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June 29, 2009

Board of Directors
Major Health Partners
150 W. Washington St.
Shelbyville, IN 46176

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Major Health Partners, as of December 31, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

TA:dsk



BOARD MEETING

APRIL 27, 2009

MAJOR HEALTH PARTNERS

BOARD MEETING
APRIL 27, 2009

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Major Health Partners
Shelbyville, Indiana

We have audited the accompanying consolidated balance sheets of Major Health Partners (MHP) as of December 31, 2008 and 2007 and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the MHP's management. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of MHP as of December 31, 2008 and 2007, and the consolidated results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages i through vii is not a required part of the basic consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
Major Health Partners
Shelbyville, Indiana

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Blue & Co., LLC

April 17, 2009

REQUIRED SUPPLEMENTARY INFORMATION

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

This section of Major Health Partners' (MHP) annual consolidated financial statements presents background information and management's discussion and analysis of MHP's financial performance during the year ended December 31, 2008. 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 Associates, 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 negative change in net assets for 2008 of approximately \$253,000 compared to a positive change in net assets of \$7.6 million in 2007, representing a decrease of approximately \$7.9 million in comparison to the year 2007 results.
- MHP spent \$2.7 million on equipment and capital projects in 2008 net of disposals. In 2008, the Hospital remodeled patient rooms, replaced its cardiac monitoring system, implemented a new PACS system, purchased equipment for Radiology and Surgery to accommodate the new Orthopedic Surgeons that started in August of 2008, and started construction on a medical facility known as ReNovo. ReNovo will house the new Orthopedic Surgeons, Outpatient Rehab, and a Sports Medicine clinic. MHP also spent money on upgrading and normal equipment replacement.

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 assets; 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 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 assets.

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.

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

MAJOR HEALTH PARTNERS' NET ASSETS

Table 1: Assets, Liabilities, and Net Assets

	<u>2008</u>	<u>2007</u>
Assets		
Current assets	\$ 20,518,718	\$ 25,576,361
Assets whose use is limited	42,431,736	37,322,318
Capital assets, net	40,125,219	38,496,507
Other assets	5,846,817	7,256,808
Total assets	<u>\$ 108,922,490</u>	<u>\$ 108,651,994</u>
Liabilities		
Current liabilities	\$ 11,394,619	\$ 9,816,570
Other liabilities	198,967	-0-
Long-term debt	27,222,540	28,475,875
Total liabilities	<u>38,816,126</u>	<u>38,292,445</u>
Net Assets		
Invested in capital assets, net of related debt	11,236,731	8,034,699
Restricted	1,119,726	1,605,813
Unrestricted	57,749,907	60,719,037
Total net assets	<u>70,106,364</u>	<u>70,359,549</u>
Total liabilities and net assets	<u>\$ 108,922,490</u>	<u>\$ 108,651,994</u>

The significant changes in Major Health Partners' assets resulted from a decrease in current assets of \$5 million. Cash and cash equivalents decreased by \$4.1 million in 2008. This is the result of moving funds from short-term operating cash to investment accounts. Net patient accounts receivable have decreased by \$760,000 from 2007. Total liabilities have increased by \$570,000 in 2008 in comparison to 2007.

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2008 AND 2007

OPERATING RESULTS AND CHANGES IN THE MAJOR HEALTH PARTNERS' NET ASSETS

Table 2: Operating Results and Changes in Net Assets

	<u>2008</u>	<u>2007</u>
Revenues		
Net patient service revenue	\$ 84,425,977	\$ 79,007,161
Other operating revenue	<u>1,453,491</u>	<u>1,789,431</u>
Total revenues	85,879,468	80,796,592
Expenses		
Salaries and benefits	45,534,238	40,222,545
Supplies	12,760,970	13,067,319
Depreciation and amortization	5,053,644	5,172,195
Other operating expenses	<u>18,650,389</u>	<u>16,001,586</u>
Total expenses	81,999,241	74,463,645
Operating income	3,880,227	6,332,947
Non-operating revenue (expense), net	<u>(4,133,412)</u>	<u>1,272,428</u>
Change in net assets	(253,185)	7,605,375
Net assets		
Beginning of year	70,359,549	62,754,174
End of year	<u>\$ 70,106,364</u>	<u>\$ 70,359,549</u>

SOURCES OF REVENUE

During 2008, 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 gross revenues in 2008 but only 41% of MHP's net patient service revenues.

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

Following is a table of major sources of gross patient revenues for 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Medicare	44%	42%
Medicaid	13%	15%
Anthem	16%	15%
Commercial	20%	21%
Self Pay	7%	7%
	<u>100%</u>	<u>100%</u>

Major Health Partners' service mix remained consistent between 2008 and 2007. Inpatient revenue accounted for 30% and 32% of gross revenue in 2008 and 2007, respectively. Outpatient revenue was 70% and 68% of total gross revenue in 2008 and 2007, respectively.

OPERATING AND FINANCIAL PERFORMANCE

Major Health Partners had a gain from operations of \$3.9 million in 2008, which resulted in a return on equity of 5.5% compared to a gain from operations of \$6.3 million in 2007 and return on equity of 9.0%.

This following section highlights the major financial factors for 2008 for Major Hospital, excluding the component units:

- The Hospital's discharges for 2008 decreased 6% from 2,882 in 2007 to 2,698 in 2008. The Hospital's adjusted patient days increased to 31,206 in 2008 compared to 30,882 in 2007. Although discharges decreased and adjusted patient days increased in 2008, the Hospital remained profitable from operations due to pricing changes and increased volume in the outpatient areas.
- In 2008, Major Hospital received \$6.2 million from the State for the Indiana Medicaid Municipal Hospital Payment Adjustment. In 2007, the Hospital only received \$3.4 million from the State. This money is treated as income when received and has a direct impact to net patient services revenue. This money along with the 5.4% charge master increase and a 4% increase in outpatient volume has contributed to the overall net revenue increase of \$4.4 million.
- Operating expenses increased \$5.3 million or 9% in 2008. This growth is attributable to the need of additional resources to provide services to the Hospital's increasing patient volumes and new services.

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

- Salaries and wages and benefits expense increased by \$4.3 million or 14%. The increase in wages is due to the additional staffing needed to handle increased outpatient volumes, the new orthopedic service line, and moving employees onto its' payroll that were formerly contracted in 2007. The increase in benefits is due to a \$1.3 million increase in health claims expense and a \$400,000 increase resulting from restructuring the Hospital pension plan.
- Medical Professional fees for the Hospital increased by 7% or \$380,000 in 2008. This is the result of additional payments to physicians due to increased volumes in Oncology.
- Supplies decreased by 1% or \$75,000 in 2008. The majority of this decrease is the result of a lower drug expense due to a decline in inpatient volumes.
- Purchased Services increased 6% or \$317,000 in 2008. A portion of this increase is due to the full year impact of entering into a joint venture in September 2007 for echocardiology services. The fees totaled \$615,000 in 2008 compared to \$200,000 for the last four months of the 2007. Other significant increases relate to costs associated with consulting and additional outside resources needed for new orthopedic service line and increased advertising and marketing.

The following section highlights the major financial factors for 2008 for the component units of Major Hospital:

- Major Affiliates' total operating revenue remained consistent from year 2007 to year 2008 for both its' patient services and office rental. During year 2008 two new services were established, orthopedics and urgent care, which assisted in offsetting any reductions in revenue from other MHP physician practices.
- Operating expenses for Major Affiliates increased from year 2007 to year 2008 by \$1 million dollars. Wages and benefits were a majority of this increase due to staffing the new practices and recruiting an OB physician.

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

CAPITAL ASSETS

During 2008, Major Health Partners invested \$5.4 million in capital assets along with retirements and transfers of \$2.7 million. The change in capital assets is outlined in the following table:

	<u>2008</u>	<u>2007</u>
Land and land improvements	\$ 6,502,797	\$ 4,937,621
Leasehold improvements	1,352,179	1,512,838
Buildings and improvements	41,700,567	41,302,577
Equipment	30,535,629	31,603,741
Construction in progress	<u>2,007,386</u>	<u>3,141</u>
Total property and equipment	82,098,558	79,359,918
Less accumulated depreciation	<u>41,973,339</u>	<u>40,863,411</u>
Capital assets, net	<u>\$ 40,125,219</u>	<u>\$ 38,496,507</u>

Capital Assets have increased due to the continued growth in patient service demands. As previously mentioned, MHP continues to increase space and equipment resources to meet the needs of the community. Major Health Partners strives to replace equipment as it becomes obsolete as well as upgrade equipment as needed.

DEBT

Major Health Partners' has debt outstanding in the IHFFA Variable Construction Bonds, capital lease obligations 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 hospital industry's and MHP's operating margins will continue to be under immense pressure because of negative 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 Major Health Partners 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 increase in labor costs due to the increasing competition for quality health care workers.

MAJOR HEALTH PARTNERS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2008 AND 2007

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, 2008 AND 2007

	2008	2007
ASSETS		
	<u>2008</u>	<u>2007</u>
Current assets		
Cash and cash equivalents	\$ 7,382,714	\$ 11,538,086
Investments	141,117	137,293
Patient accounts receivable, net of allowance allowance for uncollectible accounts of \$3,972,650 in 2008 and \$4,668,041 in 2007	8,960,965	9,722,342
Inventory and other current assets	2,798,922	2,988,640
Current portion of assets whose use is limited	1,235,000	1,190,000
Total current assets	<u>20,518,718</u>	<u>25,576,361</u>
Assets whose use is limited		
Internally designated	42,967,169	37,581,245
Donor restricted funds	699,567	931,073
Total assets whose use is limited	<u>43,666,736</u>	<u>38,512,318</u>
Less current portion	1,235,000	1,190,000
Noncurrent assets whose use is limited	<u>42,431,736</u>	<u>37,322,318</u>
Capital assets, net	40,125,219	38,496,507
Property held for sale	4,576,627	6,145,076
Other assets, net	<u>1,270,190</u>	<u>1,111,732</u>
Total assets	<u>\$ 108,922,490</u>	<u>\$ 108,651,994</u>

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2008 AND 2007

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
Current liabilities		
Accounts payable and accrued expenses	\$ 2,171,488	\$ 2,139,315
Accrued wages and related liabilities	6,657,183	4,964,972
Estimated third-party settlements	900,000	726,350
Current portion of long term debt		
Loans payable and capital leases	430,948	795,933
Revenue bonds payable	1,235,000	1,190,000
Total current liabilities	<u>11,394,619</u>	<u>9,816,570</u>
Other liabilities	198,967	-0-
Long term debt, net of current portion		
Loans payable and capital leases	2,727,540	2,745,875
Revenue bonds payable	24,495,000	25,730,000
Total long term debt	<u>27,222,540</u>	<u>28,475,875</u>
Total liabilities	38,816,126	38,292,445
Net assets		
Invested in capital assets, net of related debt	11,236,731	8,034,699
Restricted		
Expendable - other specific purpose	241,926	748,013
Non-expendable	877,800	857,800
Total restricted net assets	<u>12,356,457</u>	<u>9,640,512</u>
Unrestricted	57,749,907	60,719,037
Total net assets	<u>70,106,364</u>	<u>70,359,549</u>
Total liabilities and net assets	<u>\$ 108,922,490</u>	<u>\$ 108,651,994</u>

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Revenues		
Net patient service revenue	\$ 84,425,977	\$ 79,007,161
Other revenue	1,453,491	1,789,431
Total revenues	85,879,468	80,796,592
Expenses		
Salaries and wages	35,588,544	32,338,294
Employee benefits	9,945,694	7,884,251
Medical professional fees	5,588,175	5,209,244
Supplies	12,760,970	13,067,319
Purchased services	6,298,067	5,011,291
Repairs and maintenance	1,631,657	1,531,700
Utilities	1,342,383	1,240,045
Insurance	839,843	762,120
Depreciation and amortization	5,053,644	5,172,195
Other expenses	2,950,264	2,247,186
Total expenses	81,999,241	74,463,645
Operating income	3,880,227	6,332,947
Nonoperating revenues (expenses)		
Investment income	(2,849,500)	2,788,425
Interest expense	(1,118,469)	(1,511,551)
Other non-operating revenues (expenses)	(165,443)	(4,446)
Nonoperating revenues (expenses), net	(4,133,412)	1,272,428
Change in net assets	(253,185)	7,605,375
Net assets		
Beginning of year	70,359,549	62,754,174
End of year	\$ 70,106,364	\$ 70,359,549

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Operating activities		
Cash received from patient services	\$ 85,361,004	\$ 78,334,284
Cash paid for salaries, wages and benefits	(43,842,027)	(39,786,259)
Cash paid to vendors and suppliers	(30,892,413)	(29,073,565)
Other receipts, net	997,978	1,248,000
Net cash flows from operating activities	11,624,542	10,722,460
Capital and related financing activities		
Payments on long term debt	(2,176,714)	(3,845,346)
Interest on long term debt	(1,118,469)	(1,511,551)
Purchases of property and equipment	(4,849,918)	(3,555,808)
Loss (gain) on disposal of property and equipment	297,055	(125,439)
Net cash flows from capital and related financing activities	(7,848,046)	(9,038,144)
Investing activities		
Investment income	(2,849,500)	2,788,425
Other investing activities	(3,824)	284,899
Other changes in assets whose use is limited, net	(2,316,408)	(3,038,777)
Net cash flows from investing activities	(5,169,732)	34,547
Net change in cash and cash equivalents	(1,393,236)	1,718,863
Cash and cash equivalents:		
Beginning of year	13,743,405	12,024,542
End of year	\$ 12,350,169	\$ 13,743,405
Reconciliation of cash and cash equivalents to the consolidated balance sheet		
Cash and cash equivalents		
In current assets	\$ 7,382,714	\$ 11,538,086
In assets whose use is limited - internally designated	4,930,089	2,161,640
In assets whose use is limited - donor restricted	37,366	43,679
Total cash and cash equivalents	\$ 12,350,169	\$ 13,743,405

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ 3,880,227	\$ 6,332,947
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	5,053,644	5,172,195
Bad debts	8,354,348	8,947,649
Changes in operating assets and liabilities		
Patient accounts receivable	(7,592,971)	(9,621,333)
Inventory and other current assets	189,718	51,416
Other assets	(158,458)	(251,448)
Accounts payable and accrued expenses	32,173	(364,289)
Accrued wages and related liabilities	1,692,211	454,516
Estimated third-party settlements	173,650	807
Net cash flows from operating activities	<u>\$ 11,624,542</u>	<u>\$ 10,722,460</u>
Supplemental cash flows information		
Cash paid for interest	\$ 1,118,469	\$ 1,511,551
Non cash investing and financing activities		
Revaluation of capital lease obligation	\$ 603,394	\$ 289,157

See accompanying notes to consolidated financial statements.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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 16-22. The Hospital provides short-term inpatient and outpatient 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.

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. Major Hospital owns a 100% interest in 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 owns 100% of Southeast OB/GYN, LLC, Major Sports & Musculoskeletal care, LLC, and Shelby Surgical Associates, LLC. These entities are physician practices and provide health care services to the community.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Major Affiliates, Inc. also owns 100% of Medworks, Inc., which operates a pharmacy located in Shelbyville, Indiana. Medworks also owns 100% of Shelby County Family Practice, Inc., Internal Medicine Associates of Shelby County, Inc., Family Orthopedic and Rehabilitation Center, LLC, Priority Care, LLC and 70% of Onsite Solutions, LLC. These practices 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

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, MHP has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents include deposits and investments in highly liquid debt instruments with an original maturity date of three months or less from the date of purchase.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Investments

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

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

Mutual funds are reported at fair value based on the fund's market price. Money market investments that mature within one year or less at the date of their acquisition are reported at fair value. Other money market investments are reported at fair value.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating income in the consolidated statements of revenues, expenses and changes in net assets.

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 and mutual funds. 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 assets.

MHP holds Level 1 investments, in which fair market values are readily determinable using quoted prices in active markets for identical assets as determined by FAS 157: *Fair Value Measurements*. Level 2 investments fair market values are determined by significant other observable inputs.

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).

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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

The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2006 with differences reflected as deductions from revenue in 2008. Amounts from the unresolved cost report for 2007 are reflected in estimated third-party settlements on the consolidated balance sheets. MHP recognized approximately \$175,000 and \$250,000 in 2008 and 2007, respectively, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

Management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to MHP's customer base.

Grants and Contributions

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.

Charity Care

MHP provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because MHP does not collect amounts deemed to be charity care, they are not reported as revenue.

Inventory

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.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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:

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

Net Assets

Net assets of MHP are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors or donors outside MHP, including amounts deposited with trustees as required by revenue bond indentures and net assets held by the Foundation. Unrestricted net assets are the remaining net assets that do not meet the definition of net assets invested in capital assets net of related debt or restricted net assets.

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

MHP's consolidated statements of revenues, expenses and changes in net assets 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.

Consolidated Statements of Cash Flows

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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.

Bond Issue Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Bond issue costs were \$444,405. Issue costs are amortized utilizing the straight-line method. Accumulated amortization as of December 31, 2008 and 2007 was \$176,016 and \$141,385, respectively. Bond issue costs are recorded in other assets on the consolidated balance sheets.

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, patient accounts receivable, assets whose use is limited, accounts payable, accrued liabilities, estimated third-party settlements and long-term debt. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable, accrued liabilities and estimated third-party settlements approximate fair value.

The fair value of MHP's long-term debt is estimated based on market prices for similar issues on current rates offered to MHP. As of December 31, 2008 and 2007, the carrying value of MHP's long-term debt approximated its fair value.

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3).

The blended component unit of Major Hospital Foundation, Inc. is a tax-exempt organization under Internal Revenue Code 501(c)(3),

The blended component unit of Major Affiliates, Inc., is a tax-exempt organization under Internal Revenue Code 501(c)(3), but is subject to tax on unrelated business income.

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.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Accounting for Uncertainty in Income Taxes

The Financial Accounting Standards Board (“FASB”) has issued Interpretation No. 48 (“FIN 48”), which clarifies generally acceptable accounting principles for recognition, measurement, presentation and disclosure relating to uncertain tax positions. FIN 48 applies to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. As permitted by FIN 48 (as amended), MHP has elected to defer the application of FIN 48 until issuance of its December 31, 2009 financial statements. For financial statements covering periods prior to calendar 2009, MHP evaluates uncertain tax positions in accordance with existing generally accepted accounting principles and makes such accruals and disclosures as might be required thereunder.

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 of 496 hours. Compensated absences are accrued when incurred and reported as a liability on the consolidated balance sheet.

Advertising

MHP’s policy is to expense advertising costs when the advertising first takes place. Advertising expense was \$312,745 and \$127,727 for 2008 and 2007, respectively.

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 or results from operations.

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 2007 consolidated financial statements have been reclassified to conform to the 2008 presentation.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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 \$6,200,000 and \$3,400,000 during the years ended December 31, 2008 and 2007, respectively. These programs are Federal programs administered by the State of Indiana.

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.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

The following is a summary of net patient service revenue for 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Patient service revenue		
Inpatient	\$ 52,883,475	\$ 52,131,765
Outpatient	123,912,170	109,541,374
Gross patient service revenue	<u>176,795,645</u>	<u>161,673,139</u>
Deductions from revenue		
Contractual allowances	80,634,804	71,459,366
Charity care	3,380,516	2,258,963
Bad debts	8,354,348	8,947,649
Total deductions from revenue	<u>92,369,668</u>	<u>82,665,978</u>
Net patient service revenue	<u>\$ 84,425,977</u>	<u>\$ 79,007,161</u>

3. CHARITY CARE

MHP maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. The charity care provided during 2008 and 2007 was \$3,380,516 and \$2,258,963, respectively.

4. INVESTMENTS

Investments consist of mutual funds and certificates of deposit of \$141,117 and \$137,293 and are recorded at fair value as of December 31, 2008 and 2007, respectively.

5. 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.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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:

	<u>2008</u>	<u>2007</u>
Internally designated		
Cash and cash equivalents	\$ 4,930,089	\$ 2,161,640
Certificates of deposit	7,967,628	2,155,622
US Government securities	19,312,756	18,721,344
Equity mutual funds	9,646,949	13,116,258
Corporate equity securities	959,908	1,357,883
Corporate debt securities	149,839	68,498
Total designated	<u>42,967,169</u>	<u>37,581,245</u>
Donor restricted		
Cash and cash equivalents	37,366	43,679
US Government securities	49,599	115,087
Equity mutual funds	227,676	433,253
Corporate equity securities	238,178	339,054
Corporate debt securities	146,748	-0-
Total donor restricted	<u>699,567</u>	<u>931,073</u>
Total assets whose use is limited	<u>\$ 43,666,736</u>	<u>\$ 38,512,318</u>

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

6. 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. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Funded depreciation investments consist of cash equivalents and US Government securities.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

MHP's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2008 and 2007, 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, 2008					
Carrying Amount	Investment Maturities (in years)				
	Less than 1	1-5	6-10	More than 10	
US Government securities	\$ 19,362,354	\$ 4,039,081	\$ 8,958,036	\$ 4,685,886	\$ 1,679,351
Certificates of deposit	8,075,878	8,075,878	-0-	-0-	-0-
Equity mutual funds	9,907,493	9,907,493	-0-	-0-	-0-
Corporate equity securities	1,198,086	1,198,086	-0-	-0-	-0-
Corporate debt	296,587	-0-	149,556	116,104	30,927
	\$ 38,840,398	\$ 23,220,538	\$ 9,107,592	\$ 4,801,990	\$ 1,710,278

December 31, 2007					
Carrying Amount	Investment Maturities (in years)				
	Less than 1	1-5	6-10	More than 10	
US Government securities	\$ 18,836,431	\$ 5,962,433	\$ 6,464,701	\$ 4,592,448	\$ 1,816,849
Certificates of deposit	2,260,636	1,343,236	917,400	-0-	-0-
Equity mutual funds	13,581,790	13,581,790	-0-	-0-	-0-
Corporate equity securities	1,696,937	1,696,937	-0-	-0-	-0-
Corporate debt	68,498	23,994	44,504	-0-	-0-
	\$ 36,444,292	\$ 22,608,390	\$ 7,426,605	\$ 4,592,448	\$ 1,816,849

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 the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by 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.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Deposits and investments consist of the following as of December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Carrying amount		
Deposits	\$ 12,350,169	\$ 13,743,405
Investments	38,840,398	36,444,292
	<u>\$ 51,190,567</u>	<u>\$ 50,187,697</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 7,382,714	\$ 11,538,086
Investments	141,117	137,293
Internally designated	42,967,169	37,581,245
Restricted funds	699,567	931,073
	<u>\$ 51,190,567</u>	<u>\$ 50,187,697</u>

7. FAIR VALUE MEASUREMENTS

Statement on Financial Accounting Standards No. 157, Fair Value Measurements (as amended), requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by MHP impacted by this pronouncement include MHP's investments and assets whose use is limited which are measured using quoted prices in active markets and other significant other observable inputs.

MHP partially adopted the provisions of FAS 157 for fiscal year 2008, but will delay adoption of non-financial assets and non-financial liabilities covered by FASB Staff Position No. FAS 157-2.

This Staff Position permits entities to partially defer the effective date of FAS 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal year 2009.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

When fully adopted, MHP will apply the provisions of FAS 157-2 to certain non-financial assets and liabilities and is currently evaluating the impact of the full adoption of this statement on the activities, changes in net assets and financial position. Using the provisions within SFAS No. 157, MHP has characterized its investments in securities, based on the priority of the inputs used to value the investments, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities [Level 1], and the lowest priority to unobservable inputs [Level 3]. If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

Investments recorded in the statement of financial position are categorized based on the inputs to valuation techniques as follows:

Level 1 - These are investments where values are based on unadjusted quoted prices for identical assets in an active market MHP has the ability to access. Investments include mutual funds and corporate equity securities.

Level 2 - These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. These investments are comprised of corporate and municipal bonds that trade infrequently and privately held securities and certificates of deposit.

Level 3 - These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments could be certain private equity investments.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Based upon the levels as defined above MHP's investments as of December 31, 2008 are classified as follows:

December 31, 2008				
Fair value measurements at reporting date using:				
	Total	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Investments				
Certificates of deposit	\$ 8,075,878	\$ -0-	\$ 8,075,878	\$ -0-
Equity mutual funds	9,907,492	9,907,492	-0-	-0-
US Government securities	19,362,355	-0-	19,362,355	-0-
Corporate equity securities	1,198,086	1,198,086	-0-	-0-
Corporate debt securities	296,587	-0-	296,587	-0-
	\$ 38,840,398	\$ 11,105,578	\$ 27,734,820	\$ -0-

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

8. CAPITAL ASSETS

Capital Assets, Net

A summary of property and equipment, including assets under capital leases for 2008 and 2007 follows:

	December 31, 2007	Additions	Retirements/ Transfers	December 31, 2008
Land and land improvements	\$ 4,937,621	\$ -0-	\$ 1,565,176	\$ 6,502,797
Leasehold improvements	1,512,838	15,254	(175,913)	1,352,179
Buildings and improvements	41,302,577	129,567	268,423	41,700,567
Equipment	31,603,741	2,956,199	(4,024,311)	30,535,629
Construction in progress	3,141	2,352,292	(348,047)	2,007,386
Total property and equipment	79,359,918	5,453,312	(2,714,672)	82,098,558
Less accumulated depreciation				
Land improvements	664,686	138,622	(2,980)	800,328
Leasehold improvements	510,508	96,324	(176,204)	430,628
Buildings and improvements	18,003,451	1,495,528	(9,362)	19,489,617
Equipment	21,684,766	3,296,629	(3,728,629)	21,252,766
Total accumulated depreciation	40,863,411	5,027,103	(3,917,175)	41,973,339
Capital assets, net	\$ 38,496,507	\$ 426,209	\$ 1,202,503	\$ 40,125,219
	December 31, 2006	Additions	Retirements/ Transfers	December 31, 2007
Land	\$ 4,949,685	\$ 8,470	\$ (20,534)	\$ 4,937,621
Land improvements	861,977	22,861	628,000	1,512,838
Buildings and improvements	40,941,178	358,852	2,547	41,302,577
Equipment	28,681,227	2,733,604	188,910	31,603,741
Construction in progress	1,725,702	721,178	(2,443,739)	3,141
Total property and equipment	77,159,769	3,844,965	(1,644,816)	79,359,918
Less accumulated depreciation				
Land improvements	517,665	147,021	-0-	664,686
Leasehold improvements	436,879	79,283	(17,719)	498,443
Buildings and improvements	16,507,838	1,497,752	(2,139)	18,003,451
Equipment	18,518,905	3,418,712	(240,786)	21,696,831
Total accumulated depreciation	35,981,287	5,142,768	(260,644)	40,863,411
Capital assets, net	\$ 41,178,482	\$ (1,297,803)	\$ (1,384,172)	\$ 38,496,507

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Assets Under Capital Leases

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

	2008	2007
Equipment	\$ 3,601,605	\$ 3,221,943
Less accumulated depreciation	3,372,327	2,619,801
	<u>\$ 229,278</u>	<u>\$ 602,142</u>

Property Held For Sale

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

9. LONG TERM DEBT

A summary of long term debt as of December 31, 2008 is as follows:

- The \$34,260,000, 2003 IHFFA Adjustable Rate Demand Revenue Bonds are due in installments of \$1,025,000 to \$2,240,000, plus variable interest (2.57% at December 31, 2008) through 2025.
- The capital lease obligations with interest of 10% executed for property and equipment are due in monthly installments of varying amounts from \$21,410 to \$46,460 including interest, due through July 2009 to September 2010.
- Loans payable of \$2,300,000 with local financial institutions, due in monthly installments through 2010 with a balloon payment in 2011 at an interest rate of prime as of December 31, 2008 (1.86%), secured by certain Hospital assets.
- Loans payable 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 secured by certain Hospital assets.

The payments for capital leases vary based on the number of procedures performed annually on the leased medical equipment. An incremental borrowing rate of 10% is utilized and the lease obligations and related assets are revalued annually based on usage.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

The bonds require the Hospital to maintain certain financial ratios. As of December 31, 2008, the Hospital was in compliance with the ratios.

The following represents a progression for long term debt for 2008 and 2007:

	December 31, 2007	Additional Borrowings	Payments	December 31, 2008	Current Portion
Revenue bonds					
2003 IHFFA Bonds	\$ 26,920,000	\$ -0-	\$ (1,190,000)	\$ 25,730,000	\$ 1,235,000
Loans payable					
Capital lease obligations	776,462	603,394	(854,823)	525,033	326,407
Loans payable	2,765,346	-0-	(131,891)	2,633,455	104,541
Total long term debt	<u>\$ 30,461,808</u>	<u>\$ 603,394</u>	<u>\$ (2,176,714)</u>	<u>\$ 28,888,488</u>	<u>\$ 1,665,948</u>
	December 31, 2006	Additional Borrowings	Payments	December 31, 2007	Current Portion
Revenue bonds					
2003 IHFFA Bonds	\$ 29,565,000	\$ -0-	\$ (2,645,000)	\$ 26,920,000	\$ 1,190,000
Loans payable					
Capital lease obligations	1,539,597	-0-	(763,135)	776,462	727,608
Loans payable	2,574,557	628,000	(437,211)	2,765,346	68,325
Total long term debt	<u>\$ 33,679,154</u>	<u>\$ 628,000</u>	<u>\$ (3,845,346)</u>	<u>\$ 30,461,808</u>	<u>\$ 1,985,933</u>

Scheduled principal and interest repayments on long term debt and payments on capital lease obligations for the years succeeding December 31, 2008 are as follows:

Years Ending December 31,	Principal	Interest	Total Payments
2009	\$ 1,665,948	\$ 776,690	\$ 2,442,638
2010	1,586,773	715,365	2,302,138
2011	3,256,397	638,662	3,895,059
2012	1,413,914	599,053	2,012,967
2013	1,471,618	560,899	2,032,517
2014 - 2018	8,246,866	2,198,962	10,445,828
2019 - 2023	9,851,972	942,082	10,794,054
2024 - 2028	1,395,000	35,834	1,430,834
	<u>\$ 28,888,488</u>	<u>\$ 6,467,547</u>	<u>\$ 35,356,035</u>

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

The Hospital has an available letter of credit for approximately \$26,000,000 with a bank for the Series 2003 bonds. The letter of credit is intended to provide credit enhancement and liquidity support for the Hospital's tax-exempt bonds. Advances bear interest at 45 basis points annually. The letter of credit is collateralized by the Hospital's gross revenues as well as designated assets. The letter of credit expires in December 2010. There was no balance outstanding as of December 31, 2008 and 2007. In the event of liquidity drawing the Hospital will reimburse the bank in installments through the termination date unless the bonds are remarketed, redeemed or purchased at which time the liquidity advance is due. Reimbursements of other than liquidity drawings are due on the date such drawings are honored.

As of December 31, 2008, one of the Hospital's affiliates had a line of credit which bears interest at the sum of the Prime Rate minus Twenty-Five (25) Basis Points. The line of credit expired in January 2007 and was not renewed. Outstanding balances on the line of credit were \$-0- as of December 31, 2008 and 2007 and were secured by operating assets.

10. 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 2008 and 2007 were \$1,555,201 and \$1,178,462, respectively. Employees are not permitted to contribute to the plan.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

11. CONCENTRATIONS OF CREDIT RISK

MHP grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third party payors at December 31, 2008 and 2007 was as follows:

	2008	2007
Medicare	26%	26%
Medicaid	8%	8%
Blue Cross	16%	15%
Other third party payors	26%	25%
Self-pay	24%	26%
	<u>100%</u>	<u>100%</u>

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.

12. 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 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 condition.

13. 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 \$125,000 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 \$4,231,163 and \$2,973,846 in 2008 and 2007, respectively.

MAJOR HEALTH PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

14. 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 the City of Shelbyville) 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,	
2009	\$ 250,000
2010	250,000
2011	250,000
2012	250,000
2013	250,000
Thereafter	<u>3,750,000</u>
	<u>\$ 5,000,000</u>

SUPPLEMENTARY INFORMATION

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2008

ASSETS	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current assets						
Cash and cash equivalents	\$ 6,145,006	\$ 984,135	\$ -0-	\$ 253,573	\$ -0-	\$ 7,382,714
Investments	32,867	108,250	-0-	-0-	-0-	141,117
Patient accounts receivable, net	7,842,385	1,118,580	-0-	-0-	-0-	8,960,965
Inventory and other current assets	3,059,532	490,880	104,626	119,972	(976,088)	2,798,922
Current portion of assets whose use is limited	1,235,000	-0-	-0-	-0-	-0-	1,235,000
Total current assets	18,314,790	2,701,845	104,626	373,545	(976,088)	20,518,718
Assets whose use is limited						
Internally designated	40,852,182	-0-	2,114,987	-0-	-0-	42,967,169
Donor restricted funds	-0-	-0-	699,567	-0-	-0-	699,567
Total assets whose use is limited	40,852,182	-0-	2,814,554	-0-	-0-	43,666,736
Less current portion	(1,235,000)	-0-	-0-	-0-	-0-	(1,235,000)
Noncurrent assets whose use is limited	39,617,182	-0-	2,814,554	-0-	-0-	42,431,736
Capital assets, net	30,048,484	7,630,009	7,373	2,439,353	-0-	40,125,219
Property held for sale	4,576,627	-0-	-0-	-0-	-0-	4,576,627
Other assets	5,169,986	711,285	-0-	95,476	(4,706,557)	1,270,190
Total assets	<u>\$ 97,727,069</u>	<u>\$ 11,043,139</u>	<u>\$ 2,926,553</u>	<u>\$ 2,908,374</u>	<u>\$ (5,682,645)</u>	<u>\$ 108,922,490</u>

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2008

LIABILITIES AND NET ASSETS	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current liabilities						
Accounts payable and accrued expenses	\$ 1,492,668	\$ 747,450	\$ 183,525	\$ 339,961	\$ (592,116)	\$ 2,171,488
Accrued wages and related liabilities	5,651,256	854,406	4,920	146,601	-0-	6,657,183
Estimated third-party settlements	900,000	-0-	-0-	-0-	-0-	900,000
Current portion of long-term debt						
Loans payable and capital leases	326,407	26,939	-0-	77,602	-0-	430,948
Revenue bonds payable	1,235,000	-0-	-0-	-0-	-0-	1,235,000
Intercompany notes payable	-0-	383,972	-0-	-0-	(383,972)	-0-
Total current liabilities	<u>9,605,331</u>	<u>2,012,767</u>	<u>188,445</u>	<u>564,164</u>	<u>(976,088)</u>	<u>11,394,619</u>
Other liabilities	-0-	198,967	-0-	-0-	-0-	198,967
Long term debt, net of current portion						
Loans payable and capital leases	198,626	554,867	-0-	1,974,047	-0-	2,727,540
Revenue bonds payable	24,495,000	-0-	-0-	-0-	-0-	24,495,000
Intercompany notes payable	-0-	4,042,171	-0-	-0-	(4,042,171)	-0-
Total long term debt	<u>24,693,626</u>	<u>4,597,038</u>	<u>-0-</u>	<u>1,974,047</u>	<u>(4,042,171)</u>	<u>27,222,540</u>
Total liabilities	34,298,957	6,808,772	188,445	2,538,211	(5,018,259)	38,816,126
Net assets						
Invested in capital assets net of related debt	3,793,451	2,622,060	7,373	387,704	4,426,143	11,236,731
Restricted						
Expendable - other specific purpose	189,476	-0-	52,450	-0-	-0-	241,926
Nonexpendable	22,953	-0-	854,847	-0-	-0-	877,800
Unrestricted	59,422,232	1,612,307	1,823,438	(17,541)	(5,090,529)	57,749,907
Total net assets	<u>63,428,112</u>	<u>4,234,367</u>	<u>2,738,108</u>	<u>370,163</u>	<u>(664,386)</u>	<u>70,106,364</u>
Total liabilities and net assets	<u>\$ 97,727,069</u>	<u>\$ 11,043,139</u>	<u>\$ 2,926,553</u>	<u>\$ 2,908,374</u>	<u>\$ (5,682,645)</u>	<u>\$ 108,922,490</u>

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2008

	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Revenue						
Net patient service revenue	\$ 71,987,231	\$ 12,516,449	\$ -0-	\$ -0-	\$ (77,703)	\$ 84,425,977
Other	1,075,049	162,452	370,210	1,204,038	(1,358,258)	1,453,491
Total revenue	73,062,280	12,678,901	370,210	1,204,038	(1,435,961)	85,879,468
Expenses						
Salaries and wages	26,791,889	8,395,996	49,856	350,803	-0-	35,588,544
Employee benefits	7,771,906	2,018,875	3,078	166,234	(14,399)	9,945,694
Medical professional fees	5,584,999	3,176	-0-	-0-	-0-	5,588,175
Supplies	9,844,243	2,893,681	-0-	23,046	-0-	12,760,970
Purchased services	5,367,318	1,911,405	-0-	153,329	(1,133,985)	6,298,067
Repairs and maintenance	1,317,199	348,037	-0-	82,930	(116,509)	1,631,657
Utilities	1,105,779	223,633	-0-	12,971	-0-	1,342,383
Insurance	456,993	382,384	-0-	466	-0-	839,843
Depreciation and amortization	4,353,112	546,907	2,449	151,176	-0-	5,053,644
Other expenses	1,996,147	295,487	682,984	146,714	(171,068)	2,950,264
Total expenses	64,589,585	17,019,581	738,367	1,087,669	(1,435,961)	81,999,241
Operating income (loss)	8,472,695	(4,340,680)	(368,157)	116,369	-0-	3,880,227
Nonoperating revenues (expenses)						
Investment income	(1,833,958)	4,776	(771,500)	-0-	(248,818)	(2,849,500)
Interest expense	(984,133)	(295,026)	-0-	(88,128)	248,818	(1,118,469)
Other nonoperating revenues (expenses)	17,632	174,148	-0-	(133,290)	(223,933)	(165,443)
Nonoperating revenues (expenses), net	(2,800,459)	(116,102)	(771,500)	(221,418)	(223,933)	(4,133,412)
Excess (deficit) of revenues over expenses	5,672,236	(4,456,782)	(1,139,657)	(105,049)	(223,933)	(253,185)
Transfers (to) from affiliates	(6,674,377)	6,492,929	-0-	157,477	23,971	-0-
Change in net assets	(1,002,141)	2,036,147	(1,139,657)	52,428	(199,962)	(253,185)
Net assets						
Beginning of year	64,430,253	2,198,220	3,877,765	317,735	(464,424)	70,359,549
End of year	\$ 63,428,112	\$ 4,234,367	\$ 2,738,108	\$ 370,163	\$ (664,386)	\$ 70,106,364

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2007

ASSETS	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current assets						
Cash and cash equivalents	\$ 10,659,838	\$ 615,602	\$ -0-	\$ 262,646	\$ -0-	\$ 11,538,086
Investments	32,279	105,014	-0-	-0-	-0-	137,293
Patient accounts receivable, net	8,565,828	1,156,514	-0-	-0-	-0-	9,722,342
Inventory and other current assets	3,734,323	268,853	19,281	46,938	(1,080,755)	2,988,640
Current portion of assets whose use is limited	1,190,000	-0-	-0-	-0-	-0-	1,190,000
Total current assets	<u>24,182,268</u>	<u>2,145,983</u>	<u>19,281</u>	<u>309,584</u>	<u>(1,080,755)</u>	<u>25,576,361</u>
Assets whose use is limited						
Internally designated	34,682,864	-0-	2,898,381	-0-	-0-	37,581,245
Donor restricted funds	-0-	-0-	931,073	-0-	-0-	931,073
Total assets whose use is limited	<u>34,682,864</u>	<u>-0-</u>	<u>3,829,454</u>	<u>-0-</u>	<u>-0-</u>	<u>38,512,318</u>
Less current portion	(1,190,000)	-0-	-0-	-0-	-0-	(1,190,000)
Noncurrent assets whose use is limited	<u>33,492,864</u>	<u>-0-</u>	<u>3,829,454</u>	<u>-0-</u>	<u>-0-</u>	<u>37,322,318</u>
Capital assets, net	29,359,378	6,570,021	2,460	2,564,648	-0-	38,496,507
Property held for sale	6,145,076	-0-	-0-	-0-	-0-	6,145,076
Other assets	5,361,868	506,499	38,240	95,692	(4,890,567)	1,111,732
Total assets	<u>\$ 98,541,454</u>	<u>\$ 9,222,503</u>	<u>\$ 3,889,435</u>	<u>\$ 2,969,924</u>	<u>\$ (5,971,322)</u>	<u>\$ 108,651,994</u>

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2007

LIABILITIES AND NET ASSETS	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Current liabilities						
Accounts payable and accrued expenses	\$ 1,518,397	\$ 948,673	\$ 5,742	\$ 383,354	\$ (716,851)	\$ 2,139,315
Accrued wages and related liabilities	4,218,992	629,810	5,928	110,242	-0-	4,964,972
Estimated third-party settlements	677,350	49,000	-0-	-0-	-0-	726,350
Current portion of long-term debt						
Loans payable and capital leases	727,608	20,683	-0-	47,642	-0-	795,933
Revenue bonds payable	1,190,000	-0-	-0-	-0-	-0-	1,190,000
Intercompany notes payable	-0-	363,904	-0-	-0-	(363,904)	-0-
Total current liabilities	8,332,347	2,012,070	11,670	541,238	(1,080,755)	9,816,570
Long term debt, net of current portion						
Loans payable and capital leases	48,854	586,070	-0-	2,110,951	-0-	2,745,875
Revenue bonds payable	25,730,000	-0-	-0-	-0-	-0-	25,730,000
Intercompany notes payable	-0-	4,426,143	-0-	-0-	(4,426,143)	-0-
Total long term debt	25,778,854	5,012,213	-0-	2,110,951	(4,426,143)	28,475,875
Total liabilities	34,111,201	7,024,283	11,670	2,652,189	(5,506,898)	38,292,445
Net assets						
Invested in capital assets net of related debt	1,662,916	1,173,221	2,460	406,055	4,790,047	8,034,699
Restricted						
Expendable - other specific purpose	232,296	-0-	515,717	-0-	-0-	748,013
Nonexpendable	22,953	-0-	834,847	-0-	-0-	857,800
Unrestricted	62,512,088	1,024,999	2,524,741	(88,320)	(5,254,471)	60,719,037
Total net assets	64,430,253	2,198,220	3,877,765	317,735	(464,424)	70,359,549
Total liabilities and net assets	\$ 98,541,454	\$ 9,222,503	\$ 3,889,435	\$ 2,969,924	\$ (5,971,322)	\$ 108,651,994

See report of independent auditors on pages 1 and 2.

MAJOR HEALTH PARTNERS

CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2007

	Hospital	Major Affiliates	Foundation	MDSolutions	Eliminations	Total
Revenue						
Net patient service revenue	\$ 67,608,476	\$ 11,566,732	\$ -0-	\$ -0-	\$ (168,047)	\$ 79,007,161
Other	1,434,792	895,851	191,484	1,093,448	(1,826,144)	1,789,431
Total revenue	<u>69,043,268</u>	<u>12,462,583</u>	<u>191,484</u>	<u>1,093,448</u>	<u>(1,994,191)</u>	<u>80,796,592</u>
Expenses						
Salaries and wages	24,350,009	7,608,214	45,149	334,922	-0-	32,338,294
Employee benefits	5,860,220	1,869,324	3,343	153,210	(1,846)	7,884,251
Medical professional fees	5,203,311	5,933	-0-	-0-	-0-	5,209,244
Supplies	9,919,031	3,151,515	-0-	24,821	(28,048.0)	13,067,319
Purchased services	5,050,809	1,501,853	-0-	162,852	(1,704,223)	5,011,291
Repairs and maintenance	1,186,778	339,908	-0-	120,285	(115,271)	1,531,700
Utilities	1,009,406	216,404	-0-	14,235	-0-	1,240,045
Insurance	554,214	207,906	-0-	-0-	-0-	762,120
Depreciation and amortization	4,501,667	553,987	3,184	113,357	-0-	5,172,195
Other expenses	1,599,816	275,882	365,228	151,063	(144,803)	2,247,186
Total expenses	<u>59,235,261</u>	<u>15,730,926</u>	<u>416,904</u>	<u>1,074,745</u>	<u>(1,994,191)</u>	<u>74,463,645</u>
Operating income (loss)	9,808,007	(3,268,343)	(225,420)	18,703	-0-	6,332,947
Nonoperating revenues (expenses)						
Investment income	2,757,902	13,838	284,522	-0-	(267,837)	2,788,425
Interest expense	(1,319,876)	(312,809)	-0-	(146,703)	267,837	(1,511,551)
Other nonoperating revenues (expenses)	(49,308)	26,144	-0-	19,233	(515)	(4,446)
Nonoperating revenues (expenses), net	<u>1,388,718</u>	<u>(272,827)</u>	<u>284,522</u>	<u>(127,470)</u>	<u>(515)</u>	<u>1,272,428</u>
Excess (deficit) of revenues over expenses	11,196,725	(3,541,170)	59,102	(108,767)	(515)	7,605,375
Transfers (to) from affiliates	<u>(3,172,923)</u>	<u>3,172,923</u>	<u>-0-</u>	<u>96,764</u>	<u>(96,764)</u>	<u>-0-</u>
Change in net assets	8,023,802	(368,247)	59,102	(12,003)	(97,279)	7,605,375
Net assets						
Beginning of year	56,406,451	2,566,467	3,818,663	329,738	(367,145)	62,754,174
End of year	<u>\$ 64,430,253</u>	<u>\$ 2,198,220</u>	<u>\$ 3,877,765</u>	<u>\$ 317,735</u>	<u>\$ (464,424)</u>	<u>\$ 70,359,549</u>

See report of independent auditors on pages 1 and 2.