MAJOR HEALTH PARTNERS

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013 AND 2012

CPAs / ADVISORS

blue

MAJOR HEALTH PARTNERS

TABLE OF CONTENTS
DECEMBER 31, 2013 AND 2012

CPAS / ADVISORS

blue

Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Major Health Partners
Shelbyville, Indiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Major Health Partners (MHP), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows, for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Board of Trustees
Major Health Partners
Shelbyville, Indiana

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MHP as of December 31, 2013 and 2012, and its results of operations, changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, in 2013, MHP adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14. Our opinion is not modified with respect to this matter.

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

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information as listed in the accompanying table of contents is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

Indianapolis, Indiana
April 25, 2014

REQUIRED SUPPLEMENTARY INFORMATION

This section of Major Health Partners' (MHP) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of MHP's financial performance. This MD&A does include a discussion and analysis of the activities and results of MHP which is the consolidated entity that consists of Major Hospital (the Hospital) and its blended component units, Major Affiliates, Inc., Major Hospital Foundation and MDSolutions, LLC. Please read it in conjunction with MHP's financial statements that follow this MD&A.

FINANCIAL HIGHLIGHTS

- MHP reported a positive change in net position for 2013 of approximately $12.7 million compared to a positive change in net position of approximately $9.5 million in 2012, representing an increase of approximately $3.3 million in comparison to the 2012 results.

- MHP spent $5.3 million on equipment and capital projects in 2013 net of disposals. Major capital equipment expenditures include the addition of fetal monitors, surgery scopes, emergency room stretchers, lab analyzers, EKG stress machines, a portable x-ray unit, radiology digital imaging equipment, an ICU central monitoring upgrade, physician office registration kiosks, and pharmacy document tracking software. Capital expenditures related to information technology include computer servers, a phone system upgrade, upgrades to network switches, and an upgrade to the Hospital's email and calendar software. The Hospital spent money for ongoing building maintenance and improvements, including renovations at the main campus. The Hospital also purchased an Administration Office Building that provides additional space to locate some clinical and non-clinical departments.

USING THIS ANNUAL REPORT

MHP's consolidated financial statements consist of three consolidated statements – a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about the activities and the financial position of MHP.

The consolidated balance sheet includes all of MHP's assets, deferred outflows, and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to MHP creditors (liabilities).

All of the current year's revenue earned and expenses incurred are accounted for in the consolidated statement of revenues, expenses and changes in net position.

Finally, the consolidated statement of cash flows' purpose is to provide information about MHP's cash flows from operating activities, financing activities including capital additions, and investing activities. This statement provides information on the sources and uses of cash and the change in the cash balance during the year.

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The balance sheet and the statement of revenues, expenses and changes in net position report information about MHP's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report MHP's net position and changes in them. Think of MHP's net position—the difference between assets and liabilities—as one way to measure MHP's financial health, or financial position. Over time, increases or decreases in MHP's net position are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in MHP's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of MHP.

MAJOR HEALTH PARTNERS' NET POSITION

Table 1: Balance Sheets

	2013	2012	2011
Assets and deferred outflows			
Current assets	$ 52,444,906	$ 29,997,523	$ 27,654,676
Assets whose use is limited	76,028,499	60,607,198	52,384,336
Capital assets, net	46,130,345	44,971,189	42,730,261
Other assets	7,025,240	9,987,935	7,085,238
Total assets	181,628,990	145,563,845	129,854,511
Deferred outflows - interest rate swaps	146,290	387,726	551,660
Total assets and deferred outflows	$ 181,775,280	$ 145,951,571	$ 130,406,171
Liabilities			
Current liabilities	$ 37,223,575	$ 18,860,356	$ 11,745,710
Other liabilities	1,014,612	985,766	981,136
Long-term debt	33,094,276	28,396,494	29,424,123
Total liabilities	71,332,463	48,242,616	42,150,969
Net position			
Net investment in capital assets	11,317,184	15,578,641	12,336,598
Restricted	1,586,288	1,475,534	1,268,812
Unrestricted	97,539,345	80,654,780	74,649,792
Total net position	110,442,817	97,708,955	88,255,202
Total liabilities and net position	$ 181,775,280	$ 145,951,571	$ 130,406,171

The significant changes in Major Health Partners' assets resulted from an increase in current assets of approximately $22.4 million. The increase in current assets is primarily due to long-term care operations. Assets whose use is limited increased approximately $15.4 million as a result of market performance and long-term care operations. Total liabilities increased in 2013 by approximately $23.1 million in comparison to 2012. The increase is attributable to an increase in operating payables (including long-term care operations) and long-term debt.

OPERATING RESULTS AND CHANGES IN NET POSITION AND CASH FLOWS

Table 2: Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	2011
Revenues			
Net patient service revenue	$ 192,996,493	$ 121,996,164	$ 93,259,735
Other operating revenue	4,723,247	2,594,030	3,378,258
Total revenues	197,719,740	124,590,194	96,637,993
Expenses			
Salaries and benefits	63,550,079	57,720,755	51,899,749
Supplies	16,011,109	15,515,642	15,515,128
Depreciation and amortization	5,622,455	5,245,716	5,171,449
Other operating expenses	102,314,086	39,731,569	20,890,892
Total expenses	187,497,729	118,213,682	93,477,218
Operating income	10,222,011	6,376,512	3,160,775
Non-operating revenue, net	701,780	3,077,241	782,536
Excess of revenues over expenses	10,923,791	9,453,753	3,943,311
Transfers from noncontrolling interest	1,810,071	-0-	-0-
Change in net position	12,733,862	9,453,753	3,943,311
Net position			
Beginning of year	97,708,955	88,255,202	84,311,891
End of year	$ 110,442,817	$ 97,708,955	$ 88,255,202

SOURCES OF REVENUE

During 2013, Major Health Partners 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 57% of MHP's acute care gross revenues in 2013 but 61% of MHP's acute care net patient service revenues.

Major Health Partners' service mix significantly changed between 2013 and 2012. Inpatient revenue accounted for 20% and 24% of gross revenue in 2013 and 2012, respectively.

Outpatient revenue was 60% and 72% of total gross revenue in 2013 and 2012, respectively. Long-term care revenue was 20% and 4% of total gross revenue in 2013 and 2012, respectively.

Following is a table of major sources of acute care gross patient revenues for the past three years:

	2013	2012	2011
Medicare	43%	41%	42%
Medicaid	14%	15%	15%
Anthem	14%	15%	16%
Commercial	20%	21%	19%
Self Pay	9%	8%	8%
	100%	100%	100%

OPERATING AND FINANCIAL PERFORMANCE

Major Health Partners had income from operations of $10.2 million in 2013, which resulted in a return on equity of 9.3% compared to income from operations of $6.4 million in 2012 and return on equity of 6.5%.

This following section highlights the major financial factors for 2013 for MHP:

- The Hospital's discharges decreased from 2,903 in 2012 to 2,741 in 2013. The Hospital's adjusted patient days decreased to 34,655 in 2013 compared to 35,826 in 2012.

- Overall net patient service revenue increased $71.0 million in 2013. The increase was driven by long-term care operations. The Hospital received $4.4 million from the State for the Indiana Medicaid Municipal Hospital Payment Adjustment, which was an increase from the 2012 amount of $2.2 million.

- Major Affiliates' total operating revenue increased $3.7 million or 22% from year 2012 to year 2013 for both its' patient services and office rental. This is a result of new physician specialties and a general increase in volumes of the physician practices.

- Other operating revenue for MHP increased by $2.1 million in 2013 mainly due to management revenue generated by Major Affiliates.

- Operating expenses increased by $69.3 million in 2013. This increase is result of an increase in salaries and benefits, purchased services (including expenses associated with long-term care operations) and rent.

- Salaries and wages and benefits expense increased by $5.8 million or 10.1%. Salaries and Wages increased due to new or expanded service lines in the outpatient areas, inflationary adjustments, and market adjustments. Benefit expense increased in relation to the increase in salaries and wages.

- Medical Professional fees for the Hospital remained consistent between 2013 and 2012.

- Supplies remained consistent between 2013 and 2012.

- Purchased services increased $56.0 million or 279.8% in 2013. The majority of this increase relates to long-term care operations.

Table 3: Statements of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?" and "What was the change in cash balance during the reporting period?" The following is a summary of cash flows:

	2013	2012	2011
Cash flows from			
Operating activities	$ 18,946,341	$ 14,245,507	$ 7,599,232
Capital and related financing	152,700	(9,200,153)	(5,576,863)
Investing	(6,010,309)	(7,151,292)	3,777,517
Change in cash and cash equivalents	$ 13,088,732	$ (2,105,938)	$ 5,799,886

Cash and cash equivalents increased by $13.1 million in 2013 compared to a decrease of $2.1 million in 2012. The majority of the 2013 increase relates to cash generated from operations and proceeds from the issuance of long-term debt in the amount of $7,000,000.

CAPITAL ASSETS

During 2013, Major Health Partners invested $6.2 million in capital assets along with retirements and transfers of $0.9 million. The change in capital assets is outlined in the following table:

	2013	2012	2011
Land and land improvements	$ 11,581,078	$ 11,328,726	$ 8,290,857
Leasehold improvements	2,639,906	2,322,553	2,086,265
Buildings and improvements	52,238,324	49,735,425	48,490,047
Equipment	38,258,162	36,739,841	34,956,167
Construction in progress	940,307	255,963	292,231
Total property and equipment	105,657,777	100,382,508	94,115,567
Less accumulated depreciation	59,527,432	55,411,319	51,385,306
Capital assets, net	$ 46,130,345	$ 44,971,189	$ 42,730,261

Capital assets have increased due to purchases in 2013. Assets purchased during 2013 exceeded depreciation expense for the year. MHP strives to meet the needs of the community and provide high quality care by adding new equipment and facilities or by replacing or upgrading equipment as it becomes obsolete.

DEBT

MHP has debt outstanding in the Indiana Finance Authority Hospital Revenue Bonds, capital lease obligations, loans payable and notes payable. More detailed information about MHP's long-term debt is presented in the notes to the consolidated financial statements.

ECONOMIC OUTLOOK

Management believes that the health care industry's and MHP's operating margins will continue to be under pressure because of changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. The ongoing challenge facing MHP is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant cost factor affecting MHP is the increases in labor costs due to the increasing competition for quality health care workers.

CONTACTING MAJOR HEALTH PARTNERS' FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of MHP's finances and to show MHP's accountability for the money it receives. If you have questions about this report or need additional financial information, contact MHP's Administration Department, at 150 W. Washington St., Shelbyville, IN 46176.

MAJOR HEALTH PARTNERS

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

ASSETS AND DEFERRED OUTFLOWS

	2013	2012
Current assets		
Cash and cash equivalents	$ 14,536,069	$ 10,316,378
Patient accounts receivable, net of allowance for uncollectible accounts of $4,477,235 in 2013 and $3,490,121 in 2012	22,853,598	11,595,944
Inventory and other current assets	13,506,755	7,263,201
Current portion of assets whose use is limited	1,548,484	822,000
Total current assets	52,444,906	29,997,523
Assets whose use is limited		
Internally designated	76,346,747	60,384,994
Donor restricted funds	1,230,236	1,044,204
Total assets whose use is limited	77,576,983	61,429,198
Less current portion	1,548,484	822,000
Noncurrent assets whose use is limited	76,028,499	60,607,198
Capital assets, net	46,130,345	44,971,189
Property held for sale	4,576,627	4,576,627
Other assets, net	2,448,613	5,411,308
Total assets	181,628,990	145,563,845
Deferred outflows - interest rate swaps	146,290	387,726
Total assets and deferred outflows	$ 181,775,280	$ 145,951,571

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

LIABILITIES AND NET POSITION

	2013	2012
Current liabilities		
Accounts payable and accrued expenses	$ 20,702,867	$ 4,717,374
Accrued wages and related liabilities	10,101,823	9,046,928
Estimated third-party settlements	4,700,000	4,100,000
Current portion of long-term debt		
Loans payable and capital leases	870,401	174,054
Revenue bonds payable	848,484	822,000
Total current liabilities	37,223,575	18,860,356
Derivative liability	146,290	387,726
Other liabilities	868,322	598,040
Long-term debt, net of current portion		
Loans payable and capital leases	7,363,760	1,817,494
Revenue bonds payable	25,730,516	26,579,000
Total long-term debt	33,094,276	28,396,494
Total liabilities	71,332,463	48,242,616
Net position		
Net investment in capital assets	11,317,184	15,578,641
Restricted		
Expendable - other specific purpose	375,389	189,357
Non-expendable	1,210,899	1,286,177
Total restricted net position	1,586,288	1,475,534
Unrestricted	97,539,345	80,654,780
Total net position	110,442,817	97,708,955
Total liabilities and net position	$ 181,775,280	$ 145,951,571

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Revenues		
Net patient service revenue	$ 192,996,493	$ 121,996,164
Other revenue	4,723,247	2,594,030
Total revenues	197,719,740	124,590,194
Expenses		
Salaries and wages	48,607,237	44,720,426
Employee benefits	14,942,842	13,000,329
Medical professional fees	4,921,728	5,007,124
Supplies	16,011,109	15,515,642
Purchased services	75,966,074	20,001,554
Rent and maintenance	12,440,390	5,920,336
Utilities	1,592,641	1,527,144
Insurance	746,300	653,735
Depreciation and amortization	5,622,455	5,245,716
Hospital assessment fee	3,625,421	3,740,876
Other expenses	3,021,532	2,880,800
Total expenses	187,497,729	118,213,682
Operating income	10,222,011	6,376,512
Nonoperating revenues (expenses)		
Investment income	3,558,468	3,621,176
Interest expense	(928,350)	(868,323)
Loss on impairment of goodwill	(2,475,000)	-0-
Other nonoperating revenue	546,662	324,388
Nonoperating revenues (expenses), net	701,780	3,077,241
Excess of revenues over expenses	10,923,791	9,453,753
Transfers from noncontrolling interest	1,810,071	-0-
Change in net position	12,733,862	9,453,753
Net position		
Beginning of year	97,708,955	88,255,202
End of year	$ 110,442,817	$ 97,708,955

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Operating activities		
Cash received from patient services	$ 182,338,839	$ 124,148,841
Cash paid for salaries, wages and benefits	(62,495,184)	(56,134,610)
Cash paid to vendors and suppliers	(108,569,671)	(56,215,902)
Other receipts, net	7,672,357	2,447,178
Net cash flows from operating activities	18,946,341	14,245,507
Capital and related financing activities		
Principal payments on long-term debt	(1,579,387)	(1,001,115)
Proceeds from issuance of long-term debt	7,000,000	-0-
Interest on long-term debt	(928,350)	(868,323)
Transfers from noncontrolling interest	1,810,071	-0-
Purchases of capital assets	(6,163,219)	(7,324,870)
Other	13,585	(5,845)
Net cash flows from capital and related financing activities	152,700	(9,200,153)
Investing activities		
Purchase of other assets, net	-0-	(2,750,000)
Investment income	3,558,468	3,621,176
Other nonoperating expenses	546,662	275,064
Purchase of investments	(27,732,537)	(21,369,754)
Proceeds from sale of investments	17,617,098	13,072,222
Net cash flows from investing activities	(6,010,309)	(7,151,292)
Net change in cash and cash equivalents	13,088,732	(2,105,938)
Cash and cash equivalents:		
Beginning of year	14,588,075	16,694,013
End of year	$ 27,676,807	$ 14,588,075
Reconciliation of cash and cash equivalents to the consolidated balance sheet		
Cash and cash equivalents		
In current assets	$ 14,536,069	$ 10,316,378
In assets whose use is limited - internally designated	13,111,379	4,244,171
In assets whose use is limited - donor restricted	29,359	27,526
Total cash and cash equivalents	$ 27,676,807	$ 14,588,075

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Reconciliation of operating income to net cash from operating activities		
Operating income	$ 10,222,011	$ 6,376,512
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	5,622,455	5,245,716
Bad debts	12,005,075	10,816,480
Changes in operating assets and liabilities		
Patient accounts receivable	(23,262,729)	(11,438,803)
Inventory and other current assets	(6,243,554)	(3,005,390)
Other assets	2,962,695	(152,697)
Accounts payable and accrued expenses	15,985,493	2,042,544
Accrued wages and related liabilities	1,054,895	1,586,145
Estimated third-party settlements	600,000	2,775,000
Net cash flows from operating activities	$ 18,946,341	$ 14,245,507
Non cash investing and financing activities		
Interest rate swap and deferred outflows	$ 241,436	$ 163,934
Loss on impairment of goodwill	$ 2,475,000	$ -0-

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

The consolidated financial statements of Major Health Partners (MHP) refer to Major Hospital (the Hospital) and its subsidiaries.

Major Hospital is an acute-care hospital located in Shelbyville, Indiana, organized for the purpose of providing healthcare services to the residents of Shelby County and the surrounding communities. The Hospital is a city-owned facility and operates under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provides short-term inpatient, outpatient and long-term health care.

A Hospital Appointing Board, consisting of one County Commissioner, one County Council person and the Mayor of the City of Shelbyville, appoints the Governing Board of the Hospital. The Hospital is considered a component unit of Shelby County.

Pursuant to the provision of long-term care, MHP owns the operations of certain long-term care facilities by way of an arrangement with managers of the facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the long-term care facilities are the property of MHP and MHP 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 MHP and MHP retains the authority and legal responsibility for the operation of the facilities.

Specifically, MHP entered into lease agreements with the long-term care facilities to lease the facilities managed by the respective managers. Concurrently, MHP entered into an agreement with the managers to manage the leased facilities. As part of the agreements, MHP will pay the managers a management fee to continue managing the facilities on behalf of MHP in accordance with the terms of the agreements. The agreements expire at various times. All parties involved can terminate the agreement without cause with 90 days written notice.

Accounting principles generally accepted in the United States require that these consolidated financial statements present the Hospital and its significant component units, collectively referred to as the “primary government.” The blended 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 primary government’s operations and exist solely to provide services for the primary government; data from these units is consolidated with data of the primary government.

Blended Component Units

Major Hospital Foundation (the Foundation) is a blended component unit of the Hospital. The Foundation is a separate not-for-profit entity organized to support the operations of the Hospital.

MDSolutions, LLC is a blended component unit of the Hospital. Major Hospital owns a 95% interest and Major Affiliates, Inc. owns a 5% interest in MDSolutions, LLC, a management services organization for physicians.

Major Affiliates, Inc. is a blended component unit of the Hospital. The Hospital is the sole corporate member of Major Affiliates, Inc. Although it is legally separate from the Hospital, Major Affiliates, Inc. is reported as if it were a part of the Hospital because the two Governing Boards are substantially the same.

Major Affiliates' primary purpose is to further the mission of Major Hospital through recruiting physicians to the Shelbyville region and leasing office space to physicians.

Major Affiliates, Inc. owns 100% of MedWorks, Inc., which operates a pharmacy located in Shelbyville, Indiana and Major Nursing Home Management Services, LLC. MedWorks owns 100% of Major Multi Specialty Associates, LLC, Family Orthopedic and Rehabilitation Center, LLC, Priority Care, LLC, and Major Medical Associates, LLC. MedWorks also owns a majority interest of Onsite Solutions, LLC and Major Medical Group, LLC. These practices generally provide health care services to the community. These entities have been consolidated for financial statement presentation.

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

Use of Estimates

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

Enterprise Fund Accounting

MHP uses the enterprise fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Accounting Standards

In 2013, MHP adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

GASB Statement No. 61 requires that noncontrolling interests, which represent the portion of the net position that is attributable to investors that are external to and not included in MHP's consolidated financial statements, to be presented as restricted net position – non-expendable. Previously, MHP included certain noncontrolling interests with liabilities and unrestricted net position on the consolidated balance sheet. The following is the 2012 restatement related to reporting noncontrolling interests and the reclassification of certain liabilities from other liabilities to current liabilities within the consolidated balance sheets.

	December 31, 2012		
	As previously reported	Adjustment	As restated
Consolidated balance sheet:			
Accounts payable and accrued expenses	$ 4,351,738	$ 365,636	$ 4,717,374
Total current liabilities	$ 18,494,720	$ 365,636	$ 18,860,356
Other liabilities	$ 1,331,807	$ (733,767)	$ 598,040
Total liabilities	$ 48,610,747	$ (368,131)	$ 48,242,616
Net position restricted non-expendable	$ 854,847	$ 431,330	$ 1,286,177
Total restricted net position	$ 1,044,204	$ 431,330	$ 1,475,534
Net position unrestricted	$ 80,717,979	$ (63,199)	$ 80,654,780
Total net position	$ 97,340,824	$ 368,131	$ 97,708,955
Consolidated statement of revenues, expenses and change in net position:			
Other nonoperating revenue	$ 275,064	$ 49,324	$ 324,388
Nonoperating revenues (expenses), net	$ 3,027,917	$ 49,324	$ 3,077,241
Change in net position	$ 9,404,429	$ 49,324	$ 9,453,753
Net position, beginning of year	$ 87,936,395	$ 318,807	$ 88,255,202

During 2013, MHP implemented GASB Statement No. 65, which established 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. The implementation of GASB Statement No. 65 did not have an impact on previously reported net position or change in net position.

Cash and Cash Equivalents

Cash and cash equivalents include deposits and investments in highly liquid debt instruments with an original maturity date of 90 days or less from the date of purchase. MHP maintains its cash in accounts, which at times, may exceed federally insured limits. MHP has not experienced any losses in such accounts. MHP believes it is not exposed to any significant credit risk on cash and cash equivalents.

Assets Whose Use is Limited

Assets whose use is limited are stated at fair market value in the consolidated financial statements. These assets include investments designated by the Hospital Board for internal purposes, investments restricted by donors for a specific purpose and investments held by trustees for debt service. These investments consist primarily of cash and cash equivalents, certificates of deposit, US government securities, mutual funds, and corporate debt and equity securities. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenues (expenses) in the consolidated statements of revenues, expenses and changes in net position.

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

Patient Accounts Receivable and Patient Service Revenues

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. MHP is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). MHP is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG).

MHP 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 MHP's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients.

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 in 2013. Amounts for unresolved cost reports for 2010 through 2013 are reflected in estimated third-party settlements on the consolidated balance sheets. MHP did not recognize any change in net position in 2013 and 2012, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges less an allowance for contractual adjustments and interim payment advances. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting MHP's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible.

<u>Grants and Contributions</u>

MHP received grant funds from Shelby County and the City of Shelbyville, Indiana. Revenues from grants and contributions are recognized when all requirements are met. Grants may be restricted for either specific operation purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues.

<u>Endowments</u>

Endowments are provided to MHP through the Foundation on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, the Foundation's governing board is permitted to expend the net appreciation of the investments of endowment funds.

<u>Charity Care</u>

MHP provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy on a sliding scale on the basis of financial need. Because MHP does not pursue collection of approved charity care balances, the charges are not reflected in net revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient service revenue.

Of MHP's total expenses reported within the consolidated statements of revenues, expenses and changes in net position; an estimated $2,411,000 and $2,428,000 arose from providing services to charity patients for 2013 and 2012, 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 MHP's total expenses to gross patient service revenue.

Inventory and Other Current Assets

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventory at year-end consists mainly of pharmaceuticals and medical supplies.

Other current assets consist of prepaid expenses, other reimbursement receivables related to long-term care services and various other current items. These assets are classified as current as they are expected to be utilized during 2014.

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 to existing facilities which exceed $500 and meet certain useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred.

MHP 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:

Description	Range of Useful Lives
Land improvements	15 years
Leasehold improvements	15 years
Buildings and improvements	4-50 years
Equipment	5-15 years

Classification of Net Position

Net position of MHP is classified in four components. (1) Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balance of any outstanding borrowings used to finance the purchase or construction of those assets. (2) 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. (3) Restricted non-expendable net position includes the principal portion of permanent endowments and noncontrolling interests owned by external investors. (4) Unrestricted net position is the remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

Consolidated Statements of Revenues, Expenses and Changes in Net Position

MHP's consolidated statements of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions such as investment activities are reported as nonoperating gains or losses.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized during December 31, 2013 and 2012.

Goodwill

During 2011, MHP acquired 100% of Major Medical Associates through an asset purchase. The acquisition price was approximately $1,500,000. MHP recorded initial goodwill of approximately $1,100,000 related to this acquisition. The remainder of the acquisition price was allocated at fair value to patient accounts receivable, inventory, capital assets and identifiable intangibles. Goodwill is included within other assets on the consolidated balance sheets and is amortized over an estimated life of approximately 10 years. Annual amortization expense related to goodwill is approximately $100,000.

During 2012, MHP acquired 100% of Westpark Rehabilitation Center (Westpark) through an asset purchase agreement. The acquisition price was $7,000,000. MHP recorded initial goodwill of approximately $2,750,000 related to this acquisition. Subsequent to December 31, 2013, MHP had an appraisal performed of Westpark as MHP intends to sell Westpark. As a result of that appraisal, during 2013, MHP deemed the goodwill to be impaired. Additionally, Westpark has experienced a significant decline in census. As a result, MHP recorded an impairment loss for the remaining goodwill balance of $2,475,000. The impairment loss is recorded as a separate line item within nonoperating revenues (expenses) in the consolidated statements of revenues, expenses and changes in net position. The impairment loss was considered a level 2 nonrecurring fair value measurement.

Hedge Accounting

MHP follows the requirements of GASB No. 53, Accounting and Financial Reporting for Derivative Instruments. MHP is a party to interest rate swap agreements which are derivative instruments. The guidance requires governmental entities to evaluate each derivative instrument to determine whether the instrument is an effective hedge.

For those instruments deemed to be an effective hedge, governmental entities are required to practice hedge accounting and the instrument continues to be reevaluated at the end of each future reporting period. Under hedge accounting, the fair value of the instrument is recorded on the consolidated balance sheet with the offsetting entry to deferred outflows or deferred inflows, which also reported on the consolidated balance sheet.

For those instruments deemed to be an ineffective hedge, governmental entities are required to practice investment accounting and the instruments are not evaluated in future reporting periods. Once deemed ineffective, the instrument is considered ineffective for the remainder of its term. Under investment accounting, the fair value of the instrument is recorded on the consolidated balance sheets with the offsetting entry posted to investment income.

MHP's interest rate swap agreements were determined to be effective hedges as of December 31, 2013 and 2012.

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 such, the Hospital is generally exempt from income taxes as a unit of local government. No income tax filings are required of the Hospital as it is a governmental instrumentality.

The blended component units of Major Hospital Foundation, Inc. and Major Affiliates, Inc. are tax-exempt organizations under Internal Revenue Code 501(c)(3). As such, the Foundation and Major Affiliates, Inc. are generally exempt from income taxes. However, the Foundation and Major Affiliates, Inc. are required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

The blended component unit of MDSolutions is organized as a limited liability company, whereby net taxable income is taxed directly to the members and not MDSolutions. Thus, the financial statements do not include any provision for Federal or State income taxes.

MedWorks, Inc. is a corporation subject to Federal and State income taxes. Income taxes for these entities are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes. However, the effects of recording a deferred tax provision have been deemed immaterial and have not been recorded in the accompanying consolidated financial statements.

The remaining consolidated subsidiaries of Major Affiliates, Inc. and MedWorks, Inc. are organized as limited liability companies, whereby net taxable income is taxed directly to the members of the limited liability companies. Thus, the consolidated financial statements do not include any provision for Federal or State income taxes related to these entities.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by MHP (and their affiliates) and recognize a tax liability if MHP has 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 by MHP and has concluded that as of December 31, 2013 and 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. MHP is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

These entities have filed their Federal and State income tax returns for periods through December 31, 2012. 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).

Compensated Absences

MHP’s policy on compensated absences (which include vacation, sick leave and holidays) allows full time employees and regular part time employees to accrue days off, to a maximum hour as stated in the personnel policies. Compensated absences are accrued when incurred and reported as a liability on the consolidated balance sheets.

Advertising

MHP's policy is to expense advertising costs when the advertising first takes place. Advertising expense was approximately $182,000 and $270,000 for 2013 and 2012, respectively.

Electronic Health Records (EHR) Incentive Payments

MHP receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, MHP must meet "meaningful use" criteria that become more stringent over time. MHP 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).

The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in MHP'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.

MHP recognizes EHR incentives as revenue when there is reasonable assurance that MHP will comply with the conditions of the meaningful use objectives and any other specific contract requirements. In addition, the consolidated financial statement effects of the revenue must be both recognizable and measurable. During 2013 and 2012, MHP recognized approximately $939,000 and $1,095,000, respectively, in EHR incentive payments as other revenue using the ratable recognition method. Under the ratable recognition method, MHP recognizes revenue 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 revenue is included in other revenue in the consolidated statements of revenues, expenses 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 MHP as prescribed by the programs, subject to future audits and may be subject to repayment upon a determination of noncompliance.

Litigation

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

Risk Management

MHP is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters.

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the current year presentation. These reclassifications did not have an effect on the previously reported net position or change in net position.

Subsequent Events

MHP evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is April 25, 2014.

2. NET PATIENT SERVICE REVENUE

MHP has agreements with third-party payors that provide for reimbursement to MHP at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the MHP's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement arrangements with major third-party payors is as follows:

Medicare

Medicare inpatient services are reimbursed based on a predetermined amount for each case based on the diagnosis associated with the patient (Prospective Payment Hospital). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The prospectively determined rates are not subject to retroactive adjustment with the exception of a few select items, such as bad debts.

MHP's classification of patients under the Prospective Payment Hospital and the appropriateness of patient admissions are subject to validation reviews by the Medicare peer review organization which is under contract with MHP to perform such reviews. Medicare outpatient services are primarily reimbursed on predetermined rates based on the services provided.

Medicaid

MHP is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

MHP is eligible for the Indiana Medicaid Supplemental programs including Medicaid Disproportionate Share Hospital and Municipal Upper Payment Limit programs. MHP recognized reimbursement from these programs within net patient revenue of approximately $4,400,000 and $2,200,000 for 2013 and 2012, respectively. These programs are Federal programs administered by the State of Indiana.

During 2012, the Hospital Assessment Fee (HAF) Program for the period July 1, 2011 through June 30, 2013 was approved by Centers for Medicare & Medicaid Services (CMS) retroactive to July 1, 2011. Subsequently, the program was extended and approved for a multi-year period. 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 consolidated statements of revenues, expenses and changes in net position. Previously, the State's 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 2013 and 2012, MHP recognized HAF Program expense of approximately $3,600,000 and $3,700,000, respectively. The Medicaid rate increases under the HAF Program are included in patient service revenue in the consolidated statements of revenues, expenses and changes in net position.

Other Payors

MHP also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to MHP under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The following is a summary of net patient service revenue for 2013 and 2012:

	2013	2012
Patient service revenue		
Inpatient	$ 67,941,398	$ 62,949,627
Outpatient	200,320,025	190,719,886
Long-term care	68,073,283	13,031,372
Gross patient service revenue	336,334,706	266,700,885
Deductions from revenue		
Contractual allowances	125,527,443	127,953,109
Charity care	5,805,695	5,935,132
Bad debts	12,005,075	10,816,480
Total deductions from revenue	143,338,213	144,704,721
Net patient service revenue	$ 192,996,493	$ 121,996,164

3. ASSETS WHOSE USE IS LIMITED

The classification "Assets whose use is limited" includes:

Internally designated – Amounts transferred by MHP's Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to MHP buildings as authorized by IC 16-22-3-13.

Restricted – Amounts designated by outside parties for other specific purposes. Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets.

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

	2013	2012
Internally designated		
Cash and cash equivalents	$ 13,111,379	$ 4,244,171
Certificates of deposit	1,000,000	1,000,000
US Government securities	24,629,082	23,600,342
Mutual funds	35,073,368	29,626,183
Corporate equity securities	2,123,036	1,662,005
Corporate debt securities	409,882	252,293
Total internally designated	76,346,747	60,384,994
Donor restricted		
Cash and cash equivalents	29,359	27,526
US Government securities	44,264	51,964
Mutual funds	432,836	368,078
Corporate equity securities	548,662	419,893
Corporate debt securities	175,115	176,743
Total donor restricted	1,230,236	1,044,204
Total assets whose use is limited	$ 77,576,983	$ 61,429,198

The corporate debt and equity securities are owned by the Foundation.

4. 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 Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Investments are carried at fair market value except for certificates of deposit and money market funds which are carried at contract value. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

MHP's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2013 and 2012, MHP had the following investments and maturities, all of which were held in MHP's name by custodial banks that are agents of MHP:

	December 31, 2013				
	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
US Government securities	$ 24,673,346	$ 594,022	$ 15,578,369	$ 5,145,560	$ 3,355,395
Certificates of deposit	1,000,000	1,000,000	-0-	-0-	-0-
Mutual funds	35,506,204	35,506,204	-0-	-0-	-0-
Corporate equity securities	2,671,698	2,671,698	-0-	-0-	-0-
Corporate debt securities	584,997	8,025	376,315	123,334	77,323
	$ 64,436,245	$ 39,779,949	$ 15,954,684	$ 5,268,894	$ 3,432,718

	December 31, 2012				
	Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10
US Government securities	$ 23,652,306	$ -0-	$ 15,157,583	$ 6,048,807	$ 2,445,916
Certificates of deposit	1,000,000	1,000,000	-0-	-0-	-0-
Mutual funds	29,994,261	29,994,261	-0-	-0-	-0-
Corporate equity securities	2,081,898	2,081,898	-0-	-0-	-0-
Corporate debt securities	429,036	18,025	174,416	102,614	133,981
	$ 57,157,501	$ 33,094,184	$ 15,331,999	$ 6,151,421	$ 2,579,897

Interest rate risk - MHP does 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 MHP 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 US Government or US Government Agency obligations.

Concentration of credit risk - MHP maintains its investments, which at times may exceed federally insured limits. MHP has not experienced any losses in such accounts. MHP believes that it is not exposed to any significant credit risk on investments.

Deposits and investments consist of the following as of December 31, 2013 and 2012:

	2013	2012
Carrying amount		
Deposits	$ 27,676,807	$ 14,588,075
Investments	64,436,245	57,157,501
	$ 92,113,052	$ 71,745,576
Included in the balance sheet captions		
Cash and cash equivalents	$ 14,536,069	$ 10,316,378
Internally designated	76,346,747	60,384,994
Restricted funds	1,230,236	1,044,204
	$ 92,113,052	$ 71,745,576

5. FAIR VALUE MEASUREMENTS

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 MHP has the ability to access.

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

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2013 and 2012.

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by MHP 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 and to transact at that price. The mutual funds held by MHP are deemed to be actively traded.

- *Corporate equity securities:* Valued at the closing price reported on the active market on which the individual securities are traded.

- *Corporate debt securities*: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

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

- *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.

MHP's policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels during 2013 and 2012.

The following table sets forth by level, within the hierarchy, MHP's assets and liabilities measured at fair value on a recurring basis as of December 31, 2013.

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
US Government securities				
US treasury notes	$ 16,351,702	$ 16,351,702	$ -0-	$ -0-
Federal home loan bank	4,216,141	-0-	4,216,141	-0-
Mortgage backed securities	4,105,503	-0-	4,105,503	-0-
Total US Government securities	24,673,346	16,351,702	8,321,644	-0-
Mutual funds				
Fixed income	13,942,356	13,942,356	-0-	-0-
Large cap blended	13,736,586	13,736,586	-0-	-0-
Small cap blended	1,924,682	1,924,682	-0-	-0-
Large cap growth	3,073,837	3,073,837	-0-	-0-
Mid cap blended	2,084,003	2,084,003	-0-	-0-
Other	744,740	744,740	-0-	-0-
Total mutual funds	35,506,204	35,506,204	-0-	-0-
Corporate equity securities				
Large cap growth	795,117	795,117	-0-	-0-
Large cap core	558,208	558,208	-0-	-0-
Large cap value	416,246	416,246	-0-	-0-
Other	902,127	902,127	-0-	-0-
Total corporate equity securities	2,671,698	2,671,698	-0-	-0-
Corporate debt securities				
Financial services	222,221	-0-	222,221	-0-
Other	362,776	-0-	362,776	-0-
Total corporate debt securities	584,997	-0-	584,997	-0-
	63,436,245	$ 54,529,604	$ 8,906,641	$ -0-
Cash and equivalents	13,140,738			
Certificates of deposit	1,000,000			
Total assets whose use is limited	$ 77,576,983			
Liabilities				
Derivative - interest rate swap	$ 146,290	$ -0-	$ 146,290	$ -0-

The following table sets forth by level, within the hierarchy, MHP's assets and liabilities measured at fair value on a recurring basis as of December 31, 2012.

	December 31, 2012			
	Total	Level 1	Level 2	Level 3
Assets				
Assets whose use is limited				
US Government securities				
US treasury notes	$ 18,401,908	$ 18,401,908	$ -0-	$ -0-
Federal home loan bank	2,223,005	-0-	2,223,005	-0-
Mortgage backed securities	3,027,393	-0-	3,027,393	-0-
Total US Government securities	23,652,306	18,401,908	5,250,398	-0-
Mutual funds				
Fixed income	14,051,654	14,051,654	-0-	-0-
Large cap blended	7,215,402	7,215,402	-0-	-0-
Small cap blended	1,543,876	1,543,876	-0-	-0-
Large cap value	1,493,722	1,493,722	-0-	-0-
Mid cap blended	1,224,674	1,224,674	-0-	-0-
Other	4,464,933	4,464,933	-0-	-0-
Total mutual funds	29,994,261	29,994,261	-0-	-0-
Corporate equity securities				
Large cap growth	637,139	637,139	-0-	-0-
Large cap core	425,796	425,796	-0-	-0-
Large cap value	321,083	321,083	-0-	-0-
Other	697,880	697,880	-0-	-0-
Total corporate equity securities	2,081,898	2,081,898	-0-	-0-
Corporate debt securities				
Financial services	144,155	-0-	144,155	-0-
Other	284,881	-0-	284,881	-0-
Total corporate debt securities	429,036	-0-	429,036	-0-
	56,157,501	$ 50,478,067	$ 5,679,434	$ -0-
Cash and equivalents	4,271,697			
Certificates of deposit	1,000,000			
Total assets whose use is limited	$ 61,429,198			
Liabilities				
Derivative - interest rate swap	$ 387,726	$ -0-	$ 387,726	$ -0-

The following methods and assumptions were used by MHP 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 consolidated 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: The carrying value of MHP's variable rate revenue bonds approximates fair value based upon current traded value. The carrying value of loans payable and capital lease obligations approximates fair value based on current fixed rates available to similar entities with similar credit ratings.

6. RESTRICTED NON-EXPENDABLE NET POSITION

MHP, through the Foundation and noncontrolling interest, has restricted non-expendable net position. Unless a contributor provides specific instructions, the Foundation's governing board is permitted to expend the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the governing board is required to consider the Foundation's and supported organization's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes designated by the contributor. The Foundation's governing board chooses to spend the investment income (including changes in the value of investments) under the established investment policy.

Restricted non-expendable net position as of December 31, 2013 and 2012, represent the principal amounts of permanent endowments, restricted to investment in perpetuity, as well as the noncontrolling interest. Investment earnings from the Foundation's permanent endowments are expendable to support the programs as established by the contributors.

The following is a summary of the restricted non-expendable net position as of December 31, 2013 and 2012:

	2013	2012
Compton Endowment	$ 521,714	$ 521,714
McFadden Endowment	333,133	333,133
Noncontrolling interest	356,052	431,330
	$ 1,210,899	$ 1,286,177

The following table depicts the changes in consolidated net position attributable to the controlling financial interest of MHP and the noncontrolling interest.

	Controlling interest	Noncontrolling interest	Total
Balance, December 31, 2011	$ 87,917,452	$ 337,750	$ 88,255,202
Excess of revenues over expenses	9,360,173	93,580	9,453,753
Balance, December 31, 2012	97,277,625	431,330	97,708,955
Excess (deficit) of revenues over expenses	12,809,140	(1,885,349)	10,923,791
Transfers from noncontrolling interest	-0-	1,810,071	1,810,071
Change in net position	12,809,140	(75,278)	12,733,862
Balance, December 31, 2013	$ 110,086,765	$ 356,052	$ 110,442,817

7. CAPITAL ASSETS

Capital Assets, Net

A summary of property and equipment, including assets under capital leases for 2013 and 2012 follows:

	December 31, 2012	Additions	Disposals	Transfers	December 31, 2013
Land and land improvements	$ 11,328,726	$ 110,807	$ (131)	$ 141,676	$ 11,581,078
Leasehold improvements	2,322,553	317,353	-0-	-0-	2,639,906
Buildings and improvements	49,735,425	2,460,152	(733)	43,480	52,238,324
Equipment	36,739,841	2,399,607	(887,086)	5,800	38,258,162
Construction in progress	255,963	875,300	-0-	(190,956)	940,307
Total property and equipment	100,382,508	6,163,219	(887,950)	-0-	105,657,777
Less accumulated depreciation					
Land improvements	1,702,127	241,505	(131)	-0-	1,943,501
Leasehold improvements	809,062	101,888	-0-	14,176	925,126
Buildings and improvements	26,045,902	1,734,783	(602)	-0-	27,780,083
Equipment	26,854,228	2,916,075	(887,217)	(4,364)	28,878,722
Total accumulated depreciation	55,411,319	4,994,251	(887,950)	9,812	59,527,432
Capital assets, net	$ 44,971,189	$ 1,168,968	$ -0-	$ (9,812)	$ 46,130,345

	December 31, 2011	Additions	Disposals	Transfers	December 31, 2012
Land and land improvements	$ 8,290,857	$ 3,045,338	$ (7,469)	$ -0-	$ 11,328,726
Leasehold improvements	2,086,265	236,288	-0-	-0-	2,322,553
Buildings and improvements	48,490,047	801,086	(17,501)	461,793	49,735,425
Equipment	34,956,167	2,816,633	(1,032,959)	-0-	36,739,841
Construction in progress	292,231	425,525	-0-	(461,793)	255,963
Total property and equipment	94,115,567	7,324,870	(1,057,929)	-0-	100,382,508
Less accumulated depreciation					
Land improvements	1,451,285	257,924	(7,082)	-0-	1,702,127
Leasehold improvements	676,728	132,724	(390)	-0-	809,062
Buildings and improvements	24,315,287	1,747,899	(17,284)	-0-	26,045,902
Equipment	24,942,006	2,907,049	(994,827)	-0-	26,854,228
Total accumulated depreciation	51,385,306	5,045,596	(1,019,583)	-0-	55,411,319
Capital assets, net	$ 42,730,261	$ 2,279,274	$ (38,346)	$ -0-	$ 44,971,189

There were no significant outstanding commitments on capital assets as of December 31, 2013.

Assets under Capital Leases

The assets acquired through capital leases still in effect are as follows:

	2013	2012
Equipment	$ 309,061	$ 309,061
Less accumulated depreciation	294,899	273,656
	$ 14,162	$ 35,405

Property Held for Sale

MHP currently holds approximately 41 acres of land available for sale. The land is located in the Intelliplex Park where the Hospital's Cancer Center is located. The land is valued at cost plus improvements and will be sold in lots in varying size.

8. LONG TERM DEBT

A summary of long term debt as of December 31, 2013 is as follows:

- Indiana Finance Authority Hospital Revenue Bonds, Series 2009 for $30,000,000 were issued during 2009. The Series 2009 Bonds are variable interest rate and mature June 1, 2029. On June 23, 2009, the Hospital, the Indiana Finance Authority (Authority) and Regions Bank (Bank) entered into a Bond Purchase Agreement (Agreement) whereby the Bank purchased from the Authority all of the Series 2009 Bonds in a private placement. The Agreement provides that the Bank will hold the Series 2009 Bonds during the Initial Monthly Mode Period which runs through July 2016. During this Initial Monthly Mode Period, the Series 2009 Bonds bear interest at the lesser of 12% per annum or a rate of 59.5% of one month LIBOR plus 1.73% (rate as of December 31, 2013 – 1.829%). At the end of the Initial Monthly Mode Period, the Series 2009 Bonds may be converted to another interest rate mode and remarketed to another bondholder or holders or renewed for another Monthly Mode Period with the Bank. The Series 2009 Bonds could be converted to another interest rate mode to accommodate market conditions at that time. If the Series 2009 Bonds cannot be remarketed at the end of the Initial Monthly Mode Period, the Hospital would be subject to payment of the remaining principal of $26,579,000 at the end of the Initial Monthly Mode Period. The Series 2009 Bonds are secured ultimately by the gross revenues of the Hospital.

- The capital lease obligation with interest of 4.5% executed for property and equipment is due in monthly installments of $1,881 including interest, due August 2014.

- Note payable with an original amount of $7,000,000 with local financial institutions, due in monthly installments of approximately $58,000 including interest with a balloon payment in March 2018 at an interest rate of one month LIBOR plus 210 basis points with an initial rate of 1.6% as of December 31, 2013, secured by investments with a net book value commensurate with the outstanding note payable balance.

- Loans payable with an original amount of $2,300,000 with a local financial institutions, due in monthly installments of approximately $13,000 including interest with a balloon payment in 2016 at an interest rate of the daily LIBOR plus 300 basis points as of December 31, 2013 (3.17%), secured by certain assets of a subsidiary with a net book value of approximately $2,000,000 as of December 31, 2013.

- Loans payable with an original amount of $628,000 with a local financial institution is due in monthly installments of $5,900 through 2022 at an interest rate of 7.7% and is unsecured.

The revenue bonds and note payable require the Hospital to maintain certain financial ratios. As of December 31, 2013, the Hospital was in compliance with the financial ratios.

The following represents a progression for long term debt for 2013 and 2012:

	December 31, 2012	Additional Borrowings	Payments	December 31, 2013	Current Portion
Revenue bonds					
2009 Bonds	$ 27,401,000	$ -0-	$ (822,000)	$ 26,579,000	$ 848,484
Loans payable					
Capital lease obligations	36,191	-0-	(21,383)	14,808	14,808
Note payable	-0-	7,000,000	(583,333)	6,416,667	700,000
Loans payable	1,955,357	-0-	(152,671)	1,802,686	155,593
Total long-term debt	$ 29,392,548	$ 7,000,000	$ (1,579,387)	$ 34,813,161	$ 1,718,885

	December 31, 2011	Additional Borrowings	Payments	December 31, 2012	Current Portion
Revenue bonds					
2009 Bonds	$ 28,189,000	$ -0-	$ (788,000)	$ 27,401,000	$ 822,000
Loans payable					
Capital lease obligations	99,340	-0-	(63,149)	36,191	21,383
Loans payable	2,105,323	-0-	(149,966)	1,955,357	152,671
Total long-term debt	$ 30,393,663	$ -0-	$ (1,001,115)	$ 29,392,548	$ 996,054

Scheduled principal and interest repayments on long term debt and payments on capital lease obligations for the years succeeding December 31, 2013 are as follows:

Years Ending December 31,	Principal	Interest	Interest Rate Swaps, Net	Total Payments
2014	$ 1,718,885	$ 638,298	$ 305,680	$ 2,662,863
2015	1,722,879	604,107	-0-	2,326,986
2016	26,827,229	97,491	-0-	26,924,720
2017	749,779	79,430	-0-	829,209
2018	3,670,417	17,050	-0-	3,687,467
2019 - 2022	123,972	24,049	-0-	148,021
	$ 34,813,161	$ 1,460,425	$ 305,680	$ 36,579,266

The interest rate swap agreements do not affect the obligation of MHP under the indenture to repay principal and interest on the Series 2009 Bonds. However, during the term of the swap agreements, MHP effectively pays a fixed rate on a portion of the debt. A portion of the debt service requirements to maturity for the Series 2009 Bonds are based on that fixed rate. MHP will be exposed to variable rates if the counterparty to the swaps defaults or the swap agreements are terminated. A termination of the swap agreements may also result in MHP making or receiving a termination payment.

As of December 31, 2013, the variable rate on the Series 2009 Bonds was lower than the swap agreements fixed rates. See the footnote on Derivative Instruments – Interest Rate Swaps for additional information.

9. DERIVATIVE INSTRUMENTS – INTEREST RATE SWAPS

Contracts

MHP has three interest rate swap agreements in effect as of December 31, 2013 for the Indiana Finance Authority Hospital Revenue Bonds, Series 2009.

Objectives and Strategies for Using Derivatives

As a means to manage the risk associated with interest rate risk on its variable rate debt, MHP entered into interest rate swaps agreements in connection with its Indiana Finance Authority Hospital Revenue Bonds, Series 2009. The intention of the swap agreements was to effectively change MHP’s variable interest rate on the Series 2009 bonds to fixed rates ranging from 2.98% to 3.54%.

Terms, Fair Values and Credit Risk

The swap agreements relate to the Series 2009 bond with notional amounts totaling $16,000,000. The counterparty is the same for each swap agreements. The terms and fair values of the outstanding swaps as of December 31, 2013 are as follows:

Notional Amount	Effective Date	Fixed Rate	Variable Rate	Fair Value	Termination Date
$ 10,000,000	8/19/2009	3.540%	1.829%	$ (99,873)	7/1/2014
$ 3,000,000	10/2/2009	3.335%	1.829%	(26,342)	7/1/2014
$ 3,000,000	7/1/2010	2.980%	1.829%	(20,075)	7/1/2014
				$ (146,290)	

As of December 31, 2013, the negative fair values of the agreements may be countered by reductions in total interest payments under the swap agreements should the variable rate on the 2009 Series bonds increase. The variable rate on the swaps is 59.50% of the USD-LIBOR BBA plus 1.73% and resets monthly.

The counterparty carries a guarantee by an entity (“counterparty guarantor”) rated Ba2 by Moody’s Investors Service (Moody’s), BBB- by Standard and Poor’s (S&P), and BBB by Fitch Ratings (Fitch). To mitigate the potential for credit risk, the fair value of the swap must be collateralized based on a schedule of the counterparty guarantor credit ratings classifications and exposure thresholds as provided in the agreements.

Basis Risk

The swap and the bonds interest rates are both pegged to USD-LIBOR-BBA index; therefore, basis risk relating to the swap is minimal.

Termination Risk

MHP or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative fair value, MHP would be liable to the counterparty for a payment equal to the swaps’ fair values.

Swap Payments and Associated Debt

Using rates as of December 31, 2013, debt service requirements of the variable rate debt and net swap payments of the Series 2009 bonds, assuming current interest rates remain the same for the term of the bonds are disclosed in the Long Term Debt note. As rates vary, variable-rate bond interest payments and net swap payments will vary.

MHP has determined the swaps to be effective hedges. Accordingly, the fair value of the swaps has been recorded and subsequent changes in fair value will be recorded only in the consolidated balance sheets while the swaps remain effective hedges. Following is an analysis of the recording of the interest rate swap agreements:

	2013	2012
Deferred outflow	$ 146,290	$ 387,726
Liability		
Interest rate swap agreements	$ 146,290	$ 387,726

See Fair Value Measurements note for additional information.

10. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities as of December 31, 2013 and 2012 is as follows:

	2013	2012
Patient accounts receivable		
Receivable from patients and their insurance carriers	$ 17,764,331	$ 15,300,777
Receivable from Medicare	7,805,540	7,403,602
Receivable from Medicaid	1,345,783	1,974,294
Receivable from long-term care operations	12,006,200	1,291,055
Total patient accounts receivable	38,921,854	25,969,728
Less contractual allowances	(11,591,021)	(10,883,663)
Less allowance for uncollectible amounts	(4,477,235)	(3,490,121)
Patient accounts receivable, net	$ 22,853,598	$ 11,595,944
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	$ 10,101,823	$ 9,046,928
Payable to suppliers and other accrued expenses	20,702,867	4,717,374
Total accounts payable and accrued expenses	$ 30,804,690	$ 13,764,302

11. PENSION PLAN

Plan Description

MHP has a defined contribution pension plan as authorized by IC 16-22-3-11. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. The report is available by contacting MHP's accounting department.

Funding Policy

The contribution requirements of plan members are established by the written agreement between MHP's Board of Trustees and the plan administrator. The current employer contribution rate is 7% of annual covered payroll. Employer contributions to the plan for 2013 and 2012 were approximately $1,904,000 and $1,897,000, respectively. Employees are not permitted to contribute to the plan.

12. CONCENTRATIONS OF CREDIT RISK

MHP is located in Shelbyville, Indiana. MHP grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. Concentrations of accounts receivable and gross revenue from patients and third party payors are as follows as of December 31:

	Receivables		Revenues	
	2013	2012	2013	2012
Medicare	29%	30%	43%	41%
Medicaid	5%	8%	14%	15%
Anthem	15%	15%	14%	15%
Other third party payors	27%	28%	20%	21%
Self-pay	24%	19%	9%	8%
	100%	100%	100%	100%

13. ESTIMATED MALPRACTICE COSTS

The Indiana Medical Malpractice Act, IC 27-12 (the Act), provides a recovery for an occurrence of malpractice and for any injury or death of a patient due to an act of malpractice in excess of certain thresholds. The Act provides for a maximum recovery of $1,250,000 per occurrence ($7,500,000 annual aggregate) with the first $250,000 covered by MHP's insurance and the remainder by the State of Indiana Patient Compensation Fund. The Act requires MHP to maintain medical malpractice liability insurance on a per occurrence basis and in the annual aggregate for amounts below the thresholds of the Act. Management is not aware of any related material adverse effects to its financial position, results from operations, and cash flows.

14. RISK MANAGEMENT

Medical Benefits to Employees and Dependents

MHP is self-funded for medical and related health benefits provided to employees and their families. A stop/loss policy through commercial insurance covers individual claims in excess of $175,000 per year. Provisions are also made for unexpected and unusual claims.

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. Self-funded health insurance and related expenses were approximately $7,428,000 and $6,939,000 in 2013 and 2012, respectively.

A progression of unpaid claims for 2013 and 2012 follows:

	2013	2012
Unpaid claims, beginning of year	$1,060,000	$ 760,000
Incurred claims and changes in estimates	7,427,979	6,939,344
Claim payments	(7,192,979)	(6,639,344)
Unpaid claims, end of year	$1,295,000	$1,060,000

15. RENTAL EXPENSE

MHP has leases expiring at various times through 2016. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating as incurred. The majority of the leases are cancellable. Total rent expense for 2013 and 2012 was approximately $10,360,000 and $4,116,000, respectively.

16. COMMITMENTS AND CONTINGENCIES

The Shelby County Council and City of Shelbyville Common Council each passed an ordinance pledging a portion of their share of economic development income tax (EDIT) for the purpose of land acquisition, construction and installation of public infrastructure improvements at the Shelbyville/Shelby County Advanced Technological Industrial Park. Shelby County, the City of Shelbyville, and Major Hospital (a component unit of Shelby County) share administrative and financial responsibility for this project. The County and City have each pledged $125,000 each calendar year through 2028 (or such earlier date as all outstanding bonds issued to finance or refinance the projects are defeased). The Hospital recognizes the amounts as revenue when received. A schedule of expected payments is as follows:

Years Ending December 31,	
2014	$ 250,000
2015	250,000
2016	250,000
2017	250,000
2018	250,000
Thereafter	2,500,000
	$ 3,750,000

17. BLENDED COMPONENT UNITS

MHP's consolidated financial statements include the accounts of its blended component units. Below is condensed financial information of the blended component units.

	2013			
	Major Affiliates	Foundation	MDSolutions	Total
Assets and deferred outflows				
Current assets	$ 3,778,424	$ 329,067	$ 765,723	$ 4,873,214
Capital assets	11,866,734	22,376	2,145,547	14,034,657
Other assets	2,401,656	4,775,694	(13,726)	7,163,624
Total assets and deferred outflows	$ 18,046,814	$ 5,127,137	$ 2,897,544	$ 26,071,495
Liabilities				
Long-term debt	$ 2,164,646	$ -0-	$ 1,262,796	$ 3,427,442
Other liabilities	4,646,746	420,825	666,355	5,733,926
Total liabilities	6,811,392	420,825	1,929,151	9,161,368
Net position				
Net investment in capital assets	9,160,362	22,376	766,699	9,949,437
Restricted	(131,563)	1,230,236	487,615	1,586,288
Unrestricted	2,206,623	3,453,700	(285,921)	5,374,402
Total net position	11,235,422	4,706,312	968,393	16,910,127
Total liabilities and net position	$ 18,046,814	$ 5,127,137	$ 2,897,544	$ 26,071,495
Revenues				
Net patient service revenue	$ 18,085,234	$ -0-	$ -0-	$ 18,085,234
Other	2,642,160	652,882	1,332,428	4,627,470
Total revenues	20,727,394	652,882	1,332,428	22,712,704
Expenses				
Depreciation	894,683	2,672	65,283	962,638
Other expenses	28,294,631	1,030,419	1,076,902	30,401,952
Total expenses	29,189,314	1,033,091	1,142,185	31,364,590
Operating income (loss)	(8,461,920)	(380,209)	190,243	(8,651,886)
Nonoperating revenues (expenses)	175,957	697,754	(44,542)	829,169
Excess (deficit) revenues over expenses	(8,285,963)	317,545	145,701	(7,822,717)
Transfers	11,618,346	-0-	174,070	11,792,416
Change in net position	3,332,383	317,545	319,771	3,969,699
Net position, beginning of year	7,903,039	4,388,767	648,622	12,940,428
Net position, end of year	$ 11,235,422	$ 4,706,312	$ 968,393	$ 16,910,127
Net cash flows from				
Operating activities	$ (7,247,368)	$ (377,537)	$ 178,950	$ (7,445,955)
Capital and related financing activities	8,408,898	(15,260)	129,528	8,523,166
Investing activities	-0-	365,702	-0-	365,702
Total	1,161,530	(27,095)	308,478	1,442,913
Cash and cash equivalents				
Beginning of year	2,129,115	315,421	257,181	2,701,717
	$ 3,290,645	$ 288,326	$ 565,659	$ 4,144,630

	2012			
	Major Affiliates	Foundation	MDSolutions	Total
Assets and deferred outflows				
Current assets	$ 3,952,085	$ 253,823	$ 452,275	$ 4,658,183
Capital assets	10,111,370	5,049	2,210,831	12,327,250
Other assets	606,937	4,150,110	(13,726)	4,743,321
Total assets and deferred outflows	$ 14,670,392	$ 4,408,982	$ 2,649,380	$ 21,728,754
Liabilities				
Long-term debt	$ 2,706,371	$ -0-	$ 1,378,848	$ 4,085,219
Other liabilities	4,060,982	20,215	621,910	4,703,107
Total liabilities	6,767,353	20,215	2,000,758	8,788,326
Net position				
Net investment in capital assets	6,892,442	5,049	715,931	7,613,422
Restricted	63,199	1,044,204	368,131	1,475,534
Unrestricted	947,398	3,339,514	(435,440)	3,851,472
Total net position	7,903,039	4,388,767	648,622	12,940,428
Total liabilities and net position	$ 14,670,392	$ 4,408,982	$ 2,649,380	$ 21,728,754
Revenues				
Net patient service revenue	$ 16,408,827	$ -0-	$ -0-	$ 16,408,827
Other	574,669	585,942	1,246,702	2,407,313
Total revenues	16,983,496	585,942	1,246,702	18,816,140
Expenses				
Depreciation	875,864	3,589	69,538	948,991
Other expenses	23,492,252	475,608	1,155,883	25,123,743
Total expenses	24,368,116	479,197	1,225,421	26,072,734
Operating income (loss)	(7,384,620)	106,745	21,281	(7,256,594)
Nonoperating revenues (expenses)	(196,450)	443,668	(59,076)	188,142
Excess (deficit) revenues over expenses	(7,581,070)	550,413	(37,795)	(7,068,452)
Transfers	6,875,958	-0-	101,057	6,977,015
Change in net position	(705,112)	550,413	63,262	(91,437)
Net position, beginning of year	8,608,151	3,838,354	585,360	13,031,865
Net position, end of year	$ 7,903,039	$ 4,388,767	$ 648,622	$ 12,940,428
Net cash flows from				
Operating activities	$ (5,711,860)	$ 110,334	$ 108,280	$ (5,493,246)
Capital and related financing activities	6,150,439	(3,589)	41,981	6,188,831
Investing activities	-0-	(9,118)	-0-	(9,118)
Total	438,579	97,627	150,261	686,467
Cash and cash equivalents				
Beginning of year	1,690,536	217,794	106,920	2,015,250
End of year	$ 2,129,115	$ 315,421	$ 257,181	$ 2,701,717

18. SUBSEQUENT EVENTS

Long-Term Care Facilities

Subsequent to December 31, 2013, MHP entered into multiple agreements with distinct lessor entities to lease long-term care facilities operated by related management companies. Additionally, MHP entered into agreements with the related management companies to manage the leased long-term care facilities. As part of the agreements, MHP will pay the management companies a fee to continue managing the long-term care facilities on behalf of MHP in accordance with the terms of the agreements. While the leases are in effect, the performance of all activities of the management companies shall be on behalf of MHP. Furthermore, MHP retains ultimate authority and legal responsibility for the operation and control of the long-term care facilities.

Under these agreements, all gross patient revenues from the operation of the long-term care facilities will be the property of MHP and MHP shall be responsible for all operating expenses and working capital requirements. The agreements expire at various times and all parties involved can terminate the agreement without cause with written notice. The overall impact of these agreements has not been assessed by management.

19. UPCOMING GASB PRONOUNCEMENTS

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

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, issued June 2012, will be effective for periods beginning after June 15, 2014. This Statement establishes the accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to certain pensions. It will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013, will be effective for government combinations and disposals of government operations occurring in financial reporting periods for periods beginning after December 15, 2013.

This Statement establishes accounting and financial reporting standards related to government combinations (mergers, acquisitions, and transfers of operations) and disposals of government operations. The disclosures required by this Statement will enable financial statement users to evaluate the nature and financial effects of those transactions.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued April 2013, will be effective for financial reporting periods beginning after June 15, 2013. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. Additional disclosures will be required by both governments that extend and receive financial guarantees.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*, issued November 2013, will be required to be applied simultaneously with provisions of GASB Statement No. 68 making it effective for periods beginning after June 15, 2014. This Statement amends previous guidance to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

SUPPLEMENTARY INFORMATION

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2013

ASSETS AND DEFERRED OUTFLOWS	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current assets						
Cash and cash equivalents	$ 10,679,765	$ 3,290,645	$ -0-	$ 565,659	$ -0-	$ 14,536,069
Patient accounts receivable, net	21,560,253	1,293,345	-0-	-0-	-0-	22,853,598
Inventory and other current assets	14,985,718	691,619	329,067	200,064	(2,699,713)	13,506,755
Current portion of assets whose use is limited	1,548,484	-0-	-0-	-0-	-0-	1,548,484
Total current assets	48,774,220	5,275,609	329,067	765,723	(2,699,713)	52,444,906
Assets whose use is limited						
Internally designated	72,801,289	-0-	3,545,458	-0-	-0-	76,346,747
Donor restricted funds	-0-	-0-	1,230,236	-0-	-0-	1,230,236
Total assets whose use is limited	72,801,289	-0-	4,775,694	-0-	-0-	77,576,983
Less current portion	1,548,484	-0-	-0-	-0-	-0-	1,548,484
Noncurrent assets whose use is limited	71,252,805	-0-	4,775,694	-0-	-0-	76,028,499
Capital assets, net	32,095,688	11,866,734	22,376	2,145,547	-0-	46,130,345
Property held for sale	4,576,627	-0-	-0-	-0-	-0-	4,576,627
Other assets	3,818,723	904,471	-0-	(13,726)	(2,260,855)	2,448,613
Total assets	160,518,063	18,046,814	5,127,137	2,897,544	(4,960,568)	181,628,990
Deferred outflows - interest rate swaps	146,290	-0-	-0-	-0-	-0-	146,290
Total assets and deferred outflows	$ 160,664,353	$ 18,046,814	$ 5,127,137	$ 2,897,544	$ (4,960,568)	$ 181,775,280

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2013

LIABILITIES AND NET POSITION	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current liabilities						
Accounts payable and accrued expenses	$ 21,378,441	$ 888,575	$ 417,014	$ 216,365	$ (2,197,528)	$ 20,702,867
Accrued wages and related liabilities	7,415,951	2,348,123	3,811	333,938	-0-	10,101,823
Estimated third-party settlements	4,700,000	-0-	-0-	-0-	-0-	4,700,000
Current portion of long-term debt						
Loans payable and capital leases	714,808	39,541	-0-	116,052	-0-	870,401
Revenue bonds payable	848,484	-0-	-0-	-0-	-0-	848,484
Intercompany notes payable	-0-	502,185	-0-	-0-	(502,185)	-0-
Total current liabilities	35,057,684	3,778,424	420,825	666,355	(2,699,713)	37,223,575
Derivative liability	146,290	-0-	-0-	-0-	-0-	146,290
Other liabilities	-0-	868,322	-0-	-0-	-0-	868,322
Long-term debt, net of current portion						
Loans payable and capital leases	5,716,667	384,297	-0-	1,262,796	-0-	7,363,760
Revenue bonds payable	25,730,516	-0-	-0-	-0-	-0-	25,730,516
Intercompany notes payable	-0-	1,780,349	-0-	-0-	(1,780,349)	-0-
Total long-term debt	31,447,183	2,164,646	-0-	1,262,796	(1,780,349)	33,094,276
Total liabilities	66,651,157	6,811,392	420,825	1,929,151	(4,480,062)	71,332,463
Net position						
Net investment in capital assets	(914,787)	9,160,362	22,376	766,699	2,282,534	11,317,184
Restricted						
Expendable - other specific purpose	-0-	-0-	375,389	-0-	-0-	375,389
Non-expendable	-0-	(131,563)	854,847	487,615	-0-	1,210,899
Unrestricted	94,927,983	2,206,623	3,453,700	(285,921)	(2,763,040)	97,539,345
Total net position	94,013,196	11,235,422	4,706,312	968,393	(480,506)	110,442,817
Total liabilities and net position	$ 160,664,353	$ 18,046,814	$ 5,127,137	$ 2,897,544	$ (4,960,568)	$ 181,775,280

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2013

	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Revenue						
Net patient service revenue	$ 175,056,800	$ 18,085,234	$ -0-	$ -0-	$ (145,541)	$ 192,996,493
Other	2,628,389	2,642,160	652,882	1,332,428	(2,532,612)	4,723,247
Total revenue	177,685,189	20,727,394	652,882	1,332,428	(2,678,153)	197,719,740
Expenses						
Salaries and wages	33,455,977	15,007,002	91,958	275,410	(223,110)	48,607,237
Employee benefits	10,254,675	4,545,050	6,728	136,389	-0-	14,942,842
Medical professional fees	4,916,101	5,627	-0-	-0-	-0-	4,921,728
Supplies	11,661,149	4,359,559	-0-	11,249	(20,848)	16,011,109
Purchased services	75,256,179	1,883,144	-0-	237,516	(1,410,765)	75,966,074
Rent and maintenance	12,094,834	868,051	-0-	308,421	(830,916)	12,440,390
Utilities	1,091,069	476,963	-0-	24,609	-0-	1,592,641
Insurance	328,659	416,518	-0-	1,123	-0-	746,300
Depreciation and amortization	4,651,727	894,683	2,672	65,283	8,090	5,622,455
Hospital assessment fee	3,625,421	-0-	-0-	-0-	-0-	3,625,421
Other expenses	1,975,501	732,717	931,733	82,185	(700,604)	3,021,532
Total expenses	159,311,292	29,189,314	1,033,091	1,142,185	(3,178,153)	187,497,729
Operating income (loss)	18,373,897	(8,461,920)	(380,209)	190,243	500,000	10,222,011
Nonoperating revenues (expenses)						
Investment income	2,997,498	-0-	697,754	-0-	(136,784)	3,558,468
Interest expense	(853,578)	(167,014)	-0-	(44,542)	136,784	(928,350)
Loss on impairment of goodwill	(2,475,000)	-0-	-0-	-0-	-0-	(2,475,000)
Other nonoperating revenues (expenses)	728,800	342,971	-0-	-0-	(525,109)	546,662
Nonoperating revenues (expenses), net	397,720	175,957	697,754	(44,542)	(525,109)	701,780
Excess (deficit) of revenues over expenses	18,771,617	(8,285,963)	317,545	145,701	(25,109)	10,923,791
Transfers (to) from	(9,808,272)	11,618,346	-0-	174,070	(174,073)	1,810,071
Change in net position	8,963,345	3,332,383	317,545	319,771	(199,182)	12,733,862
Net position						
Beginning of year	85,049,851	7,903,039	4,388,767	648,622	(281,324)	97,708,955
End of year	$ 94,013,196	$ 11,235,422	$ 4,706,312	$ 968,393	$ (480,506)	$ 110,442,817

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2012

ASSETS AND DEFERRED OUTFLOWS	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current assets						
Cash and cash equivalents	$ 7,930,082	$ 2,129,115	$ -0-	$ 257,181	$ -0-	$ 10,316,378
Patient accounts receivable, net	10,495,565	1,100,379	-0-	-0-	-0-	11,595,944
Inventory and other current assets	7,394,753	722,591	253,823	195,094	(1,303,060)	7,263,201
Current portion of assets whose use is limited	822,000	-0-	-0-	-0-	-0-	822,000
Total current assets	26,642,400	3,952,085	253,823	452,275	(1,303,060)	29,997,523
Assets whose use is limited						
Internally designated	57,279,088	-0-	3,105,906	-0-	-0-	60,384,994
Donor restricted funds	-0-	-0-	1,044,204	-0-	-0-	1,044,204
Total assets whose use is limited	57,279,088	-0-	4,150,110	-0-	-0-	61,429,198
Less current portion	822,000	-0-	-0-	-0-	-0-	822,000
Noncurrent assets whose use is limited	56,457,088	-0-	4,150,110	-0-	-0-	60,607,198
Capital assets, net	32,643,939	10,111,370	5,049	2,210,831	-0-	44,971,189
Property held for sale	4,576,627	-0-	-0-	-0-	-0-	4,576,627
Other assets	7,381,954	606,937	-0-	(13,726)	(2,563,857)	5,411,308
Total assets	127,702,008	14,670,392	4,408,982	2,649,380	(3,866,917)	145,563,845
Deferred outflows - interest rate swaps	387,726	-0-	-0-	-0-	-0-	387,726
Total assets and deferred outflows	$ 128,089,734	$ 14,670,392	$ 4,408,982	$ 2,649,380	$ (3,866,917)	$ 145,951,571

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2012

LIABILITIES AND NET POSITION	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current liabilities						
Accounts payable and accrued expenses	$ 4,366,157	$ 956,454	$ 17,314	$ 204,571	$ (827,122)	$ 4,717,374
Accrued wages and related liabilities	6,748,809	1,993,931	2,901	301,287	-0-	9,046,928
Estimated third-party settlements	4,100,000	-0-	-0-	-0-	-0-	4,100,000
Current portion of long-term debt						
Loans payable and capital leases	21,383	36,619	-0-	116,052	-0-	174,054
Revenue bonds payable	822,000	-0-	-0-	-0-	-0-	822,000
Intercompany notes payable	-0-	475,938	-0-	-0-	(475,938)	-0-
Total current liabilities	16,058,349	3,462,942	20,215	621,910	(1,303,060)	18,860,356
Derivative liability	387,726	-0-	-0-	-0-	-0-	387,726
Other liabilities	-0-	598,040	-0-	-0-	-0-	598,040
Long-term debt, net of current portion						
Loans payable and capital leases	14,808	423,838	-0-	1,378,848	-0-	1,817,494
Revenue bonds payable	26,579,000	-0-	-0-	-0-	-0-	26,579,000
Intercompany notes payable	-0-	2,282,533	-0-	-0-	(2,282,533)	-0-
Total long-term debt	26,593,808	2,706,371	-0-	1,378,848	(2,282,533)	28,396,494
Total liabilities	43,039,883	6,767,353	20,215	2,000,758	(3,585,593)	48,242,616
Net position						
Net investment in capital assets	5,206,748	6,892,442	5,049	715,931	2,758,471	15,578,641
Restricted						
Expendable - other specific purpose	-0-	-0-	189,357	-0-	-0-	189,357
Non-expendable	-0-	63,199	854,847	368,131	-0-	1,286,177
Unrestricted	79,843,103	947,398	3,339,514	(435,440)	(3,039,795)	80,654,780
Total net position	85,049,851	7,903,039	4,388,767	648,622	(281,324)	97,708,955
Total liabilities and net position	$ 128,089,734	$ 14,670,392	$ 4,408,982	$ 2,649,380	$ (3,866,917)	$ 145,951,571

MAJOR HEALTH PARTNERS

CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2012

	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Revenue						
Net patient service revenue	$ 105,713,055	$ 16,408,827	$ -0-	$ -0-	$ (125,718)	$ 121,996,164
Other	2,129,112	574,669	585,942	1,246,702	(1,942,395)	2,594,030
Total revenue	107,842,167	16,983,496	585,942	1,246,702	(2,068,113)	124,590,194
Expenses						
Salaries and wages	31,468,799	12,902,595	73,288	275,744	0	44,720,426
Employee benefits	9,751,318	3,115,295	5,496	128,220	-0-	13,000,329
Medical professional fees	5,007,124	-0-	-0-	-0-	-0-	5,007,124
Supplies	11,807,932	3,692,030	-0-	15,680	-0-	15,515,642
Purchased services	18,938,534	2,183,542	-0-	264,837	(1,385,359)	20,001,554
Rental and maintenance	5,657,948	531,881	-0-	229,952	(499,445)	5,920,336
Utilities	1,114,842	388,394	-0-	23,908	-0-	1,527,144
Insurance	306,380	346,660	-0-	695	-0-	653,735
Depreciation and amortization	4,288,635	875,864	3,589	69,538	8,090	5,245,716
Hospital assessment fee	3,740,876	-0-	-0-	-0-	-0-	3,740,876
Other expenses	2,126,673	331,855	396,824	216,847	(191,399)	2,880,800
Total expenses	94,209,061	24,368,116	479,197	1,225,421	(2,068,113)	118,213,682
Operating income (loss)	13,633,106	(7,384,620)	106,745	21,281	-0-	6,376,512
Nonoperating revenues (expenses)						
Investment income	3,339,167	-0-	443,668	-0-	(161,659)	3,621,176
Interest expense	(780,531)	(198,544)	-0-	(50,907)	161,659	(868,323)
Other nonoperating revenues (expenses)	201,491	2,094	-0-	(8,169)	128,972	324,388
Nonoperating revenues (expenses), net	2,760,127	(196,450)	443,668	(59,076)	128,972	3,077,241
Excess (deficit) of revenues over expenses	16,393,233	(7,581,070)	550,413	(37,795)	128,972	9,453,753
Transfers (to) from	(6,875,958)	6,875,958	-0-	101,057	(101,057)	-0-
Change in net position	9,517,275	(705,112)	550,413	63,262	27,915	9,453,753
Net position						
Beginning of year	75,532,576	8,608,151	3,838,354	585,360	(309,239)	88,255,202
End of year	$ 85,049,851	$ 7,903,039	$ 4,388,767	$ 648,622	$ (281,324)	$ 97,708,955

See report of independent auditors on pages 1 and 2.