652	1,718	6,934	(491)	2,209
Total non-operating revenue (expense)	<u>(412)</u>	<u>(261)</u>	<u>(151)</u>	<u>(899)</u>	<u>638</u>
Change in net position	8,240	1,457	6,783	(1,390)	2,847
Net assets beginning of year	<u>43,739</u>	<u>42,282</u>	<u>1,457</u>	<u>43,672.00</u>	<u>(1,390)</u>
Net assets end of year	<u>\$ 51,979</u>	<u>\$ 43,739</u>	<u>\$ 8,240</u>	<u>\$ 42,282</u>	<u>\$ 1,457</u>

### OPERATING AND FINANCIAL PERFORMANCE

#### Revenue

Net patient revenue in the current year increased by approximately \$12,099,000 as compared to 2011 and the 2011 net patient revenue increased by approximately \$2,714,000 compared to 2010.

#### Volumes

The Hospital experienced 2% growth in admissions, almost 1% growth in ER visits, 21% growth in scope procedures, and 11% growth in physical therapy procedures, which translated into revenue growth. Additionally, the Hospital expanded into long term care.

# MEMORIAL HOSPITAL OF LOGANSPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

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The Hospital's Medicare CMI (case mix index) increased from 1.1805 in 2011 to 1.2398 in 2012, which helped increase reimbursement.

### Expenses

The increase in operating expenses of approximately \$7,285,000 in 2012 was mainly attributable an increase in purchased services from the Hospital's expansion into long-term care. There was also an increase of approximately \$2,203,000 in expenses related to the hospital assessment fee program, which was implemented during 2012.

Salaries and benefits were very consistent from 2011 to 2012, even though volumes increased from 2011 to 2012. Health insurance claims stayed fairly consistent from 2011 to 2012.

Non-operating losses showed a net increase of approximately \$151,000 from 2011 to 2012, partially due to a realized gain on the Hospital's bond swap derivative instrument during 2011.

### Overall Results

The Hospital, Foundation (one of the Hospital's blended component units), and Health Professional Resources (HPR) (also a blended component unit of the Hospital) all experienced an increase in net position during 2012.

For the year ended 2012, the change in net position was an increase of approximately \$8.2 million compared to an increase of approximately \$1.5 million in 2011. The Hospital achieved growth in key volumes and changes to the reimbursement structure during the year.

## SOURCES OF REVENUE

During 2012, 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 58% of the Hospital's gross revenue in 2012 but only 44% of the Hospital's net patient service revenues. This compares to 2011 where revenues from Medicare and Medicaid represented 55% of the Hospital's gross revenue and only 34% of its net patient service revenue.

# MEMORIAL HOSPITAL OF LOGANSPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

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Following is a table of major sources of gross patient revenues for 2012, 2011 and 2010.

Payor Mix	2012	2011	2010
Medicare	41%	38%	37%
Medicaid	17%	17%	17%
Commercial insurance	17%	19%	18%
Blue Cross/Anthem	19%	20%	22%
Self pay	6%	6%	6%
Total	100%	100%	100%

## THE HOSPITAL'S STATEMENT OF CASH FLOWS

Table 3: A summary of the Hospital and component units Statement of Cash Flows for 2012, 2011 and 2010 is presented below (in thousands):

	2012	2011	Change 2012 - 2011	2010	Change 2011 - 2010
Cash flow from activities					
Operating activities	\$ 10,733	\$ 4,908	\$ 5,825	\$ 2,244	\$ 2,664
Noncapital financing activities	154	169	(15)	142	27
Capital and related financing activities	(3,764)	(3,175)	(589)	(3,880)	705
Investing activities	740	263	477	209	54
Net change in cash and cash equivalents	<u>\$ 7,863</u>	<u>\$ 2,165</u>	<u>\$ 5,698</u>	<u>\$ (1,285)</u>	<u>\$ 3,450</u>

Changes in the Hospital's cash flows are primarily related to the increase in cash provided by operating activities increasing from 2011 to 2012 by approximately \$5.8 million.

Operating activities cash flow increased with volume increases and changes to the charge capture and collection processes. The Hospital used approximately \$589,000 more cash for capital and related financing activities in 2012 than in 2011.

# MEMORIAL HOSPITAL OF LOGANSPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

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### CAPITAL ASSETS

Including construction in progress, the Hospital invested approximately \$2.1 million in capital assets in 2012 and \$2.0 million in 2011. The majority of the acquisitions were attributable to clinical equipment and software upgrades and construction related to the Hospital facility. The change in capital assets is outlined in the following table (in thousands):

	2012	2011	Change 2012 - 2011	2010	Change 2011 - 2010
Land and improvements	\$ 1,460	\$ 1,392	\$ 68	\$ 1,381	\$ 11
Buildings	57,457	56,908	549	56,047	861
Equipment	30,447	27,929	2,518	26,342	1,587
Total capital assets	89,364	86,229	3,135	83,770	2,459
Less accumulated depreciation	(51,102)	(47,628)	(3,474)	(44,412)	(3,216)
Construction in progress	489	1,525	(1,036)	2,169	(644)
Net capital assets	<u>\$ 38,751</u>	<u>\$ 40,126</u>	<u>\$ (1,375)</u>	<u>\$ 41,527</u>	<u>\$ (1,401)</u>

### LONG-TERM DEBT

The Hospital had approximately \$18.0 million in short and long term debt at year-end 2012, versus approximately \$19.1 million in 2011.

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

### ECONOMIC OUTLOOK

Management believes that the healthcare industry's and the Hospital's operating margins will continue to be under pressure as a result of the impacts of the new health care law, continuing RAC activity, as well as managed care payer pressure on pricing and payments received for services provided, combined with inflation on drugs, supplies and the increasing cost of technology. Another factor that poses a challenge to management is the increasingly competitive market for the delivery of health care services, as health care systems around us form accountable care organizations.

# **MEMORIAL HOSPITAL OF LOGANSPORT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)**

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

### **CONCLUSION AND CONTACT INFORMATION**

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

# MEMORIAL HOSPITAL OF LOGANSPORT

## COMBINED BALANCE SHEETS DECEMBER 31, 2012 AND 2011

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### ASSETS

	<u>2012</u>	<u>2011</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 13,437,406	\$ 5,553,767
Patient accounts receivable	8,723,646	7,906,318
Supplies and other current assets	4,460,562	1,528,788
Total current assets	<u>26,621,614</u>	<u>14,988,873</u>
<b>Assets limited as to use</b>		
Internally designated	10,515,236	11,116,289
Held by trustee	2,428	2,428
Restricted by contributors and grantors	760,615	754,999
Total assets limited as to use	<u>11,278,279</u>	<u>11,873,716</u>
<b>Capital assets</b>		
Land and construction in progress	1,367,431	2,334,601
Depreciable capital assets, net	37,383,092	37,791,341
Total capital assets	<u>38,750,523</u>	<u>40,125,942</u>
<b>Other assets</b>	<u>776,963</u>	<u>803,530</u>
Total assets	<u><u>\$ 77,427,379</u></u>	<u><u>\$ 67,792,061</u></u>

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See accompanying notes to combined financial statements.

# MEMORIAL HOSPITAL OF LOGANSPORT

## COMBINED BALANCE SHEETS DECEMBER 31, 2012 AND 2011

### LIABILITIES AND NET POSITION

	<u>2012</u>	<u>2011</u>
<b>Current liabilities</b>		
Current portion of long-term debt and capital leases	\$ 1,842,091	\$ 1,575,050
Accounts payable and accrued expenses	3,553,587	2,370,336
Accrued payroll and related liabilities	2,531,409	2,323,642
Estimated third-party payor settlements	1,356,618	287,065
Total current liabilities	<u>9,283,705</u>	<u>6,556,093</u>
<b>Non current liabilities</b>		
Capital leases, net of current portion	377,899	62,493
Long-term debt, net of current portion	<u>15,786,333</u>	<u>17,434,564</u>
Total liabilities	25,447,937	24,053,150
<b>Net position</b>		
Invested in capital assets, net of related debt	20,744,200	21,053,835
Restricted		
Held by trustee	2,428	2,428
Expendable for specific operating activities	423,939	418,323
Nonexpendable permanent endowments	336,676	336,676
Unrestricted	<u>30,472,199</u>	<u>21,927,649</u>
Total net position	<u>51,979,442</u>	<u>43,738,911</u>
Total liabilities and net position	<u>\$ 77,427,379</u>	<u>\$ 67,792,061</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, 2012 AND 2011

	2012	2011
<b>Operating revenues</b>		
Net patient revenue (net of provision for bad debt)	\$ 66,690,724	\$ 54,591,776
Other	4,786,257	2,665,697
Total operating revenues	71,476,981	57,257,473
<b>Operating expenses</b>		
Salaries and benefits	33,490,924	33,709,510
Medical and other professional fees	3,449,536	3,159,578
Medical supplies and drugs	5,389,821	5,157,240
Other supplies	1,852,912	1,803,068
Depreciation and amortization	3,561,526	3,402,238
Rent and leases	803,530	956,843
Utilities and postage	1,324,751	1,359,957
Maintenance and repairs	621,811	518,727
Insurance	687,931	682,442
Hospital assessment fee	2,203,391	-0-
Purchased services and other	9,438,775	4,790,330
Total operating expenses	62,824,908	55,539,933
Operating income	8,652,073	1,717,540
<b>Nonoperating revenues (expenses)</b>		
Investment income	205,012	288,290
Interest expense	(538,710)	(635,830)
Noncapital grants and contributions	168,997	168,523
Unrealized gain on derivative	-0-	93,063
Gain (loss) on sale of equipment	(39,480)	24,637
Other	(207,361)	(199,554)
Total nonoperating, net	(411,542)	(260,871)
Change in net position	8,240,531	1,456,669
<b>Net position beginning of the year</b>	43,738,911	42,282,242
<b>Net position end of year</b>	\$ 51,979,442	\$ 43,738,911

See accompanying notes to combined financial statements.

# MEMORIAL HOSPITAL OF LOGANSPORT

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>Operating activities</b>		
Cash received from patients and third party payors	\$ 66,072,519	\$ 55,093,670
Cash paid to employees for salaries and benefits	(33,283,157)	(33,926,267)
Cash paid to vendors for goods and services	(26,955,094)	(19,315,870)
Other receipts and payments, net	4,898,441	3,056,699
Net cash flows from operating activities	<u>10,732,709</u>	<u>4,908,232</u>
<b>Noncapital financing activities</b>		
Noncapital grants and contributions and other	153,997	168,523
<b>Capital and related financing activities</b>		
Acquisition of capital assets	(1,832,975)	(1,979,173)
Proceeds from issuance of long-term debt	1,453,400	795,350
Principal paid on long-term debt	(2,939,134)	(1,359,806)
Interest paid on long-term debt	(538,710)	(635,830)
(Gain) loss on sale of equipment	39,480	(24,637)
Proceeds from sale of capital assets	53,903	29,000
Net cash flows from capital and related financing activities	<u>(3,764,036)</u>	<u>(3,175,096)</u>
<b>Investing activities</b>		
Investment income	205,012	288,290
Purchases of investments in assets whose use is limited	(2,476,723)	(3,003,676)
Proceeds from sale of investments in assets whose use is limited	3,012,000	2,979,000
Net cash flows from investing activities	<u>740,289</u>	<u>263,614</u>
Net change in cash and cash equivalents	7,862,959	2,165,273
<b>Cash and cash equivalents at beginning of year</b>	<u>8,447,866</u>	<u>6,282,593</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 16,310,825</u>	<u>\$ 8,447,866</u>
<b>Reconciliation of cash and cash equivalents to the statement of net position</b>		
Cash and cash equivalents in current assets	\$ 13,437,406	\$ 5,553,767
Cash and cash equivalents in assets limited as to use	<u>2,873,419</u>	<u>2,894,099</u>
Total cash and cash equivalents	<u>\$ 16,310,825</u>	<u>\$ 8,447,866</u>

See accompanying notes to combined financial statements.

# MEMORIAL HOSPITAL OF LOGANSPORT

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

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	<u>2012</u>	<u>2011</u>
<b>Reconciliation of operating income to net cash flows from operating activities</b>		
Operating income	\$ 8,652,073	\$ 1,717,540
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	3,561,526	3,402,238
Provision for bad debts	6,834,274	6,873,212
Changes in		
Patient accounts receivable	(7,651,602)	(6,172,339)
Supplies, other current assets and other assets	(3,124,133)	(243,251)
Accounts payable and accrued expenses	1,183,251	(634,552)
Accrued payroll and related liabilities	207,767	(34,616)
Estimated third-party payor settlements	1,069,553	-0-
Net cash flows from operating activities	<u>\$ 10,732,709</u>	<u>\$ 4,908,232</u>
<b>Supplemental cash flows information</b>		
Property acquired through capital lease obligation	\$ 419,950	\$ -0-

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See accompanying notes to combined financial statements.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

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

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

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

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

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

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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Other current assets and liabilities 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, its Subsidiary, and its Foundation. They do not purport to, and do not, present fairly the financial position of Cass County as of December 31, 2012 and 2011, the changes in its financial position or its cash flows for the years then ended.

### Blended Component Units

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

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

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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### Use of Estimates

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

### Enterprise Fund Accounting

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

### Accounting Standards

During 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of GASB No. 20 for business-type activities to apply post November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Hospital's net position, changes in net position or financial reporting disclosures.

Also during 2012, the Hospital adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which primarily resulted in renaming net assets to net position within the combined balance sheets and combined statements of revenues, expenses and changes in net position. GASB No. 63 has been applied retroactively in the accompanying combined financial statements.

### 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.

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# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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### Assets Limited as to Use

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

### Investments: Debt and Equity Securities and Other Investments

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

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

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

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

### Capital Assets and Depreciation

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

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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

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

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

### Costs of Borrowing

Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds, as well as interest earned on those funds, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no capitalized interest in 2012 and 2011.

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Amortization expense for 2012 and 2011 was \$26,566. Bond issue costs are included within other assets.

### Patient Accounts Receivable and Revenues

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed and are reported based on gross charges net of certain deductions from those charges. Management estimates an allowance for doubtful accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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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, 2009, with differences reflected as deductions from revenue. Amounts for unresolved cost reports for 2010 through 2012 as well as other allowances are reflected in estimated third-party settlements on the combined balance sheets. Differences from the prior year estimates related to the cost report settlements have been deemed immaterial by management for financial statement disclosure.

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

### Hospital Assessment Fee Program

During 2012, Hospital Assessment Fee (HAF) Program for the period July 1, 2011 through June 30, 2013 was approved by Centers for Medicare & Medicaid Services retroactive to July 1, 2011. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF Program expense reported in the combined statements of operations and changes in net position. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. The Hospital recognized HAF Program expense of approximately \$2,200,000 which resulted in Medicaid rate increases of approximately \$6,000,000.

### Charity Care

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

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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Of the Hospital's total expenses reported (approximately \$62,800,000 and \$55,500,000 during the years ended December 31, 2012 and 2011, respectively), an estimated \$1,085,000 and \$1,313,000 arose from providing services to charity patients during the years ended December 31, 2012 and 2011, respectively.

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

### Net Position

Net position of the Hospital is classified in various components. Net position - net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position consists of assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

### Grants and Contributions

From time to time, the Hospital receives grants from Cass County and the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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### Restricted Net Position

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

	<u>2012</u>	<u>2011</u>
Charity care	\$ 268,192	\$ 270,200
Community trails	8,177	7,443
Other	147,570	140,680
Total	<u>\$ 423,939</u>	<u>\$ 418,323</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, 2012 and 2011 represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the permanent endowments are expendable to support the activities of the Hospital.

### Operating Revenues and Expenses

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

### Electronic Health Records (EHR) Incentive Payments

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

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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

The Hospital recognizes EHR incentive payments as other operating income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2012 and 2011, the Hospital recognized \$2,081,465 and \$212,500, respectively, in EHR incentive payments using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

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

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

### Compensated Absences

#### *Short-term disability*

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

#### *Personal Leave*

Hospital employees who work at least 32 hours per pay period earn personal leave at the rate of 72 to 144 hours per year based upon the number of years of service. Unused personal leave may be accumulated to a maximum of 240 hours. Accumulated personal leave is paid to employees through a lump sum cash payment upon separation of employment.

Personal leave is accrued when incurred and reported as a liability.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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### Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3). Memorial Hospital Foundation is also a 501(c)(3) not-for-profit organization. Health Professional Resources, Inc. is an Indiana corporation. Income taxes for HPR for those that are currently due and for deferred taxes have been deemed immaterial by management for separate disclosure within these combined financial statements.

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

Management has analyzed the tax positions taken and has concluded that as of December 31, 2012 and 2011, 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, 2011. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

### Advertising

The Hospital uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. The total amount of advertising expense was \$368,258 and \$244,367 during 2012 and 2011, respectively.

### Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; job related illnesses or injuries to employees; medical benefits to employees and dependents. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims from these risks have not exceeded commercial insurance coverage for the past several years.

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# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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### Other Revenue

Other revenue consists of pharmacy sales from one of the component units of approximately \$1,500,000 and \$1,600,000 for 2012 and 2011. 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 2011 have been reclassified in order to conform to the current year presentation. There is no effect on the combined change in net position as a result of these reclassifications.

### Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the combined balance sheet date for recognition and disclosure in the accompanying combined financial statements through the date the combined financial statements are issued which is May 17, 2013.

## 2. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012 and 2011. The Hospital does not have any level 3 assets or liabilities.

- *U.S. government securities*: Valued using pricing models maximizing the use of observable inputs for similar securities.
- *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.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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

	2012			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Assets whose use is limited				
US Government Securities	\$ 701,658	\$ -0-	\$ 701,658	\$ -0-
Mutual funds				
High yield bond	75,160	75,160	-0-	-0-
Intermediate-term bond	195,992	195,992	-0-	-0-
World bond	68,707	68,707	-0-	-0-
Large blend	67,346	67,346	-0-	-0-
Large value	412,457	412,457	-0-	-0-
Total mutual funds	819,662	819,662	-0-	-0-
	1,521,320	\$ 819,662	\$ 701,658	\$ -0-
Cash and cash equivalents and accrued interest				
	2,938,450			
Certificates of deposit *	6,818,509			
	\$ 11,278,279			

\* Certificates of deposit are reported at contract value

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

\* Certificates of deposit are reported at contract value

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, 2012 or 2011.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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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:

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

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

### 3. ASSETS LIMITED AS TO USE

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

	<u>2012</u>	<u>2011</u>
Internally designated		
Funded depreciation		
Cash and cash equivalents	\$ 2,873,419	\$ 2,894,099
Investments	7,576,786	8,137,946
Accrued interest receivable	65,031	84,244
Total funded depreciation	<u>10,515,236</u>	<u>11,116,289</u>
Held by trustee		
Investments	2,428	2,428
Restricted by contributors and grantors		
Investments	<u>760,615</u>	<u>754,999</u>
Total assets limited as to use	<u><u>\$ 11,278,279</u></u>	<u><u>\$ 11,873,716</u></u>

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

### 4. DEPOSITS AND INVESTMENTS

#### Deposits and Investments

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

Investments are carried generally at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Funded depreciation investments consist of cash equivalents, certificates of deposits, and U.S. Government securities.

As of December 31, 2012 and 2011, 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, 2012					
Carrying Amount	Investment Matures (in years)				
	Less than 1	1-5	6-10	More than 10	
US government securities	\$ 701,658	\$ -0-	\$ 701,658	\$ -0-	\$ -0-
Certificates of deposit	6,818,509	2,826,364	3,992,145	-0-	-0-
Mutual funds	819,662	819,662	-0-	-0-	-0-
	<u>\$ 8,339,829</u>	<u>\$ 3,646,026</u>	<u>\$ 4,693,803</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

December 31, 2011					
Carrying Amount	Investment Matures (in years)				
	Less than 1	1-5	6-10	More than 10	
US government securities	\$ 1,402,137	\$ -0-	\$ 600,478	\$ -0-	\$ 801,659
Certificates of deposit	6,731,549	2,081,549	4,650,000	-0-	-0-
Mutual funds	761,688	761,688	-0-	-0-	-0-
	<u>\$ 8,895,373</u>	<u>\$ 2,843,237</u>	<u>\$ 5,250,478</u>	<u>\$ -0-</u>	<u>\$ 801,659</u>

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

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

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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

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

	<u>2012</u>	<u>2011</u>
Carrying amount		
Deposits	\$ 16,310,825	\$ 8,447,866
Accrued interest	65,031	84,244
Investments	8,339,829	8,895,373
	<u>\$ 24,715,685</u>	<u>\$ 17,427,483</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 13,437,406	\$ 5,553,767
Internally designated	10,515,236	11,116,289
Held by trustee for debt service	2,428	2,428
Restricted by contributors and grantors	760,615	754,999
	<u>\$ 24,715,685</u>	<u>\$ 17,427,483</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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 15,330,693	\$ 13,505,758
Receivable from Medicare	3,772,312	4,855,248
Receivable from Medicaid	2,029,175	1,713,435
Total patient accounts receivable	21,132,180	20,074,441
Less allowance for contractual agreements	(7,457,196)	(8,625,285)
Less allowance for doubtful accounts	(4,951,338)	(3,542,838)
Patient accounts receivable, net	<u>\$ 8,723,646</u>	<u>\$ 7,906,318</u>
Accounts payable and accrued expenses		
Payable to suppliers	\$ 3,553,587	\$ 2,370,336
Payable to employees (including payroll taxes and benefits)	2,531,409	2,323,642
Total accounts payable and accrued expenses	<u>\$ 6,084,996</u>	<u>\$ 4,693,978</u>

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# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

### 6. CAPITAL ASSETS

A summary of capital assets at December 31, 2012 and 2011 follows:

	Balance December 31, 2011	Additions	Retirements	Transfers	Balance December 31, 2012
Land	\$ 810,026	\$ 68,221	\$ -0-	\$ -0-	\$ 878,247
Land improvements	582,157	-0-	-0-	-0-	582,157
Building and improvements	56,908,402	341,405	(100,053)	306,406	57,456,160
Equipment	27,928,365	1,308,782	(53,917)	1,263,500	30,446,730
Construction in progress	1,524,575	534,516	-0-	(1,569,906)	489,185
Total capital assets	<u>87,753,525</u>	<u>2,252,924</u>	<u>(153,970)</u>	<u>-0-</u>	<u>89,852,479</u>
Less accumulated depreciation					
Land improvements	(240,945)	(40,801)	-0-	-0-	(281,746)
Building and improvements	(25,254,739)	(1,828,812)	6,670	-0-	(27,076,881)
Equipment	(22,131,899)	(1,665,347)	53,917	-0-	(23,743,329)
Total accumulated depreciation	<u>(47,627,583)</u>	<u>(3,534,960)</u>	<u>60,587</u>	<u>-0-</u>	<u>(51,101,956)</u>
Capital assets, net	<u>\$ 40,125,942</u>	<u>\$ (1,282,036)</u>	<u>\$ (93,383)</u>	<u>\$ -0-</u>	<u>\$ 38,750,523</u>

  

	Balance December 31, 2010	Additions	Retirements	Transfers	Balance December 31, 2011
Land	\$ 810,026	\$ -0-	\$ -0-	\$ -0-	\$ 810,026
Land improvements	570,775	-0-	-0-	11,382	582,157
Building and improvements	56,046,853	-0-	(40,824)	902,373	56,908,402
Equipment	26,342,223	254,336	(123,444)	1,455,250	27,928,365
Construction in progress	2,168,743	1,724,837	-0-	(2,369,005)	1,524,575
Total capital assets	<u>85,938,620</u>	<u>1,979,173</u>	<u>(164,268)</u>	<u>-0-</u>	<u>87,753,525</u>
Less accumulated depreciation					
Land improvements	(200,144)	(40,801)	\$ -0-	-0-	(240,945)
Building and improvements	(23,484,554)	(1,808,320)	38,135	-0-	(25,254,739)
Equipment	(20,727,117)	(1,526,552)	121,770	-0-	(22,131,899)
Total accumulated depreciation	<u>(44,411,815)</u>	<u>(3,375,673)</u>	<u>159,905</u>	<u>-0-</u>	<u>(47,627,583)</u>
Capital assets, net	<u>\$ 41,526,805</u>	<u>\$ (1,396,500)</u>	<u>\$ (4,363)</u>	<u>\$ -0-</u>	<u>\$ 40,125,942</u>

The following is an analysis of the leased assets included in capital assets as of December 31, 2012 and 2011:

	2012	2011
Equipment	\$ 930,190	\$ 570,240
Less: accumulated depreciation	299,077	206,655
	<u>\$ 631,113</u>	<u>\$ 363,585</u>

# MEMORIAL HOSPITAL OF LOGANSPOUR

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

### 7. LONG-TERM DEBT

The terms and due dates of the Hospital's long-term debt, including capital lease obligations, at December 31, 2012 and 2011 are as follows:

- a. 2004 revenue bonds collateralized by a letter of credit in the amount of \$17,285,514 expiring May 15, 2013, with a variable interest rate of .15% at December 31, 2012, principal maturing at varying annual amounts ranging from approximately \$1,005,000 to \$1,565,000, due May 1, 2024, collateralized by a pledge of the Hospital's assets and gross receipts. See Note 16 for further disclosure.
- b. 2001 loan payable, fixed interest rate of 3.2%. The loan was paid off in full during 2012 with proceeds from the 2012 loan payable.
- c. 2009 equipment loan payable, interest rate of 3.4%. The loan was paid off in full during 2012.
- d. 2010 equipment loan payable, interest rate of 3.4%, with monthly principal and interest payments totaling \$43,919, due June 1, 2015, collateralized by certain Hospital assets with an approximate net book value of \$1,008,000.
- e. 2012 loan payable, interest rate of 3.2%, with monthly principal and interest payments totaling \$23,900, due April 13, 2017, collateralized by certain Hospital assets with an approximate net book value of \$2,286,000. See Note 16 for further disclosure.
- f. Capital lease obligations with collective monthly payments of \$9,703, at varying rates of imputed interest, collateralized by leased equipment.

	Balance at December 31, 2011	Additional borrowings	Payments	Balance at December 31, 2012	Current portion	Long-term portion
2001 Loan payable	\$ 1,356,885	\$ -0-	\$ 1,356,885	\$ -0-	\$ -0-	\$ -0-
2004 Revenue bonds	16,145,000	-0-	965,000	15,180,000	1,005,000	14,175,000
2009 Equipment loan	87,126	-0-	87,126	-0-	-0-	-0-
2010 Equipment loan	1,308,778	131,369	240,349	1,199,798	493,430	706,368
2012 Loan payable	-0-	1,322,031	164,085	1,157,946	252,982	904,964
Capital leases	174,318	419,950	125,689	468,579	90,679	377,900
	<u>\$ 19,072,107</u>	<u>\$ 1,873,350</u>	<u>\$ 2,939,134</u>	<u>\$ 18,006,323</u>	<u>\$ 1,842,091</u>	<u>\$ 16,164,232</u>

	Balance at December 31, 2010	Additional borrowings	Payments	Balance at December 31, 2011	Current portion	Long-term portion
2001 Loan payable	\$ 1,578,600	\$ -0-	\$ 221,715	\$ 1,356,885	\$ 202,121.00	\$ 1,154,764
2004 Revenue bonds	17,075,000.00	-0-	930,000	16,145,000	965,000.00	15,180,000
Software loan	10,076	-0-	10,076	-0-	-0-	-0-
2009 Equipment loan	179,096	-0-	91,970	87,126	87,126	-0-
2010 Equipment loan	513,428	795,350	-0-	1,308,778	208,978	1,099,800
Capital leases	280,363	-0-	106,045	174,318	111,825	62,493
	<u>\$ 19,636,563</u>	<u>\$ 795,350</u>	<u>\$ 1,359,806</u>	<u>\$ 19,072,107</u>	<u>\$ 1,575,050</u>	<u>\$ 17,497,057</u>

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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Scheduled principal and interest payments on long-term debt at December 31, 2012 are as follows:

Years Ending December 31,	Long-term debt		Capital leases	
	Principal	Interest	Principal	Interest
2013	\$ 1,751,412	\$ 32,157	\$ 90,679	\$ 18,439
2014	2,879,184	604,589	57,580	15,238
2015	1,710,312	539,777	45,877	13,046
2016	1,591,000	501,137	47,997	10,926
2017	1,632,000	461,583	47,561	8,712
2018-2022	8,841,000	1,676,619	178,888	18,304
2023-2025	3,856,000	792,469	-0-	-0-
Thereafter	4,536,000	683,248	-0-	-0-
	<u>\$ 26,796,908</u>	<u>\$ 5,291,579</u>	<u>\$ 468,582</u>	<u>\$ 84,665</u>

The scheduled principal and interest payments above include amounts relating to the 2013 bond issuance, which occurred in May of 2013. From these bond proceeds, approximately \$15,250,000 was used to extinguish debt and approximately \$9,278,000 was used to fund capital projects and bond issuance costs. See Note 16 for further disclosure.

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

The Hospital acquired a letter of credit to provide credit enhancement and liquidity support for the Hospital's Series 2004 Revenue Bonds. The current term of the letter is three years expiring May 2013, with interest payable monthly at LIBOR plus 225 basis points. There are certain covenants associated with the letter of credit. Management believes they are in compliance for 2012 and 2011. See Note 16 for further disclosure.

## 8. DERIVATIVE LIABILITY

### Contracts

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

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# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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### Objectives and Strategies for Using Derivatives

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

### Terms, Fair Values and Credit Risk

The swap agreement had an original notional amount of \$10,000,000 and expired May 2, 2011.

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

### Swap Payments and Associated Debt

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

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

	<u>2012</u>	<u>2011</u>
Nonoperating revenues (expenses)		
Unrealized gain on interest rate swap	\$ -0-	\$ 93,063

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

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

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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### 9. NET PATIENT REVENUE

Net patient revenue consists of the following at December 31:

	2012	2011
Inpatient revenue	\$ 37,561,500	\$ 34,235,796
Outpatient revenue	113,172,028	113,785,995
Long term care	5,460,061	-0-
Gross patient revenue	<u>156,193,589</u>	<u>148,021,791</u>
Contractual allowances	(80,064,830)	(83,056,628)
Charity care	(2,603,761)	(3,500,175)
Bad debt expense	(6,834,274)	(6,873,212)
Deductions from revenue	<u>(89,502,865)</u>	<u>(93,430,015)</u>
Net patient revenue	<u>\$ 66,690,724</u>	<u>\$ 54,591,776</u>

### 10. EMPLOYEE HEALTH PLAN

The Hospital is self-insured for employee health claims. A third party administrator processes the claims for the Hospital. The plan has annual reinsurance coverage starting at a specific level of \$100,000 per individual with a specific lifetime maximum reimbursement per covered person of \$1,000,000. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. The Hospital maintains reinsurance including a stop loss for specific incident claims over a stipulated amount per year. Substantially all employees are covered for major medical benefits.

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

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

	2012	2011
Unpaid claims, beginning of year	\$ 518,987	\$ 596,538
Incurred claims, costs, and changes in estimates	3,389,500	3,023,778
Claim payments	<u>(3,305,473)</u>	<u>(3,101,329)</u>
Unpaid claims, end of year	<u>\$ 603,014</u>	<u>\$ 518,987</u>

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# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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### 11. PENSION PLAN

#### Plan Description

The Hospital has a defined contribution pension plan. The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital will contribute 3% of an employee's gross wages into the 401(a) portion of the plan. If an employee chooses to participate in the 403(b) portion of the plan, the Hospital will match employee contributions up to 2% of gross wages. Hospital contributions to the plan were \$705,169 and \$738,062 for 2012 and 2011, respectively.

### 12. CONCENTRATIONS OF CREDIT RISK

The Hospital is located in Logansport, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. Accounts receivable and revenues from self-pay and third party payors were as follows at December 31 and for the year then ended:

	Receivables		Revenues	
	2012	2011	2012	2011
Medicare	21%	28%	41%	38%
Medicaid	12%	10%	17%	17%
Blue Cross/Anthem	11%	14%	19%	20%
Commercial	15%	17%	17%	19%
Self-pay	41%	31%	6%	6%
	<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.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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### Malpractice Insurance

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

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

### Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through December 2013. Operating lease expense was approximately \$185,000 and \$632,000 during 2012 and 2011, respectively.

The following is a schedule by year of future minimum lease payments under non-cancelable operating leases as of December 31, 2012, that have initial or remaining lease terms in excess of one year.

Year Ending December 31,	
2013	\$ 250,269
2014	155,448
2015	155,448
2016	103,632
	<u>\$ 664,797</u>

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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### 14. INVESTMENT IN AFFILIATED COMPANY

In 1991, the Hospital entered into an agreement with two unrelated hospitals to establish and operate a laundry and linen service. In accordance with this agreement, each hospital invested \$1,000 for a 33 1/3%-equity interest in the common stock of the laundry and linen service. The investment is recorded on the equity method. The Hospital's investment is included in the Other Assets category of the combined balance sheets.

Summarized financial information as of December 31, 2012 and 2011, and for the years then ended from the audited financial statements of the Affiliated Company follows:

	2012	2011
Current assets	\$ 304,761	\$ 391,936
Noncurrent assets	777,870	782,277
Current liabilities	140,214	63,477
Noncurrent liabilities	45,342	60,956
Stockholder's equity	897,075	1,049,780
Revenue	1,209,838	1,296,324
Net income/(loss)	(62,705)	30,892
Dividends	(90,000)	-0-
Net change in equity	(152,705)	30,892

The investment balance at December 31, 2012 and 2011 was approximately \$300,000 which relates to 33 1/3% of the stockholders equity balance and is included in Other Assets. The Hospital paid \$176,094 and \$196,515 for services to the affiliated company for 2012 and 2011, respectively.

### 15. LOGANSPORT MEMORIAL HOSPITAL FOUNDATION – COMPASS SQUARE STOCK

During 1998, the Board of Directors of the Logansport Memorial Hospital Foundation authorized the formation of a corporation to be known as Compass Square Development Corporation (CSDC). CSDC authorized 1,000 common shares of which 100 are issued and outstanding. The Foundation owns twenty-five of those shares and seventy-five shares are owned by Four County Comprehensive Mental Health Center, Inc. The investment is recorded on the equity method.

# MEMORIAL HOSPITAL OF LOGANSPORT

## NOTES TO COMBINED STATEMENTS DECEMBER 31, 2012 AND 2011

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### 16. SUBSEQUENT EVENT

During 2013, the Hospital issued approximately \$24,528,000 of variable rate revenue bonds. The \$9,055,000 of 2013A revenue bonds mature in 2038 and the \$15,473,000 of 2013B revenue bonds mature in 2024. The 2013A and B bonds bear a variable interest rate which is based upon LIBOR plus certain factors. Concurrent with the issuance of the bonds, the Hospital entered into a swap agreement which converts the variable rate on the bonds into a fixed rate of 2.77% on the 2013A bonds and 2.39% on the 2013B bonds. The bonds are secured by substantially all Hospital assets and future revenues.

The bond proceeds were used to refund the outstanding 2004 bonds, refinance the 2012 loan payable, and fund new capital projects. The 2013 bond proceedings closed in May of 2013.

### 17. RECENT GASB PRONOUNCEMENTS

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

GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*," issued March 2012, is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.